FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs – AFCs)

15th October, 2008

Dear Sirs,

NOTE ON MEASURES TO IMPROVE FUNDING POSITION FOR NBFCs

We thank you very much for providing us the opportunity to put forward our views on liquidity position of NBFCs before the learned Committee members. Briefly, we have to state as under:

Problems faced by us:

- Banks are reportedly restricting the use of sanctioned bank limits, even where drawing power is available.
- Similarly, banks are asking for re-pricing or pre-payment of existing term loans.
- Mutual Funds too are seeking pre-payments of FMPs.

These create issues of liquidity, ALM and growth.

Solutions:

- Banks must not withhold sanctioned limits since this puts a serious strain on liquidity.
- Recently, SIDBI has started entertaining proposals from Asset Financing NBFCs (NBFC-AFC). This needs to be stepped up significantly and there is a good case for the creation of a specific fund under the aegis of **SIDBI**, to refinance NBFC-AFCs, along the lines of the funding support that housing finance companies enjoy from NHB.
- Also, given the fact that a reasonable proportion of our advances go directly or indirectly to the agricultural sector, it would be a great support if **NABARD** could also extend medium to long term funding to NBFC-AFCs.
- Given the limitations of medium and long term funding in the domestic market, there is a strong case to allow NBFC-AFCs to access **ECBs**.

Freeing of capital for NBFC-AFCs:

- Under the present dispensation, all the assets financed by NBFCs, regardless of whether they are secured or unsecured and regardless of the risks associated with different classes of assets, carry a uniform risk weight of 100%.

222, Ashoka Shopping Centre, 2nd Floor, L. T. Road, Near G. T. Hospital, Mumbai – 400 001 (India).
Tel: 022 2267 5500 / 98200 35553 ? Fax: 022 2267 5600 ? E-mail: maheshthakkar@vsnl.com ? website : fidcindia.com

- It is a well documented fact, based on detailed analysis undertaken by credit rating agencies that commercial vehicles, cars and construction equipments have a much lower risk profile, as compared to other categories of assets.
- These assets, by their very nature, are easily saleable and realise significant residual values and therefore deserve to be treated on a different footing from other assets.
- Having said that, we also feel that unsecured loans fall in an entirely different category altogether and the risk weights for these loans need to significantly higher.
- In light of the above, the **risk weights for assets** financed by NBFCs should be suitably revised to reflect the varying risk profiles, as follows:
  - **Commercial vehicles, cars and multi-utility vehicles -50%**
  - **Construction & Material handling equipment, tractors -50%**
  - **Loans against Gold & silver ornaments upto Rs. 1lakh -50%**
  - **Three Wheelers -75%**
  - **Two wheelers and Industrial equipments -100%**
  - **Unsecured loans -150%**

  It is our submission that this would duly reflect the appropriate levels of risk inherent in the respective asset classes and free up capital for Asset financing NBFCs. This is also in consonance with the Basel II framework for Banks.

Permanent Working Group :

- Comprising of all constituents of financial sector in the economy may be set up under the aegis of RBI to regularly monitor the financial position of all financial players, so that pre-emptive steps like inter-institutional funding can be taken well in advance to arrest the crisis situation in the market.

Further, we are ready to deliberate on these and any other issues in detail any time in future, as you may desire.

Thanking you,
Yours faithfully,
For **FINANCE INDUSRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General

222, Ashoka Shopping Centre, 2nd Floor, L. T. Road, Near G. T. Hospital, Mumbai – 400 001 (India).
Tel: 022 2267 5500/98200 35553 ? Fax: 022 2267 5600 ? E-mail: maheshthakkar@vsnl.com ? website : fidcindia.com