

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organization for Registered NBFCs)
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)
Tel: 022 21027324/9820035553 • E-mail:maheshthakkar45@yahoo.inwebsite: www.fidcindia.org

December 21, 2016

Mr. N.S. Vishwanathan

Deputy Governor
Reserve Bank of India
Central Office Building
19th Floor, Shahid Bhagat Singh Road,
Mumbai 400 001

Respected Sir,

**SUB: REQUEST TO EXTEND THE ADDITIONAL 60 DAYS PERIOD GIVEN FOR RECOGNITION OF A
LOAN ACCOUNT AS SUBSTANDARD**

The recent demonetization of higher denomination notes has had a significant impact on various sectors of the economy. The emphasis being given on transparency, digitalization of payments and organized way of dealing with one's business affairs are steps in the right direction which we at FIDC believe, would yield long term beneficial results.

In the interim, however, there are some short-term constraints that our customers have been facing. As you are aware, NBFCs have played a significant role in expanding the borders of financial inclusion and in delivering credit to under-served and unbanked sections of our Society. A substantial number of our customers are transport operators, farmers, equipment hirers, SMEs and small traders and live in semi-urban and rural areas, where banking habits are still in a relatively under-developed state. A large part of their business receipts had been in the past, through cash collections. Transport operators for example, return to their home towns after several days in their road trips with cash.

The current demonetization has necessitated these entities to switch to alternative means of collection. This process will take time since it also involves an attitudinal change. This has introduced significant uncertainty in the minds of our customers as well as among the NBFCs on how loans to such entities would be serviced until the currency situation stabilizes.

We had therefore requested RBI that NBFCs should also be allowed to accept old notes of Rs.500 and Rs.1000 denomination, towards loan repayments (only), as lot of our borrowers wanted to repay in cash using the old notes. But the same was not accepted.

Now, the borrowers' business has been affected with no money circulation. Because of the very nature of their trade and credit behavior, if we don't collect the available cash from the borrowers, it is most likely to roll forward to the next month, making it more difficult for them to repay. This may lead to loan defaults thereby adding stress to the overall asset quality.

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The Reserve Bank had recognized the possibility of such a slowdown and had given a two month (60 days) additional period to banks and NBFCs for recognizing assets as sub-standard , vide their circular no. DBR.No.BP.BC.37/21.04.048/2016-17 dt. November 21, 2016. We sincerely thank the Reserve Bank for this step.

This additional period of 60 days was provided as it was expected that the prevailing cash crunch scenario shall stabilize by the end of December. However, it is now evident that this may take another 2-3 months.

Majority of the research studies undertaken to assess the ground level situation point to a significant slowdown in business, especially in sectors such as real estate and housing, small & medium businesses, transport operators, contractors and automobiles. The automobile sales figures released by Society of Indian Automobile Manufacturers (SIAM) for the month of November clearly reflect the above said scenario. It would be in our opinion, fair to suggest that the disruption may last at least, till the conclusion of the current financial year.

Request

We therefore request the Reserve Bank to kindly extend the aforesaid 60 day period for recognition of delinquency and non-performing loans till the conclusion of the current financial year. That is to say, the classification of a borrower as on November 1, 2016 should be kept at the same status till April 1, 2017.

This would prevent creation of undue stress in the system, and that too for reasons beyond the control of both the lenders and the borrowers. Further, this shall go a long way in improving the confidence levels of not just banks and NBFCs, but also ensure that the credit record of small and medium borrowers, transport operators, small contractors and farmers are not impacted due to the demonetization and that they are able to continue availing credit facilities in the longer term.

We sincerely request your kind consideration. Thanking you in anticipation

Yours Sincerely,
For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**



RAMAN AGGARWAL

Chairman

Mobile: +91 9810016667