

FIDC

Finance Industry Development Council

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

5 April 2008

Dr. Y.V. Reddy
Governor
Reserve Bank of India
Central Office Bldg, 18th Floor
Shahid Bhagat Singh Road
Mumbai 400 001

Respected Sir,

We would like to express sincere thanks for giving us the opportunity to present our views on the issues affecting the NBFC-AFC sector. Pursuant to our meeting on 2nd April 2008, we would like to place the following points before you for your favourable consideration:

Floating Charge for SLR Securities

In terms of RBI Circular No. DNBS (PD) C.C.No.87/03.02.004/2006-07 dated 4 January 2007, deposit taking NBFCs are required to create a floating charge on their SLR securities. As pointed out at the meeting, even though more than a year has gone by, most NBFCs have been unable to comply with the circular. We now understand that the matter is in the final stages of discussion between RBI and IBA and is likely to be resolved shortly. We shall await the developments in this regard.

Risk Weightage for Productive Assets

In recognition of the role played by asset financing NBFCs, you were kind enough to accede to our request for a distinct classification as NBFC-AFC. This has gone a long way towards addressing several of the issues faced by us.



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However, the issue pertaining to risk weightage for different categories of assets remains to be addressed. 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 assets, carry a uniform risk weightage of 100%. It is a well documented fact, based on the detailed analysis undertaken by credit rating agencies that, commercial vehicles, cars and construction equipment 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. Needless to add, unsecured loans fall in a different category altogether. In light of the above, we submit that the risk weightage for assets financed by NBFC-AFCs be revised as under:

- Commercial Vehicles, Cars & Multi utility vehicles - 50%
- Construction & Material handling Equipment & Tractors -50%
- Three Wheelers - 75%
- Two Wheelers and Industrial Equipment - 100%

It is our submission that this would duly reflect the appropriate levels of risk inherent in the respective asset classes and provide NBFC-AFCs a degree of capital relief.

Repossession Guidelines:

As presented to you, sir, the issue of repossession has assumed alarming proportions, with a plethora of judicial and quasi-judicial pronouncements on the subject. Whereas, asset financing NBFCs resort to the appointment of "Repossession Agents" to secure the specific asset financed by them, Lenders, who give out unsecured loans engage "Recovery Agents" who tend in many instances, to take away any asset that is available with the defaulting borrower. We strongly believe that a distinction needs to be drawn between repossession agents and recovery agents and the guidelines governing these two need to be distinct. As advised by you, we shall submit a detailed note containing our suggestions on this issue.

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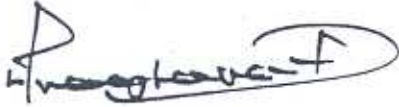
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Sir, we are extremely grateful to you for your understanding and support, thanks to which the NBFC-AFCs are continuing to grow in an orderly manner and contributing their mite to the country's economic growth. We trust that our above submissions will receive your kind and favourable consideration, as in the past.

Thank you once again,

With regards,



T.T.Srinivasaraghavan
Chairman

- Copy to :
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