

FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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October 02, 2019

**Shri Manoranjan Mishra,
Chief General Manager,
Reserve Bank of India,
Department of Non-Banking Regulation,
Central Office, World Trade Centre, 2nd Floor,
Cuffe Parade, MUMBAI 400 005.**

Sub: CGTMSE

Respected Sir,

The Prime Minister, in his address to the Nation in December 2016 had announced extension of credit guarantee to NBFCs' loans through the CGTMSE. This announcement was duly carried through and a scheme was announced by the CGTMSE for NBFCs rated AAA & AA+, and later, revised based on feedback obtained from the industry.

We at FIDC believe that this was an excellent initiative by the Govt and the regulators and have been advocating adoption by our member institutions. The scheme takes into account the strength of risk management at individual NBFCs and is based on risk-based pricing as far as the guarantee premium is concerned. Any securitisation of the covered pool results in much lower credit enhancement and thus results in better cost of finance for NBFCs as well as lower capital allocation on the securitised pool.

We are concerned that in spite of these advantages, the adoption of the scheme is still below the desired level and would like to propose a few regulatory steps that can improve adoption. This is based on feedback received from our members who have availed of the scheme.

We request the Reserve Bank of India to consider giving a 0% risk weight for the guaranteed portion of loans covered under the CGTMSE scheme. We

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understand that such a dispensation is already available to NBFC-MFIs where their loans are guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH). Typically since 75% of the risk of such loans is guaranteed by the CGTMSE (which is a Sovereign trust), 75% of such assets may carry a 0% risk weight, while the balance could carry the appropriate risk weight as per extant guidelines.

This would provide a huge relief to NBFCs on capital allocated for such pools and encourage NBFCs with a good track record to adopt the CGTMSE scheme. This would encourage further push towards flow of finance to MSMEs and other underserviced sectors.

We request your kind consideration.

Thanking you,

Yours faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General