FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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To

8th July 2020

Shri Manoranjan Mishra,
Chief General Manager,
Reserve Bank of India,
Department of Regulations (NBFCs),
Main Office Building, 1st Floor,
Shahid Bhagat Singh Road,
Fort, MUMBAI 400 001

Respected Sir,

Sub: Extension of the relaxation in Minimum Holding Period [MHP] requirement for Securitisation Transactions

Sell down of loan assets is a means of channeling efficient funding to the non-bank sector, since it provides adequate and matched liquidity, providing both assigners and assignees several benefits. By buying pools of retail loans, banks effectively extend credit to end individual home buyers and SMEs through specialist lenders like NBFCs / HFCs and majority of these qualify for priority sector loans.

The performance of these retail loan pools has been excellent as is reflected in the pool performance reports published by various rating agencies. Cumulative Collection Ratios [CCR] for mortgage backed retail loan pools have been averaging at around ~99% across pools of all HFCs and NBFCs. Historically these pools have seen negligible delinquencies and buyers of these pools have realized their entire monies.

In the aftermath of the IL&FS default and further compounded by the pandemic, the tight liquidity conditions for the HFC/ NBFC sector and in order to encourage NBFCs to securitise/assign their eligible assets, it was decided by RBI vide notification dated November 29th 2018 (RBI/2018-19/82 DNBR (PD) CC.No.95/03.10.001/2018-19) to relax the Minimum Holding Period (MHP) requirement for originating NBFCs, in respect of loans of original

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maturity above 5 years, to receipt of repayment of 6 EMIs from the previous requirement of 12 EMIs. This dispensation was further extended till 30th June 2020, vide notification dated 31st December 2019 (RBI/2019-20/131 DOR.NBFC (PD) CC.No.107/03.10.001/2019-20)

This has been beneficial both for the NBFC/HFC sector as well as for banks. This move helped ensure steady credit flow and shielding critical sectors of the economy like housing and SME from otherwise tight liquidity conditions. This relaxation of the minimum holding period (MHP) resulted in an increase in the supply of assets eligible for securitisation. The momentum continued in Q4 FY2019 and FY 2019-2020.

In contrast to the enhanced liquidity support provided by the relaxation provided by the Reserve Bank on the guidelines to NBFCs on securitization transactions, there has been a significant reduction of the funding available to NBFCs from Debt Mutual Funds overall and especially Commercial Papers.

The sustained decrease in CPs of NBFCs/HFCs and the overall reduction in the Assets Under Management of Debt Mutual Funds would have accelerated repayment issues faced by NBFCs, had the relaxation in the securitization transaction guidelines not been done in a timely manner by the Reserve Bank. During the same period, the provisions for Banks have been increasing steadily to tackle the impairments on account of Non- Performing Loans (both for their recognition and creation for reserves for any haircuts on their resolution), further limiting the funds availability to NBFCs.

Furthermore, with specific assets being available to Banks under securitization, the risk of default by the originator is significantly lower to the purchaser, resulting in a preference by Banks for securitization versus Term Loans/ Working Capital facilities secured by a pari-passu charge over the receivables of a NBFC.

The reduced MHP from 12 Months to 6 Months has resulted in sale of assets 6 months earlier, and reverting to the older MHP guidelines will also result in absence/ significant reduction in quantum of eligible pools being available with NBFCs for the next 6 Months, since the loans that are now going to achieve 12 Months MHP, would have already been securitized 6 Months ago. This loss of potential pools of liquidity in the current environment is avoidable.

Considering the current prevailing economic situation during pandemic and also in view of the benefits all stakeholders including banks that are deriving from the relaxed MHP requirement for sell down transactions, we request you to permanently continue this dispensation and keep the MHP requirement to receipt of 6 EMIs and therefore permanently extend the validity of the relaxation that has expired on 30th June 2020.

We sincerely appeal to your goodself to consider these measures as an important step to help NBFCs manage the current situation and to enable them to play a due role in the rebuilding efforts.

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
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