

# FIDC

## Finance Industry Development Council

*(A Representative Body of Assets and Loan Financing NBFCs)*

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

Tel: 022 21029898/9820035553 • E-mail: [directorgeneral@fidcindia.org](mailto:directorgeneral@fidcindia.org); Website: [www.fidcindia.org](http://www.fidcindia.org)

August 21, 2020

**Shri Shaktikanta Das**

Governor

Reserve Bank of India

Central Office Building

Shahid Bhagat Singh Marg, Fort,

Mumbai – 400 001

Respected Sir,

### **Representation on certain key issues concerning NBFCs**

We at **FIDC** thank you for all the initiatives taken to assist the NBFC sector to cope up with the situation arising out of the Covid pandemic. We sincerely appreciate the proactive steps taken including TLTRO 2.0, funding provided to NABARD, SIDBI and other refinancing agencies for on-lending to NBFCs, the option for a one-time restructuring for retail and MSME loans and so on. We also laud the open willingness to engage the sector and to hear views of NBFCs.

Sir, there are a few requests we would like to place for your kind consideration for further strengthening the NBFC sector:

#### **1. Exempt NBFCs from the restrictions imposed on opening of current accounts by banks:**

Sir, NBFCs borrow from banks mostly as term loans and the percentage of borrowing as cash credit is low. An NBFC may operate its main collection/disbursement account with a bank from which it does not have a cash credit facility but only a term loan, for reasons of better service levels or branch strength in the geographical area served by the NBFC. Unlike manufacturing industry which borrows term loans for specific projects (and therefore direct disbursement to suppliers is possible), NBFCs create a loan portfolio and then avail of term loans for refinancing their existing loan portfolio. Direct disbursement to “suppliers” is not possible in such a scenario. There are existing regulations governing borrowing and end use of funds by NBFCs which are practical and provide a strong framework of governance and control. All banks seek NOCs from



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existing banks while opening current accounts of NBFCs. We therefore request you to please exempt NBFCs from this regulation on restriction of opening of current accounts and on the stipulation of remitting term loans to “suppliers”.

### **2. Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses:**

The RBI has recently permitted banks in India to increase the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent vide notification RBI/2020-21/19 DoR.No.BP.BC/6/21.04.048/2020-21 dated August 6, 2020. The relaxation is applicable for a limited time up to March 31, 2021.

The objective is to mitigate the negative economic impact of the Covid19 pandemic on households, entrepreneurs and small businesses. The decision helps millions whose livelihoods have been severely affected by the economic disruption caused by the pandemic and whose credit requirements were unmet by existing channels.

At the same time, we observe that gold loan NBFCs have been kept out of the purview of the relaxation. We believe this aspect merits reconsideration as these NBFCs cater mainly to the poor and marginalized customers, particularly in rural and semi urban areas, who otherwise depended on informal finance. By restricting the applicability of the measure to banks, a vulnerable section of the population is effectively punished by exclusion.

We therefore request that the RBI extend the mitigation benefit to the customers of all the gold loan focused RBI Registered NBFCs too. It will benefit customers belonging to the marginalized and unbanked class who typically would lack documentary evidence to source credit from formal channels and therefore at risk of reverting to informal lenders. Further, gold loan focused NBFCs with their specialized experience in the field would be well-placed to deal with the attendant risk involved.

Our humble submission is that the customers of gold loan focused NBFCs should also be given the benefit of higher LTV norms as per the notification.



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We request your kind and favourable consideration of these requests.

We thank you once again for the support extended to NBFCs during this period of crisis.

We seek an audience with your kind-self and seek your sympathetic consideration of our request and positive response.

Thanking you,

Yours sincerely,

**FOR FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR  
DIRECTOR GENERAL  
9820035553**



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