

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.in](mailto:directorgeneral@fidcindia.org.in)



[www.fidcindia.org.in](http://www.fidcindia.org.in)

25<sup>th</sup> May, 2022

Shri Shaktikanta Das  
Governor,  
Reserve Bank of India,  
Central Office Building,  
Shahid Bhagat Singh Marg, Fort,  
Mumbai – 400 001

Respected Sir,

**SUB: LOAN AMOUNT THRESHOLD FOR ENFORCING SECURITY INTEREST UNDER  
THE SARFAESI ACT TO BE REDUCED FROM RS. 20 LAKHS TO RS. 1 LAKH FOR  
NBFCs**

**Finance Industry Development Council (FIDC)** is a Representative Body of Asset and Loan Financing of the NBFCs registered with the Reserve Bank of India. FIDC was formed 17 years ago and is the recognized face of the NBFC sector. We have been engaged in regular interaction both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings with RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

We thank you for giving us an opportunity to present the concerns of the NBFC sector and our suggestions thereon from time to time.

At the outset, we would like to convey our sincere thanks to you and your entire team at Reserve Bank of India for introducing comprehensive and targeted schemes to ensure there is ample liquidity in the financial system. We also thank Government of India and Reserve Bank of India for providing extra impetus to various priority sector and also encourage the growth in this sector with adequate and timely credit to this sector through banks and NBFCs.



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**Financial inclusion** is one of the critical drivers of economic progress. As India aspires to develop into a burgeoning economy, accelerating financial inclusion is inevitable. India has a vastly underserved population, and including this extensive group in the financial mainstream will enable economic growth and social progress. Government initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), simplified KYC, Digital India Initiatives through Aadhar have so far complemented this process. The initial barriers of unavailability of suitable financial products, lack of physical infrastructure, or lack of skilled human resources have been addressed to a large extent. **NBFCs have played a vital role in addressing some of the key challenges to financial inclusion and, over the years, have built a strong ecosystem to serve the unbanked and the underserved population of our country.**

### Background of our request

In order to bring parity between recovery procedures available to Banks / Financial Institutions, Housing Finance Companies and NBFCs, it was requested to allow NBFCs to allow recovery proceedings under SARFAESI Act for loans above Rs. 1 lakh. This will not only harmonize the various frameworks but will also help in bringing litigation cost of NBFCs which will help providing financing to small MSME borrowers at a competitive cost. NBFCs have faced challenges due to this limit being set at Rs. 20 lakhs as it takes abnormally longer time for resolution of stressed account in absence of SARFAESI which goes as high as 5 years which not only increases the number of stressed accounts on NBFCs balance sheet but also increases the legal and litigation cost of NBFCs. This cost gets unnecessarily gets loaded on the good MSME borrowers which are standard and making timely servicing.



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The issue was part of our detailed Pre-Budget Memorandum dated 16<sup>th</sup> December, 2021, submitted to the Hon'ble Finance Minister (Section III.1, Page 7-**copy enclosed** for ease of reference). We once again request that the current threshold be brought down to Rs 1 lakh (in line with the limit for banks) to enable smoother and easier recovery of non-performing loans.

**The RBI has vide its notification dated November 12, 2021 implemented a key change of recognising delinquencies on a daily basis instead of on a monthly basis, irrespective of the loan size. This would have a significant impact on the level of systemic NPAs reported by the NBFCs. The recognition norms are thus harmonised across banks and NBFCs. Provision of speedier and effective recovery mechanism in the form of SARFAESI Act is critical to manage this additional burden.**

Over time, the RBI has also been harmonising various norms such as income recognition, NPA and SMA reporting and so on across banks and NBFCs. We welcome this trend and submit that similar harmonisation be also implemented in terms of recovery and other enabling mechanisms to enable a level playing field and to remove any regulatory arbitrage across NBFCs and banks.

It may be relevant to mention here that the average size of loans sanctioned by NBFCs is far lower at about Rs 5 lakhs, implying that most of the customers of NBFCs are out of the present threshold of Rs 20 lakhs. This effectively places the NBFCs at a disadvantage by preventing NBFCs from usage of a legally valid recovery tool available to banks, creating a piquant situation that in respect of the same customer a bank may resort to the provisions of the SARFAESI Act, while an NBFC cannot. There would be another dichotomy in the case of co-lending and it is not clear as to whether the participating bank can invoke the SARFAESI Act for its own share but the partner NBFC is not permitted to do so, because of the present stance of RBI.



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NBFCs are also subject to a fair practice code and other safeguards to prevent misuse of such provisions to harass customers. NBFC ombudsmen have also been appointed to address any customer grievance in this matter, thus minimising risk of recalcitration.

**We appeal to you to kindly consider our request and recommend reduction of the threshold for resorting to SARFAESI Act to Rs 1 lakh per borrower, as in the case of banks.**

We hope that our requests shall receive a favourable consideration.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR**  
**DIRECTOR GENERAL**  
**9820035553**



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