FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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

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September 02, 2023

Shri M Rajeshwar Rao,
Deputy Governor,
Reserve Bank of India,
Central Office Building,
Shahid Bhagat Singh Marg, Fort,
Mumbai – 400 001

Respected Sir,

Sub: Recognition of non-performing loans under the ECLGS Scheme

The Government of India launched the ECLGS scheme in light of the Covid-related difficulties encountered by MSMEs under which additional loans granted to MSMEs under this scheme would be guaranteed by the Central Government. The risk weight applicable to such loans would be Zero, since these are backed by Government guarantee. This dispensation is applicable to banks and NBFCs.

While recognising delinquent loans under the ECLGS schemes as NPA, banks have been provided a concession to treat such delinquent loans as NPA only when the Government guarantee is repudiated for whatever reason. So long as the guarantee is valid and persisting, these loans need not be classified as NPA. (vide Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances- dated April 1, 2023 (RBI/2023-24/06 DOR.STR.REC.3/21.04.048/2023-24)).

NBFCs, however, are not covered by the aforesaid circular and have to treat such loans as NPA once they cross the 90 day norm. This leads to an anomaly that the exposure of a customer in a bank being treated as “Standard”, while the same customer’s loan from an NBFC would be classified as NPA.

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In view of the above, we request the RBI to kindly remove this anomaly and allow NBFCs to treat ECLGS loans as NPA only on repudiation of the Government guarantees, thus harmonising the regulation of NBFCs with that of Banks.

We thank you for your kind consideration

Thanking you,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKER
DIRECTOR GENERAL
9820035553