FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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Shri Saurav Sinha,
The Executive Director,
Reserve Bank of India
17th Floor, Central Office Building
Shahid Bhagat Singh Road
Mumbai-400 001

Sub: Maintenance of Capital Adequacy Ratio ("CRAR Ratio") for Housing Finance Companies ("HFC") - Determination of Risk Weighted Assets for certain off-balance sheet commitment (i.e. undisbursed home loan)

Respected Sir,

This has reference to matters covered under Paragraph 6 of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (Directions).

We convey our sincere appreciation for continuously providing guidance to the Housing Finance Companies (HFCs). We also place on record our appreciation for consultative approach of RBI towards various matters.

With respect to the captioned subject matter, we seek your kind attention with respect to the following:

2. As per Paragraph 6 of Master Directions Non-Banking Financial Company – Housing Finance (Reserve Bank) Directions, 2021 bearing reference number

[1] RBI/2020-21/73 DOR.FIN.HFC.CC.NO.120/03.10.136/2020-21

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Notification No. DOR.FIN.HFC.CC.No.120/03.10.136/2020-21 dated February 17, 2021 (updated as on 01 April 2022) ("**HFC Master Directions**") one of the key regulatory requirements of an HFC is maintenance of Capital Adequacy Ratio (CRAR) on continuing basis. A key constituent to arrive at CRAR is value of risk-adjusted Off-Balance Sheet assets. Under the Off-Balance Sheet items, for an HFC, the value of "Undisbursed amount of housing loans/other loans" is usually the major figure.

3. For the purposes of this letter, we are concerned with risk weight applied towards credit exposure, in respect of sanctioned home loan which is partly disbursed (on balance sheet item) and balance, undisbursed (off-balance sheet item) and wish to seek RBI's guidance in this regard.

4. As per paragraph 6.3.2 of the HFC Master Directions, "Undisbursed amount of housing loans/other loans" has been assigned a Credit Conversion Factor of 50%. Post conversion the credit equivalent amount is multiplied by risk weight assigned as per entity to which Company has exposure. This is as below:

Table I – Credit Converted Risk Weight for Undisbursed amount of housing loans/ other loans

Type	Credit Conversion Factor	Risk Weight	Credit Converted Risk Weight
Central Government/ State Government	50%	0	0%
Banks	50%	20	10%
Undisbursed amount of housing loans/ other loans	50%	100	**50%**

5. Considering above, there emerges a situation wherein the capital requirement on un-disbursed housing loan is higher than what is required for disbursed housing loan. An illustration for this as below:

Table II – Comparative Risk weight for disbursed/un-disbursed loan

Loan value	Disbursed – On balance sheet	Undisbursed (committed)–Off balance sheet
INR 50,00,000 (Indian Rupees Fifty Lakhs)	INR 25,00,000 (Indian Rupees Twenty Five Lakhs) (A)	INR 25,00,000 (Indian Rupees Twenty Five Lakhs) (A)
Risk weight Asset (Assuming with LTV ratio ≤ 80%)	35% (B)	-
Credit Conversion factor	-	50% (B)
Applying Risk weight on off balance sheet items	-	100% (C)
Risk weighted asset (A X B X C)	**INR 8,75,000 (Indian Rupees Eight Lakhs and Seventy-Five Thousand Only)**	**INR 12,50,000 (Indian Rupees Twelve Lakhs and Fifty Thousand Only)**

6. The above table demonstrates that on-Balance Sheet housing loan amount is carrying a risk weightage of 35% whereas Off-Balance Sheet housing loan amount (***which is un-disbursed***) is carrying a much higher risk weightage. This is leading to a situation wherein higher capital charge is required by the HFC for un-disbursed loan vis-à-vis disbursed loan. ***We suggest that the risk weight***

assigned for the un-disbursed portion of loan should be that which is applicable on disbursed portion (as multiplied by the credit conversion factor).

7. We also submit that:
    - Entire loan amount is protected under recovery through various mechanism such as those under SARFAESI Act
    - It often takes up to 2-3 years for an under-construction house to be fully constructed, requiring the HFC constituent to carry higher capital cost on un-disbursed loans for a period up to 3 years
    - Many a times, at later stage customer does not request for disbursement of full loan amount meaning HFC does not receive any interest benefit and had carried capital cost on such amount till the time downsizing request is received
    - The customer may also choose to prepay the loan and close/reduce the same or transfer out the loan

8. Thus, HFCs require higher capital for conducting housing loan business which could lead to higher rate/commitment fee being charged from borrowers to off-set the impact. It also places higher ask on the capital required to conduct the business and impacts the profitability of the Company.

9. The risk weight (35%) includes housing loans to individuals with outstanding up to Rs. 75 Lacs and LTV of up to 80%. This segment of loans constitutes one of the largest portions of housing loans extended by HFCs to individual borrowers and thus has substantial impact on individual housing loan book.

10. In the spirit of regulatory framework which seeks to promote housing loan for retail customers, **we request RBI to kindly consider our suggestion that post application of Credit Conversion Factor, the risk weight assigned (for the un-**

disbursed portion) should be that which is applicable on the disbursed portion of loan.

Thanking you for your time and consideration. We look forward for receiving a positive reply from your end and shall be happy to provide any other information / clarification on the above said concerns.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
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