FIDC

Finance Industry Development Council

(A Self Regulatory Organisation for NBFCs in India)

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November 28, 2025

To,
The Chief General Manager
Department of Regulation
Reserve Bank of India
Central Office, Shahid Bhagat Singh Marg
Fort, Mumbai - 400 001

Respected Madam/Sir,

Reference: Draft Reserve Bank of India (Scheduled Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2025 dated October 7, 2025.

Request: Parity in Risk Weights for Housing Finance Companies (HFCs) and Non-Banking Finance Companies (NBFCs)

Executive Summary:

At the outset, we appreciate the Reserve Bank of India's proactive initiative in issuing the draft directions advocating for a Standardised Approach for Capital Charge for Credit Risk applicable to Scheduled Commercial Banks. We welcome the recalibration of risk weights for housing finance products, loans against property, and MSME lending, as these are progressive steps that enhance capital efficiency and support credit growth in these critical sectors.

However, we note with concern that Non-Banking Finance Companies (NBFCs) and Housing Finance Companies (HFCs), which collectively account for approximately 25% of credit in the Indian lending market, have been kept outside the scope of these beneficial guidelines. NBFCs and HFCs play a pivotal role in extending credit to underserved segments,

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particularly in housing finance, loans against property, and MSME lending, especially at the lower end of the pyramid.

The unchanged risk weights under the existing Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (updated as on July 17, 2025) ('HFC Master Directions') and Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ('NBFC-SBR Directions') may place HFCs and NBFCs at a competitive disadvantage and impact their ability to serve their core customer segments effectively.

Background:

The Reserve Bank of India, through its draft circular dated October 7, 2025, has proposed significant changes in the risk weights applicable to various categories of loans extended by Scheduled Commercial Banks.

Key proposals include:

- Reduction in risk weights for housing loans from the existing range of 35–50% to 20–40% based on Loan-to-Value (LTV) ratios. Specific risk weights ranging from 30-60% have been prescribed for loans provided to individuals from the third residential dwelling unit onwards.
- Introduction of differentiated risk weights for Loans Against Residential Properties based on repayment source, ranging from 20% to 75%.
- Lower risk weights for unrated MSMEs at 85%, compared to the current 100%.
- Enhanced capital treatment for various retail and commercial lending segments that recognize risk differentiation based on underlying fundamentals.

However, the risk weights applicable to HFCs and NBFCs under the HFC Master Directions and NBFC-SBR Directions, respectively, remain unchanged.

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The current framework prescribes:

- Housing loans for HFCs continue to attract risk weights of 35–75%, with higher risk weights of 75%/100% for loans provided to individuals from the 3rd residential dwelling unit onwards.
- Loans Against Property (LAP) exposures for HFCs attract risk weights as per existing guidelines, while NBFC LAP exposures attract 100%/125%.
- MSME lending by NBFCs continues to attract 100% risk weight for unrated exposures.

We respectfully submit this representation to highlight the regulatory differentiation in the treatment of risk weights between Scheduled Commercial Banks (SCBs) and HFCs/NBFCs.

Issue 1: Regulatory Parity and Harmonization

Issue/Concern:
The draft directions create a two-tier regulatory framework where Scheduled Commercial Banks receive beneficial capital treatment for housing loans, LAP, and MSME lending, while HFCs and NBFCs—operating in the same lending segments—continue to operate under higher risk weight requirements. This regulatory differentiation is inconsistent with RBI's broader harmonization efforts and creates an uneven playing field.

Submission:
We request that the beneficial risk weight treatment proposed for SCBs be extended to HFCs and NBFCs in a phased and calibrated manner, ensuring regulatory harmonization across all regulated lending institutions.

Rationale for Submission:

- RBI has consistently pursued regulatory harmonization across financial entities, as evidenced by the Scale-Based Regulation framework and unified master directions.

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- Extending similar capital treatment to NBFCs and HFCs would further this objective and reduce regulatory arbitrage.
- Both HFCs/NBFCs and SCBs lend to the same customer segments with similar underwriting standards, credit appraisal processes, and risk management frameworks. The underlying credit risk in housing loans and LAP does not differ materially based on the type of lending institution.
- International best practices, including Basel frameworks, emphasize risk-based capital adequacy that is institution-agnostic and focuses on the inherent risk characteristics of the asset class rather than the type of lender.
- Regulatory parity will promote a level playing field and ensure that capital requirements reflect actual credit risk rather than institutional classification.

Issue 2: Risk Weight Parity for Housing Loans

Issue/Concern:

The draft directions propose reduced risk weights for housing loans extended by SCBs (20-40% based on LTV ratios, and 30-60% for third dwelling unit onwards), while HFCs continue to face risk weights of 35-75% (and 75%/100% for third dwelling unit onwards) under the HFC Master Directions. This differential treatment disadvantages HFCs despite their specialized focus on housing finance and their critical role in financial inclusion.

Submission:

We request that the risk weights for housing loans extended by HFCs be aligned with those proposed for SCBs in the draft directions, incorporating LTV-based differentiation ranging from 20-40% for primary to second dwelling units and 30-60% for third dwelling unit onwards.

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Rationale for Submission:

- HFCs are specialized institutions with deep domain expertise in housing finance, often demonstrating lower delinquency rates and better asset quality compared to diversified lenders. Their focused business model and risk management capabilities warrant equivalent capital treatment.
- HFCs play a pivotal role in extending housing finance to underserved segments, including informal sector borrowers, self-employed individuals, and customers in Tier 2/3/4 cities and rural areas. Lower risk weights will enhance their capital efficiency and expand their ability to serve these segments.
- Housing loans backed by residential properties have historically demonstrated lower credit risk and higher recovery rates compared to unsecured lending. The collateral-backed nature of these loans justifies lower risk weights regardless of the lending institution.
- Financial inclusion objectives require that specialized housing finance institutions are not placed at a competitive disadvantage vis-à-vis banks. Parity in risk weights will strengthen HFCs' contribution to the government's "Housing for All" mission and affordable housing goals.
- Data from the National Housing Bank and industry reports indicate that HFCs maintain asset quality metrics comparable to, and often better than, banks in the housing loan segment, supporting the case for equivalent capital treatment.

Issue 3: Risk Weight Parity for Loans Against Property (LAP)

Issue/Concern:

The draft directions introduce differentiated risk weights for Loans Against Residential Properties extended by SCBs based on repayment source (ranging from 20% to 75%), while LAP exposures for HFCs continue under existing guidelines and NBFC LAP exposures attract

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100%/125% risk weights. This creates a significant competitive disadvantage for HFCs and NBFCs in a product segment that is critical for MSME and individual borrowers.

Submission/Ask:

We request that the differentiated risk weight framework for LAP proposed for SCBs (based on repayment source and ranging from 20-75%) be extended to both HFCs and NBFCs, recognizing the collateral-backed nature and repayment track record of these loans.

Rationale for Submission:

- LAP is an important product segment for both HFCs and NBFCs, serving individuals, self-employed professionals, and MSMEs for business purposes, working capital needs, and personal requirements. These loans are secured by residential property and demonstrate strong recovery characteristics.
- NBFCs and HFCs play a pivotal role in extending LAP to informal sector borrowers and MSMEs who may not have access to bank credit. Providing risk weight parity will enhance their ability to serve these credit-starved segments and contribute to financial inclusion.
- The introduction of repayment source-based differentiation in the draft directions recognizes that LAP backed by rental income or salary income carries different risk profiles. This same risk differentiation applies equally to LAP extended by HFCs and NBFCs and should be recognized in capital requirements.
- Historical data shows that secured LAP portfolios maintained by NBFCs and HFCs exhibit delinquency and loss rates comparable to banks, supporting the case for equivalent capital treatment based on underlying risk characteristics rather than institutional type.

- The current differential treatment (20-75% for banks vs. 100%/125% for NBFCs) creates regulatory arbitrage and may push borrowers toward banks even when NBFCs/HFCs may be better positioned to assess and manage credit risk for certain customer segments.

Issue 4: Risk Weight Parity for MSME Lending

Issue/Concern:
The draft directions propose a reduced risk weight of 85% for unrated MSME exposures of SCBs, while NBFCs continue to apply 100% risk weight for such exposures under the NBFC-SBR Directions. This differential creates a competitive disadvantage for NBFCs who significant contributors to MSME credit are, particularly for smaller and informal enterprises.

Submission:
We request that the reduced risk weight of 85% for unrated MSME exposures proposed for SCBs be extended to NBFCs, recognizing their critical role in MSME lending and their specialized capabilities in assessing and managing MSME credit risk.

Rationale for Submission:
- NBFCs play a critical role in extending credit to MSMEs, particularly to unrated and underserved enterprises in the informal sector. They account for a significant share of MSME credit and have developed specialized underwriting capabilities for this segment.
- Many NBFCs have built strong relationships with MSME clusters and demonstrated the ability to assess credit risk through cash flow analysis, supply chain linkages, and on-ground intelligence, often achieving better outcomes than traditional credit rating-based approaches.

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- The government's focus on MSME growth and formalization requires that all regulated lenders have equitable capital treatment to expand credit to this sector. Differential risk weights create an uneven playing field and may constrain NBFC participation in priority sector lending.
- International evidence and RBI's own recognition of lower risk in MSME lending (reflected in the reduced risk weight for banks) should apply equally to NBFCs who lend to the same borrower segment with similar or better asset quality outcomes.
- Providing parity will enhance capital efficiency for NBFCs and enable them to scale up MSME lending, supporting the government's Atmanirbhar Bharat initiative and the broader economic recovery.

Conclusion:

We appreciate the Reserve Bank of India's progressive approach in recalibrating capital charges for credit risk through the draft Standardised Approach directions. However, we believe that extending these beneficial provisions to HFCs and NBFCs is essential for ensuring regulatory parity, promoting balanced competition, and advancing financial inclusion objectives.

HFCs and NBFCs are integral to India's financial ecosystem, serving critical segments including affordable housing, MSMEs, and underserved borrowers. Providing them with capital treatment equivalent to Scheduled Commercial Banks will:

- Enhance capital efficiency and expand lending capacity for entities that specialize in housing, LAP, and MSME lending
- Promote regulatory harmonization and reduce arbitrage across the financial system
- Strengthen financial inclusion by enabling HFCs and NBFCs to better serve their core customer segments
- Support government initiatives including Housing for All, MSME growth, and priority sector lending

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- Create a level playing field based on underlying credit risk rather than institutional classification

FIDC reiterates its support for RBI's proactive initiative in issuing the draft directions advocating for a Standardised Approach for Capital Charge for Credit Risk.

We humbly request the Reserve Bank of India to consider our submissions favorably and extend the proposed risk weight reductions to HFCs and NBFCs in the relevant lending categories. We would be pleased to provide any additional information or data that may be required and would welcome the opportunity to present our submissions in person at your convenience.

Thanking you.

Yours Sincerely,

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