FIDC

Finance Industry Development Council

(A Self Regulatory Organisation for NBFCs in India)

CIN: U91990MH2004NPL146931

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

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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 Circulars:

1. Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, specifically Annexure XIV on "Valuation of Properties – Empanelment of Valuers" (updated as on July 17, 2025).
2. Reserve Bank of India (Project Finance) Directions, 2025, vide circular No. RBI/2025-26/59 DOR.STR.REC.34/21.04.048/2025-26 dated June 19, 2025 (effective October 1, 2025).

Executive Summary:

At the outset, we appreciate the Reserve Bank of India's comprehensive regulatory framework for Housing Finance Companies and the recent issuance of Project Finance Directions, 2025. We respectfully submit this representation seeking harmonization of certain provisions and clarifications on operational aspects for effective implementation by HFCs.

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Background:

HFCs play a vital role in advancing affordable housing finance and supporting the government's mission of 'Housing for All'. They also finance residential and commercial real estate projects at various stages.

We have identified two specific areas where current regulations create:
(a) regulatory differentiation between banks and HFCs for identical transactions, and
(b) inconsistent treatment between economically similar project finance structures.

ISSUE 1: Removal of "Documented Transaction Value" Cap for HFCs

Issue/Concern:

As per Annexure XIV of the HFC Master Directions, 2021, HFCs are required to ensure that the value of the property considered for LTV calculation purposes does not exceed the documented transaction value (sale deed value or agreement value). This restriction does not apply to banks, which are permitted to consider fair market value as determined by independent approved valuers for LTV calculation.

This creates a two-tier regulatory framework where:

- HFCs must use the lower of (a) fair market value determined by approved valuers, or (b) documented transaction value, for LTV calculation
- Banks can use fair market value as determined by approved valuers without being restricted by documented transaction value

This differential treatment has the following implications:

- HFCs face restrictions that limit their lending capacity compared to banks for identical properties and borrowers, particularly in scenarios where property values have appreciated between the date of agreement/booking and the date of final disbursement

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- The restriction arbitrarily constrains HFC lending capacity even when independent valuations establish higher fair market values and adequate collateral coverage exists
- Creates competitive disadvantage for HFCs in serving housing finance segments

Submission:

We request that the restriction on HFCs regarding the "documented transaction value" cap be removed, and HFCs be permitted to calculate LTV based on fair market value as determined by independent approved valuers, in alignment with the regulatory framework applicable to banks.

Rationale for Submission:

- **Regulatory Parity:** RBI has consistently pursued regulatory harmonization to ensure competitive neutrality. Aligning LTV methodology eliminates artificial competitive disadvantage for HFCs.
- **Economic Reality:** Fair market value reflects true economic value at time of lending. Properties legitimately appreciate between agreement and disbursement due to market dynamics, construction progress, and infrastructure development.
- **Adequate Safeguards:** Robust safeguards already exist through valuer empanelment, periodic revaluation, prescribed valuation standards, and internal controls. The additional transaction value cap does not enhance prudential standards.
- **Risk-Based Approach:** Underlying credit risk is identical whether lender is bank or HFC. LTV should be based on current collateral value, not historical transaction value.
- **Financial Inclusion Impact:** Current restriction limits HFCs' ability to serve underserved segments (self-employed, informal sector, Tier 2/3/4 cities) where they have specialized domain expertise.
- **International Alignment:** Global regulatory frameworks base LTV on current market value subject to independent valuation, not historical transaction values.

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ISSUE 2: Treatment of Contingent Sales Receivables for Commercial Real Estate (CRE) Projects

Issue/Concern:

The Project Finance Directions explicitly permit consideration of contingent sales receivables for financial closure computation in Commercial Real Estate – Residential Housing (CRE-RH) projects. However, the Directions remain silent on similar treatment for pure Commercial Real Estate (CRE) projects.

Several CRE categories operate on unit-sales model (strata sale) functionally similar to CRE-RH:

- Composite structures (retail/commercial on lower floors, residential above) classified as CRE when commercial area exceeds 10% FSI
- Mixed-use developments with for-sale commercial and residential units
- Strata-sale office projects (built-to-sell small offices, not built-to-lease)

Developers rely on contingent sales proceeds from commercial unit sales for financial closure, identical to CRE-RH. The regulatory silence creates ambiguity and inconsistent treatment.

Submission:

We request clarification that the recognition of contingent sales receivables for computation of financial closure should be extended to Commercial Real Estate (CRE) projects where the primary source of project funding is the sale of commercial units (strata sale model), mirroring the treatment accorded to CRE-RH projects under the Project Finance Directions.

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Rationale for submission:

- **Functional Equivalence:** CRE and CRE-RH strata-sale projects have identical cash flow dynamics and revenue structure—both rely on future unit sales for completion and debt servicing, not rental income. Only difference is property type (commercial vs residential).
- **Economic Substance:** Differential treatment based solely on property classification ignores economic reality. Revenue model and risk profile are identical for unit-sales projects regardless of whether units are commercial or residential.
- **Existing Precedent:** Directions already recognize legitimacy of contingent sales receivables for CRE-RH. This should extend to all unit-sales models based on revenue characteristics, not property classification.
- **Industry Reality:** Significant market exists for for-sale commercial units (small offices, retail spaces, mixed-use). Developers structure these around expected sales, achieving financial closure through demonstrated sales receivables.
- **Regulatory Consistency:** Silence on CRE creates ambiguity and potential inconsistent treatment. Projects marginally above/below 10% FSI threshold have virtually identical revenue models but different regulatory treatment.
- **Prudential Standards Maintained:** Extension maintains existing safeguards on sales realization, pre-sales requirements, and financial closure criteria while ensuring consistent treatment of economically similar transactions.

Conclusion:

We appreciate the Reserve Bank of India's efforts in establishing comprehensive regulatory frameworks for HFCs and project finance. The two issues raised in this representation highlight specific areas where regulatory gaps create competitive disadvantage for HFCs (Issue 1) and inconsistency in treatment of economically similar project finance structures (Issue 2).

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The requested changes would:

- **Issue 1:** Create level playing field between banks and HFCs for housing finance, enabling HFCs to optimize lending capacity while maintaining prudential standards and supporting affordable housing and financial inclusion objectives.
- **Issue 2:** Ensure regulatory consistency based on economic substance and revenue models rather than property classification, providing clarity and supporting legitimate commercial real estate financing.

Both requested changes are consistent with RBI's broader objective of regulatory harmonization, risk-based supervision, and promoting competitive neutrality across regulated entities undertaking functionally similar activities.

We humbly request the Reserve Bank of India to consider our submissions favorably. We would be pleased to provide any additional information or data required and welcome the opportunity to present our submissions in person at your convenience.

Thanking you.

Yours Sincerely,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL
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