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RBI ups by 25 bps risk weights on unsecured bank, NBFC loans

TIGHTER NORMS. Will push up lenders' capital requirement, make borrowing costlier

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In response to the unprecedented growth in unsecured retail loans and the consequent concerns over rising systemic risks, the Reserve Bank of India has increased the risk weights on unsecured consumer loans, including credit cards, by 25 basis points (bps) for banks and NBFCs.

Accordingly, outstanding and new consumer credit exposure of commercial banks and retail loans of NBFCs, excluding housing, education and vehicle loans, and loans secured by gold and jewellery, will now attract risk weights of 125 per cent against the current 100 per cent, with immediate effect. For NBFCs, microfinance and SHG (self-help group) loans will be excluded from the higher risk weights, the central bank said.

Krishnan Sitaraman, Senior Director and Chief Ratings Officer, Crisil Ratings, said: "We've seen unsecured retail growth being relatively higher. One of the ways to stabilise or calibrate growth is to require lenders to provide higher capital for those loans which is a proactive step to enhance guardrails and strengthen internal resilience. Thus, in case there is an increase in NPAs going forward, lenders are better cushioned from a balance-sheet perspective..."

SAFER ZONE. This hike excludes housing loans, education loans, vehicle loans and loans secured by gold and jewellery

Further, the RBI hiked the risk weights on credit card receivables by 25 bps. Presently, a risk weight of 125 per cent is applicable on credit card receivables for commercial banks, and of 100 per cent for NBFCs.

The RBI moves are "expected to result in higher capital requirements for lenders and, hence, an increase in lending rate for borrowers. Increase in risk weights for consumer credit is targeted at NBFCs in the personal and consumption loan segments for augmenting their capital buffers," said Karthik Srinivasan, Senior Vice-President & Group Head - Financial Sector Ratings, ICRA.

BANKS' NBFC EXPOSURE

Banks will also have to set aside a 25 percentage point higher risk weight for loans to NBFCs, excluding core investment companies. However, this will only be applicable if the current risk weight, ascertained per the external credit rating assigned to the NBFC, falls below 100 per cent. Loans to HFCs (housing finance companies) and those eligible for classification as priority sector will be excluded.

"... Today, if a bank is lending to an AAA-rated NBFC, the risk weight is 20 per cent, which means that a ₹100-crore loan is risk weighted as ₹20 crore for capital computation. Henceforth, it will have to be treated as ₹45 crore because the effective risk weight will be 45 per cent," Crisil's Sitaraman said.

Currently, the risk weight for lending to 'AAA'-rated NBFCs is 20 per cent, for 'AA'-rated is 30 per cent and for 'A'-rated NBFCs is 50 per cent.

In addition, all top-up loans extended by banks and NBFCs against movable assets will need to be treated as 'unsecured loans' for credit appraisal, prudential limits and exposure purposes.

The RBI directed lenders to review and establish board-approved limits for sectoral exposure in consumer credit. These limits must be strictly adhered to and monitored by the Risk Management Committee, with a deadline for implementation set for February 29, 2024.