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BANKS, NBFCs NEED TO ALSO SET ASIDE MORE FUNDS FOR CREDIT CARDS

RBI Tightens Capital Norms for Unsecured Retail Loans

Risk weight on personal advances for lenders raised to 125%; cost of loans may rise

Our Bureau

Mumbai: India's central bank has put the brakes on the recent exponential growth in unsecured loans by increasing capital requirements for such advances, mandating bank boards to come up with a policy on such exposure and requiring them to strictly monitor potential risks in this credit segment. The cost of such loans will likely increase now.

The Reserve Bank of India (RBI) has increased risk weights on consumer loans disbursed by banks, non-banking finance companies (NBFCs) and credit cards, making it more expensive for lenders to advance credit in these segments. That could likely mean higher interest rates for borrowers.

Moreover, lending from banks to NBFCs will also become more expensive as risk weights for these loans, above a specified threshold, have also been enhanced.

Risk weights refer to the amount of capital lenders have to keep aside to cover for credit risk from a particular loan segment. A higher risk weighting requires banks to set aside more capital for those loans. The increased risk weights apply to existing loans as well.

NOT APPLICABLE TO MORTGAGES

In its latest move, the RBI increased the risk weight on consumer credit for banks and NBFCs to 125% from 100%. In simple words, Basel III norms required banks to keep aside Rs 8 for every Rs 100 lent for personal loans. Now, they will need to keep aside 25% higher or Rs 10 on every Rs 100 lent. The new rules are not applicable to housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, the RBI said.

Similarly, risk weights on credit cards have been increased by 25 percentage points to 150% for banks and 125% for NBFCs, respectively. Loans to NBFCs could also attract a higher risk weight. So far, bank loans to NBFCs were risk weighted as per ratings of external agencies.

New norms will now mandate banks to increase the risk weights by 25 percentage points over and above the risk weight given by the external rating agency, in cases where the risk weight as per external rating of NBFCs is below 100%.

All top-up loans by lenders against movable assets that are depreciating in nature, such as vehicles, will be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes, the RBI said.

Analysts said the RBI measures will result in higher capital requirements for the lenders and hence an increase in lending rate for the borrowers.

'NOT UNEXPECTED'

"The increase in risk weights for consumer loans is in line with expectations," said Karthik Srinivasan, group head, at ICRA.