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# RBI rule on loan securitization may hit fintech lenders

**10 Dec 2022 Shayan Ghosh**


A new Reserve Bank of India (RBI) guideline prohibiting securitization of loans with a residual maturity of less than a year is set to impact fintech lenders who deal in short-term loans, analysts said.

On 5 December, RBI updated its 2021 guidelines on securitization of standard assets or those that are being regularly repaid. This circular bars lenders from securitizing loans that mature in less than 365 days.

Securitization is the pooling of assets into repackaged interest-bearing securities.

"Fintech lenders in India typically lend short term, comprising three-six-month products. They have developed an expertise in this segment. We were seeing fintechs tapping the securitization market of late and some transactions have already been completed," said Vineet Jain, senior director, Care Ratings Ltd.

Jain said while not many fintechs are doing it, the RBI circular, among other things, restricts them from accessing the market, which has been gaining good traction. Securitization is not only a funding avenue for fintechs, but it also allows these lenders to showcase to investors their ability to originate and service loans.

Care Ratings said in a note on 8 November that the overall secondary market volumes of gold loan financiers and microfinance institutions (MFI) may not get significantly impacted as there is no such limitation on the balance tenure for loans sold under the transfer of loan exposures.

It said the proportion of contracts with balance tenure shorter than one year was very small for most asset classes and those assets would most likely be sold through the direct assignment route.

Others believe that asset classes that have short tenor loans such as MFIs, gold loans, and short-term personal and consumer durable loans would be affected by the regulatory change. Analysts are, however, pointing out that such short-term securitization would affect about 5% of the market and are, therefore, unlikely to cause much disruption.

According to India Ratings and Research, the total pass-through certificates volume in FY22 was ₹57,000 crore, of which microfinance PTC (pass through certificate) securitization constituted around 9%. It believes the quantum of such issuances could go down in the near term as the pool of assets to be securitized would shrink.

"Gold loans have a tenor ranging from six to 24 months. In the past two years, gold loan securitization has shown a pickup. With the minimum holding period requirement, it would not be possible to securitize the pool of gold loans having a remaining tenor less than 12 months or a total tenor of 15 months or below," India Ratings said.

Crisil pointed out that separately, the minimum holding period for mortgages has now been linked to the date of full disbursement, or registration of security interest with the Central Registry of Securitization Asset Reconstruction and Security Interest of India, whichever is later.

"Gold loans and some unsecured personal loans offered by non-bank financial companies have original tenures ranging from a few months to two years. The shorter tenures, combined with the minimum holding period of three months, and seasoning filters applied by investors could lead to many of these loans coming up short on the minimum 365 days' residual maturity norm," said Krishnan Sitaraman, senior director and deputy chief rating officer, Crisil Ratings Ltd.

The impact on other asset classes such as vehicle finance, small and medium enterprise loans and mortgages is expected to be limited considering their original loan tenures of three or more years, said Sitaraman.