Residual Maturity Norms May Hurt Fintech Lenders

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Synopsis

The Reserve Bank of India (RBI) has made some changes in the securitisation guidelines and henceforth loans with residual maturity of fewer than 365 days are not eligible for securitisation. This will impact the securitisation of shorter tenure assets and more particularly Fintech lenders who are into short-term lending. CareEdge Ratings believes these changes are unlikely to have any significant impact on the overall retail asset secondary market (direct assignment and securitisation) on two counts viz., the share of fintech lenders in the overall market is very low and the impacted loans will continue to be eligible assets under direct assignment (transfer of loans). RBI has also clarified that registration of security interest for the purposes of MHP shall mean a registration under CERSAI.

Key Changes in Securitisation of Standard Assets Directions, 2021

- Loans with residual maturity of less than 365 days are ineligible for securitisation. This will impact securitisation transactions by entities extending short-term loans including some replenishment structures backed by short-term assets.
- Registration of security interest for the purposes of MHP has been clarified to mean registration under CERSAI. This will bring uniformity in approach.
- Restriction on the securitisation of partially disbursed mortgage loans. This is generally accepted market practice and will not have any impact on the market volumes. MHP for mortgage loans will be counted from the date of full disbursement or registration, whichever is later.
- Minimum ticket size of ₹1 crore: Emphasis has been given on single investor exposure restricting participation from small investors.

Key Changes in Transfer of Loan Exposures Directions, 2021

- Clarified that overseas branches are allowed to acquire (not in default loans) from, and sell loan exposures (whether or not in default) to, entities regulated in the host country.
- Similar to securitisation, registration of security interest has been linked to CERSAI, but no explicit restriction has been placed on the transfer of partially disbursed mortgage loans.
- Clarification to allow the sale of loans in default from 1-60 days to asset reconstruction companies (ARCs).
- Reiteration of RBI directive (June 28, 2022) on provisioning requirement for investment in SRs.

Outlook

CareEdge Ratings expects securitisation by the fintech companies, and to a lesser extent, gold & microfinance loans to be impacted by the amendment in residual maturity. The overall secondary market volumes (including direct assignment transactions) of gold loan financiers and MFIs may not get significantly impacted as there is no such limitation on the balance tenure for loans sold under the Transfer of Loan Exposures. This is not likely to affect the overall volume of the market significantly as 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.

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