Impact of RBI Master Directions on HFCs

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Overview

In the earlier note titled RBI Issues Master Directions for HFCs, we had summarised some of the points mentioned in the Master Direction Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021. In the current note, we have studied select large HFCs across multiple parameters and have summarised the findings.

Parameter	Comments
Definition	All the HFCs generally meet the criteria of housing finance loans and individual loans as a percentage of total loans. However, some of the smaller HFCs would have to keep an eye for the loans to individuals' criteria as this criterion may trip these companies up, despite generally meeting the criteria of housing loans.
Liquidity Risk framework	The HFCs have already put in a framework to pursue liquidity risk management, which would cover adherence to gap limits, use liquidity risk monitoring tools and adopt stock approach to liquidity risk.
LCR	Specific norms for LCR have been issued for HFCs with asset size greater than Rs 5,000 crore. The large HFCs are improving their liquidity positions and those HFCs which are currently non-compliant, would ensure accordance with the guidelines following the transitional path mentioned in the directions. These HFCs do not anticipate that they would face significant challenges when HFC regulations are further harmonised with NBFCs going forward.
Loans against security of shares	These HFCs do have exposure for loan against collateral of shares. These HFCs monitor such loans and work on ensuring that adequate level of collateral is maintained.
Loans against security of single product	These HFCs do have exposure to loans against collateral of gold jewellery. These HFCs monitor such loans and ensure that adequate level of collateral is maintained.
Securitization Transactions and reset of Credit Enhancement	These HFCs do conform to guidelines with respect to MHP and MRR.
Capital Requirement	These HFCs either have more than adequate level of capital or have sufficient capital to meet the current level of capital ratio requirement. These HFCs do have an adequate level of Tier I capital. Those which could be deficient after factoring growth may be willing to look for additional Tier II capital.
Risk weights	RBI has maintained the flexibility of the HFCs with respect to risk weights, as NBFCs generally have lesser flexibility for risk weights, which are broadly classified into 0%, 20% and 100%. As the flexibility has been continued, the HFCs would not require additional capital to service the same loan book and can maintain the current levels.
Regulatory Restrictions & Limits	The current risk weights have been maintained, consequently, no significant impact. There are some minor differences that continue between Banks and HFC such as for Banks, risk weights are solely dependent on LTV and not on the value of the loan, whereas for HFCs, that continues.

Public Deposits	RBI has maintained the limit for Deposits (for Deposit taking HFCs) at 3 times NOF (as against 1.5 times for other NBFCs). Hence RBI has been non-disruptive, which is big relief, and it is as per RBI's guidance that there would not be major disruption by way of new regulations.

Concluding remarks

At a broad level there is no significant change or impact due to these Master Directions. This master direction, in a way reiterates that RBI would be the main regulator and that NHB no longer functions as the HFC regulator. These in a way repeal most of the separate circulars / guidelines by NHB and almost similar regulations have now been put in one place. A significant share of the points mentioned in the document had already been covered in the earlier RBI Regulations regarding LCR, etc., consequently there is no major change on those fronts. Overall, the regulations pertaining to HFCs have been harmonised with the extant NBFC regulations. Similarly, in line with the initial thoughts on scale-based regulations for NBFCs, SLR and CRR requirement has not been included for HFCs. Overall, HFCs do not believe that there is any significant change due to these directions.

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