JYOTINDRA MEHTA
PRESIDENT

NAFCUB

Azadi Ka Amrit Mahotsav

Ref. No. NF/R&D/2022-23/1597 **Date: 24th February 2023**

Respected Hon'ble Home & Cooperation Minister Amitbhai,

Sub: Issue of imposing SFB lending norms to UCBs by RBI

We have to submit that NAFCUB has been in discussions with RBI in the above subject and the issues under this subject were deliberated in detail in the recent meeting of Standing Advisory Committee (SAC) held on 6th Jan 2023, in which Sh. P. K. Bansal, Joint Secretary, Ministry of Cooperation also participated.

It was agreed by the RBI that the two issues under this subject would be reviewed by RBI and the decision was confirmed in the minutes of the meeting.

Sir, the Small Finance Banks (SFBs) are stipulated the following as licensing pre conditions for any application

i. Their loan portfolio will have at least 75% of the aggregate amount as Priority Sector Loans (PSL)

ii. Their loan portfolio will have 50% of the aggregate amount as loans that are not exceeding Rs 25 lacs or 0.2 percent of their Tier I capital with a maximum of Rs 1 crore.

In 2020 RBI issued a circular to all UCBs detailing guidelines for voluntary conversion of UCBs to SFBs. It had perhaps envisaged that all the large banks which were eligible would apply for conversion. However, only two UCBs came forward and were accorded permission to become SFBs.

RBI was perhaps surprised that notwithstanding the obvious benefits of prospects of conversion like having entire country as area of operation, opening branches anywhere any time and becoming a part of mainstream banking system with greater visibility, UCBs were not coming forward for conversion.

It was then realized that UCBs were not comfortable about conversion because

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they did not want to be bound by the two loaning conditions as above. Most importantly, many banks have expressed that it will be very difficult for them to make such drastic changes in their loan portfolio as they have many customers of long standing whom the banks may not be able to serve if they accepted the loan provisions of SFBs.

Disappointed that urban banks are not converting to SFBs, RBI decided to introduce the SFB loan norms to UCBs also. NAFCUB has been submitting to RBI from 2020 itself that the all the running UCBs will face great difficulty in complying with steep increase in PSL from 40% to 75% within 3 years and also to change loan profile to have 50% of loan amount in accounts with not more than Rs 25 lacs in size. Such a thing could only be prescribed for new banks.

As stated above, this issue was discussed at length in the SAC meeting and RBI agreed to review it. We all presumed that at least till such time the final decision was taken after review, which we felt would definitely be on lines of our submission, there would be no action.

But to our great surprise and dismay of the entire sector, RBI has reiterated that those banks who have not reached the figure of 50% PSL will have to invest the amount of shortfall in SIDBI bonds, a demand for which has already been received by banks directly from SIDBI. The interest paid on these bonds are so low that they are substantially less than average cost of funds of the banks, and banks would incur substantial loss with such investments. Banks may also lose in hurried sale of their Govt. Securities for getting liquidity to purchase SIDBI bonds.

By insisting on this compliance of investing with SIDBI bonds for shortfall in reaching the revised targets of PSL, RBI is pushing many otherwise satisfactorily managed banks into difficulties, that may make them weak and ultimately lead to their closure on RBI inflicting further regulatory restrictions on them.

It is our earnest request that RBI be kindly prevailed upon to disband its obsession to equate UCBs with SFBs and not prescribe norms that are alright for new banks

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and not those banks which are in existence for a number of decades and have settled profile of borrowers. It is amounting to punishing them for no fault of theirs.

We look forward to Ministry of Cooperation under your guidance to take up the matter with RBI and help the urban banks that are distressed by RBI's insistence prescribe the norms for them and forcing them to invest in SIDBI bonds.

With Kind regards,

Yours Sincerely

Jyotindra

Jyotindra Mehta

Shri.Amit Shah,
Hon'ble Union Minister of Home & Cooperation,
New Delhi