



KNBFC

KERALA NON-BANKING FINANCE COMPANIES
WELFARE ASSOCIATION

KNBFCWA/6/2016

November 14, 2016

Mr. N.S. Vishwanathan

Deputy Governor

Reserve Bank of India

Central Office Building

19th Floor, Sahid Bhagat Singh Road,

Mumbai 400 001.

Respected Sir,

**SUB: DEMONETISATION OF EXISTING RUPEES 500 & 1000 BANK NOTES–
DEPOSIT OF THESE NOTES INTO LOAN ACCOUNTS – PROBLEMS FACED BY
THE BORROWERS OF NBFCs**

We the Association of Kerala Non-Banking Financing Companies (KNBFCWA) sincerely **congratulate** the Government of India and Reserve Bank of India for taking this bold step towards fighting the menace of accumulation of unaccounted wealth and illegal infusion of fake currency, in the financial system.

We stand fully committed to co-operate and assist in making this endeavor a success. For this, it is important to recognize and address the difficulties being faced by the common man /ordinary citizens and make suitable amendments to the operating guidelines.

Sir, as you are aware, NBFCs have played a significant role in expanding the borders of financial inclusion and in delivering credit to unserved, under-served and unbanked sections of our Society. A substantial number of our customers live in semi-urban and rural areas, where banking habits are still in a relatively under-developed state. A large part of our loans are given to segments such as, two/three wheeler loans, small transport operators, farmers, SMEs and small traders who belong to the average class of people who are daily wage earners and commoners. They repay their loans on a routine basis through cash collections. The current demonetisation has introduced significant amount of uncertainty in the minds of our customers as well as among the NBFCs, as to how these loans would be serviced until the currency situation stabilises.

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The disbursement of loans as well as repayment/collection from the borrowers has been adversely affected with no money in circulation. Because of the very nature of their business, trade and credit behaviour, if we don't collect the available cash from the borrowers as and when it is due, it is most likely to roll forward to the next month as arrears, making it more difficult for them to repay. This may lead to loan defaults thereby adding stress to the overall asset quality.

The Reserve Bank has rightly recognised this issue and through its notification DCM (PLG) No 1251/10.27.00/2016-17 dated November 10, 2016 permitted banks (only) to take old notes, so long as these are credited to the customers' deposit or loan accounts. The condition imposed is that strict adherence to CTR/STR reporting is mandatory.

NBFCs are also subject to the provisions of Prevention of Money Laundering Act, 2002 similar to banks, under which NBFCs are subject to CTR/STR reporting.

We therefore request that NBFCs should also be permitted to accept the old notes till December 30, 2016, subject to the following:

- 1. The amount so collected should only be credited to the loan accounts of the borrowers*
- 2. Strict adherence to CTR/STR and other obligations under the PMLA Act.*

This would go a long way in mitigating the difficult current situation without compromising the objective of demonetisation, in any manner. In fact it may actually help in bringing some amount of money back into the mainstream thereby furthering the objective.

We once again reiterate our full support and assistance in making the demonetisation scheme a success.

We sincerely request your goodself to consider our request favourably and pass orders in this regard. Assuring you of our full cooperation always and thanking in you in anticipation.

Yours Faithfully

FOR KERALA NON-BANKING FINANCE COMPANIES WELFARE ASSOCIATION


Thomas George Muthoot
Chairman