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NBFCs Urge RBI to Reduce Risk Weights on Loans Against Property

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Non-banking financial companies (NBFCs) in India have urged the Reserve Bank of India (RBI) to lower the risk weight assigned to loans against property (LAP), arguing that such loans are asset-backed and carry lower risk compared to unsecured lending.

Currently, bank loans to NBFCs, including those for LAP, are subject to risk-weight norms that affect how much capital banks must set aside against these exposures. NBFCs say that

grouping LAP with other loan categories inflates capital requirements, discouraging banks from extending credit and raising borrowing costs for lenders.

Industry executives believe that if LAP were assigned a lower risk weight, similar to standard home loans, it would free up capital for secured lending, reduce interest rates for borrowers, and improve margins for NBFCs.

In November 2023, the RBI raised risk weights on bank exposures to NBFCs by 25 percentage points as part of measures to slow the growth of unsecured consumer lending. This move reduced credit flow to NBFCs and increased their reliance on short-term funding. In February 2025, the central bank rolled back the additional risk weight on bank loans to NBFCs and microfinance institutions, restoring it to pre-2023 levels.

The rollback boosted NBFC and microfinance stocks, as it was expected to improve capital efficiency. Larger, highly rated NBFCs were seen as the main beneficiaries, while smaller players continued to face cautious lending from banks.

Despite the policy reversal, NBFCs say banks remain selective in their lending, especially to mid-sized and smaller firms. By lowering the risk weight specifically for LAP, NBFCs hope to improve funding access and expand secured lending portfolios.

Industry analysts note that the RBI may consider targeted adjustments to encourage credit flow for secured products, but any significant change in funding patterns could take several months as banks reassess their lending strategies.