

Lending to Non-Banking Financial Companies (NBFCs)

Ref.IECD.No. 29 /08.12.01/98-99

May 25, 1999

The Chairmen/Chief Executives
of commercial banks

Dear Sirs,

Lending to Non-Banking Financial Companies (NBFCs)

Please refer to Circular IECD.No.26/08.12.01/ 96-97 dated April 15, 1997 in terms of which bank credit to such of the NBFCs as have satisfied the requirements of Registration with Reserve Bank of India (RBI), Credit Rating and Prudential Norms and so certified by RBI, is not subject to any quantitative ceiling. However, in respect of NBFCs which do not satisfy these requirements and Residuary Non-Banking Companies (RNBCs), bank credit is restricted to a certain multiple of their Net Owned Funds (NOF), i.e. three or two times the NOF for NBFCs in the category of both equipment leasing and hire purchase companies (according to asset pattern as explained in our Circular dated April 15, 1997) and equal to NOF in respect of loan and investment companies and RNBCs.

2. In the context of mandatory Registration with the RBI prescribed for all NBFCs, under the provisions of the RBI Act as amended in January 1997 and the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 as also consistent with the policy of bestowing greater operational freedom to banks in the matter of credit dispensation, it has now been decided to remove the ceiling on bank credit prescribed by RBI, which was linked to NOF, in respect of all NBFCs which are Statutorily Registered with RBI under Section 45 IA of the RBI Act, 1934 and are engaged in principal business of equipment leasing (EL), hire purchase (HP), loan and investment activities.

3. As regards bank finance to the NBFCs which do not require to be Registered with RBI [viz., Insurance Companies Registered under Section 3 of the Insurance Act, 1938, Nidhi companies notified under Section 620A of the Companies Act, 1956 and Chit Fund Companies carrying on Chit Fund business as their principal business as per Explanation to Clause (vii) of Section 45-I(bb) of RBI Act, 1934, Stock Broking Companies/ Merchant Banking Companies Registered under Section 12 of the Securities & Exchange Board of India Act and Housing Finance Companies being regulated by the National Housing Bank which have all been exempted from the requirement of Registration by RBI], banks may take their credit decisions on the basis of other usual factors, like the purpose of credit, nature and quality of underlying assets, repayment capacity of borrowers as also risk perception, etc.

4. In respect of RNBCs registered with RBI, bank finance would continue to be restricted to the extent of their NOF.

5. Accordingly, banks may assess and provide need-based finance to NBFCs referred to

above, as per the Loan Policy laid down by them with the approval of their Boards. Banks are also advised that bank finance shall not be provided to NBFCs for the following activities:

- (a) Bills discounted/rediscounted by NBFCs except for rediscounting of bills discounted by NBFCs arising from sale of commercial vehicles (including light commercial vehicles) permitted vide circular DBOD.No.Dir.BC.107/ 13.07.05/ 98-99 dated November 11, 1998.
- (b) Investments made by NBFCs in shares, debentures, etc., of a current nature, i.e. stock-in-trade. However, Stock Broking Companies may be provided need-based credit against shares and debentures held by them as stock-in-trade as permitted vide circular DBOD.No.Dir.BC.90/13.07.05/98 dated August 28, 1998.
- (c) Investments of NBFCs in and advances to subsidiaries, group companies or other entities; and
- (d) Investments of NBFCs in other companies and intercorporate loans/deposits to/in other companies.

6. There is no change in our extant instructions prohibiting grant of Bridge Loans to NBFCs/RNBCs or loans of a bridging nature in any form to these companies including against capital/debenture issues.

7. The above instructions are issued in supercession of those contained in our earlier circular IECD.No.26/08.12.01/96-97 dated April 15, 1997.

Yours faithfully,

(V.G.Damle)
Chief General Manager