

RBI /2007-08/235

DBOD .BP. BC. No. 60 /08.12.01/2007-08

February 12, 2008

Chairman and Managing Director/  
Chief Executives of Scheduled Commercial Banks  
(Excluding Regional Rural Banks)

Dear Sir,

**Bank Finance to Factoring Companies**

Please refer to our Master Circular No. RBI /2007-08/52.DBOD.BP.BC.13. /08.12.01/2007-08 dated July 2, 2007 on bank finance to non-banking financial companies(NBFCs). In terms of para 5.1 (i) of the circular, bills discounted / rediscounted by NBFCs (which is deemed to include any other mode of financing of receivables of the borrowers), except those arising from sale of certain types of vehicles, are not eligible for bank finance. Further, in terms of Para 5.1(iii) ibid, the unsecured loans extended by the NBFCs to other companies are also ineligible for bank finance.

2. The existing guidelines have been reviewed in the context of financing of Factoring Companies and in view of the special nature of the business undertaken by these companies, it has been decided that, henceforth, banks can extend financial assistance to support the factoring business of Factoring Companies which comply with the following criteria:

- a) The companies carry out all the components of a standard factoring activity, viz., financing of receivables, sale-ledger management and collection of receivables.
- b) They derive at least 80 per cent of their income from factoring activity.
- c) The receivables purchased/financed, irrespective of whether on 'with recourse' or 'without recourse' basis, form at least 80 per cent of the assets of the Factoring Company.
- d) The assets/income referred to above would not include the assets/income relating to any bill discounting facility extended by the Factoring Company.
- e) The financial assistance extended by the Factoring Companies is secured by hypothecation or assignment of receivables in their favour.

Yours faithfully,

(Prashant Saran)  
Chief General Manager-in-Charge