

RBI/2008-09/337
DNBS (PD) C.C. No. 133 /03.10.001/ 2008-09

January 2, 2009

To All NBFCs (excluding RNBCs)

Dear Sir,

Regulation of excessive interest charged by NBFCs

We had vide Company Circular DNBS.PD/ CC. No. 95 /03.05.002 /2006-07 dated May 24, 2007 advised all NBFCs, inter alia, that the rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs were, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

2. In continuation of aforesaid instructions, Reserve Bank has in exercise of powers under Section 45 L of the RBI Act, 1934 issued Directions regarding excessive rates of interest charged by NBFCs on January 2, 2009. A copy of the said directions Notification No. DNBS. 204 / CGM(ASR)-2009 dated January 2, 2009 is enclosed.

3. Please acknowledge receipt of this circular to the Regional Office of DNBS under whose jurisdiction the registered office of the company is situated.

Yours faithfully,

(A.S. Rao)
Chief General Manager

**RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA,
MUMBAI 400 005.**

Notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009

The Reserve Bank of India, on being satisfied that for the purpose of enabling to regulate the credit system of the country to its advantage, it is necessary so to do, in exercise of powers conferred under Section 45 L of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby issues the following Directions to NBFCs:

- a) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

- b) The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.

- c) The rate of interest should be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

(A.S. Rao)
Chief General Manager