NBFCs to frame Policy for Demand/Call Loans

March 4, 2002

The Reserve Bank of India today announced that all non-banking finance companies (NBFCs) granting/intending to grant demand/call loans should lay down a policy duly approved by their board of directors. The policy should cover the following aspects :

(i) Stipulation of a cut off date within which the repayment of the loan will be demanded/called up. If the cut off date is beyond one year, the sanctioning authority should record specific reasons.

(ii) Stipulation of the rate of interest and the periodic rests for payment of interest, which should be at quarterly/monthly intervals. Where no interest is levied or a moratorium is granted, the sanctioning authority should record specific reasons.

(iii) Stipulation of a cut off date not exceeding six months for review of the performance of the loan.

(iv) Such loans should be renewed on the basis of a review covering satisfactory compliance with the terms of sanction.

The Reserve Bank also clarified that all such loans remaining unpaid for more than six months from the date of demand/call or loans where interest remained past due for a period of six months from the due date would be classified as non-performing assets. The provisioning requirements as applicable to loans, advances and other credit facility would be applicable to such loans.

Background

As certain NBFCs were granting demand/call loans with an open period or without any stipulation regarding the rate of interest and servicing, difficulty was being experienced in ensuring compliance with prudential norms on income recognition, asset classification and provisioning in respect of such loans. In order to obviate this difficulty and to ensure that all such loans are appropriately classified and the position of non-performing assets is truly reflected in the financial statements of NBFCs, the directions have been issued.

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