

RBI rationalises Prudential Norms for NBFCs

April 22, 2002

The Reserve Bank of India today announced that the past due period of 30 days for identification of non-performing assets by non-banking finance companies (NBFCs) would be done away with effective from March 31, 2003. As such, a loan asset would become a non-performing asset (NPA) if the instalment or interest remains overdue for six months. Similarly, a lease or hire purchase asset would become NPA if the lease rentals or hire purchase instalment remains overdue for twelve months.

In order to avoid any ambiguity in classification of NPAs as loss assets, the Reserve Bank of India has also set out objective criteria for identification of potential threat of non-recoverability of such assets.

The circular and the amending notifications are available on RBI's website www.nbfc.rbi.org.in

Background

Keeping in view that the prudential norms for NBFCs are similar to those applicable to commercial banks, the concept of 'past due' has been abolished from the definition of NPA for NBFCs. It may be recalled that this concept was abolished for banks effective from March 31, 2001. Further, it was observed that some of the NBFCs were using divergent yardsticks for identification of loss assets and as such, objective criteria have been advised to the NBFCs for this purpose.

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