

RBI removes Ceiling on Bank Credit to NBFCs

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The Reserve Bank of India (RBI) has removed the ceiling on bank credit in respect of all registered Non-Banking Financial Companies (NBFCs), engaged in principal business of equipment leasing, hire purchase, loan and investment activities. Banks may now assess and provide need-based finance to NBFCs, as per the loan policy laid down by them with the approval of their boards.

Earlier, in respect of NBFCs, (other than RNBCs) which were registered with the Reserve Bank, but had not satisfied the requirements of credit rating and prudential norms, bank credit was restricted to a certain multiple of their net owned funds (NOF).

As regards bank finance to the NBFCs which do not require to be registered with the Reserve Bank, banks may take their credit decisions on the basis of other usual factors, such as, the purpose of credit, nature and quality of underlying assets, repayment capacity of borrowers as also risk perception. NBFCs which do not require registration with the Reserve Bank include, insurance companies registered under Section 3 of the Insurance Act, 1938, nidhi companies under Section 620A of the Companies Act, 1956, chit fund companies, stock broking companies/merchant banking companies, registered with the Securities and Exchange Board of India and housing finance companies.

In respect RNBCs registered with the Reserve Bank, bank finance would continue to be restricted to the extent of their NOF. Banks are also not allowed to give credit to NBFCs, for the following activities:

- bills discounted/rediscounted by NBFCs except for rediscounting of bills discounted by NBFCs arising from sale of commercial vehicles;
- investments made by NBFCs in shares, debentures of a current nature, i.e. stock-in-trade, except to stock broking companies;
- investments of NBFCs in and advances to subsidiaries, group companies or other entities; and
- investments of NBFCs in other companies and inter-corporate loans/deposits to/in other companies.

There will, however, be no change in the 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.

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