BANK FINANCE TO NBFCs

Bank Finance to NBFC registered with RBI

- Banks are permitted to extend need based working capital facilities as well as term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire purchase, loan, factoring and investment activities. Banks are also permitted to extend finance to NBFCs against second hand assets financed by them.

- Banks may formulate suitable loan policy with the approval of their respective Boards within the prudential guidelines and exposure norms prescribed by the RBI to extend various kinds of credit facilities to NBFCs for permitted activities.

Bank Finance to NBFCs not requiring Registration

NBFCs not requiring registration include:-

a) Insurance Companies registered under Sec. 3 of the Insurance Act, 1938.
b) Nidhi Companies notified under Section 620A of the Companies Act, 1956.
c) Chit Fund Companies carrying on Chit Fund business as their principal business.
d) Stock Broking Companies/Merchant Banking Companies registered under Section 12 of the SEBI Act; and
e) Housing Finance Companies being regulated by the National Housing Bank (NHB) which have been exempted from the requirement of registration by RBI.

Banks may take their credit decisions on the basis of usual factors like the purpose of credit, nature and quality of underlying assets, repayment capacity of borrowers as also risk perception, etc.

Bank Finance to Residuary Non-banking companies

Residuary Non-Banking Companies (RNBCs) are the companies classified and registered with Department of Non-Banking Supervision, RBI as such. Banks can finance to the extent of their Net Owned Fund (NOF).

Net Owned Fund (NOF)

Net Owned Fund means:-

a) Aggregate paid up equity capital and free reserve net of accumulated loss, deferred revenue expenditure, and other intangible assets;

b) and further reduced by:-

i) Investment in shares of subsidiaries, companies in the same group, and all other NBFCs; and

ii) the book value of debentures, bonds, outstanding loans and advances (including hire purchase and lease finance) made to, and deposits with subsidiaries of such company and companies in the same group to the extent such amount exceeds ten percent of (a) above (Section 45-IA of Reserve Bank of India Act, 1934)

Activities not eligible for Bank credit

a) Bills discounted / rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from sale of commercial vehicles (incl. light vehicles and two wheeler and three wheeler vehicles) subject to:-

- Bills should have been drawn by manufacturer on dealers only;
- Banks satisfying the genuineness of the transaction and bona fides and track record of NBFCs

b) Investments of NBFCs both of current and long term nature in any company/entity by way of shares, debentures, etc. (Stock Broking companies may be provided need based credit against shares and debentures held by them as stock-in-trade.
c) Unsecured loans / inter-corporate deposits by NBFCs to / in any company
d) All types of loans and advances by NBFCs to their subsidiaries, group companies / entities.
e) Finance to NBFCs for further lending to individuals for subscribing to IPOs and for purchase of shares from secondary market.

Bank Finance to Factoring Companies

Banks can finance factoring business of Factoring Companies which comply with certain criteria as under:-

a) Carry out all the components of standard factoring activity viz. financing of receivables, sale-ledger management and collection of receivables.
b) 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.

Other restrictions/Prohibitions

a) Granting of bridge loans of any nature or interim finance against capital/debenture issues and or in the form of loans of a bridging nature pending raising of funds from market or elsewhere.
b) Advances against collateral security of shares to NBFCs.

c) Issuance of guarantees for placement of funds with NBFCs.

Prudential ceiling on exposure to NBFCs

- The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC / NBFC-AFC (Asset Financing Companies) should not exceed 10% / 15% respectively of the bank's capital funds as per its last audited balance sheet.

- Banks can assume exposures on a single NBFC / NBFC-AFC up to 15% / 20% respectively of their capital funds provided the exposure in excess of 10% / 15% respectively, is on account of funds on-lent by the NBFC / NBFC-AFC to the infrastructure sector.

- Further, exposure of a bank to the NBFCs-IFCs (Infrastructure Finance Companies) should not exceed 15% of its capital funds as per its last audited balance sheet, with a provision to increase it to 20 % if the same is on account of funds on-lent by the IFCs to the infrastructure sector.

- The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery (i.e. such loans comprising 50 % or more of their financial assets), should not exceed 7.5 % of banks' capital funds. The exposure ceiling may go up by 5 %, i.e., up to 12.5 % of banks' capital funds if the additional exposure is on account of funds on-lent by such NBFCs to the infrastructure sector.

- Banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together.

Other restrictions re. investments by banks in securities/instruments issued by NBFCs

- Banks should not invest in Zero Coupon Bonds (ZCBs) issued by NBFCs without creating sinking fund by NBFCs for accrued interest and keeps it invested in liquid investments/securities (Govt. Bonds).

- Banks are permitted to invest in Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by NBFCs subject to compliance of prudential guidelines in force.

(Source: RBI M. Circular)

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