

RBI permits lending by banks to NBFCs

September 5, 2019

Source: *Monthly Policy Review by PRS*

The Reserve Bank of India has issued guidelines that bank credit to registered Non-Banking Financial Companies (NBFCs) for the purpose of on-lending to certain sectors will be eligible to be classified as priority sector lending. These sectors include agriculture, micro, and small enterprises and housing.

Key highlights

- **For agriculture**, on-lending by NBFCs for term-lending is permitted up to Rs 10 lakh rupees per borrower.
- **For micro and small enterprises**, on-lending by NBFCs is permitted up to Rs 20 lakh rupees per borrower.
- **For housing**, the existing limits for on-lending by NBFCs to be classified as priority sector has been doubled from Rs 10 lakh rupees to Rs 20 lakh rupees.
- **The total bank credit to NBFCs for the purpose of on-lending should not exceed 5% of the bank's total priority sector lending.** These guidelines are valid till March 31, 2020.
- **Excluded NBFC:** The above changes are **not applicable for NBFCs which are microfinance institutions (NBFC-MFI).**
- **An NBFC-MFI is a non-deposit taking NBFC** with a minimum net worth of Rs 5 crore and 85% or more of its assets as loans which meet certain thresholds such as, loans given to households with annual income below Rs 1 lakh in case of rural households and Rs 1.6 lakh in case of semi-urban or urban households

What is a Non-Banking Financial Company (NBFC)?

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner is also a non-banking financial company (Residuary non-banking company)

NBFCs are doing functions similar to banks. What is the difference between banks & NBFCs?

NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

- NBFC cannot accept demand deposits;
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself
- The deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.