

INDIA LEGAL UPDATE

May 31, 2023

RBI has issued a Master Circular regarding Bank Finance of NBFCs

Notification Date

April 3, 2023

Legal Framework

Banking Regulation Act, 1949

Government Authority

Reserve Bank of India

Source Weblink

[Master Circular - Bank Finance to Non-Banking Financial Companies \(NBFCs\)](#)

LEGAL UPDATE

This Master Circular consolidates instructions on the above matter issued up to March 31, 2023.

Bank Finance to NBFCs Registered with RBI

RBI has issued a Master Circular regarding the financing of NBFCs by banks, i.e., applicable to all Scheduled Commercial Banks.

- The ceiling on bank credit linked to NOF (Net Owned Fund) of NBFCs has been *withdrawn* in respect of all NBFCs which are statutorily registered with RBI and are engaged in the principal business of asset financing, loan, factoring, and investment activities.
- Banks may extend need-based working capital facilities as well as term loans to the above-mentioned categories of NBFCs subject to the restrictions provided in the guidelines.
- Banks may also extend finance to NBFCs against second-hand assets financed by them.

Activities not Eligible for Bank Credit

- Bills discounted/rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from the sale of – (a) commercial vehicles (including light commercial vehicles), and (b) two-wheeler and three-wheeler vehicles, subject to certain prescribed conditions.
- Investments of NBFCs both of current and long-term nature, in any company / entity by way of shares, debentures, etc.
- *Exception:* Stock Broking Companies may be provided need-based credit against shares and debentures held by them as stock-in trade.
- Unsecured loans / ICDs by NBFCs to / in any company.

- All types of loans and advances by NBFCs to their subsidiaries, group companies / entities.
- Finance to NBFCs for further lending to individuals for subscribing to IPOs and for purchase of shares from the secondary market.

Leased and Sub-Leased Assets

- Banks should not enter into lease agreements departmentally with NBFCs engaged in equipment leasing.

Bank Finance to Factoring Companies

- Banks can extend financial assistance to support the factoring business of Factoring Companies, viz., 'NBFC-Factors' and 'NBFC-ICCs holding a certificate of registration under the Factoring Regulation Act, 2011' subject to fulfilment of the prescribed criteria.
- NBFC-Factors must also satisfy the additional prescribed criteria to be eligible for bank finance.

Other Prohibitions on Bank Finance to NBFCs

- **Bridge loans / interim finance:** Banks should not grant bridge loans of any nature, or interim finance against capital / debenture issues and / or in the form of loans of a bridging nature pending the raising of long-term funds from the market by way of capital, deposits, etc. to all categories of NBFCs.
- Advances against collateral security of shares to NBFCs.
- **Restriction on guarantees for placement of funds with NBFCs:** Banks should not execute guarantees covering ICDs/loans thereby guaranteeing refund of deposits / loans accepted by NBFCs / firms from other NBFCs / firms.

Prudential Ceilings for Exposure of Banks to NBFCs

- Banks' exposures to a single NBFC (excluding gold loan companies) will be restricted to 20% of their eligible capital base (Tier I capital).
- Banks' exposures to a group of connected NBFCs or a group of connected counterparties having NBFCs in the group will be restricted to 25% of their Tier I Capital.
- The exposure of a bank to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery shall not exceed 7.5% of the bank's capital funds (Tier I plus Tier II Capital).
- However, this exposure ceiling may go 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.

Restrictions Regarding Investments made by Banks in Securities/Instruments issued by NBFCs

- Banks should not invest in Zero Coupon Bonds issued by NBFCs unless the issuer NBFC builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).
- While investing in NCDs with original or initial maturity up to one year issued by NBFCs, banks shall ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes are eligible for bank finance.

Queries?

If you have any queries about this article, please reach out to our experts:



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