Bank lending rules for NBFCs may ease

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The Reserve Bank of India (RBI) is considering options to make cheaper finance available to the non-banking finance companies (NBFCs) including a separate line of credit for bank finance backed by government securities or AAA-rated commercial paper (CP).

Sources close to the development said the central bank is also reviewing the various restrictions on placing bank funds with NBFCs and may relax prudential ceilings.

NBFC representatives met central bank officials over the last few days to seek easier bank finance since commercial paper (CPs) worth Rs 20,000 crore to Rs 25,000 crore is coming up for maturity.

"The funds are particularly needed for retail finance because this sector has lately been under strain," said the head of an NBFC who was present at the meeting.

CPs are short-term instruments through which companies raise funds from banks. It is usually rolled over on every maturity date to sustain the flow of short-term credit to companies.

RBI's internal estimates, however, show that of the total outstanding amount, CPs amounting to Rs 2,000 crore to Rs 4,000 crore will immediately need to be rolled over. As a result, RBI is still debating whether a special refinance window is required.

Sources said the fund requirement is acute for three or four large NBFCs that have grown rapidly in recent times and accumulated large exposures in the stock market, real estate, commodities and retail financing.

Begin 'brisk lending', FM tells banks

NOTING that there is adequate liquidity in the system now, Finance Minister P Chidambaram today expressed the hope that banks will begin brisk lending.

The finance minister also said inflation which dropped to 11.07 per cent, a fall for the fourth straight week, is still high but added that the rate of price rise will moderate further as global commodities and fuel prices continue to soften.

Stock markets took cues from Chidambaram's remarks with the benchmark Sensex, which was down by nearly 500 points in morning, recovering 579 points by mid-session after his chat with reporters. The markets, however, later closed in the red.

The only reason such entities need assistance is that they pose a systemic risk.

'The problem is acute not because there is a dearth of liquidity but because banks are unwilling to lend to NBFCs. They feel that these institutions lend to the real estate sector and for stock market transactions, both of which are facing a downturn. Therefore, the loans may turn bad at a time when liquidity is an issue," a source said.

At present, a bank's exposure to a single NBFC is currently capped at 10 per cen[t] of banks' capital funds and 1[5] per cent for NBFC engaged i[n] asset financing companies. Fur[-]ther, banks are not allowed t[o] grant bridge loans against cap[-]ital and debenture issues to avoi[d] asset-liability mismatches.

Shares and debentures ar[e] not accepted as collateral fo[r] secured loans granted to NBFC[s]. Banks also do not execute guar[-]antees covering inter-compan[y] deposits or loans since it is the[n] interpreted as the banks insur[-]ing deposits or loans accept[-]ed by NBFCs.