Meeting held on February 02, 2009 at the office of Banking Division, Ministry of Finance, Jeewan Deep Building, Parliament Street, New Delhi-110 001

The following were present:

Banking Division, Ministry of Finance

1. Mr. Amitabh Verma - Jt. Secretary
2. Mr. Sushant Saxena - Director

Indian Banks Association (IBA)

1. Mr. T.S. Narayanasami, Chairman, Indian Banks Assocn. & CMD Bank of India
2. Mr. O.P. Bhatt, Chairman State Bank of India
3. Mr. M.V. Nair, CMD Union Bank of India
4. Mr. M.D. Mallya, CMD Bank of Baroda
5. Mr. A.C. Mahajan, CMD Canara Bank
6. Mr. Ramnath Pradeep, ED Central Bank of India
7. Mr. Arun Kaul, CGM Punjab National Bank

Finance Industry Development Council (FIDC)

1. Mr. T. T. Srinivasaraghavan, Chairman
2. Mr. Raman Aggarwal, Co-Chairman

3. Mr. Sanjay Chamria
4. Mr. Srinivas Acharya
5. Mr. George Alexander Muthoot
6. Mr. Parag Sharma
7. Mr. Mukesh Gandhi
8. Mr. S. D. Chugh
9. Mr. Vivek Sondhi

1. The meeting was chaired by Mr.Amitabh Verma. This was a follow up meeting to the first meeting held in January, 2009 following the Govt. announcement to provide a new line of credit from public sector banks to NBFCs for financing commercial vehicles.

2. FIDC shared the list of 46 companies with a total requirement of Rs. 11,000 crores with the bankers and the ministry officials.

3. On behalf of the NBFC-AFC sector, FIDC put forward its views elaborately. The funds to be provided under this new line of credit should be given only to NBFC-AFCs. The current practice amongst bankers is to treat all the segments of the NBFC sector on a similar footing. There is an immediate need to change this

approach and treat NBFC-AFCs as a distinct group with a much lower risk profile.

4. FIDC has always advocated for building a "Wholesaler – Retailer" relationship between banks & NBFC-AFCs. As such the interest rates charged by banks should be commensurate with the whole sale rates and should be distinctly lower than the retail direct lending rates of the banks.

5. More than 90% of the NBFC-AFCs operating today are small & medium in size. It is these small & medium companies which face the real crunch. Therefore the banks should provide credit to these small & medium companies which are operating in the semi urban and rural areas and thus provide the last mile credit in a niche area.

   Further:

   a) Banks should not insist on collateral security while appraising the small NBFC-AFCs because these companies do not have sufficient tangible assets to provide as collateral security.

   b) The small & medium NBFC-AFCs are unrated. Moreover the current developments have put a question mark on the rating agencies. Therefore banks should not insist on credit rating by the rating agencies. Instead banks should rely on their internal supervisory ratings done at the time of carrying out the appraisal

6. FIDC has always strongly pleaded that NBFC-AFCs should be provided with a permanent "On tap" Refinancing Mechanism. This was also one of the main recommendations of the Parliamentary Standing Committee on Finance in their report dt. June 2003 on Financial Companies Regulation Bill, 2000

   As such, the current initiatives of the Govt. should not be restricted to temporary measures to tide over the current downturn but should provide the long term solutions that NBFC-AFCs have been seeking.

7. In reply to bankers concern on the comfort factors available to them while funding the NBFC-AFCs,

   FIDC impressed upon them the fact that NBFC-AFCs registered with RBI (including the small & medium) are subject to stringent RBI norms like:

   i) CAR of at least 12% (smaller companies maintain a CAR of at least 15% since they are not rated)
   ii) Prudential norms on asset classification, income recognition and provisioning
   iii) Credit concentration norms

iv) Cap on their exposure to the speculative sectors like real estate and capital market
v) Know Your Customer guidelines (KYC)
vi) Code of Fair Business Practice
vii) They file a minimum of 7 Returns (4 Qtrly Returns on SLR, 2 Half Yearly Returns on Prudential Norm and 1 Annual Return) to RBI in one financial year
viii) On site inspection by RBI Officials atleast once in two years

8. Both the ministry officials and the bankers were in broad agreement with the views expressed above. IBA chairman assured that they would soon issue a circular to all their member banks based on the discussions at the meeting and advise the banks to accept and consider funding proposals from NBFC-AFCs favorably irrespective of their size.

9. Some of the CMDs present notably those from SBI, Bank of India and Canara Bank emphasized that they do not have any bar on funding NBFC-AFCs and promised to look into any proposals pending with them as well as the new proposals on top priority.

10. Mr. Verma also promised to address the other long pending issues – regulatory, recovery and tax related.

11. The meeting ended with a firm assurance from IBA and Mr. Amitabh Verma to follow up on this matter and have regular interaction with FIDC to ensure smooth flow of funds to the NBFC-AFCs under the new line of credit. A follow up meeting is likely to be held soon in this regard.