New RBI Norms May Force NBFCs to Increase Rates

The RBI on Monday tightened the prudential norms for non-banking financial companies to protect them from any impact of possible economic downturn, a development that may push up their lending rates.

Under the new RBI norms, both deposit and non-deposit taking NBFCs will have to set aside 0.25 % of performing loans to meet any financial exigencies.

The decision is expected to push up lending rates by NBFCs as they will be required to keep additional funds as buffer even for those loans on which interest has been paid regularly by the borrowers. According to experts, this could push in terest rate by up to 25 basis

"In the interests of counter cyclicality and so as to ensure that NBFCs create a financial buffer to protect them from the effect of economic downturns, it has been decided to introduce provisioning for standard assets also," the central bank said in a statement.

Earlier, the NBFCs were required to set aside funds for doubtful and bad assets. These are those loans on which the interest has not been paid regularly by borrowers or defaults had been reported.

NBFCs, the notification said, "should make a general provision at 0.25 per cent of the outstanding standard assets".

Standard assets comprise those loans on which interest has been regularly paid by the borrowers and the possibility of default is remote.