Norms for Standard asset provisioning for upper layer NBFCS released

Monetary penalty on Punjab and Sind Bank for non-compliance: RBI

The Reserve Bank of India (RBI) has directed the upper layer Non-banking financial companies (NBFCs) to maintain a 0.25 percent provisions for the funded amount outstanding while giving out housing loans and loans to small and Micro enterprises as mentioned in the latest norms on standard assets provisioning fir these types of shadow lenders..

Standard Asset can be defined as “Standard Asset is one that does not disclose any problems and does not carry more than normal risk attached to the business. Such an asset should not be an NPA. “

Under the new guidelines, the Upper layer NBFCs must provide 2 per cent of the funded outstanding amount, which will be reduced to 0.40 per cent after the completion of one year from the fate on which rates are reset at higher ones in case the accounts remain standard.

The Central bank also said that the Upper-Layer NBFCs are required to provide 0.75 per cent of their outstanding exposure to shell out advances for residential housing, and one per cent of that must be set aside for the real estate industry outside of residential housing. For Loans that don’t fall under the categories mentioned above, including the medium enterprises. Upper Layer NBFCs will provide 0.40 per cent of their outstanding exposure.

The notification stated that these guidelines should be applicable from October 1.

Further, RBI said that the aggregate exposure of upper Layer NBFC to any other entity must not exceed 20 % of its capital base. In case the limit has to be extended, it can raise to 25% with the board’s approval. The aggregate exposure to connected entities shall be limited to 25% of the capital base of fro all upper NBFCs.

The central bank plans to strengthen the norms for NBFCs after the issues faced by the fallout of the Infrastructure Leasing & Financial Services and Dewan Housing Finance Corporation Ltd.