

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3938
ANSWERED ON:26.08.2011
ROLE OF NBFCs
Nimmala Shri Kristappa

Will the Minister of FINANCE be pleased to state:

- (a) whether Non-Banking Financial Companies (NBFCs) fund several sectors like Micro, Small and Medium Enterprises, Road Transport Operators, Educational Institutions and Hospitals etc., which are the core sector activity for the country's progress and growth;
- (b) if so, the details thereof;
- (c) whether Reserve Bank of India (RBI) excluded NBFCs funding to such sectors from priority sector lending category whereas many of these sectors are priority sector loans for banks;
- (d) if so, the details thereof and the reasons therefor;
- (e) whether Government intends to reconsider the same, given the fact that NBFCs play a strong role in the area of financial inclusion and strong capabilities to manage customers in the priority segment; and
- (f) if so, the details thereof and if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): Reserve Bank of India (RBI) has reported that Non-Banking Financial Companies (NBFCs) finance several sectors including Small & Medium Enterprises (SMEs), Road Transport Operators (RTOs), automobiles, tractors, lathe machines, general purpose industrial machines, etc.

(c) to (f): To enable the borrowers to access bank loans at competitive rates, particularly in priority sectors, RBI has prescribed that the loans sanctioned by banks to NBFCs (other than MFIs which adhere to the criteria specified in this regard) w.e.f. April 1, 2011, for on-lending to agriculture and MSEs and loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, investments made by banks in securitized assets originated by NBFCs, where the underlined assets are loans against gold jewellery and purchase / assignment of gold loan portfolio from NBFCs, are not eligible for classification under priority sector under the respective categories. However, the bank loans extended prior to April 1, 2011 to NBFCs, and classified under priority sector will continue to be reckoned under priority sector till maturity of such loans.

RBI is of the view that with these measures banks would be in position to give loans at a cheaper rate if one layer of financial intermediary (NBFC in this case) is removed and the ultimate beneficiary would thus be able to borrow at a cheaper rate.