

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4134
ANSWERED ON:05.09.2012
RELAXATION OF NBFC NORMS
Annayyagari Shri Sai Prathap

Will the Minister of FINANCE be pleased to state:

- (a) whether the Micro Finance Institutions (MFIs) and Non-Banking Finance Companies (NBFCs) are unable to comply with the qualifying asset creation and hence running into some problems, experiencing losses and their non-performing assets are piling up;
- (b) if so, the details thereof; and
- (c) the steps being taken by the Government to resolve the issue of NBFCs?

Answer

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

(a) to (c): The Reserve Bank of India (RBI) issued a regulatory framework for Micro Finance Institutions (MFIs) which are Non-Banking Financial Companies (NBFCs) on December 02, 2011. One of the criteria for registration of NBFC-MFIs related to compliance to the qualifying assets. Some NBFCs engaged in MFI business had represented to RBI that they are not able to comply with the Qualifying Asset criteria for loans extended prior to the RBI Circular dated December 02, 2011. As a result of the passage of the Andhra Pradesh Micro Finance Institutions (Regulations of Money lending) Ordinance, 2010, the NBFCs were unable to recover their loans from the borrowers and since funding to the sector also dwindled, lending by them to the sector also reduced considerably, resulting in rise of non-performing assets and losses. The gross NPAs of these NBFCs have increased from Rs. 34.99 crores in 2009-10 to Rs. 152.85 in 2010-11 and further to Rs. 2,227.06 crores in the year 2011-12. The net profits of these NBFCs declined from Rs. 474.68 crores in the year 2009-10 to Rs. 284.44 crores in 2010-11, and these NBFCs incurred losses of Rs. 2,149.26 crores for the year 2011-12.

In view of the problems being faced by NBFC in complying with this criteria on account of their existing portfolio, the RBI modified its directions on August 03, 2012 to include within the definition of 'qualifying asset' only those assets which originated on or after 1st January, 2012. Further, in order to allow operational flexibility, the cap of 26 per cent on loans has been done away with. The NBFC-MFIs have been advised to ensure that the average interest rate on loans during a financial year does not exceed the average borrowing costs during that financial year plus the margin, which may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs. 100 crore) and 12 per cent for the others.