

7th February 2009

Call for refinancing window for NBFCs

'Banks should not view NBFCs as their competitors'

Special Correspondent

CHENNAI: Finance Industries Development Council (FIDC), a self-regulatory organisation (SRO) for asset financing non-banking finance companies (NBFC-AFC), has suggested that banks should open a separate refinancing window for asset financing NBFCs.

While opening an independent refinancing window, banks should look solely at the track record of these NBFCs and not bother about their size. Close to 90 per cent of such NBFCs are small and medium.

The council has also urged the banking system to offer these NBFCs differential rate of interest since 80 per cent of their funding is in the form of loans to the priority sector. In this context, it has called for redefining the relationship between these NBFCs and

banks. Banks should view their relationship with the NBFCs as an arrangement between wholesalers and retailers and should not view them as competitors, the council has argued.

"The asset financing NBFCs represented by FIDC are not seeking any bail-out package in the current scenario. What we would like is for the bankers to look at the long-term funding needs of the asset financing NBFCs, especially given the track record that none of the asset financing NBFCs had posed any problem to their bankers in the past. In fact, in funding for similar sectors, NBFCs

had better recovery experience than the banks," says T. T. Srinivasaraghavan, Chairman of FIDC.

Banks need to spread their exposure to these NBFCs, he says calling upon banks to help credit reach the remotest corners of the country.

The council has made these suggestions to public sector banks at a meeting held in New Delhi early this week, where officials of the Ministry of Finance too were present.

According to FIDC, leading public sector banks have reaffirmed their commitment to fund these NBFCs.

This one was a follow up to

the earlier meeting held a few weeks ago to discuss issues relating to funding NBFCs involved in financing commercial vehicles in the wake of the second stimulus package announced by the Government. CMDs of some banks participated in the meeting convened by Amitabh Verma, Joint Secretary in the Ministry of Finance. "They heard us and agreed to consider each of the points on merit".

With the sales of commercial vehicles in December 2008 dropping by 70 per cent as compared to December 2007 and by 50 per cent compared to November 2008, there was a compelling need to boost commercial vehicle sales through infusion of funds at affordable cost.

The funding requirements of NBFCs engaged in commercial vehicle financing are estimated to be Rs. 11,000 crore.

• Track record of NBFCs only should be the criterion

• NBFCs and Indian Banks Association start dialogue