

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF FINANCIAL SERVICES  
LOK SABHA

UNSTARRED QUESTION NO. 909

TO BE ANSWERED ON THE 14<sup>TH</sup> DECEMBER 2018/ AGRAHAYANA 23, 1940 (SAKA)

Interest Rate of NBFC

909. DR. BOORANARSAIAH GOUD:

Will the Minister of FINANCE be pleased to state:

- (a) the monitoring mechanism of Government/RBI in place to monitor Non Banking Financial Companies (NBFCs) in the country with particular reference to Telangana;
- (b) whether it has come to the notice of the Government of the exorbitant rates of interest charged by NBFCs which is much higher than the rate of interest fixed by State Government; and
- (c) if so, the details thereof and the action taken by the Government/RBI in this regard?

ANSWER

Minister of State in the Ministry of Finance  
(SHRI SHIV PRATAP SHUKLA)

(a): Reserve Bank of India (RBI) has informed that Non Banking Financial Companies (NBFCs) registered with it are subjected to periodic on-site inspections based on their systemic importance (asset size greater than Rs. 500 crore) and whether they are categorised as deposit-taking NBFCs. Systemically important NBFCs and deposit-taking NBFCs are required to submit quarterly returns on balance-sheet data and data on financial parameters quarterly, while other NBFCs are required to submit an annual return to RBI to facilitate off-site supervision. Statutory auditors of all NBFCs are mandated to provide an auditor's certificate to RBI to the effect that the registered NBFCs continue to hold the Certificate of Registration by satisfying the conditions upon which the certificate was issued.

(b) and (c): RBI has informed that it does not prescribe interest rates to be charged to borrowers by NBFCs (other than NBFC - Micro Finance Institution), and that the rates of interest charged by an NBFC are governed by the terms and conditions of the loan agreement entered into between the NBFC and the borrower. RBI has further informed that it has advised the Boards of applicable NBFCs to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. Further, as per extant guidelines, the rate of interest and the approach for gradations of risk and rationale for

charging different rates of interest to different categories of borrowers have to be disclosed to the customer in the application form and communicated explicitly in the sanction letter. In addition, the rates of interest and the approach for gradation of risks followed by NBFCs have to be made available on their website or published in relevant newspapers, and the information so published needs to be updated whenever there is a change. Moreover, to ensure that the borrower is aware of the exact rates that would be charged to the account, the rate of interest must be annualised rate. Further, Boards of applicable NBFCs have been asked to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard the directions in the Fair Practices Code issued by RBI about transparency in respect of terms and conditions of the loans are to be kept in view.

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