

RBI issues guidelines for NBFCs on lending against shares

With an aim to curb volatility in capital market, the Reserve Bank on Thursday asked NBFCs to maintain a loan-to-value (LTV) ratio of 50 per cent in case of lending against collateral of shares.

Also, NBFCs have been asked to accept only 'Group 1' securities as collateral for loans of value more than Rs 5 lakh, RBI said in a notification.

Non Banking Financial Companies lend either by way of pledge of shares in their favour, transfer of shares or by obtaining a power of attorney on the demat accounts of borrowers.

RBI said that irrespective of the manner and purpose for which money is lent against shares, default by borrowers can and has in the past lead to offloading of shares in the market by the NBFCs thereby creating avoidable volatility in market.

NBFCs lending against collateral of shares shall maintain an LTV ratio of 50 per cent; and accept only Group 1 securities as collateral for loans of value more than Rs 5 lakh, the notification said.

It said that all NBFCs with asset size of Rs 100 crore and above shall report online to stock exchanges, information on the shares pledged in their favour, by borrowers for availing loans.

Currently, lending against shares carried out by NBFCs is not subject to specific instructions apart from the general prudential regulation applicable to all NBFCs.

There are anecdotal evidences of volatility in the capital market being the result of offloading of shares by NBFCs, RBI said while announcing the minimum set of guidelines on lending against shares.

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