

## UNIT 5 - Non-Banking Finance Company- Important Key Points



### Non-Banking Finance Company Important Key Points

#### What is a Non-Banking Finance Company?

- It is a company registered under the Companies Act, 1956.
- Under the Companies Act, 1956 it can engage in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government.
- According to RBI guidelines, it does not include any institution whose principal business is that of agriculture activity, industrial policy, sale/purchase/construction of any immovable property.
- Under the RBI Act, 1934, the NBFCs have to get registered from the RBI.
- Certain categories of NBFCs are exempted from the requirement of registration with RBI.
- NBFC should have a minimum net owned fund (NOF) of Rs. 2 crore.

- NBFCs cannot accept deposits from NRIs except deposits by debit to NRO account of NRI.
- It can accept public deposits maximum upto 4 times of Net owned fund i.e. 2 crore
- It can offer maximum 11% rate of interest.
- It is allowed to accept/ renew public deposits for a minimum period of 12 months and maximum period of 5 years.

### What are systemically important NBFCs?

According to RBI, NBFCs whose asset size is of Rs. 500 cr or more are considered as systemically important NBFCs. The importance for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.

### What is Residuary non-banking company?

A non-banking institution which has its principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company and is known as Residuary non-banking company.

There is no ceiling on raising of deposits by RNBCs.

### Difference between banks & NBFCs:

- According to RBI guidelines, NBFCs can lend and make investments however there are a few differences as given below:
- NBFC cannot accept demand deposits
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation(DICGC) is not available to depositors of NBFCs, unlike in case of banks.

## Top NBFCs in India:

- Housing Development Finance Corporation Limited
- Power Finance Corporation Limited
- Rural Electrification Corporation Limited
- National Bank of Agricultural and Rural Development
- Infrastructure Development Finance Company Limited

## Key Terms:

### ***Immovable Property:***

It is an immovable object, an item of property that cannot be moved without destroying or altering it - property that is fixed to the earth, such as land or a house.

### ***NRO account:***

Tourists from abroad during their short visit to India are entitled to open a Non-Resident (Ordinary) Rupee (NRO) account with any authorised Dealer bank dealing in foreign exchange. Such an account can be opened for a maximum period of six months. Tourists can easily make local payments through the NRO account.