To All Non-Banking Financial Companies
including Miscellaneous Non-Banking Companies (Chit Fund Companies)

Dear Sirs,

Amendments to NBFC Regulations - Ceiling on rate of interest

Please refer to paragraph 217 of the Annual Policy Statement 2007-08 in terms of which it has been stated:

“The interest payable on deposits by NBFCs (other than residuary non-banking financial companies (RNBCs)) accepting public deposits is subject to a ceiling of 11.0 per cent per annum. There have been requests from deposit-taking NBFCs for enhancement of the ceiling on the interest payable on deposits. Taking into account the market developments, it is now proposed:

to increase the ceiling on the rate of interest payable by NBFCs (other than RNBCs) on deposits by 150 basis points to 12.5 per cent per annum and such interest would be paid or compounded at rests which should not be shorter than monthly rests.”

2. Accordingly, it has been decided that, keeping in view the prevailing interest rates in the entire financial system, the maximum interest rate payable on public deposits by NBFCs should be revised to 12.5 per cent per annum on and from April 24, 2007. It is clarified that this is the maximum permissible rate an NBFC can pay on its public deposits and they may offer lower rates. The new rate of interest will be applicable to fresh public deposits and renewals of matured public deposits.

3. The above ceiling rate of interest of 12.5 per cent per annum is also applicable to the deposits accepted / renewed by Miscellaneous Non-Banking Companies (chit fund companies) as per the Directions prescribed by RBI.

4. You are requested to ensure compliance with the new ceiling on rate of interest. Other conditions relating to the rests at which interest can be compounded, rate of brokerage, etc., remain unchanged.

5. A copy each of the amending Notifications No. 195 and 196 is enclosed and updated Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977 is enclosed.

Yours faithfully,

( P Krishnamurthy )
Chief General Manager-in-Charge
NOTIFICATION NO. DNBS. 195/ CGM (PK)-2007 Dated April 24, 2007

The Reserve Bank of India, having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, in exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said directions contained in Notification No. DFC. 118 / DG (SPT)-98 dated January 31, 1998 shall stand amended, with immediate effect, as follows, namely –

In Paragraph 4, sub-paragraph (7) shall be substituted by the following, namely

"(7) On and from April 24, 2007, no non-banking financial company shall invite or accept or renew public deposit at a rate of interest exceeding twelve and half per cent per annum. Interest may be paid or compounded at rests which shall not be shorter than monthly rests."

(P Krishnamurthy)
Chief General Manager-in-Charge
The Reserve Bank of India, having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977, in exercise of the powers conferred by Sections 45J, 45K and 45L of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said directions contained in Notification No. DNBC. 39 / DG (H)-77 dated June 20, 1977 shall stand amended with immediate effect, as follows, namely -

1. In paragraph 9A, for the words and figures, “March 4, 2003”, the words and figures “April 24, 2007” shall be substituted.

2. In paragraph 9A, in clause (a), for the word “eleven”, the words “twelve and a half” shall be substituted.

(P Krishnamurthy)
Chief General Manager-in-Charge