

Notification No. DNBS. 142/CGM(VSNM)- 2000 dated June 30, 2000

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 Prudential Norms (Reserve Bank) Directions, 1998, in exercise of the powers conferred by section 45JA 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.119/DG(SPT)/98 dated January 31, 1998 stand amended, with immediate effect, as follows, namely -

1. In paragraph 8, sub-paragraph (2) is substituted by the following, namely,-

“Lease and hire purchase assets

- (2) The provisioning requirements in respect of hire purchase and leased assets shall be as under:-

Hire purchase assets

- (i) In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by
- (a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and
- (b) the depreciated value of the underlying asset ,

shall be provided for.

Explanation

For the purpose of this paragraph,

- (1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and
- (2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

Additional provision for hire purchase and leased assets

- (ii) In respect of hire purchase and leased assets, additional provision shall be made as under :
- (a) Where any amounts of hire charges or lease rentals are overdue upto 12 months

Nil

Sub-standard assets :

- | | | |
|-----|---|----------------------------------|
| (b) | where any amounts of hire charges or lease rentals are overdue for more than 12 months but upto 24 months | 10 percent of the net book value |
|-----|---|----------------------------------|

Doubtful assets :

- | | | |
|-----|---|----------------------------------|
| (c) | where any amounts of hire charges or lease rentals are overdue for more than 24 months but upto 36 months | 40 percent of the net book value |
| (d) | where any amounts of hire charges or lease rentals are overdue for more than 36 months but upto 48 months | 70 percent of the net book value |

Loss assets :

- | | | |
|-----|--|-----------------------------------|
| (e) | where any amounts of hire charges or lease rentals are overdue for more than 48 months | 100 percent of the net book value |
|-----|--|-----------------------------------|

- (iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

NOTES :

- (1) The amount of caution money/margin money or security deposits kept by the borrower with the NBFC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.
- (2) The amount of security deposits kept by the borrower with the NBFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the provisions stipulated under clause (ii) above.
- (3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision.
- (4) An asset which has been renegotiated or rescheduled as referred to in paragraph (2) (xvi) (b) of these directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

(5) The balance sheet for the year 1999-2000 to be prepared by the NBFC may be in accordance with the provisions contained in sub-paragraph (2) of paragraph 8.”

3. Format of half-yearly return referred to in paragraph 13 of the said Directions is substituted by the format NBS 2 appended hereto.

Sd/-

(V.S.N. Murty)

Chief General Manager-In-Charge

Encls : NBS-2