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Banks allowed to issue non-fund facilities to non-constituent borrowers

The RBI on Thursday allowed banks to issue non-fund based facilities to those customers who do not avail any fund-based facility from any bank in India.

By: [FE Bureau](#) | Published: January 8, 2016 12:24 AM



The [RBI](#) on Thursday allowed banks to issue non-fund based facilities to those customers who do not avail any fund-based facility from any bank in India. While non-fund facilities include bank guarantees and letter of credits (LCs), fund-based facilities are loans.

The central bank said that banks will have to formulate a comprehensive board-approved loan policy for grant of non-fund based facility to such borrowers. Moreover, the banks have to ensure that the borrower has not availed any fund based facility from any bank operating in India. “However, at the time of granting non-fund based facilities, banks shall obtain declaration from the customer about the non-fund based credit facilities already enjoyed by them from other banks,” it said.

In 2003, RBI had advised banks not to extend any non-fund based facilities to non-constituent borrowers of the banks. “The restriction was imposed to prevent frauds, diversion of funds, etc in case a bank sanctions one-off transaction facilities without

assessing credit needs of the borrowers on well established credit norms,” it said. The RBI said these restriction has led to the problems faced by those customers, who require non-fund based facilities like letter of credits (LCs), bank guarantees, but do not avail of any fund based facility from any bank.

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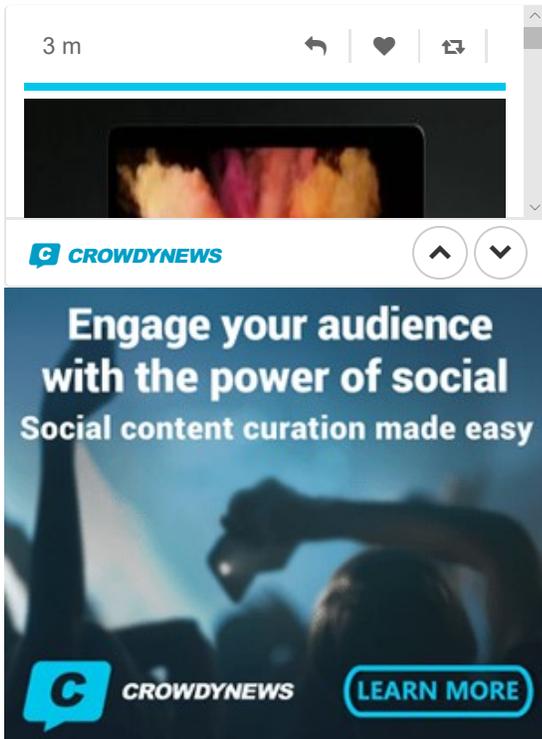
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