SBI's new 'alliances dept' to co-originate loans to priority sector with NBFCs

K Ram Kumar Mumbai | Updated on March 10, 2019 Published on March 10, 2019

Will up direct lending to priority segments and cut investment in low-yield funds

In a two-pronged strategy, State Bank of India has set up a 'non-banking finance company (NBFC) alliances' department so that it can step up direct lending to various segments within the mandated priority sector lending (PSL) category and simultaneously reduce investment in low-yield funds with development finance institutions.

Through the new department, the country's largest lender intends to co-originate loans with NBFCs for lending to the priority sector and buy PSL portfolios from NBFCs.

This will help SBI have more direct exposure to PSL, which will fetch better yield on advances, and cut down indirect exposure, where the yield on investment is low. Loans given by banks to agriculture, micro, small and medium enterprises, exports, education, housing, social infrastructure, and renewable energy are classified as PSL. The PSL target for banks is 40 per cent of their adjusted net bank credit (ANBC). Compliance of this target is monitored by the Reserve Bank of India on quarterly basis.

Banks have to make up for any shortfall in lending to the priority sector by contributing to the Rural Infrastructure Development Fund (RIDF) established with the National Bank for Agriculture and Rural Development (Nabard) and other funds with Nabard/National Housing Bank (NHB)/Small Industries Development Bank of India (SIDBI)/ Micro Units Development & Refinance Agency (MUDRA) and buying PSL certificates issued by banks with PSL surplus.

Co-origination model

"The NBFC alliances department will work on the co-origination model. The RBI issued a circular on co-origination of loans by banks and NBFCs for priority sector (in September 2018). So, we believe that lot of the small value PSL loans can be originated through this route. So, we are examining which are the companies we can work with," said PK Gupta, Managing Director, SBI.

According to the RBI, all scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) can engage with NBFCs (which are in the Non-Deposit taking and Systemically Important category) to co-originate loans for the creation of priority sector assets. The arrangement should entail joint contribution of credit at the facility level, by both lenders.

Published on March 10, 2019

NBFC State Bank of India

0

COMMENTS

Next Story

‘China, US reached consensus on many key currency exchange rate issues’