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Market Watch

Now, banks mulling extending moratorium benefits to NBFCs

BY PTI | UPDATED: APR 09, 2020, 08.36 PM IST

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Banks, under the aegis of [Indian Banks' Association \(IBA\)](#), are mulling providing a three month-moratorium on loans given to non-banking financial companies to help them tide through the current stress caused by the coronavirus crisis.

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Non-bank lenders or NBFCs have been demanding this moratorium, saying after all they too are borrowers. NBFCs predominantly depend on banks for their funding needs.

Besides, these non-bank lenders have sought an additional funding window from banks to tackle liquidity crunch in the wake of Covid-19.

Non-banking finance companies (NBFCs) or shadow banks cater to mainly MSMEs, infrastructure and real estate sectors that have been hit hard due to lockdown.

The IBA is looking into demands of the NBFC sector, sources said, adding that banks and the regulator RBI have been consulted to work out a prudent solution.

No final decision has been reached yet but the proposal is actively considered from all aspects in the given situation, sources said.

According to a senior public sector bank official, since individual lenders cannot take decision in this regard, it has to be done at industry level with regulatory guidance from the RBI.

The shadow banking sector in the country has been facing liquidity issue since the IL&FS crisis which began in September 2018.

Immediately after the IL&FS crisis, NBFCs faced severe liquidity crunch as mutual funds (MFs) stopped refinancing the loans of NBFCs.

The [Finance Industry Development Council](#), an association of finance companies, in a letter to Finance Minister Nirmala Sitharaman last week had said NBFCs are financial intermediaries who borrow from banks and through money market instruments, and has sought the moratorium be applicable on bank loans to NBFCs.

The council also emphasised that NBFCs should be allowed to give their borrowers a few months more than the three-month moratorium to pay deferred interest through easier instalments rather than a lump sum.

Industry body Ficci too requested a special liquidity line to NBFCs from banks as well as a significant allocation from the [Reserve Bank of India's](#) targeted long-term repo auction (TLTRO) operations mandatorily flowing to the sector.

While announcing monetary policy review last month, RBI Governor [Shaktikanta Das](#) had announced that all term loans, including retail and crop loans and working capital payments, will be covered by the three-month moratorium.

This was part of a slew of measures announced to help the financial market and borrowers to deal with challenges posed by the outbreak of COVID-19 pandemic.

"The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period," RBI had said.

Deferred instalments under the moratorium will include principal and/or interest components, bullet repayments, EMI, credit card dues, it said.

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