RBI moves to ease liquidity for non-banking finance firms

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RBI moves to ease liquidity for non-banking finance firms-Regulator also raises interest subsidy for MSME sector exporters to 5% from 3%

- In a move to make more liquidity available to non-banking finance firms, the Reserve Bank of India has relaxed the securitisation norms by relaxing the minimum holding period requirement.
- The move follows a demand from the government for a special window for NBFCs, to provide them liquidity support.
- RBI has decided to relax the Minimum Holding Period (MHP) requirement for originating NBFCs, as they are now allowed to securitise loans with maturity of more than five years after holding them for six months on their books, as compared to one year earlier.
- The relaxation on the minimum holding period will be allowed when the NBFC retains 20% of the book value of these loans, the RBI said.
- The NBFC sector is facing liquidity shortage after Infrastructure Leasing & Finance Services, a core investment company, started defaulting on loans which resulted in the government dismantling the existing board of IL&FS and installing a new one.
- The cost of funds has gone up for the non-banking finance firms putting pressure on profitability.
- In a separate move aimed at boosting MSME sector exports, the RBI said the interest subsidy on post and pre-shipment export credit has been increased to 5% from 3% w.e.f. Nov 2.
- Exporters get the subsidy under the ‘Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit’

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