

Two Day Course outline on Non – Banking Finance Companies – Products, Legalities & Risks

Day 1

Session 1: What is non-banking finance:

- Meaning of non-banking financial companies as per RBI Act.
- Overview of regulatory set up distinguishing between non-banking non-financial companies, non-banking financial companies and banking companies.
- Distinction between banks and non-banking financial companies. What can NBFCs do and not banks. What can banks do and not NBFCs.
- Regulatory arbitrage

Session 2: Basic law of secured lending:

- Meaning of security interest
- Different forms of security interest
 - Against movable and immovable property
 - Possessory and non possessory security interest
 - Mortgage and charges
 - Conditional sales
- Creation of security interest
- Perfection of security interest
- Enforcement of security interest
 - Self-help enforcement; differences between rights of banks and NBFCs
 - Judicial enforcement
 - Non-judicial arbitral enforcement
- Guarantees and third-party security interests
- Overview of security interest laws globally and emerging trends

Session 3: Credit and security interest evaluation:

- Credit evaluation of a funding proposal
- Basics of evaluation and analysis of financial statements
- Evaluation of the asset
- Two critical ratios – loan to value ratio and debt service coverage
- Movement of LTV ratio over time
- Assessing residual value of the security interest

Session 4: Different forms of funding transactions:

- Asset-backed lending business –loans against commercial assets
 - Creation of security interest on commercial assets

- Alternative forms of asset-backed funding: hire purchase and leasing
- Loans against financial assets (shares and securities)
 - Essential rules of pledging and procedures in case of physical and demat securities
 - Restrictions on loans against shares by SEBI and stock exchanges
 - Rights of a pawnee under contracts law
- Trade finance
 - Financing of trade receivables
 - LC financing
 - Bills discounting and factoring
- Unsecured personal loans:
 - Money lending laws
 - Enforcement of personal loans
- Project finance:
 - Creation of floating charges and enforcement
 - Restrictive covenants in case of project finance
 - Relevance of special purpose vehicles
- Venture finance
 - Legal aspects of venture capital funding by venture capital funds
 - Venture funding by NBFC
 - Essential features of venture capital documentation – shareholders' agreement
- Mezzanine financing and subordinated loans
 - Rights of a subordinated lender
 - Ensuring the interest of a subordinated lender

Day 2

Session 1: Financial leasing and hire purchase

- What assets can be leased?
- Merits and demerits of leasing
- Taxation aspects of leasing
- Quick introduction to VAT and service tax in case of leases
- Operating leasing
 - What is an operating lease
 - When to opt for an operating lease
- Off balance sheet feature and making the most out of it

Session 2: Pricing of a credit asset:

- Assessment of probability of default
- Essential of structural model for predicting the probability of default
- Establishing recovery rate
- Pricing of credit risk
- Assessing economic capital requirements and portfolio pricing

Session 3: Risk management in NBFC business

- Assessing credit risk and providing for credit risk capital
- Asset liability management:
 - Assessing asset liability mismatches and sources of liquidity risk
- Interest rate risk and other sources of market risk
- Introduction to value-at-risk and its computation methodology

Session 4: Basel II and regulatory capital for NBFC business

- Introduction to Basel II capital norms
- Standardised and IRB approaches
- Introduction of Basel II norms in India
- Operational risk
- Regulatory capital management through securitisation and credit risk mitigation devices

Session 5: RBI regulation on NBFC business

- RBI regulatory framework
- Systemically important and unimportant companies
- Corporate governance norms
- Other norms applicable to NBFCs