

6/2015-16 Master Direction

Borrowing and Lending transactions in Indian Rupee (INR) between Persons Resident in India and Non-Resident Indians / Persons of Indian Origin

Persons Resident in India borrowing in INR from NRIs/PIOs

❖ Borrowing in INR by persons other than companies in India

- Borrowing shall be only **on a non-repatriation** basis
- loan should be received either by inward remittance /NRE/NRO/FCNR(B)
- Period of loan shall not exceed 3 years;
- not be more than two per cent above Bank Rate
- Payment of interest and repayment of principal shall be made only to the NRO

❖ Borrowing in INR by companies in India

- borrow in INR, on repatriation or non-repatriation basis, from NRIs/PIOs after satisfying the terms and conditions ;
- Borrowing company does not and shall not: a. Carry on agricultural/plantation/real estate business; or b. Trade in transferable development rights; or c. Act as Nidhi or Chit fund company
- The issue of NCDs is made by public offer;
- The rate of interest is not more than the prime lending rate of State Bank of India
- Period of loan shall not be less than three years;
- on **Repatriation** basis then the percentage of NCDs issued to NRIs/PIOs to the total paid up value of all NCDs issued shall not exceed the ceiling prescribed for issue of equity shares/convertible debentures for foreign direct investment in India

❖ Restriction on use of borrowed funds

- The proceeds shall be utilised only for the own business of the borrower other than prohibited. Additionally, construction of farm houses will also not be permitted. **This restriction on real estate does not include development of townships, construction of residential/ commercial premises, roads or bridges.**

Lending by authorised dealers in INR to NRIs

- **Lending for own requirements or own business purposes:** An authorised dealer in India may grant INR loans to a NRI against security of shares and other securities or against the security of immovable property (other than agricultural or plantation land or farm house)

INR Loans to NRI by Resident Individual

- ❖ A resident individual may grant INR loan **to a NRI relative** by way of crossed cheque/electronic transfer
 - The loan is free of interest and the minimum maturity of the loan is one year
 - **Part of LRS limit and utilization should be only in permitted sectors**

U/s 2(77) “relative”, with reference to any person, means anyone who is related to another, if—

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed:
 - Father (including step-father)
 - Mother (including step-mother)
 - Son (including step-son)
 - Son's wife
 - Daughter
 - Daughter's husband
 - Brother (including step-brothers)
 - Sister (including step-sisters)