



Borrowing in Foreign Exchange by Residents

There is general permission to borrow up to US\$ 250,000 or its equivalent in foreign exchange on a repatriable basis by an individual Resident from his close relatives (as defined in Section 6 of the Companies Act) resident outside India subject to –

- ✓ The loan is free of interest
- ✓ The minimum maturity period of the loan is 1 year.
- ✓ The amount of loan is received by inward remittance in free foreign exchange through normal banking channels or by debit to the NRE/FCNR account of the non-resident lender.

Non-Repatriable Borrowing in Rupees by Residents

A resident, not being a company incorporated in India, may borrow in rupees on non-repatriation basis from an NRI or PIO subject to:

The term of the loan shall not exceed 3 years.

The loan has to be utilised for meeting the borrower's personal requirement or for his business purposes and under no circumstances be used for relending or for investment in shares, securities or immovable property.

The rate of interest shall not exceed 2% over the bank rate prevailing on the date of availing of loan.

Loan in Rupees against Shares / Immovable Property

Authorised Dealers (ADs) may grant loan in rupees to NRIs against the security of shares or immovable property in India for personal or business purposes and housing loans against the security of houses/flats to be acquired for residential accommodation in India. Restriction has been removed on the use of loan and allows it to be applied for any purpose other than the basic embargoes on chit funds, Nidhi companies, agricultural and or plantation activities, etc. It cannot also be applied for trading in Transferable Development Rights (TDRs) or investment in capital market including margin trading and derivatives.

The loan is non-repatriable. Hence the loan amount cannot be credited to the NRIs NRE/FCNR accounts.

The repayment of the loans should be by direct remittance from abroad or by way of debit to the NRE / FCNR account or by way of sale of shares and immovable property.

Loan against NRE, FCNR & NRO

Since the account holder can withdraw from NRE saving deposits at any time, banks should not mark any type of lien, direct or indirect, against these deposits. ADs may grant loans to the account holder against the



security of term deposits. The repayments of the loan may be made either by adjusting the deposit against the loan or by fresh remittances from abroad.

Loan can be given to account holder for the acquisition of flat / house in India against NRE or FCNR fixed deposits on repatriable basis, provided the amount to be repatriated is governed by Foreign Exchange Management Regulation (Acquisition and Transfer of Immovable Property in India).

A branch outside India of an Authorised Dealer may grant loan against the security of NRE/FCNR deposit. Authorised Dealers may grant forex loans in India against security FCNR to the account holder only and not to 3rd parties, with approval of board of bank, provided the loan period does not exceed the maturity period of the deposit and the loan is not used for investment in India. The document should be executed by the deposit holder himself and not by his Power of Attorney holder.

The repayment of the loan may be made either by adjusting the deposit against the loan or by fresh remittances from abroad. Repayment may be made by using the NRO account also. However in that case, interest has to be charged at full commercial rate in force.

Loan to Third Parties in India

ADs may grant loans to Residents against the collateral of NRE deposits provided there is no direct or indirect foreign exchange consideration to the NRI depositor for agreeing to pledge his deposits and the loan is to be used for personal purposes of Resident or for carrying on business activities other than agricultural or plantation activities.

Change in the Residential Status of Borrower

An AD may allow continuance of loan/overdraft granted to a Resident who subsequently becomes a Resident Outside India if he is satisfied about the reasons to continue the loan or overdraft. The repayment shall be made either by inward remittance from outside India through normal banking channels or from the funds held in the Non- Resident related accounts of the borrower.

Temporary Overdrawings

Authorised Dealers may allow overdrawings in NRE savings bank accounts, up to a limit of Rs 50,000. Such overdrawings together with the interest should be cleared within 2 weeks, out of inward remittances through normal banking channels or by transfer of funds from other NRE/FCNR accounts.

Change in the Residential Status of the Lender

In case a rupee loan was granted by a Resident to another Resident and the lender subsequently becomes a non-resident, the repayment of the loan by resident borrower should be made by credit to the NRO account of the lender.