



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

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UBD.BPD.(PCB) MC No.5/13.05.000/2014-15

July 1, 2014

The Chief Executive Officers  
All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

**Master Circular- Management of Advances - UCBs**

Please refer to our [Master Circular UBD.BPD.\(PCB\) MC No.5/13.05.000/2013-14 dated July 1, 2013](#) on the captioned subject (available at RBI website [www.rbi.org.in](http://www.rbi.org.in)). The enclosed Master Circular consolidates and updates all the instructions / guidelines issued on the subject up to June 30, 2014 as listed in the Appendix.

Yours faithfully,

(A.K. Bera)  
Principal Chief General Manager  
Encl: as above

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## **Master Circular on Management of Advances - UCBs**

### **1. Introduction**

Primary (Urban) Cooperative Banks (UCBs) are expected to lay down, with the approval of their boards, transparent policies and guidelines for credit dispensation, in respect of each broad category of economic activity, keeping in view the credit exposure norms and various other guidelines issued by the Reserve Bank of India from time to time.

### **2. Working Capital Requirements**

2.1 The assessment of working capital requirement of borrowers, other than SSI units, requiring fund based working capital limits upto ₹ 1.00 crore and SSI units requiring fund based working capital limits upto ₹ 5.00 crore from the banking system may be made on the basis of their projected annual turnover.

2.2 In accordance with these guidelines, the working capital requirement is to be assessed at 25% of the projected turnover to be shared between the borrower and the bank, viz. borrower contributing 5% of the turnover as net working capital (NWC) and bank providing finance at a minimum of 20% of the turnover. Projected turnover may be interpreted as 'Gross Sales' including excise duty.

2.3 The banks may, at their discretion, carry out the assessment based on projected turnover basis or the traditional method. If the credit requirement based on traditional production / processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned, as borrower must be financed up to the extent of minimum 20 per cent of their projected annual turnover. The projected annual turnover would be estimated on the basis of annual statements of accounts or other documents such as returns filed with sales-tax / revenue authorities. Actual drawals may be allowed on the basis of drawing power to be determined by UCBs after excluding unpaid stocks.

2.4 Drawals against the limits should be allowed against the usual safeguards including drawing power and it is to be ensured that the same are used for the purpose intended. Banks will have to ensure regular and timely submission of monthly statements of stocks, receivables, etc., by the borrowers and also periodical verification of such statements vis-a-vis physical stocks by their officials.

2.5 In respect of borrowers other than SSI units, requiring working capital limits above ₹ 1 crore and for SSI units requiring fund based working capital limits above ₹ 5 crore, UCBs may determine the working capital requirements according to their perception of the credit needs of borrowers. UCBs may adopt turnover method or cash budgeting method or any other method as considered necessary. However, UCBs may ensure that the book-debt finance does not exceed 75% of the limits sanctioned to borrowers for financing inland credit sales. The remaining 25% of the credit sales may be financed through bills to ensure greater use of bills for financing sales.

### 3. Loan System for Delivery of Bank Credit

3.1 In the case of borrowers enjoying working capital credit limits of ₹ 10 crore and above from the banking system, the loan component should normally be 80% and the remaining Cash Credit component. UCBs have been given freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent or increase the loan component beyond 80 per cent, as the case may be, if they so desire. UCBs are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.

3.2 In the case of borrowers with working capital (fund based) credit limit of less than ₹ 10 crore, banks may persuade them to go in for the Loan System by offering an incentive in the form of lower rate of interest on the 'loan component' as compared to the 'cash credit component'. The actual percentage of 'loan component' in these cases may be settled by the bank with its borrower clients.

3.3 **Ad hoc Credit Limit:** The release of ad hoc / additional credit for meeting temporary requirements may be considered by the financing bank only after the borrower has fully utilised / exhausted the existing limit.

3.4 **Sharing of Working Capital Finance:** In respect of consortium lending, the level of individual bank's share in Cash Credit and Loan Component shall be governed by the norm for single / group borrowers credit exposure.

3.5 **Rate of Interest:** UCBs are allowed to fix separate lending rates for 'loan component' and 'cash credit component'.

3.6 **Period of Loan:** The minimum period of the loan for working capital purposes may be fixed by banks in consultation with borrowers. Banks may decide to split the loan component according to the need of the borrower with different maturity bases for each segment and allow roll over.

3.7 **Export Credit:** In respect of borrowers enjoying export credit limit, the bifurcation of the working capital limit into loan and cash credit components, would be effected after excluding the export credit limits (pre-shipment and post-shipment).

3.8 **Bills Limit:** Bills limit for inland sales may be fully carved out of the 'loan component'. Bills limit also includes limits for purchase of third party (outstation) cheques / bank drafts. Banks must satisfy themselves that the bills limit is not mis-utilised.

UCBs may lay down policy guidelines for periodic review of the working capital limit and the same may be scrupulously adhered to.

### 4. Credit Administration

#### Rate of Interest

4.1 UCBs are permitted to determine their lending rates taking into account their cost of funds, transaction costs etc with the approval of their Board. However, banks are

advised to ensure that the interest rates charged by them are transparent and known to all customers. Banks are also required to publish the minimum and maximum interest rates charged on advances and display the information in every branch. Though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious and can neither be sustainable nor be conforming to normal banking practice. Boards of banks have to lay down appropriate internal principles and procedures in this regard. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks may take into account, inter-alia, the following broad guidelines:

- (i) An appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower.
- (ii) Interest rates charged by banks, inter-alia, should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower. Further, in considering the question of risk, the presence or absence of security and the value thereof should be taken into account.
- (iii) The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction.
- (iv) In the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to ₹ 25,000. Penal interest may be levied for reasons such as default in repayment, non-submission of financial statements, etc. However, the policy on penal interest should be governed by well-accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers.
- (v) Banks should ensure that the total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers. The small and marginal farmers for the purpose shall include those with land holding of 5 acres and less.
- (vi) An appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.
- (vi) **Foreclosure Charges / Prepayment Penalty** - With effect from June 26, 2014 it has been decided that UCBs will not be permitted to charge foreclosure charges / prepayment penalties on all floating rate term loans sanctioned to individual borrowers.

#### **No Objection Certificate**

- 4.2 UCBs should not finance a borrower already availing credit facility from another bank without obtaining a 'No Objection Certificate' from the existing financing bank.

### **4.3 Opening of Current Accounts**

4.3.1 Keeping in view the importance of credit discipline, at the time of opening of current accounts, banks should:

- (i) insist on a declaration from the account holder to the effect that he is not enjoying any credit facility with any other commercial bank or obtain a declaration giving particulars of credit facilities enjoyed by him with any other commercial bank/s.
- (ii) ascertain whether he / she is a member of any other co-operative society / bank; if so, the full details thereof such as name of the society / bank, number of shares held, details of credit facilities, such as nature, quantum, outstanding, due dates etc should be obtained.

4.3.2 Further, in case he / she is already enjoying any credit facility from any other commercial / co-operative bank, the bank opening a current account should duly inform the lending bank(s) concerned and also specifically insist on obtaining a "No Objection Certificate" from them. In case of a prospective customer who is a corporate or large borrower enjoying credit facilities from more than one bank, the banks may inform the consortium leader, if under consortium, and the banks concerned, if under multiple banking arrangement. In case a facility has been availed from a co-operative bank / society, it is essential for the bank to comply with the requirements of the Co-operative Societies Act / Rules of the state concerned in regard to membership and borrowings.

4.3.3 Banks may open current accounts of prospective customers in case no response is received from the existing bankers after a minimum waiting period of a fortnight. If a responses is received within a fortnight, banks should assess the situation with reference to information provided on the prospective customer by the bank concerned and are not required to solicit a formal no objection, consistent with true freedom to the customer of banks as well as needed due diligence on the customer by the bank.

### **Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants**

4.4 As per the Income Tax Act, 1961, filing of audited balance sheet and Profit & Loss Account is mandatory for certain types of non-corporate entities. Therefore, the banks must insist on the audited financial statements from the borrowers enjoying large limits; since such borrowers would, in any case, be submitting audit certificate to the income-tax authorities, based on audit of their books of accounts by a Chartered Accountant.

### **Defaults in Payment of Statutory Dues by Borrowers**

4.5 UCBs may ensure that borrowers enjoying credit facilities, pay the provident fund payments and similar other statutory dues promptly. The non-payment of statutory dues by the borrowers is one of the symptoms of incipient sickness of an industrial unit. Therefore, it is in the interest of both the lender and borrower to give high priority to the clearance of these dues. Apart from insisting on the borrowers to indicate a definite programme for clearance of arrears, banks may consider suitable restrictions on the outflow of funds. UCBs may incorporate an appropriate declaration in their application forms for grant / renewal / enhancement of credit facilities so as to ensure that the

position regarding the statutory dues is disclosed therein. In respect of the corporate borrowers and non-corporate borrowers, the amount of statutory dues should normally be reflected in their audited annual accounts. In case audited accounts do not indicate the position clearly, a certificate may be obtained from the Chartered Accountant for this purpose.

#### **4.6 Sanction of Advances**

##### **4.6.1 Irregularities / Deficiencies in Credit Sanction**

Banks should take suitable precautions to avoid irregular practices such as sanctioning of advances beyond discretionary powers and / or without proper credit appraisal in order to minimise chances of frauds.

##### **4.6.2 Delegation of Powers**

(i) The Board of Directors should delegate specific powers to the Branch Managers and other functionaries at the Head Office level as also to the Chairman in the matter of sanction of advances and expenditure. A system should also be introduced to ensure that powers are exercised within the limits prescribed and any transgressions are immediately reported to Head Office.

(ii) The internal inspectors should examine during the course of inspection of branches whether powers have been exercised properly and any unauthorised exercise of powers should immediately be brought to the notice of Head Office. Similarly, sanctions beyond discretionary powers by the Chairman, Chief Executive Officer and other executives at the Head Office should also be reported to the Board of Directors.

#### **Oral Sanction**

4.6.3 The higher authorities at various levels should desist from the unhealthy practice of conveying sanction of advances orally or on telephone.

##### **4.6.4 Proper Record of Deviations**

(i) Only in exigencies, where sanctions are made on telephone / oral instructions of higher functionaries or sanctions beyond discretionary powers have to be resorted to, the following steps should be taken:

(a) Record of such instructions / sanctions should be maintained by the sanctioning / disbursing authorities explaining the circumstances under which sanctions were made.

(b) Written confirmation of the competent sanctioning authority should be obtained by the disbursing authority / official within a week / fortnight.

(c) Sanctions within discretionary powers should also be reported to Head Office within a stipulated time and Head Office should meticulously follow up receipt of such returns.

(d) Head Office should diligently scrutinise the statements / returns and should initiate stringent action against erring functionary (ies) if he is / they are / found to have indulged in unauthorised sanctioning.

(ii) Officials should exercise powers delegated to them judiciously and should not exceed their discretionary powers for granting loans and advances. Violations, if any, in this regard should be viewed seriously and the guilty should be punished suitably.

#### **4.7 Monitoring Operations in Loan Accounts**

##### **4.7.1 Post-Sanction Monitoring**

(i) It is the primary responsibility of banks to be vigilant and ensure proper end use of bank funds / monitor the funds flow. It is, therefore, necessary for banks to evolve such arrangements as may be considered necessary to ensure that drawals from cash credit / overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them.

(ii) Post sanction follow-up of loans and advances should be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge, etc. are not tampered with in any manner and are adequate.

(iii) **Accounts showing sign of turning into NPAs :** Banks may put in place more stringent safeguards, especially where accounts shows sign of turning into NPAs. In such cases banks may strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds are routed through the borrower's accounts maintained with the bank and insisting on pledge of the stock in place of hypothecation.

(iv) Drawals against clearing cheques should be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need therefore should be subjected to thorough scrutiny and periodic review. Banks should not issue banker's cheques / pay orders / demand drafts against instruments presented for clearing, (unless the proceeds thereof are collected and credited to the account of the party) or to borrowers whose accounts are already overdrawn or likely to be overdrawn with the issue of such instruments.

(v) Drawals against clearing instruments should be normally confined to bank drafts and Government cheques and only to a limited extent against third party cheques.

(vi) Cheques against which drawals are allowed, should represent genuine trade transactions and strict vigilance should be observed against assisting kite-flying operations.

##### **4.7.2 Responsibility**

(i) The primary responsibility for preventing misuse of funds rests with the management of banks. UCBs should, therefore, take appropriate steps to review and tighten their internal administration and control measures so as to eliminate the scope for misuse / diversion of funds and malpractices.

(ii) Banks should take serious view of instances of misuse of power, corruption and other malpractices indulged by the members of staff and erring staff members should be given punishments befitting the seriousness of the irregularity. Quick disposal of enquiries by the banks and award of deterrent punishment would be necessary in all such cases.



## **Annual Review of Advances**

4.8 For an effective monitoring of the advances, it is imperative for the banks to undertake an exercise for review of the advances on a regular basis. Apart from the usual objective of such a review of assessing the quality of operation, safety of funds, etc. the review should specifically attempt to make an assessment of the working capital requirements of the borrower based on the latest data available, whether limits continue to be within the need-based requirements and according to the bank's prescribed lending norms.

## **Valuation of properties-empanelment of valuers**

4.9 The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of banks. UCBs are, therefore, advised to put in place a system / procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose as per guidelines given at Annex 1.

## **Diversion of Funds**

4.10 UCBs should have a mechanism for proper monitoring of the end use of funds. Wherever diversion is observed, they should take appropriate action including recalling the loans, reduction of sanctioned limits, charging penal interest etc. to protect the bank's interest. UCBs should keep a proper vigil over requests of their clients for cash withdrawals from their accounts for large amounts. Whenever stocks under hypothecation to cash credit and other loan accounts are found to have been sold but the proceeds thereof not credited to the loan account, such action should normally be treated as a fraud. In such cases, banks may take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security as also other action as warranted.

4.11 Diversion of funds would be construed to include any one of the under-noted occurrences:

- a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanctions;
- b) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- c) transferring funds to the subsidiaries / group companies or other corporates by whatever modalities;
- d) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;
- e) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;
- f) shortfall in deployment of funds vis-a-vis the amounts disbursed / drawn and the difference not being accounted for.

4.12 Siphoning of funds should be construed to have occurred if any funds borrowed are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular

instance amounts to siphoning of funds would have to be a judgement of the lenders based on objective facts and circumstances of the case.

### **End-use of Funds**

4.13 In cases of project financing, banks should seek to ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate / clean loans, such an approach ought to be supplemented by 'due diligence' on the part of lenders themselves, and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability were above board. UCBs, therefore, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio. Needless to say, ensuring end-use of funds by banks should form a part of their loan policy document for which appropriate measures should be put in place.

4.14 The following are the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds :

- (a) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers;
- (b) Regular inspection of borrowers' assets charged to the lenders as security;
- (c) Periodic scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;
- (d) Periodic visits to the assisted units;
- (e) System of periodical stock audit, in case of working capital finance;
- (f) Periodic comprehensive management audit of the 'Credit' function of the lenders, so as to identify the systemic weaknesses in the credit-administration.

## **5. Exchange of Credit Information**

5.1 The Credit Information Companies (Regulation) Act, 2005 (the Act) has been operationalised with effect from December 14, 2006. In terms of Section 15(1) of the Act, every credit institution has to become member of at least one credit information company. As the UCBs fall under the category of credit institutions as defined in sub-section (f) of Section 2 of the Act, they would be required to take membership of at least one credit information company and provide credit data (positive as well as negative) to the credit information company in the format prescribed by the credit information company. UCBs should build up database for effective exchange of credit information.

### **Exchange of information - Lending under Consortium Arrangement / Multiple Banking Arrangements**

5.2.1 UCBs need to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks.

- (i) At the time of granting fresh facilities, banks may obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks. In the case of existing lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of ₹ 5.00 crore and above or wherever, it is in their knowledge that their borrowers are availing credit facilities from other banks, and introduce a system of exchange of information with other banks as indicated above.

- (ii) Subsequently, banks should exchange information about the conduct of the borrowers' accounts with other banks at least at quarterly intervals.
- (iii) Obtain regular certification by a professional, preferably a Company Secretary / Cost Accountant / Chartered Accountant regarding compliance of various statutory prescriptions that are in vogue.
- (iv) Make greater use of credit reports available from Credit Information Companies [Credit Information Bureau (India) Limited (CIBIL), M/s Experian Credit Information Company of India Private Ltd., Equifax Credit Information Services Pvt. Ltd. and High Mark Credit Information Services Pvt. Ltd.]
- (v) The banks should incorporate suitable clauses in the loan agreements in future (at the time of next renewal in the case of existing facilities) regarding exchange of credit information so as to address confidentiality issues.

## **5.2.2 Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002**

Government of India has set up the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) under the provisions of the SARFAESI Act, 2002, with the objective of preventing frauds in loan cases involving multiple lending from different banks on the same immovable property. UCBs may, in their own interest, voluntarily file with CERSAI, records of equitable mortgages created by them. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property.

### **5.3 Disclosure of Information and Monitoring of Defaulting Borrowers**

5.3.1 Scheduled UCBs are required to submit to the Reserve Bank of India as at the end of September and March every year, the details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under funded and non-funded limits) aggregating ₹ 1 crore and above as per the format given in Annex 3.

5.3.2 The Reserve Bank of India is circulating to the banks and financial institutions the information on the defaulters (i.e., advances classified as doubtful and loss). The banks and financial institutions may make use of the information while considering the merits of the requests for new or additional credit limits by existing and new constituents.

5.3.3 All UCBs are required to submit the quarterly list of suit filed accounts of ₹1 crore and above, classified as doubtful or loss, to CIBIL and / or any other credit information company which has obtained CoR from RBI and of which the UCB is a member.

5.3.4 All UCBs are required to submit the list of suit filed accounts of willful defaulters of ₹25 lakh and above as at the end of quarter March, June, September and December to CIBIL and / or any other credit information company which has obtained CoR from RBI and of which the UCB is a member.

5.3.5 The data on borrowal accounts against which suits have been filed for recovery of advances (outstanding aggregating ₹ 1.00 crore and above) and suit filed accounts of willful defaulters with outstanding balance of ₹ 25 lakh and above, based on information

furnished by scheduled commercial banks and financial institutions is available at [www.cibil.com](http://www.cibil.com).

5.3.6 UCBs can verify the lists to ensure that the defaulting borrowing units as also their proprietors / partners / directors etc. named in the list of suit-filed accounts, either in their own names or in the names of other units with which they are associated, are not extended further credit facilities.

5.3.7 The banks may make enquiry, if any, about the defaulters from the reporting bank / financial institution.

#### **5.4 Collection and dissemination of information on cases of wilful default of ₹ 25.00 lakh and above**

5.4.1 Scheduled UCBs are required to report on a quarterly basis, all cases of wilful defaults, which occurred, or are detected after March 31, 1999 in the proforma given in Annex 3. All non-performing borrowal accounts with outstanding (funded facilities and such non-funded facilities which are converted into funded facilities) aggregating to ₹ 25.00 lakh and above are to be reported.

5.4.2 A wilful default would be deemed to have occurred if any of the following events is noted:

- (a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligation.
- (b) The unit has defaulted in meeting its payment / repayment obligation to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- (c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the fund so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- (d) The unit has defaulted in meeting its payment / repayment obligation to the lender and has also disposed of or removed the movable fixed assets or immovable property given by it for the purpose of securing a term loan, without the knowledge of the bank / lender.

#### **Cut-off limits**

5.4.3 While the penal measures would normally be attracted by all the borrowers identified as wilful defaulters or the promoters involved in diversion / siphoning of funds, keeping in view the present limit of ₹ 25 lakh fixed by the Central Vigilance Commission for reporting of cases of wilful default by scheduled banks to Reserve Bank of India, any wilful defaulter with an outstanding balance of ₹ 25 lakh or more would attract the penal measures stipulated in the paragraph below. The limit of ₹ 25 lakh may also be applied for the purpose of taking cognisance of the instances of 'siphoning' / 'diversion' of funds.

## Penal measures

5.4.4 In order to prevent access to the capital markets by the wilful defaulters, a copy of the list of wilful defaulters is forwarded by Reserve Bank of India to Securities and Exchange Board of India as well. It has also been decided that the following measures should be initiated by scheduled UCBs against the wilful defaulters:

- (a) No additional facilities be granted to the listed wilful defaulters. In addition, the entrepreneurs / promoters of companies where banks have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the Reserve Bank of India.
- (b) The legal process, where warranted, against the borrowers / guarantors and foreclosure of loans should be initiated expeditiously. The lenders may also initiate criminal proceedings against wilful defaulters, wherever necessary
- (c) Wherever possible, the banks should adopt a proactive approach for a change of Management of the wilfully defaulting borrower unit. It would be imperative on the part of the banks to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers is kept to the barest minimum. It should be ensured that a solitary or isolated instance is not made the basis for imposing penal measures.

5.4.5 **Treatment of Group:** While dealing with wilful default of a single borrowing company in a group, the banks should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where a letter of comfort and / or the guarantees furnished by the companies within the group on behalf of the wilfully defaulting units are not honoured when invoked by scheduled banks, such group companies should also be reckoned as wilful defaulters.

5.4.6 **Role of Auditors:** In case any falsification of accounts on the part of the borrowers is observed by banks, they should lodge a formal complaint against the auditors of the borrowers, with Institute of Chartered Accountant of India (ICAI) if it is observed that the auditors were negligent or deficient in conducting the audit to enable the ICAI to examine and fix accountability of the auditors.

With a view to monitoring the end-use of funds, if the lenders desire a specific certification from borrowers' auditors regarding diversion / siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors scheduled UCBs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers / auditors.

5.4.7 **Filing of Suits to Recover Dues from Wilful Defaulters :** Scheduled UCBs should examine all cases of wilful defaults of ₹ 1.00 crore and above and file suits in such cases UCBs should also examine whether in such cases of wilful defaults, there are instances of cheating / fraud by the defaulting borrowers and if so, they should also file criminal cases against those borrowers. In other cases involving amounts below ₹

1.00 crore, banks should take appropriate action, including legal action, against the defaulting borrowers.

## **6. Prudential Guidelines on Restructuring of Advances**

Prudential guidelines on restructuring of advances by UCBs are given as Annex 4. The definitions on Micro, Small and Medium Enterprises engaged in manufacturing or production and in providing or rendering of services are furnished in Annex 5.

## **7. Specific Lending Activities**

### **7.1 Bridge Loans / Interim Finance**

7.1.1 The grant of bridge loan / interim finance by UCBs to any company (including finance companies) is totally prohibited.

7.1.2 The ban on sanction of bridge loans / interim finance is also applicable in respect of Euro issues.

7.1.3 The banks should not circumvent these instructions by purport and / or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc. as also short-term loans, the repayment of which is proposed / expected to be made out of funds to be or likely to be mobilised from external / other sources and not out of the surplus generated by the use of the asset(s).

7.1.4 If any bank has sanctioned and disbursed any bridge loan / interim finance, it should report the same to the Regional Office concerned of the Urban Banks Department with full particulars and certifying that the loans are utilised strictly for the purpose for which the public issue and / or market borrowing was intended. Thereafter, the banks concerned should immediately take steps to ensure timely repayment of such bridge loans / interim finance already sanctioned and disbursed and under no circumstances, should the banks allow extension of time for repayment of existing bridge loans / interim finance.

7.1.5 These instructions are issued by the Reserve Bank of India in exercise of powers conferred by the Sections 21 and 35A read with section 56 of the Banking Regulation Act, 1949.

### **Advances to Real Estate and Commercial Real Estate Sector**

7.2 UCBs should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single / aggregate exposure limit for such loans, margins, security, repayment schedule and availability of supplementary finance taking into account guidelines issued by Reserve Bank of India and the policy should be approved by the banks' Board. Exposure to builders and contractors for commercial real estate will include fund based and non-fund based exposures secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels etc). Further, while framing the policy, the banks may also consider for inclusion the National Building Code framed by Bureau of Indian Standards (BIS). For detailed information the website of Bureau of Indian Standards ([www.bis.org.in](http://www.bis.org.in)) can be accessed.

### **7.3 Financing of Leasing / Hire Purchase Companies**

#### **7.3.1 Enrolment of Financial Companies as Members**

(i) UCBs are normally not expected to enroll non-banking financial institutions like investment and financial companies as their members since it would be in contravention of the State Co-operative Societies Act concerned and will also not be in conformity with the provisions of model bye-law No.9 recommended for adoption, by all banks.

(ii) Therefore, the UCBs are not permitted to finance non-banking financial companies (NBFCs), other than those engaged in hire purchase / leasing. Such NBFCs stand reclassified as Asset Finance Companies vide DNBS Circular dated September 15, 2008.

#### **7.3.2 Norms for financing Asset Finance Companies**

(i) As in the case of finance and investment companies, admission of NBFCs which are not engaged exclusively in leasing / hire purchase business as members may be contrary to the provisions contained in the State Co-operative Societies Act concerned and model bye-law No.9 referred to above. It will, therefore, be necessary for banks to obtain prior approval of the Registrar of Co-operative Societies concerned before admitting them as members.

(ii) Even financing the asset finance companies by UCBs on a large scale is not favoured by the Reserve Bank of India, since the banks are basically required to cater to the credit needs of the people of small means.

(iii) Presently banks with working capital funds aggregating to ₹ 25 crore and above only are permitted to take up the financing of asset finance companies and that too, only in consortium with other scheduled commercial banks. The banks should observe the following norms, while financing such companies :

(a) The level of finance to asset finance companies depends on the net owned funds of the companies, subject to the overall ceiling on their borrowings upto ten times of their owned funds.

(b) Bank credit to companies exclusively engaged in equipment leasing and hire purchases and such leasing / hire purchase companies which are predominantly engaged in equipment leasing / hire purchase business (i.e., at least 75 per cent of assets are in equipment leasing / hire purchase and 75 per cent of their gross income is derived from these two types of activities as per their last audited balance sheet) may be extended within the ceiling of three times of the net owned funds within the overall ceiling of their borrowings upto ten times of net owned funds.

(c) In the case of other equipment leasing / hire purchases companies (i.e. companies whose assets in equipment leasing / hire purchase business are less than 75 per cent and whose gross income derived from these two types of activities as per the last audited balance sheet is less than 75 per cent of its gross income), the credit limit has to be within two times of their net owned funds from the present level of four times.

## **7.4 Working Capital Finance to Information Technology and Software Industry**

7.4.1 In order to bring about uniformity in approach, Reserve Bank of India has formulated guidelines for information of banks, on various aspects of lending to information technology and software industry to facilitate free flow of credit. The same were enclosed to our circular DS.SUB.No.4/13.05.00/98-99 dated 5 October 1998, addressed to scheduled UCBs. Banks are, however, free to modify the guidelines based on their own experience without reference to Reserve Bank of India to achieve the purpose of the guidelines in letter and spirit.

7.4.2 These guidelines have been framed based on the recommendations made by the study group appointed by Reserve Bank of India to study the modalities of credit extension to software industry as also taking into account the suggestions made by the industry associations.

7.4.3 UCBs may take adequate steps to develop expertise in this area by training staff in project appraisal in the area of activity. It has to be ensured that the staff concerned is well aware of the requirements of the industry and remain in tune with the latest developments so that the higher standards of project appraisal can be maintained before extending the working capital finance to Information Technology and software industries.

## **7.5 Advances against pledge of Gold / Silver Ornaments**

7.5.1 In order to mitigate the inherent risks attached to sanction of loans and advances against gold / silver ornaments, UCBs are advised to observe the safeguards as detailed in Annex 6

7.5.2 **Bullet Repayment:** UCBs, with the approval of their Board, may permit bullet repayment of loans against gold ornaments up to ₹ 1.00 lakh as an additional option subject to the following guidelines :

- (i) The amount of loan sanctioned should not exceed ₹1.00 lakh at any point of time.
- (ii) The period of the loan shall not exceed 12 months from the date of sanction.
- (iii) Interest will be charged to the account at monthly rests but will become due for payment along with principal only at the end of 12 months from the date of sanction.
- (iv) The bank should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold / gold ornaments), expected price fluctuations, interest that will accrue during the tenure of the loan etc.
- (v) Such loans shall be governed by the extant income recognition, asset classification and provisioning norms which shall be applicable once the principal and interest become overdue.
- (vi) The account would also be classified as NPA (sub standard category) even before the due date of repayment, if the prescribed margin is not maintained.



7.5.3 Crop loans sanctioned against the collateral security of gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.

7.5.4 Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Banks would find granting of advances against the security of such hallmarked jewellery safer and easier. Preferential treatment of hallmarked jewellery is likely to encourage practice of hallmarking which will be in the long-term interest of consumers, lenders and the industry. Therefore, banks while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.

7.5.5 In view of the concerns arising out of the significant rise in import of gold in recent years, UCBs were advised not to grant any advance for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.

7.5.6 As a prudential measure, it has been decided to prescribe a Loan to Value (LTV) Ratio of not exceeding 75 per cent for UCBs' lending against gold jewellery (including bullet repayment loans against pledge of gold jewellery). Further, in order to standardize the valuation and make it more transparent to the borrower, it has been decided that gold jewellery accepted as security/collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. If the gold is of purity less than 22 carats, the bank should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

### **Grant of Loans for Acquisition of / Investing in Small Savings Instruments including Kisan Vikas Patras (KVP):**

7.6 Grant of loans for acquiring / investing in KVPs does not promote fresh savings and, rather, channelise the existing savings in the form of bank deposits to small savings instruments and thereby defeat the very purpose of such schemes. Banks may therefore ensure that no loans are sanctioned for acquisition of / investing in small savings instruments including KVPs.

### **7.7 Lending to Public Sector Undertakings**

UCBs are advised, as a matter of principle, generally not to grant large value loans to Public Sector / Government Undertakings.

### **8. Discounting / Rediscounting of Bills by Banks**

UCBs may adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills:

8.1 Since banks have already been given freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers, they may sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors.

8.2 Banks should clearly lay down a bills discounting policy approved by their Board of Directors, which should be consistent with their policy of sanctioning of working capital limits. In this case, the procedure for Board approval should include banks' core operating process from the time the bills are tendered till these are realised. Banks may review their core operating processes and simplify the procedure in respect of bills financing. In order to address the problem of delay in realisation of bills, banks may take advantage of improved computer / communication network like Structured Financial Messaging System (SFMS), wherever available, and adopt the system of 'value dating' of their clients' accounts.

8.3 Banks should open letters of credit (LCs) and purchase / discount / negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents who have been sanctioned regular credit facilities by the banks. Banks should not, therefore, extend fund based (including bills financing) or non-fund based facilities like opening of LCs, providing guarantees and acceptances to non-constituent borrower or / and non-constituent member of a consortium / multiple banking arrangement.

8.4 With effect from March 30, 2012, in case of bills drawn under LCs restricted to a particular UCB, and the beneficiary of the LC is not a borrower who has been granted regular credit facility by that UCB, the UCB concerned may, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank, negotiate such LCs, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary of the LC. However, the prohibition regarding negotiation of unrestricted LCs for borrowers who have not been sanctioned regular credit facilities will continue to be in force.

UCBs negotiating bills as above, under restricted LCs, would have to adhere to the instructions of the Reserve Bank / RCS or CRCS regarding share linking to borrowing and provisions of Co-operative Societies Act on membership.

8.5 For the purpose of credit exposure, bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above will be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.

8.6 While purchasing / discounting / negotiating bills under LCs or otherwise, banks should establish genuineness of underlying transactions / documents.

8.7 Banks should ensure that blank LC forms are kept in safe custody as in case of security items like blank cheques, demand drafts etc. and verified /

balanced on daily basis. LC forms should be issued to customers under joint signatures of the bank's authorised officials.

8.8 The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' should be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. Banks should not, therefore, open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause.

8.9 Accommodation bills should not be purchased / discounted / negotiated by banks. The underlying trade transactions should be clearly identified and a proper record thereof maintained at the branches conducting the bills business.

8.10 Banks should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.

8.11 Bills rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by NBFCs except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

8.12 Banks may exercise their commercial judgment in discounting of bills of services sector. However, while discounting such bills, banks should ensure that actual services are rendered and accommodation bills are not discounted. Services sector bills should not be eligible for rediscounting. Further, providing finance against discounting of services sector bills may be treated as unsecured advance and therefore, should be within the limits prescribed by Urban Banks Department for sanction of unsecured advances.

8.13 In order to promote payment discipline which would to a certain extent encourage acceptance of bills, all corporate and other constituent borrowers having turnover above threshold level as fixed by the bank's Board of Directors should be mandated to disclose 'aging schedule' of their overdue payables in their periodical returns submitted to banks.

8.14 Banks should not enter into Repo transactions using bills discounted / rediscounted as collateral.

Any violation of these instructions will be viewed seriously and invite penal action from Reserve Bank of India.

## **9. Loans to Self Help Groups (SHGs) / Joint Liability Groups (JLGs)**

UCBs may lend to SHGs and JLGs as per their Board approved policy framed in this regard, according to the guidelines prescribed below:

**9.1 Lending Policy:** Lending to SHGs / JLGs would be considered as normal business activity of the bank. UCBs will be required to frame, with the approval of their Board, a comprehensive policy on lending to SHGs / JLGs. This policy, including the maximum amount of loan, interest rate chargeable on loans etc. should form part of overall credit policy of the bank.

**9.2 Method of Lending:** UCBs may follow the method of lending directly to SHGs / JLGs. Lending through intermediaries will not be permitted.

**9.3 Enrolment of SHG / JLG as Member:** SHGs are small groups, formal / informal, of individuals promoting savings habit among members. These savings are then lent by the group to the members for income generating purposes. On the other hand, JLG is an informal group of individuals coming together for the purpose of availing of bank loan either singly or through the group mechanism against mutual guarantee in order to engage in similar type of economic activities.

The SHG would normally consist of 10 to 20 members whereas a JLG would normally have between 4 and 10 members. Membership matters are governed by the bye laws adopted by the bank and provisions of respective State Co-operative Societies Acts or the Multi State Co-operative Societies Act, 2002. UCBs would, therefore, be required to be guided by the provisions contained in the respective Act and take prior approval of the RCS / CRCS, wherever required, while enrolling such members and granting loans to SHGs / JLGs. The bye-laws of UCBs also need to provide for such lending.

**9.4 Share Linking Norms:** The extant instructions on share linking to borrowing would apply for lending to SHGs / JLGs.

**9.5 Nature of Loan - Secured or Unsecured:** The extant limits (individual and total) on grant of unsecured loans and advances will not apply to loans granted to SHGs. However, loans granted by UCBs to JLGs, to the extent not backed by tangible security, will be treated as unsecured and will be subject to the extant limits on unsecured loans and advances.

**9.6 Nature of Exposure - Individual or Group:** Loans granted to SHGs / JLGs would be governed by the extant guidelines on individual exposure limits.

**9.7 Amount of Loan:** The maximum amount of loan to SHGs should not exceed four times of the savings of the group. The limit may be exceeded in case of well managed SHGs subject to a ceiling of ten times of savings of the group. The groups may be rated on the basis of certain objective parameters such as proven track record, savings pattern, recovery rate, housekeeping etc. JLGs are not obliged to keep deposits with the bank and hence the amount of loan granted to JLGs would be based on the credit needs of the JLG and the bank's assessment of the credit requirement.

**9.8 Margin and Security for the Loan:** Margin / security requirement will be as per Board approved policy of the UCB concerned.

**9.9 Documentation:** UCBs may prescribe simple documentation for loans to be granted to SHGs / JLGs keeping in view the purpose of the loan and the status of the borrower.

**9.10 Priority Sector:** Loans to SHGs / JLGs for agricultural and allied activities would be considered as priority sector advance. Further, other loans to SHGs / JLGs up to ₹50,000 would be considered as Micro Credit and hence treated as priority sector advances. Lending to SHGs, which qualify as loans to priority sector, would also be treated as part of lending to weaker sections.

**9.11 Opening of Savings Bank Account:** The SHGs / JLGs would be eligible to open Savings Bank account with UCBs.

**9.12 KYC Norms:** KYC verification of all the members of SHG need not be done while opening the savings bank account of the SHG and KYC verification of all the office

bearers would suffice. As regards KYC verification at the time of credit linking of SHGs, as KYC would have already been verified while opening the savings bank account and the account continues to be in operation and is to be used for credit linkage, no separate KYC verification of the members or office bearers is necessary.

### **Revival of the Interest Tax Act 1974 - Collection From Borrowers**

**10.** The Hon'ble Supreme Court in its Judgment dated April 16, 2004 has ordered that excess interest collected by the banks from the borrowers through rounding off the applicable interest rate should be recovered from the banks and credited to a Trust to be created for the benefit of disadvantaged people. The Hon'ble Court had also directed that each concerned bank shall contribute to the extent of ₹ 50 lakh to the said Fund. Accordingly, UCBs are advised that excess amount realised, if any, from their borrowers towards interest tax by way of rounding off, may be deposited with the above referred Trust Fund. The Ministry of Social Justice and Empowerment has opened SB A/c No.65012067356 with the State Bank of Patiala, Shastri Bhavan Branch, New Delhi in the name of the Trust. UCBs, which have realised excess amount from the borrowers, towards interest tax by way of rounding off to the next higher 0.25% are liable to deposit the said amount to the Trust Fund. As regards contribution of ₹ 50 lakh to the Trust Fund, it is for the UCBs concerned which have collected excess amount, to decide depending upon the facts and circumstances of the case.

Supreme Court in its Order dated February 21, 2014 in Writ Petition (Civil) No.301 of 2005 ordered that credit institutions which were in existence between October 1991 and March 1997 but were merged with another bank / financial institution prior to the date of the Supreme Court Order in April 2004 or merged subsequently, the transferee banks are liable to contribute to the extent of ₹50 lakh each as also deposit the excess amount collected by way of rounding off the interest tax on the interest income on loans and advances by the transferor banks, to the Trust Fund. In view of this all UCBs were advised to take suitable action in accordance with the Order dated February 21, 2014 of the Supreme Court and report status to the concerned Regional Office of RBI.

### **11. Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities--**

11.1 UCBs are expected to provide relief and rehabilitation assistance, in their area of operation to people affected by natural calamities such as droughts, floods, cyclones, etc. The guidelines are given in Annex 2.

11.2 In order to avoid delay in taking relief measures on the occurrence of natural calamity, banks should evolve a suitable policy framework with the approval of the Board of Directors. An element of flexibility may be provided in the measures so as to synchronise the same with the measures which could be appropriate in a given situation.

11.3 Banks should get the documentation settled as per revised guidelines in consultation with their legal departments, taking into account the relevant provisions of the Contract Act and the Limitations Act and may issue appropriate instructions to their offices in respect of documentation in relation to cases covered by these guidelines.

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## **Guidelines on Valuation of Properties – Empanelment of Valuers (Paragraph No. 4.9)**

Banks may be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

### **a) Policy for Valuation of Properties**

- i) Banks should have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
- ii) The valuation should be done by professionally qualified independent i.e. the valuer should not have a direct or indirect interest.
- iii) The banks should obtain minimum two Independent Valuation Reports for properties valued at ₹ 50 crore or above.

The revaluation policy of fixed assets should, *inter alia*, cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets, etc. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc. As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks should adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation for a particular class of asset and should make proper disclosures in this regard.

### **b) Policy for Empanelment of Independent Valuers**

- i) Banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.
- ii) Banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land & building, plant & machinery, agricultural land, etc). While prescribing the qualification, banks may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

2. Banks may also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India

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**Guidelines for Relief Measures by Banks in Areas Affected by Natural Calamities**

[Vide paragraph 11.1]

1. Periodic but frequent occurrence of droughts, floods, cyclones, tidal waves and other natural calamities cause heavy toll of human life and wide spread damage to economic pursuits of human beings in one area or the other of the country. The devastation caused by such natural calamities call for massive rehabilitation efforts by all agencies. The State and local authorities draw programmes for economic rehabilitation of the affected people. The developmental role assigned to the commercial banks and co-operative banks, warrants their active support in revival of the economic activities.
2. Since the area and time of occurrence and intensity of natural calamities cannot be anticipated, it is imperative that the banks have a blue-print of action in such eventualities so that the required relief and assistance is provided with the utmost speed and without any loss of time. This presupposes that all the branches of urban cooperative banks will have a set of standing instructions spelling out the action that the branches will have to initiate in the calamity affected areas immediately after the requisite declaration by the district / State authorities. It is necessary that these instructions should also be available with the State Government authorities and all the District Collectors so that all concerned are clear as to the action that would be taken by the banks' branches in the affected areas.
3. The precise details in regard to the provision of credit assistance by the commercial banks, will depend on the requirements of the situation, their own operational capabilities and the actual needs of the borrowers. This can be decided by them in consultation with the district authorities.
4. Nevertheless, to enable banks to take uniform and concerted action expeditiously, particularly to provide the financial assistance to agriculturist, small scale industrial units, artisan, small business and trading establishments affected by natural calamities, the following guidelines are commended.
5. To facilitate co-ordination and expeditious action by the financing institutions, the convenors of the concerned District Consultative Committee (DCC) of the affected districts should convene a meeting immediately after the occurrence of natural calamities. In the event of the calamity covering a larger part of the State, the convenors of the State Level Bankers' Committee (SLBC) will also convene a meeting immediately to evolve a co-ordinated programme of action for implementation of the programme in collaboration with the State / district authorities while determining the quantum of assistance required by a person affected by the natural calamity, the banks may take into consideration the assistance / subsidy received by him from the State Government and / or other agencies.
6. Regional / Zonal heads of UCBs should be vested with certain discretionary powers so that they do not have to seek fresh approvals from their Central

Offices to the line of action agreed to by the District / State Level Bankers' Committees. For example, such discretionary power would be necessary in respect of adoption of scale of finance, extension of loan periods, sanction of new loans, keeping in view the total liability of the borrower (i.e. arising out of the old loan where the assets financed are damaged or lost on account of natural calamity as well as the new loan for creation / repair of such assets, margin, security, etc.).

#### **7. Identification of the Beneficiaries**

The bank branches should obtain from the concerned Government authorities list of affected villages within their area of operation. From among the identified persons, assessment of loss sustained by the existing constituents of the banks would be easier. In the case of fresh borrowers, however, discreet enquiries should be made in this regard and assistance of the Government authorities should be sought wherever available for ascertaining genuineness of their requirements. For providing conversion facilities in respect of crop loans, procedure for identification of areas where such facilities have to be provided has been indicated under crop loans in paragraph 12 below.

#### **8. Coverage**

Each branch will provide credit assistance not only to its existing borrowers but also to other eligible persons within its command area provided they are not covered by any other financial agency.

#### **9. Priorities**

Immediate assistance including finances would be needed for protecting and rejuvenating standing crops / orchards / plantations etc. Equally important will be repair and protection of livestock sheds, grains and fodder storage / structures, drainage, pumping, and other measures and operations to repair pump-sets, motors, engines and other necessary implements. Subject to seasonal requirements, next crop financing would be taken up.

#### **10. Agricultural Loans**

i) The bank assistance in relation to agriculture would be needed in the form of short-term loans for the purpose of raising crops and term loans for purchase of milch / draught animals, repairs of existing tube-wells and pump-sets, digging of new tube-wells and installation of new pump-sets, land reclamation, silt / sand removal, protection and rejuvenation of standing crops / orchard / plantations, etc., repairs and protection of livestock sheds, grain and fodder storage structures, etc.

ii) Crop Loans: In the case of natural calamities, such as droughts, floods etc., Government authorities would have declared *annewari* to indicate the extent to which the crops are damaged. However, where such declaration has not been made banks should not delay in providing conversion facilities, and the District Collector's certificate that crop yield is below 50 percent of the normal yield supported by the views of the DCC in the matter (for which a special meeting may have to be convened) should be sufficient for invoking quick relief



arrangements. The certificate of the Collector should be issued crop -wise covering all crops, including food-grains. Issuing of such certificates in respect of cash crops, may, however, be left to the discretion of the Collector.

iii) To be effective, the assistance to farmers will have to be disbursed with utmost speed. For this purpose the lead bank and the district authorities concerned should evolve a procedure whereby identification of borrowers, issuance of certificates regarding Government / co-operative / bank dues, title of the applicant to land etc. is secured simultaneously.

iv) Possibilities of organising credit camps, where Block Development and Revenue officials, Co-operative Inspectors, Panchayat Pradhans etc. could help finalise the applications on the spot, could be explored in consultation with the district authorities where such credit camps are being organised. The State Government will also arrange with the Collectors to issue an executive order for the following officers or their authorised representatives to assume respective duties and responsibilities as envisaged under implementation of credit camps programme:

- Block Development Officer
- Co-operative Inspector
- Revenue Authority / Village Revenue Assistant
- Bank official operating in the area
- PACS / LAMPS / FSS
- Gram Panchayat Pradhan

In order to avoid delay, the forms in which the State Government Officers have to give certificates at the Credit Camps may be got printed in sufficient numbers by the respective District Magistrates.

v) In considering loan applications for the ensuing crop season the current dues of the applicants to the State Government may be ignored, provided the State Government declare a moratorium for a sufficiently long period on all amounts due to the government as on the date of occurrence of the natural calamity.

## **11. Consumption Loans**

As per extant instructions, loans up to ₹ 250/- could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to ₹ 1,000/- in the States where the State Governments have constituted risk funds for such lending. The present limit may be enhanced to ₹ 5,000/- without any collateral and such loans may be provided even if no risk fund has been constituted.

## **12. Fresh Loans**

12. Timely fresh financial assistance to resume productive activities may be provided not only to the existing borrowers, but also to other eligible borrowers. Notwithstanding the status of the existing account, fresh loans granted to the borrowers will be treated as current dues.

### **13. Restructuring of existing Loans**

- a. As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required. The principal amount outstanding in the crop loans and agriculture term loans as well as accrued interest thereon may be converted into term loans.
- b. The repayment period of restructured term loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. Generally, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans. The asset classification status of the restructured term loan and other dues will be as under:
- c. The restructured crop loans may be treated as current dues and need not be classified as NPA. The asset classification of the restructured term loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and / or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. Depending upon the duration of crops raised by an agriculturist, the above norms would also be made applicable to the restructured agricultural term loans.
- d. The above norms will be applicable to all direct agricultural advances as listed at [Annex I](#) of Master Circular No. UBD.PCB.MC.No.10/09.14.000/2007-08 dated July 4, 2007 on prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances.
- e. Additional finance, if any, may be treated as “standard asset” and its future asset classification will be governed by the terms and conditions of its sanction.
- f. The asset classification as on the date of natural calamity will continue, if the restructuring is completed within a period of three months from the date of natural calamity. The restructured accounts would, otherwise, be governed by provisions of circular UBD.BPD.No.30/09.09.001/05-06 dated March 9, 2006. Further, the guidelines applicable to sub-standard accounts, will apply, mutatis mutandis to doubtful accounts.
- g. In retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis.

### **14. Scale of Finance**

Scale of finance in respect of different crops will be uniform in a district. The scales will be fixed taking into account the prevailing conditions and norms presently adopted by different lending agencies. In fixing the scales, minimum consumption needs of borrowers will be taken into account. The concerned District Magistrate and Managers

of branches of banks operating in the district would be advised to adopt the scales so laid down.

### **15. Development Loans - Investment Costs**

i) The existing term loan instalments will have to be rescheduled / postponed keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz.,

a) Droughts, floods or cyclones etc. where only crop for that year is damaged and productive assets are not damaged.

b) Floods or cyclones where the productive assets are partially or totally damaged and borrowers are in need of a new loan.

ii) In regard to natural calamity under category (a), the banks may postpone the payment of instalment during the year of natural calamity and extend the loan period by one year except (subject to the following exceptions) -

a) Those cultivators who had not effected the development or investment for which the loan was obtained or had disposed of the equipment or machinery purchased out of the loan.

b) Those who are income tax payers.

c) In the case of drought, those who are having perennial sources of irrigation except where water supply was not released from canals or irrigation facility was not available from other perennial sources.

d) Tractor owners, except in genuine case where there is loss of income and consequential impairment of their repaying capacity.

iii) Under this arrangement the instalments defaulted wilfully in earlier years will not be eligible for rescheduling. The banks may have to postpone payment of interest by borrowers. While fixing extension of period the commitment towards interest may also be taken into account.

iv) In regard to category (i)(b) above, i.e., where the borrower's assets are totally damaged, the rescheduling by way of extension of loan period may be determined on the basis of overall repaying capacity of the borrower including his repayment commitment on the old term loans and towards the conversion loan (medium term loan) on account of postponing of repayment of short-term loans and the fresh crop loan. In such cases, the repayment period of total loan (including interest liability) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. may be fixed having regard to the repaying capacity of the borrower subject to a maximum of 15 years, depending upon the type of investment as well as the economic (useful) life of the new asset financed, except in cases where loans relate to land shaping, silt removal, soil conservation etc. Thus in the case of loans for agricultural machineries, viz. pump-sets and tractors, it should be ensured that the total loan period does not generally exceed 9 years from the date of advance.

**16.** Apart from rescheduling existing term loans, banks will provide to affected farmers diverse type of term loans for developmental purposes, such as:

#### **i) Minor Irrigation**

Term loans for repairs to wells, pump-sets, etc. which are to be quantified after assessing the extent of damage and estimated cost of repairs.

#### **ii) Bullocks**

Where the drought animals have been washed away, requests for fresh loans for a new pair of bullocks / he-buffaloes may be considered. Where loans are given for purchase of new cattle or where farmers have bought milch cattle, reasonable credit may be given for purchase of fodder or feed.

#### **iii) Milch Cattle**

Term loan for milch cattle will be considered depending upon breed, milk yield, etc., the loan amount will include repairs to shelters, purchase of equipment and feed.

#### **iv) Insurance**

Considering the proneness of areas to cyclones and other natural calamities, the cattle should be insured instead of Risk-cum-Mortality Fund established for similar purpose in other safe areas. Milch animals / draught cattle should be branded for identification as also to serve as safeguard against their re-sale by the beneficiaries.

#### **v) Poultry and Piggery**

For poultry, piggery and rearing of goats, loans will be considered as per norms of different banks.

#### **vi) Fisheries**

In the case of borrowers who have lost their boats, nets and other equipment, re-phasing of payment of existing dues may be allowed on merits. Fresh loans may be granted to them with loan maturity of 3/4 years. Loans for repairs to boats of the existing borrowers may also be considered. In cases where subsidy is available, the quantum of loan should be reduced to that extent. In States where substantial subsidy towards cost of boats, nets, etc. is likely to be available, proper co-ordination with the State Government Department concerned in this regard must be ensured. Apart from complying with other norms and conditions for grant of advances, assistance may be sought from the Department of Fisheries, which may be expected to take measures which would enable banks to proceed with financing for this purpose. The boats should be comprehensively insured against all risks including natural calamities as far as possible.

### **17. Land Reclamation**

i) It is likely that financial assistance will be required for reclamation of lands covered by sand casting. Normally, sand / silt deposits upto 3 inches will either be ploughed back into the soil or removed by the farmers without any need for financial assistance. Loan applications will, however, be considered in cases where immediate cultivation is possible and reclamation (removal of sand) is necessary. Wherever reclamation finance for saline lands is warranted, the cost of reclamation not exceeding 25 percent of the scale allowed for crop loan may be advanced along with the crop loan.

ii) For other activities like Sericulture, Horticulture, Floriculture, Betel vine growing etc., banks will advance loans for investment and working capital under their existing schemes and follow usual procedures laid down by them. The working capital finance may be provided until such period the income from the plantation is adequate to take care of such expenditure.

iii). However, additional need based crop loans, if necessary, would be given for revitalisation / rejuvenation of standing crop / orchards based on individual assessment.

iv) The question relating to procurement and proper arrangement for supply of adequate quantity of seeds and various types of fertilisers will have to be discussed with the State Government and District Administration in each district. Similarly, for the purpose of ensuring adequate irrigation facilities, the State Government will undertake repairs to Government owned shallow and deep tube-wells and River Lift Irrigation System damaged by floods and other natural calamities. As for fisheries, the fisheries department of the State Government will make arrangement to obtain fingerlings / and supply them to those who wish to revive tank fishing with bank finance.

v) The State Government will have to consider preparation of schemes which would enable commercial banks to obtain refinance at NABARD rates for amounts advanced by banks for the said purpose.

## **18. Artisans and Self-Employed**

- i) For all categories of rural artisans and self employed persons including handloom weavers, loans will be needed for repairs of sheds, replacement of implements and purchase of raw materials and stores. In sanctioning the loan, due allowance will be made for subsidy / assistance available from the State Government concerned.
- ii) There may be many artisans, traders and self-employed who may not have any banking arrangement or facility with any bank, but will now need financial assistance for rehabilitation. Such categories will be eligible for assistance from banks' branches in whose command areas they reside or carry on their profession / business. Where such a person / party falls under the command area of more than one bank, the banks concerned will meet together and sort out his problem.

## **19. Small Scale and Tiny Units**

- i) Rehabilitation of units under village and cottage industry sector, small scale industrial units as also smaller of the medium industrial sector damaged, will also need attention. Term loans for repairs to and renovation of factory buildings / sheds and machinery as also for replacement of damaged parts and working capital for purchase of raw materials and stores will need to be provided urgently.
- ii) Where the raw materials or finished goods have been washed away or ruined or damaged, banks security for working capital will naturally be eroded and the working capital account (Cash Credit or Loan) will be out of order. In such cases, banks will convert drawings in excess of the value of security into a term loan and also provide further working capital to the borrower.

- iii) Depending on the damage suffered and time needed for rehabilitation and restarting production and sales, term loan instalments will have to be suitably rescheduled keeping in view the income generating capacity of the unit. Short-fall in margins will have to be condoned or even waived and borrower should be allowed time to build up margin gradually from his future cash generation. Wherever State Government or any agency has formulated special scheme for providing grants / subsidy / seed money, suitable margin may be stipulated to the extent of such grants / subsidy / seed money.
- iv) The primary consideration before the banks in extending credit to a small / tiny unit for its rehabilitation should be the viability of the venture after the rehabilitation programme is implemented.

## **20. Terms and Conditions**

The terms and conditions governing relief loans will be flexible as to security, margin, etc. In the case of small loans covered by guarantee of Deposit Insurance and Credit Guarantee Corporation, personal guarantees will not be insisted upon. In any case, credit should not be denied for want of personal guarantees.

## **21. Security**

Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan may be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans sympathetic view will have to be taken :

- a) Where the crop loan (which has been converted into term loan) was earlier given against personal security / hypothecation of crop which would be the case for crop loans upto ₹ 5,000/- and the borrower is not able to offer charge / mortgage of land as security for the converted loan, he should not be denied conversion facility merely on the ground of his inability to furnish land as security.
- b) If the borrower has already taken a term loan against mortgage / charge on land, the bank should be content with a second charge for the converted term loan.
- c) Banks should not insist on third party guarantees for providing conversion facilities.
- d) In the case of term loans for replacement of equipment, repairs, etc. and for working capital finance to artisans and self-employed persons or for crop loans, usual security may be obtained. Where land is taken as security in the absence of original Title Records, a Certificate issued by the Revenue Department Officials may be accepted for financing farmers who have lost proof of their titles i.e. in the form of deeds, as also the registration certificates issued to registered share-croppers.
- e) As per the recommendations of the Reserve Bank of India's report on Customer Service, banks will finance the borrowers who require loans upto ₹ 500/- without insisting either on collateral security or guarantee for any type of economic activity.

## **22. Margin**

Margin requirements be waived or the grants / subsidy given by the concerned State Government may be considered as margin.

## **23. Interest**

The rates of interest will be in accordance with the directives of the Reserve Bank of India. Within the areas of their discretion, however, banks are expected to take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people.

- i) Those meeting the eligibility criteria under the scheme of Differential Rate of Interest should be provided credit in accordance with the provision of the scheme.
- ii) In respect of current dues in default, no penal interest will be charged. The banks should also suitably defer the compounding of interest charges.

## **24. Other Issues**

### **i) Business Continuity Planning**

In the backdrop of increased leveraging of technology in banking system, Business Continuity Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. As a Business Continuity Planning (BCP) strategy, banks may identify alternate branches for branches located in areas prone to natural calamities. Banks may therefore formulate full-fledged comprehensive BCP along with Disaster-Recovery (DR) arrangements. The banks may also focus on keeping the DR site current, to test them comprehensively and synchronize the data between the primary and secondary sites.

### **ii) Access to Customers to their Bank Accounts**

- a) In areas where the bank branches are affected by natural calamity and are unable to function normally, banks may operate from temporary premises, under advice to Reserve Bank of India. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the Regional Office (RO) concerned of Reserve Bank of India. Banks may also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to RO of Reserve Bank of India.
- b) To satisfy customer's immediate cash requirements, banks could consider waiving the penalties related to accessing accounts such as fixed deposits
- c) Restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Banks may consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

### **iii) Currency Management**

Banks / branches affected by natural calamity, if required, may contact other banks maintaining its current accounts or the currency chest branch to which it is linked in order to ensure that supply of currency is maintained to its customers.

#### iv) **KYC Norms**

To facilitate opening of new accounts by persons affected by natural calamities especially for availing various relief's given by Government / other agencies, banks may open accounts with -

- a) introduction from another account holder who has undergone full KYC procedure, or
- b) documents of identity such as Voter's Identity Card or a driving license, identity card issued by an office, company, school, college, etc. along with a document indicating the address such as Electricity Bill, Ration Card etc. or
- c) introduction by two neighbors who have the documents as indicated in paragraph (b) above or
- d) in the absence of the above, any other evidence to the satisfaction of the bank.
- e) The above instructions will be applicable to cases where the balance in the account does not exceed ₹ 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed ₹1,00,000/- or the amount of relief granted, (if higher) in a year.

#### v) **Clearing and Settlement Systems**

To ensure continuity in clearing service, Reserve Bank of India has advised the banks for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solution for the remaining cities. The banks in a clearing area could meet with a view to providing flexible clearing services where normal clearing services are disrupted. However, notwithstanding these arrangements, banks may also consider discounting cheques for higher amounts to meet customers' requirement of funds. Banks could also consider waiver fees for EFT, ECS or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity

### **25. Applicability of the Guidelines in the case of Trade and Industry**

Instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance will be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture

### **26. Applicability of the Guidelines in the case of Riots and Disturbances**

Whenever Reserve Bank of India advises the banks to extend rehabilitation assistance to the riot / disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the State Government agencies as having been affected by the riots, etc., are extended rehabilitation / assistance.

- i) With a view to ensuring quick relief to the affected persons, the District Collector, on occurrence of the riot / disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary, and submit a report to the DCC on the extent of damage caused to the life and property in the area affected by riots /



disturbances. If the DCC is satisfied that there has been extensive loss to life and property, the relief, as per aforesaid guidelines, may be extended to the people affected by riots / disturbances. In certain centres where there are no DCCs, the District Collector may request the Convenor SLBC of the State to convene a meeting of the bankers to consider extension of relief to the affected persons. The report submitted by the Collector and the decision thereon of DCC / SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the Reserve Bank of India.

- ii) It should be ensured that only genuine persons duly identified by the State Administration, as having been affected by the riots / disturbances are provided the assistance.

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**Format - Details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under funded and non-funded) aggregating ₹ 1.00 Crore and above**

[Vide paragraph 5.3.1]

Name of the Bank:

1. Name of the Company / Firm
2. Registered address of the Company / Firm:
3. Names of the directors / partners of defaulting company / firm
4. Name of the Branch:
5. Type of facilities and limits sanctioned under each facility:
6. Amount outstanding:
7. Nature and value of securities held in each category:
8. Asset classification of the defaulting account (specify doubtful, loss or suit filed):
9. Date of classifying the account as doubtful / loss / suit filed

**Format for Reporting of Data on Wilful Default**

[Vide paragraph 5.4.1]

- |                          |                       |
|--------------------------|-----------------------|
| a) Input Media:          | 3.5" floppy disk file |
| b) File Characteristics: | ASCII or dbf file     |

The field - wise description of various items is as follows :

- |                        |  |
|------------------------|--|
| 1) Serial Number:      | 9 (4) Unique number to be given to each of the record    |
| 2) Bank-branch Name:   | x (14) As in the case of Basic Statistical return        |
| 3) Party's Name:       | x (45) The legal name                                    |
| 4) Registered Address: | x (96) Registered Office address                         |
| 5) Amount Outstanding: | 9(6) Total amount outstanding in ₹ Lakh                  |
| 6) Name of Directors:  | x(336) To be divided into 14 sub-fields of 24 bytes each |
| 7) Status:             | Suit filed or non-suit filed                             |

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**Prudential Guidelines on Restructuring of Advances by UCBs**  
**(vide paragraph No. - 6)**

### **1. General Principles**

The basic objective of restructuring is to preserve economic value of units, not evergreening of problem accounts. This can be achieved by banks and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages. The following prudential guidelines will be applicable to all categories of debt restructuring other than those restructured on account of natural calamities, which will continue to be governed by the extant guidelines. The principles and prudential norms laid down are applicable to all advances including borrowers who are eligible for special regulatory treatment for asset classification as detailed in paragraph 7. Key concepts used in these guidelines are defined in Annex-4(a).

### **2. Eligibility Criteria for Restructuring of Advances**

2.1. Banks may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.

2.2 Banks can not reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.

2.3 Normally, restructuring can not take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

2.4 No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. The viability should be determined by the banks based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. The accounts not considered viable should not be restructured and banks should accelerate the recovery measures in respect of such accounts. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action.

2.5 The borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring.

2.6 BIFR cases are not eligible for restructuring without their express approval. In the case of SME Debt Restructuring Mechanism and other cases, banks may consider the proposals for restructuring, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

### **3. Asset Classification Norms**

3.1 Restructuring of advances could take place in the following stages :

- a) before commencement of commercial production / operation;
- b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';
- c). after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

3.2 The accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring.

3.3 The non performing assets, upon restructuring, would slip into further lower asset classification category as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

3.4 All restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for up-gradation to the 'standard' category after observation of 'satisfactory performance' during the 'specified period' (Annex-4(a)).

3.5 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the **pre-restructuring payment schedule**.

3.6 Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest / principal payment, whichever is earlier, falls due under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

3.7 In respect of loan accounts which enjoy special regulatory treatment as per paragraph 7, upon restructuring, such non-performing assets would continue to have the same asset classification as prior to restructuring. In case satisfactory performance of the account is not evidenced during the 'specified period', it would slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

3.8 In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the

restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasions may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.

#### **4. Income Recognition Norms**

Subject to provisions of paragraphs 3.6 and 6.2, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the account classified as 'non performing assets' will be recognized on cash basis.

#### **5. Provisioning Norms**

##### **5.1 Normal Provisions**

Banks will hold provision against the restructured advances as per the existing provisioning norms.

##### **5.2 Provision for Diminution in the Fair Value of Restructured Advances**

"The erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring".

5.3 It may please be noted that the above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently in future. No request for changing the same, particularly for reversion to the present formula, will be entertained in future.

5.4 Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

5.5 It is also re-emphasised that the modifications effected to the guidelines on restructuring of advances by Reserve Bank of India are aimed at providing an opportunity to banks and borrowers to preserve the economic value of the units and should not be looked at as a means to evergreen the advances.

5.6 In their published annual Balance Sheets for the year ending March 2009, in addition to the disclosures regarding restructured loans required in terms of paragraph 9 of the guidelines enclosed to Circular dated March 6, 2009 referred to above, banks should also disclose the amount and number of accounts in respect of which applications for restructuring are under process, but the restructuring packages have not yet been approved.

ii) In the case of working capital facilities, the diminution in the fair value of the cash credit / overdraft component may be computed as indicated in paragraph (i) above, reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working Capital Term Loan and Funded Interest Term Loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

iv) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

v) If due to lack of expertise / appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances extended by small branches, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefore, at five percent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore till the financial year ending March 2011. The position would be reviewed thereafter.

5.7 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

## **6. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL)**

### **6.1 Asset Classification Norms**

The FITL created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL would also be determined based on the subsequent asset classification of the restructured advance.

## 6.2 Income Recognition Norms

6.2.1 The income, if any, generated may be recognised on accrual basis, if FITL is classified as 'standard', and on cash basis in the cases where the same has been classified as a non-performing asset.

6.2.2 The unrealised income represented by FITL should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization)".

6.2.3 Only on repayment in case of FITL, the amount received will be recognized in the Profit & Loss Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

## 7. **Special Regulatory Treatment for Asset Classification**

7.1.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in paragraph 3, will be available to the borrowers engaged in important business activities, subject to compliance with certain conditions as enumerated in paragraph 7.2 below. Such treatment is not extended to the following categories of advances:

- i) Consumer and personal advances including advances to individuals against the securities of shares / bonds / debentures etc
- ii) Advances to traders

7.1.2 The asset classification of the above two categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in paragraph 7.2, will be governed by the prudential norms in this regard described in paragraph 3 above.

7.1.3 As real estate sector is facing difficulties, it has been decided to extend special regulatory treatment to commercial real estate exposures, which are restructured up to June 30, 2009. Further, housing loans granted by banks would also be eligible for special regulatory treatment, if restructured.

## 7.2 **Elements of Special Regulatory Framework**

7.2.1 The Special Regulatory Treatment has the following three components :

- i) Incentive for quick implementation of the restructuring package.
- ii) Retention of the asset classification of the restructured account in the pre restructuring asset classification category

### 7.2.2 **Incentive for Quick Implementation of the Restructuring Package**

As stated in paragraph 2.2, during the pendency of the application for restructuring of the advance with the bank, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank within 120 days from the date of receipt of application by the bank, the asset classification status may be restored to the position which existed when the restructuring application was received by the bank: Further, all accounts which were standard accounts as on September 1, 2008 would be treated as standard accounts on restructuring provided the restructuring package is put in place within 120 days from the date of taking up the restructuring

package. The 120 days norm for quick implementation of the restructuring package would stand reduced to 90 days in respect of all restructuring packages implemented after June 30, 2009.

### 7.2.3 Asset Classification Benefits

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in paragraph 3 :

i) In modification to paragraph 3.2, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

ii) In modification to paragraph 3.3 during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

However, these benefits will be available subject to compliance with the following conditions:

i) The dues to the bank are 'fully secured' as defined in Annex - 4(a). The condition of being fully secured by tangible security will not be applicable in the following cases:

a) SSI borrowers, where the outstanding is up to ₹ 25 lakh.

b) infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

c) The value of security is relevant to determine the likely losses which a bank might suffer on the exposure should the default take place. This aspect assumes greater importance in the case of restructured loans. However, owing to the current downturn, the full security cover for the WCTL created by conversion of the irregular portion of principal dues over the drawing power, may not be available due to fall in the prices of security such as inventories. In view of the extraordinary situation, this special regulatory treatment is available to 'standard' and 'sub standard accounts' even where full security cover for WCTL is not available, subject to the condition that provisions are made against the unsecured portion of the WCTL, as under:

Standard Assets: 20%

Substandard Assets: 20% during the first year and to be increased by 20% every year thereafter until the specified period (one year after the first payment is due under the terms of restructuring)

If the account is not eligible for upgradation after the specified period, the unsecured portion will attract provision of 100%

ii) The unit becomes viable in 10 years, if it is engaged in infrastructure activities, and in 7 years in the case of other units.

iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. However the ceiling of 10 years would not apply in case of housing loans and the Board of Directors of the banks should prescribe the maximum



period not exceeding 15 years for restructured advances keeping in view the safety and soundness of advances.

iv) The restructured housing loans would be assigned additional risk weight of 25 percentage points over the prescribed risk weights.

v) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of banks' sacrifice.

vi) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.

vii) The restructuring under consideration is not a 'repeated restructuring' as defined in paragraph (iv) of Annex-4(a). However, as a one-time measure, second restructuring carried out by banks of exposures (other than commercial real estate, capital market exposures, personal / consumer loans and loans to traders) upto June 30, 2009 will also be eligible for special regulatory treatment.

## **8. Procedure**

8.1 i) Based on these guidelines, banks registered under the State Acts may formulate, with the approval of the concerned Registrar of the Cooperative Societies, a debt restructuring scheme for SMEs and other borrowers. However in the case of Multi State Cooperative banks, the above guidelines may be formulated with the approval of the Board of Directors.

ii) The restructuring would follow a receipt of a request to that effect from the borrowing units

iii) In case of eligible SMEs which are under consortium / multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

iv) In cases where the UCBs, if any, participating in the debt restructuring of other industrial units coming under consortium / multiple banking / syndication arrangements and also under Corporate Debt Restructuring (CDR) Mechanism, the banks may be guided by the guidelines issued by our Department of Banking Operations and Development (DBOD) from time to time.

8.2 Banks may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre-pay. The right of recompense should be based on certain performance criteria to be decided by the banks.

## **9. Disclosures**

Banks should also disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances in Annex-4(b). The information would be required for advances restructured under SME Debt Restructuring Mechanism and other categories separately.

## **10. Illustrations**

A few illustrations on the asset classification of restructured accounts are given in Annex-4(c).

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**Prudential Guidelines on Restructuring of Advances**  
**Key Concepts**

**i) Advances**

The term 'Advances' will mean all kinds of credit facilities including cash credit, overdrafts, term loans, bills discounted / purchased, receivables, etc. and investments other than that in the nature of equity.

**ii) Fully Secured**

When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

**iii) Restructured Accounts**

A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons).

**iv) Repeatedly Restructured Accounts**

When a bank restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period up to which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

**v) SMEs**

Small and Medium Enterprises is an undertaking defined in [circular UBD CO BPD \(PCB\) MC. No.18/09.09.001/2013-14 dated October 8, 2013](#).

**vi) Specified Period**

Specified Period means a period of one year from the date when the first payment of interest or installment of principal falls due under the terms of restructuring package.

**vii) Satisfactory Performance**

Satisfactory performance during the specified period means adherence to the following conditions during that period.

**Non-Agricultural Cash Credit Accounts**

In the case of non-agricultural cash credit accounts, the account should not be out of order any time during the specified period, for duration of more than 90 days / 180 days as applicable to Tier I and Tier II UCBs respectively. In addition, there should not be any overdues at the end of the specified period.

**Non-Agricultural Term Loan Accounts**

In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than 90 days. In addition there should not be any overdues at the end of the specified period.

**All Agricultural Accounts**

In the case of agricultural accounts, at the end of the specified period the account should be regular.

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## Prudential Guidelines on Restructuring of Advances

| Particulars of Accounts Restructured |  |               |                        |        |
|--------------------------------------|--|---------------|------------------------|--------|
| (₹ in lakh)                          |  |               |                        |        |
|                                      |  | Housing Loans | SME Debt Restructuring | Others |
| Standard advances restructured       | No. of Borrowers                         |               |                        |        |
|                                      | Amount outstanding                       |               |                        |        |
|                                      | Sacrifice (diminution in the fair value) |               |                        |        |
| Sub standard advances restructured   | No. of Borrowers                         |               |                        |        |
|                                      | Amount outstanding                       |               |                        |        |
|                                      | Sacrifice (diminution in the fair value) |               |                        |        |
| Doubtful advances restructured       | No. of Borrowers                         |               |                        |        |
|                                      | Amount outstanding                       |               |                        |        |
|                                      | Sacrifice (diminution in the fair value) |               |                        |        |
| <b>Total</b>                         | No. of Borrowers                         |               |                        |        |
|                                      | Amount outstanding                       |               |                        |        |
|                                      | Sacrifice (diminution in the fair value) |               |                        |        |
|                                      |  |               |                        |        |

## Prudential Guidelines on Restructuring of Advances

| Asset Classification of Restructured Accounts under the Guidelines |   |   |   |   |   |
|--|---|---|---|---|---|
| Particulars  |   | Case 1                                    | Case 2  | Case 3                                    | Case 4  |
| I.   | Assumed due date of payment                                   | 31.01.2007                                | 31.01.2007  |   |   |
|  | Assumed date of restructuring                                 | 31.03.2007                                | 31.03.2007  | 31.03.2007                                | 31.03.2007                                    |
|  | Period of delinquency as on the date of restructuring         | 2 months                                  | 2 months  | 18 months                                 | 18 months                                     |
|  | Asset Classification (AC) before restructuring                | 'Standard'                                | 'Standard'  | 'Doubtful - less than one year'           | 'Doubtful - less than one year'               |
|  | Date of NPA   | NA  | NA  | 31.12.05 (Assumed)                        | 31.12.05 (Assumed)                            |
| <b>II. Asset Classification (AC) on Restructuring</b>              |   |   |   |   |   |
|  | Assumed status of the borrower                                | Eligible for special regulatory treatment | Not eligible for special regulatory treatment                                   | Eligible for special regulatory treatment | Not eligible for special regulatory treatment |
|  | AC after restructuring  | 'Standard'                                | Downgraded to 'Substandard' w.e.f 31.03.07 (i.e., on the date of restructuring) | 'Doubtful - less than one year'           | 'Doubtful - less than one year'               |
|  | Assumed first payment due under the revised terms             | 31.12.07                                  | 31.12.07  | 31.12.07                                  | 31.12.07                                      |
| <b>III. Asset Classification after Restructuring</b>               |   |   |   |   |   |
| A  | The account performs satisfactorily as per restructured terms |   |   |   |   |
|  | (a)   | AC during the                             | No change   | 'Doubtful -                               | No change                                     |

|   |  |   |   |  |   |
|---|--|---|---|--|---|
|   | specified one year period (i.e., from 31.12.07 to 31.12.08)  | (i.e., remains 'Standard')  | less than one year' w.e.f. 31.03.08 (i.e. one year after classification as 'Substandard')                               | (i.e., remains 'Doubtful - less than one year')                    | one to three years' w.e.f. 31.12.07 i.e., one year after classification as doubtful less than one year')                            |
| (b)   | AC after the specified one year period   | Continues in 'Standard' category  | Upgraded to 'Standard' category   | Upgraded to 'Standard' category                                    | Upgraded to 'Standard' category   |
| <b>B</b> If performance not satisfactory vis-a-vis restructured terms |  |   |   |  |   |
| (a)   | AC during the specified one year period (in case the unsatisfactory performance is established before completion of one year period) | Treated as substandard w.e.f 30.4.2007 and downgraded to 'Doubtful less than one year' with effect from 30.04.08.       | 'Doubtful - less than one year' w.e.f. 31.03.08 (i.e. one year after classification                                     | 'Doubtful one to three years' w.e.f. 31.12.07                      | 'Doubtful - one to three years' w.e.f. 31.12.07 (i.e., one year after classification as 'Doubtful less than one year' (on 31.12.06) |
| (b)   | AC after the specified one year period, if the unsatisfactory performance continues  | Will migrate to 'Doubtful - one to three years' w.e.f. 30.04.09 and 'Doubtful more than three years' w.e.f. 30.04.2011. | Will migrate to 'Doubtful - one to three years' w.e.f. 31.03.09 and 'Doubtful more than three years' w.e.f. 31.03.2011. | Will migrate to 'Doubtful - more than three years' w.e.f. 31.12.09 | Will migrate further to 'Doubtful more than three years' w.e.f. 31.12.09  |

### Definition of Micro, Small and Medium Enterprises

(Vide Paragraph 6)

The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro Small and Medium Enterprises, vide, S.O.1642(E) dated September 29, 2006 are as under:-

| <b>Manufacturing sector</b> |   |
|-----------------------------|---|
| <b>Enterprises</b>          | <b>Investment in plant and machinery</b>              |
| Micro Enterprises           | Does not exceed ₹ 25 lakh                             |
| Small Enterprises           | Is more than ₹ 25 lakh but does not exceed ₹ 5 crore. |
| <b>Service Sector</b>       |   |
| <b>Enterprises</b>          | <b>Investment in equipment</b>                        |
| Micro Enterprises           | Does not exceed ₹ 10 lakh                             |
| Small Enterprises           | Is more than ₹ 10 lakh but does not exceed ₹ 2 crore. |

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## **Safeguards to be observed Advances against Pledge of Gold / Silver Ornaments**

(vide paragraph 7.5.1)

### **i) Ownership of Ornaments**

It is advisable that the advances are made to persons properly introduced to the bank. The bank should satisfy itself about the ownership of the gold ornaments etc. before accepting them for pledge. The bank should obtain a declaration from the borrower that the ornaments are his own property and that he has the fullest right to pledge them to the bank. Taking of ornaments for pledge and release thereof to the parties concerned after repayment of the bank's dues should be done strictly in the authorised official's room to avoid any risk.

### **ii) Appraiser**

The bank should appoint an approved jeweller or shroff as an appraiser for valuation of the gold ornaments proposed to be pledged to the bank and obtain adequate security from him in the form of cash and indemnity bond. Valuation and appraisal of the ornaments in the bank's premises itself would be ideal but when these are not possible, the bank should take suitable precautions against their loss while in transit. The bank should send the ornaments to the appraiser in a locked box, one key of which should be kept with the appraiser and the other with the bank. The box should be sent through a responsible member of the staff along with the prospective borrower. The placing of ornaments in the box at both the ends should be done in the presence of the employee carrying the ornaments to the appraiser and the borrower. The bank should take a suitable insurance cover for loss of the ornaments while in transit.

### **iii) Valuation Report**

- a) The valuation certificate of the appraiser should clearly indicate the description of the ornaments, their fitness, gross weight of the ornaments, net weight of the gold content exclusive of stones, lac, alloy, strings, fastenings and the value of the gold at the prevailing market price. The valuation report should be duly signed by the appraiser and kept along with the loan documents by the bank.
- b) In order to standardize the valuation and make it more transparent to the borrower, it has been decided that gold jewellery accepted as security/collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. If the gold is of purity less than 22 carats, the bank should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately

### **iv) Record of Security**

The full name of the borrower, his residential address, date of advance, amount and description of the ornaments in detail should be recorded in the gold ornaments register which should be checked / initialled by the Manager.



#### **v) Custody of Ornaments**

The ornaments belonging to each borrower (or articles of each loan) together with a list indicating the description of ornaments, gold loan account number, name of party, etc. should be kept separately in small cloth bags. A tag indicating loan account number and name of the party should be tied to the bag to facilitate identification. The bags should be arranged in trays according to loan account numbers and kept in the strong room or fire proof safes under joint custody.

#### **vi) Period**

The period of advance against gold ornaments should be generally restricted to 6 months or 1 year.

#### **vii) Margin**

As a prudential measure, it has been decided to prescribe a Loan to Value (LTV) Ratio of not exceeding 75 per cent for UCBs' lending against gold jewellery (including bullet repayment loans against pledge of gold jewellery). The bank should collect interest on advances promptly. In no circumstances should it allow to water down the margin by debiting the interest accrued to the loan account.

#### **viii) Return of Ornaments**

On repayment of the loan together with the interest payable in the account, the ornaments should be returned to the borrower and his receipt obtained in token of having received the ornaments.

#### **ix) Part Release**

While allowing part release of the ornaments against part repayment of the loan, care should be taken to ensure that the value of the left-over ornaments is sufficient to cover outstanding balance with the margin prescribed in the a/c.

#### **x) Delivery to Third Parties**

When the ornaments are delivered to third parties, a letter of authority from the borrower and subsequent confirmation of the borrower should be obtained. The letter of authority should contain an undertaking by the borrower, absolving the bank of any responsibility in the event of dispute or loss arising from the delivery of the ornaments to the party named therein. The receipt of the third party should be obtained on the letter of authority as well as in the gold loan ledger.

#### **xi) Default**

When the borrower fails to repay the loan on the due date, a notice calling upon him to repay the loan within a specified time should be given and if no response is received, a reminder should be sent by registered post informing the borrower that the ornaments would be auctioned and after adjusting the sale proceeds against the outstanding dues to the bank, the balance, if any, would be paid to the borrower against his receipt.

**xii) Re-pledge of Ornaments**

It is not advisable for UCBs to make advances against re-pledge of ornaments as this facility is likely to be misused for financing moneylenders, which is not a desirable activity.

**xiii) Insurance**

The jewels pledged to the bank should be insured for the appraised value against the risk of burglary. If banks store the pledged jewels in fire-proof strong rooms, insuring them against fire may not be necessary. Banks may take blanket insurance policy covering cash, jewels and other valuables and also covering all types of risks.

**xiv) Verification**

Surprise verification of the packets containing gold / silver ornaments by an officer other than the joint custodian be undertaken and should be recorded in a separate register with necessary details.

## A. List of Circulars consolidated in the Master Circular

| Sl. No. | Circular No.  | Date                                   | Subject  |
|---------|---|--|--|
| 1       | <a href="#">UBD.CO.BPD.(PCB).Cir.No.66/13.05.000/2013-14</a>  | 28.05.2014                             | Lending to Public Sector Undertakings  |
| 2       | <a href="#">UBD.CO.BPD.PCB.Cir.No.64/12.05.001/2013-14</a>  | 26.05.2014                             | Levy of Foreclosure Charges /Pre-payment Penalty on Floating Rate Term Loans   |
| 3       | <a href="#">UBD.CO.BPD.PCB Cir No.60/13.05.001/2013-14</a>  | 09.05.2014                             | Advance against Pledge of Gold/ Silver Ornaments   |
| 4       | <a href="#">UBD.BPD.(PCB).Cir.No.56/13.04.00/2013-14</a>  | 05.05.2014                             | Interest Tax Act 1974 - Collection from Borrowers  |
| 5       | <a href="#">UBD CO BPD (PCB) MC. No.18/09.09.001/2013-14</a>  | 08.10.2013                             | Revised guidelines on lending to Priority Sector for UCBs  |
| 6       | <a href="#">UBD BPC (PCB) Cir No.27/13.04.002/2012-13</a>   | 14.12.2012                             | Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002  |
| 7       | <a href="#">UBD.(PCB)BPD.Cir.No.29/13.05.000/2011-12</a>  | 30.03.2012                             | Discounting of Bills by UCBs – Restricted Letters of Credit  |
| 8       | UBD.CO.BPD.Cir.No.19/09.11.200/2011-12  | 13.02.2012                             | Submission of Credit Information to Credit Information Companies – Defaulters of ₹1 crore and above and willful defaulters of ₹25 lakh and above – Dissemination of credit information of suit-filed accounts. |
| 9       | <a href="#">UBD.BPD.(PCB)CIR.No.50/13.05.000(B)/2010-11</a>   | 02.06.2011                             | Financing of Self Help Groups (SHGs) and Joint Liability Groups (JLGs) by Primary (Urban) Co-operative Banks (UCBs)  |
| 10      | <a href="#">UBD.(PCB)BPD.Cir.No.69/09.22.010/2009-10</a>  | 09.06.2010                             | Exposure to Real Estate & CRE  |
| 11      | <a href="#">UBD.(PCB)BPD.Cir.No.25 &amp; 60/09.11.200/2009-10</a> and <a href="#">UBD.BPD.(PCB).Cir.No.30/09.11.200/2010-11</a> | 03.12.2009<br>29.04.2010<br>22.12.2010 | Credit Information Companies Act 2005  |
| 12      | <a href="#">UBD.(PCB)BPD.Cir.No.16/09.22.010/2009-10</a>  | 26.10.2009                             | Disclosure of mortgage by builders   |

|    |  |                          |   |
|----|--|--------------------------|---|
| 13 | <a href="#">UBD.PCB.BPD.Cir.No.53 &amp; 60/13.05.000/2008-09</a> | 6.3.2009<br>20.04.2009   | Prudential Guidelines on Restructuring of Advances by UCBs                                    |
| 14 | <a href="#">UBD.PCB.No.36 &amp; 59/13.05.000/2008-09</a>         | 21.01.2009<br>09.04.2009 | Lending under Consortium Arrangement / Multiple Banking Arrangements                          |
| 15 | <a href="#">UBD.PCB.Cir.No.24/13.05.001/08-09</a>                | 10.11.2008               | Advances against pledge of Gold / Silver Ornaments  |
| 16 | <a href="#">UBD.BPD(PCB)Cir.No.18/13.04.00/2008-09</a>           | 22.09.2008               | Revival of the Interest Tax Act 1974 - Collection from Borrowers                              |
| 17 | <a href="#">UBD.PCB.Cir.No.12 &amp; 13/12.05.001/2008-09</a>     | 17.09.2008               | ALM Guidelines  |
| 18 | <a href="#">UBD.PCB.Cir.No.57/16.74.00/2008-09</a>               | 24.06.2008               | Wilful Defaulters and action there against  |
| 19 | <a href="#">UBD.CO.BPD.PCB.No.33/13.05.000/07-08</a>             | 29.02.2008               | Advances to builders / contractors.   |
| 20 | <a href="#">UBD.PCB.Cir.No.22/13.05.000/07-08</a>                | 26.11.2007               | Gold Loan Repayment   |
| 21 | <a href="#">UBD.PCB.Cir.No.13/13.05.000/07-08</a>                | 13.09.2007               | Monitoring of Advances-Safeguards to be observed  |
| 22 | <a href="#">UBD.PCB.Cir.No.44/13.04.000/06-07</a>                | 18.05.2007               | Complaints about Excessive Interest Charged by Banks  |
| 23 | <a href="#">UBD.PCB.Cir.No.35/09.09.001/06-07</a>                | 18.04.2007               | Credit flow to Micro, Small and Medium Enterprises Sector                                     |
| 24 | <a href="#">UBD.PCB.BPD.33/13.05.000/06-07</a>                   | 16.03.2007               | Grant of loans for acquisition of Kisan Vikas Patras (KVPs)                                   |
| 25 | <a href="#">UBD.PCB.Cir.No.26/13.05.000/06-07</a>                | 09.01.2007               | Valuation of Properties- Empanelment of Valuers   |
| 26 | <a href="#">UBD.PCB.Cir.No.10/13.05.000/2006-07</a>              | 04.09.2006               | Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities |
| 27 | <a href="#">UBD.PCB.Cir.No.8/13.05.000/06-07</a>                 | 21.08.2006               | Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities |
| 28 | <a href="#">UBD.PCB.Cir.No.58/09.09.01/05-06</a>                 | 19.06.2006               | Adherence to National Building Code (NBC) - specifications necessary for lending institutions |
| 29 | <a href="#">UBD.PCB.BPD.Cir.No.46/13.05.</a>                     | 19.04.2006               | Bills discounted under LC-Risk weight   |

|    |  |            |  |
|----|--|------------|--|
|    | <a href="#">000/05-06</a>                          |            | and exposure norms.  |
| 30 | <a href="#">UBD.BPD.Cir.No.36/09.09.001/05-06</a>  | 09.03.2006 | Debt restructuring mechanism for Small and Medium Enterprises (SMEs) - Announcement made by the Union Finance Minister |
| 31 | <a href="#">UBD.PCB.Cir.No.34/13.05.000/05-06</a>  | 02.03.2006 | Advances against Gold Ornaments and Jewellery  |
| 32 | <a href="#">UBD.PCB.Cir.No.8/09.116.00/05-06</a>   | 09.08.2005 | Prudential norms on capital adequacy-risk weight on housing finance / commercial real estate exposures                 |
| 33 | <a href="#">UBD.PCB.Cir.No.14/09.11.01/2004-05</a> | 24.08.2004 | Opening of Current Accounts by banks-need for discipline.  |
| 34 | <a href="#">UBD.PCB.Cir.No.7/09.11.01/2004-05</a>  | 29.07.2004 | Opening of Current Accounts by banks-need for discipline.  |
| 35 | UBD.BPD.PCB.CIR.37/13.05.00/2003-04                | 16.03.2004 | Discounting / Rediscounting of Bills by Banks  |
| 36 | UBD.No.DS.PCB.Cir.34/13.05.00/2001-02              | 28.03.2002 | Loan System for Delivery of Bank Credit  |
| 37 | UBD.BSD.1.No.8/12.05.00/2001-02                    | 31.08.2001 | Issue of banker's cheques / pay orders / demand drafts   |
| 38 | UBD.No.POT.No.33/09.17.03/2000-2001                | 20.02.2001 | Relief measures for the persons / business affected by the earthquake in Gujarat                                       |
| 39 | UBD.DS.32/13.04.00/2000-01                         | 12.02.2001 | Reliefs / Concessions for Exporters Affected by the Earthquake   |
| 40 | UBD.No.POT.CIR.30/09.20.00/2000-01                 | 01.02.2001 | Branch Advisory Committees   |
| 41 | UBD.No.BR.11/16.74.00/98-99                        | 30.06.1999 | Collection and Dissemination of Information on Cases of Wilful Default of ₹ 25.00 lakh and above                       |
| 42 | UBD.No.DS.SUB.Cir.4/13.05.00/98-99                 | 05.10.1998 | Guidelines for Sanction of Working Capital Finance to Information Technology (IT) and Software Industry                |
| 43 | UBD.No.DS.PCB.8/13.04.00/98-99                     | 30.09.1998 | Reliefs / Concessions for Exporters Affected by Cyclone in Gujarat   |

|    |                                     |            |  |
|----|-------------------------------------|------------|--|
| 44 | UBD.No.BR.3/16.74.00/98-99          | 29.07.1998 | Disclosure of information regarding defaulting borrowers of banks at-id financial institutions                                   |
| 45 | UBD.No.DS.SUB.19/13.05.00/97-98     | 12.02.1998 | Reporting of Credit Sanctions  |
| 46 | UBD.No.DS.PCB.Cir.28/13.05.00/97-98 | 16.12.1997 | Guidelines for lending by banks- Assessment of working capital   |
| 47 | UBD.No.DS.PCB.Cir.25/13.05.00/97-98 | 04.12.1997 | 'Bill' finance for settlement of dues of SSI suppliers   |
| 48 | UBD.No.DS.PCB.Cir.15/13.05.00/97-98 | 21.10.1997 | Loan system for delivery of bank credit  |
| 49 | UBD.No.DS.PCB.Cir.47/13.05.00/96-97 | 23.04.1997 | Guidelines for lending by banks - Assessment of working capital - Concept of maximum permissible bank Finance - Review of policy |
| 50 | UBD.No.DS.PCB.CIR.48/13.05.00/96-97 | 23.04.1997 | Loan system for delivery of bank credit  |
| 51 | UBD.No.DS.PCB.CIR.31/13.05.00/96-97 | 29.11.1996 | Loan system for Delivery of Bank Credit  |
| 52 | UBD.No.Plan.PCB.5/09.08.00/96-97    | 16.07.1996 | Management of advances portfolio and control over advances   |
| 53 | UBD.No.DS.PCB.Cir.64/13.05.00/95/96 | 31.05.1996 | Loan System for Delivery of Bank credit  |
| 54 | UBD.No.DS.PCB.Cir.63/13.05.00/95-96 | 24.05.1996 | Lending to non-banking financial companies   |
| 55 | UBD.No.BR.6/16.74.00/95-96          | 06.05.1996 | Disclosure of information regarding defaulting borrowers of banks and financial institutions                                     |
| 56 | UBD.No.Plan.PCB.60/09.78.00/95-96   | 08.04.1996 | Equipment leasing and hire purchase financing activities   |
| 57 | UBD.DS.PCB.CIR.54/13.05.00-95/96    | 23.03.1996 | Realistic assessment of credit requirement Measures to prevent diversion of funds  |
| 58 | UBD.No.DC.23/13.05.00/95-96         | 19.10.1995 | Credit Monitoring System - Introducing of Health Code for borrowal accounts in banks   |
| 59 | UBD.No.DS.PCB.CIR.22/13.05.00/95-96 | 13.10.1995 | Loan System for Delivery of Bank Credit  |

|    |                                      |            |   |
|----|--------------------------------------|------------|---|
| 60 | UBD.No.DS.PCB.CIR.14/13.05.00/95-96  | 28.09.1995 | Introduction of a loan system for delivery of bank credits.   |
| 61 | UBD.No.DS.CIR.PCB.62/13.05.00/94-95  | 12.06.1995 | Assessment of Working Capital limits of less than ₹ 1 crore-Clarifications  |
| 62 | UBD.No.DS.PCB.CIR.59/13.06.00/94-95  | 31.05.1995 | Norms for bank lending for working capital purposes-Revised guidelines  |
| 63 | UBD.No.DS.PCB.CIR.60/13.05.00/94-95  | 30.05.1995 | Lending to Non-Banking Financial Companies  |
| 64 | UBD.No.DS.(PCB)CIR.58/13.05.00/94-95 | 17.05.1995 | Bridge Loans / Interim Finance  |
| 65 | UBD.No.DS.PCB.CIR.41/13.05.00/94-95  | 04.02.1995 | Compliance with lending discipline-(a) Charging of uniform rates of interest for lending under consortium arrangement and (b) penal interest for non-compliance with the discipline |
| 66 | UBD.No.DS.CIR.PCB.43/13.05.00/94-95  | 10.02.1995 | Guidelines on lending under consortium arrangements   |
| 67 | UBD.No.DS.CIR.PCB.39/13.05.00/94-95  | 14.01.1995 | Levy of commitment charge on unutilised portion of credit limit   |
| 68 | UBD.No.DS.CIR.25/13.05.00/94-95      | 21.10.1994 | Lending to non-Banking financial companies  |
| 69 | UBD.No.DS.CIR.PCB.19/13.04.00/94-95  | 05.10.1994 | Inventory / Receivables norms for various industries  |
| 70 | UBD.No.DS.CIR.PCB.18/13.05.00/94-95  | 19.09.1994 | Report of the in-House Group setup to review the role of Reserve Bank of India in laying down norms for bank lending for working capital purposes - Revised guidelines.             |
| 71 | UBD.No.DS.CIR.PCB-3/13.05.00/94-95   | 06.07.1994 | Guidelines on lending under consortium arrangements   |
| 72 | UBD.No.(PCB).CIR.80/13.05.00/93-94   | 1.6.1994   | Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tending term loans   |
| 73 | UBD.No.(PCB)50/13.05.00-93/94        | 14.01.1994 | Restrictions on credit to certain sectors - Real Estate Loans   |
| 74 | UBD.No.POT.47/09.51.00/93-94         | 06.01.1994 | Incidence of guarantee premium payable to Deposit Insurance and Credit Guarantee Corporation  |

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| 75 | UBD.No.(PCB)DC.40/13.05.00/93-94  | 13.12.1993 | Credit Authorisation Scheme - Treatment of term loan instalment for assessment of working capital requirements |
| 76 | UBD.No.Plan.22/09.11.00/93-94     | 28.09.1993 | Monitoring of flow of funds  |
| 77 | UBD.No.(PCB)5/13.06.00/93-94      | 14.08.1993 | Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tening term loans   |
| 78 | UBD.No.(PCB)1/13.06.00/93-94      | 12.7.1993  | Review of inventory / receivable norms for financing vegetable and hydrogenated oil industry                   |
| 79 | UBD.No.DC(PCB)99/13.06.00/92-93   | 30.06.1993 | Review of inventory / receivable norms for financing biscuits and bakery products industry                     |
| 80 | UBD.No.(SUC)DC.124/13.06.00/92-93 | 30.06.1993 | Inventory and Receivables Norms Basmati Rice   |
| 81 | UBD.No.(PCB)54/DC(R.1)-92/93      | 7.4.1993   | Restriction on Credit to Certain Sectors   |
| 82 | UBD.No.(PCB).DC45/R.1/92-93       | 25.02.1993 | Credit Authorisation Scheme Treatment of term loan instalments for assessment of working capital requirements  |
| 83 | UBD.No.41-UB.17(c)-92/93          | 10.02.1993 | Guidelines for relief measures by urban banks in areas affected by recent riots                                |
| 84 | UBD.No.I&L.40.J.1.-92 /93         | 09.02.1993 | Diversion of working capital funds   |
| 85 | UBD.No.(PCB)29/1)C.(R.1)-92/93    | 26.12.1992 | Bridge Loans / Interim Finance   |
| 86 | UBD.(PCB)5/DC.R.1A/92-93          | 24.07.1992 | Inventory and Receivables norms for power Generation / Distribution Industry                                   |
| 87 | UBD.(PCB)3/DC.R.1A/92-93          | 14.07.1992 | Inventory and Receivables norms for certain segments of Chemical Industry Essential Oil based chemicals        |
| 88 | UBD(PCB)38/DC.(R.1)-91/92         | 13.11.1991 | Restriction on Credit to Certain Sectors   |
| 89 | UBD.(SUC)36/DC.R.1(A)-90/91       | 31.05.1991 | Restrictions of Drawals Under Large Cash Credit Limits   |
| 90 | UBD(PCB)42/DC.HC.(Policy).90/     | 11.2.1991  | Credit Monitoring System Health Code for Borrowal Accounts in Urban Co-  |



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|     | 91                          |            | operative Banks   |
| 91  | UBD.PCB.2/DC.(R-1)-90/91    | 20.07.1990 | Financing of Leasing / Hire Purchase Companies  |
| 92  | UBD.(SUC)22/DC.R-1-90/91    | 7.7.1990   | Credit Monitoring Arrangement Lending Discipline - Quarterly Information System (QIS)                                   |
| 93  | UBD.No.DC.113/R.1A-89/89    | 24.04.1989 | Assessment of Working Capital Requirements - Inventory / Receivables Norms for Paper Industry and for Consumable Spares |
| 94  | UBD.No.DC.27/R.1.A-88/89    | 23.08.1988 | Inventory / Receivables Norms for Engineering Industry  |
| 95  | UBD.No.(DC)2/R.1-A-88/89    | 8.7.1988   | Inventory / Receivables norms for Certain Segments of Chemical Industry   |
| 96  | UBD.No.(DC)123/R.1-87/88    | 31.05.1988 | Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks                                   |
| 97  | UBD.No.(DC)101/R.1-A-87/88  | 15.02.1988 | Inventory / Receivables Norms for Various Industries  |
| 98  | UBD.No.I&L.67/J.1-87/88     | 21.11.1987 | Advances to Builders / Contractors  |
| 99  | UBD(DC)104/R.1-86/87        | 25.06.1987 | Guidelines for Assessment of Working Capital Requirements, Opening of Letters of Credit and Issue of Guarantees         |
| 100 | UBD.DC.84/R.1-86/87         | 3.6.1987   | Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks                                   |
| 101 | UBD.(DC)57/R.1-86/87        | 19.02.1987 | Defaults in Payment of Statutory Dues by Borrowers  |
| 102 | UBD.No.DC.41/R.1-86/87      | 07.11.1986 | Withholding of Credit Facilities to Borrowers to Ensure Financial Discipline  |
| 103 | UBD(DC)83/R.1-85/86         | 24.03.1986 | Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants   |
| 104 | UBD.No.I&L.38/J.1-85/86     | 11.10.1985 | Advances Granted by Urban Co-operative Banks - Diversion of Funds   |
| 105 | UBD.P&O.1383/UB.17(C)-84/85 | 22.05.1985 | Guidelines for relief measures by urban banks in areas affected by  |

|     |                              |            |  |
|-----|------------------------------|------------|--|
|     |                              |            | natural calamities   |
| 106 | UBD.POT.654/UB.17(C)-84/85   | 23.11.1984 | Banks assistance to persons affected by recent disturbances  |
| 107 | ACD.OPR.1569/A.35-79/80      | 02.10.1979 | Measures to restrict further credit expansion  |
| 108 | ACD.OPR.2697/A.75/74-75      | 24.12.1974 | Credit Authorisation Scheme for Co-operative banks   |
| 109 | ACD.OPR.1222/A.75/74-75      | 7.9.1974   | Credit Authorisation Scheme for Co-operative banks   |
| 110 | ACD.Plan.3109/PR.414(9)/68-9 | 18.06.1969 | Working group on industrial financing through co-operative banks - recommendations pertaining to the urban co-operative banks - action required. |

**B. List of Other Circulars from which instructions relating to Management of Advances have also been consolidated in the Master Circular**

| No. | Circular No.                 | Date       | Subject   |
|-----|------------------------------|------------|---|
| 1.  | UBD.No.I&L/69/12.05.00/93-94 | 13.05.1994 | Committee to enquire into various aspects relating to frauds and malpractices in banks (Ghosh Committee)                  |
| 2.  | UBD.21/12:15:00/93-94        | 21.09.1993 | Committee to enquire into various aspects relating to frauds and malpractices in banks primary (urban) co-operative banks |
| 3.  | UBD.No.2420-J.20-83/84       | 02.04.1984 | Frauds, Mis-Appropriation, Embezzlements And Defalcation Of Funds In Primary (Urban) Co-operative Banks                   |