

Prompt Corrective Action (PCA)

December 21, 2002

DBS.CO.PP.BC.9/11.01.005 / 2002-03

All Scheduled Commercial Banks (excluding RRBs)

Dear Sir,

Prompt Corrective Action (PCA)

Please refer to our letter No.DBS.CO.PPD.349/11.01.039/2000-01 dated March 30, 2001 seeking your comments on the proposed scheme of Prompt Corrective Action.

2. Taking into consideration the suggestions received from the bankers and others, the scheme has been finalized with the approval of the Board for Financial Supervision (BFS) and the Govt. of India. A copy of the approved scheme is enclosed. It has been decided to implement the scheme, initially for a period of one year, and it will be reviewed thereafter in December 2003.

3. You are advised to place the scheme before the Board of Directors and necessary steps may be taken to ensure that your bank does not come within the PCA framework.

4. You may please note that the PCA framework does not preclude the Reserve Bank of India from taking any other action as it deems fit in addition to the corrective actions prescribed in the framework.

5. Please acknowledge receipt.

Yours faithfully,

(P.V. Subba Rao)
Chief General Manager-in-Charge
Encl: One

Scheme of Prompt Corrective Action

The Reserve Bank of India will initiate certain Structured Actions in respect of the banks which have hit the Trigger Points in terms of **CRAR**, **Net NPA** and **ROA**. The Reserve Bank, at its discretion, will resort to additional actions (Discretionary Actions) as indicated under each of the

Trigger Points. The Trigger Points, as well as Structured and Discretionary Actions are indicated below:

1. Trigger Points

CRAR

- (i) **CRAR less than 9%, but equal or more than 6%**
- (ii) **CRAR less than 6%, but equal or more than 3%**
- (iii) **CRAR less than 3%**

NPAs

- (i) **Net NPAs over 10% but less than 15%**
- (ii) **Net NPAs 15% and above**

ROA below 0.25%

2. Structured and Discretionary Actions

CRAR less than 9%, but equal or more than 6%

Structured Actions

- *Submission and implementation of capital restoration plan by the bank*
- *Bank will restrict expansion of its risk-weighted assets*
- *Bank will not enter into new lines of business*
- *Bank will not access / renew costly deposits and CDs*
- *Bank will reduce / skip dividend payments*

Discretionary Actions

- *RBI will order recapitalisation*
- *Bank will not increase its stake in subsidiaries*
- *Bank will reduce its exposure to sensitive sectors like capital market, real estate or investment in non-SLR securities*
- *RBI will impose restrictions on the bank on borrowings from inter bank market*
- *Bank will revise its credit / investment strategy and controls*

CRAR less than 6%, but equal or more than 3%

Structured Actions

- *All Structured actions as in earlier zone*
- *Discussion by RBI with the bank's Board on corrective plan of action*
- *RBI will order recapitalisation*
- *Bank will not increase its stake in subsidiaries*
- *Bank will revise its credit / investment strategy and controls*

Discretionary Actions

- *Bank / Govt. to take steps to bring in new Management / Board*
- *Bank will appoint consultants for business / organisational restructuring*
- *Bank / Govt. to take steps to change promoters / to change ownership*
- *RBI / Govt. will take steps to merge the bank if it fails to submit / implement recapitalisation plan or fails to recapitalise pursuant to an order, within such period as RBI may stipulate*

CRAR less than 3%

Structured Actions

- *All Structured actions as in earlier zone*
- *RBI will observe the functioning of the bank more closely*
- *RBI / Govt. will take steps to merge / amalgamate / liquidate the bank or impose moratorium on the bank if its CRAR does not improve beyond 3% within one year or within such extended period as agreed to.*

Actions based on Net NPAs

Net NPAs over 10% but less than 15%

Structured Actions

- *Bank to undertake special drive to reduce the stock of NPAs and contain generation of fresh NPAs*
- *Bank will review its loan policy*
- *Bank will take steps to upgrade credit appraisal skills and systems*

- *Bank will strengthen follow-up of advances including loan review mechanism for large loans*
- *Bank will follow-up suit filed / decreed debts effectively*
- *Bank will put in place proper credit-risk management polices / process / procedures / prudential limits*
- *Bank will reduce loan concentration - individual, group, sector, industry, etc.*

Discretionary Actions

- *Bank will not enter into new lines of business*
- *Bank will reduce / skip dividend payments*
- *Bank will not increase its stake in subsidiaries*

Net NPAs 15% and above

Structured Actions

- *All Structured actions as in earlier zone*
- *Discussion by RBI with the bank's Board on corrective plan of action*
 - *Bank will not enter into new lines of business*
 - *Bank will reduce / skip dividend payments*
- *Bank will not increase its stake in subsidiaries*

ROA less than 0.25%

Structured Actions

- *Bank will not access / renew costly deposits and CDs*
- *Bank will take steps to Increase fee-based income*
- *Bank will take steps to contain administrative expenses*
- *Bank will launch special drive to reduce the stock of NPAs and contain generation of fresh NPAs*
 - *Bank will not enter into new lines of business*
 - *Bank will reduce / skip dividend payments*
 - *RBI will impose restrictions on the bank on borrowings from inter bank market*

Discretionary Actions

- *Bank will not incur any capital expenditure other than for technological upgradation and for such emergent replacements within Board approved limits*
- *Bank will not expand its staff / fill up vacancies*

3. Any other action

Notwithstanding anything contained in the PCA framework, the Reserve Bank reserves the right to direct a bank to take any other action or implement any other direction, in the interest of the concerned bank or in the interest of its depositors.
