

July 29, 2004

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

Dear Sir,

**Opening of Current Accounts by banks - Need for discipline**

It has been brought to our notice that some borrowers open current accounts with banks other than the lending bank, with a view to overcoming credit discipline that is imposed on them by the lending bank. They usually resort to this practice when their loan accounts turn irregular and they do not intend to deposit receipts into the loan accounts for regularizing them.

2. Keeping in view the importance of credit discipline for reduction in NPA level of banks, we advise that at the time of opening of current accounts, the banks should

- 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)
- 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.

Further in the 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 concerned lending bank(s) and also specifically insist on obtaining a No-Objection Certificate from them. In case a facility has been availed from a cooperative 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.

3 The banks may advise all their branches suitably. The procedure is considered essential in the interests of overall credit discipline since its non-adoption leads to facilitating diversion of funds by borrowers to the detriment of the banking system.

4. Banks are also advised to note that non-adherence to the above discipline could be perceived to be abetting the siphoning of funds and such violations which are either reported to RBI or noticed during our inspection would make the concerned banks liable for penalty under Banking Regulation Act, 1949 (AACs).

5. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully

(S.Karuppasamy)  
Chief General Manager in-charge