

January 31, 2007

To,

All Category - I Authorised Dealer banks and Authorised Banks

Madam / Sir,

**Foreign Exchange Management (Deposit) Regulations, 2000 –
Loans to Non Residents / third party against security of Non Resident (External) Rupee Accounts
(NR (E) RA) / Foreign Currency Non Resident (Bank) (FCNR(B)) deposits**

Attention of Authorised Dealer Category I (AD Category - I) banks and authorised banks (the banks) is invited to para 6 (a), (b) and (c) of Schedule 1 and para 9 of Schedule 2 to Foreign Exchange Management (Deposit) Regulations, 2000 notified vide Notification No. FEMA 5 / 2000-RB dated May 3, 2000, as amended from time to time, in terms of which the banks maintaining NR(E)RA and FCNR (B) deposits are permitted to grant loans against security of such deposits to the depositors in India and abroad and also to third parties subject to conditions mentioned therein.

2. The Third Quarter Review of Annual Statement on Monetary Policy for the Year 2006-07 (para 86), has observed that keeping in view the objective of making these facilities available to individual Non-Resident Indians (NRIs) and considering the prevailing monetary conditions, there is merit in avoiding upward pressure on asset prices in sensitive sectors through utilisation of this facility. Therefore, the banks are prohibited from granting fresh loans or renewing existing loans in excess of Rupees 20 lakh against NR(E)RA and FCNR(B) deposits either to the depositors or third parties.

3. Accordingly, the banks should not grant fresh loans or renew existing loans in excess of Rupees 20 lakh against the NR(E)RA and FCNR(B) deposits, either to depositors or to third parties, with immediate effect. The banks are also advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.

4. Necessary amendments to the Foreign Exchange Management (Deposit) Regulations, 2000 are being notified separately.

5. AD Category - I banks and authorised banks may bring the contents of the circular to the notice of their constituents concerned.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,
(Salim Gangadharan)
Chief General Manager-in-Charge