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ABM MODULE – C

Chapter 17: OVERVIEW OF CREDIT MANAGEMENT (PART-I)

What we will study?

*What is Importance of credit?

*What is Historical background of credit in india?

*What are types of borrowers?

IMPORTANCE OF CREDI:

Credit plays an important role in driving the national economy.

It provides leverage to an entrepreneur to undertake a project larger than what he could have undertaken without availability of credit.

This results in accelerated industrial production /services.

It also enables individuals to first purchase/create assets and repay the loan from their future earnings.

Credit also enables a consumer to spend more than what he would have otherwise spent.

The increased demand drives the producers to step up the production. Thus, adequate and cheap availability of credit propels the economy to higher growth trajectory.

But, let us also look at the other side of the coin.

There is always a time lag between increase in demand and creation of supply to meet that demand.

That is why excessive availability of credit, specially, for nonproductive purposes, puts inflationary pressure on the economy.

Sometimes, Reserve Bank of India has to use the monetary tools available to it, like Bank rate, CRR, SLR, etc., to control credit so as to strike a balance between economic growth and inflation.

HISTORICAL BACKGROUND OF CREDIT IN INDIA:

Private moneylenders have traditionally played an important role in meeting the credit requirements of individuals in India, though it has caused its own socio-economic problems like rural indebtedness and creation of rural landless population.

The problem was aggravated due to high level of illiteracy/ financial illiteracy.

With the growth of banking sector, this problem has been tackled to a great extent even though the banking sector credit has sometimes been misused as a means of achieving political ends.

Nationalization of banks in 1969 was a watershed event in the history of credit flow from banking sector.

Prior to nationalization, the flow of credit was more towards big business houses who often had an ownership/management interest in the banks.

After nationalization, RBI exercised greater control on the banks and ensured that more credit flows to the hitherto neglected sectors of the economy.

The concept of “Priority Sector' became an integral part of the banking system as RBI ensured that a substantial portion of bank credit flows to this sector.

PRINCIPLES OF CREDIT:

Over a period of time, bankers have evolved certain basic principles for their lending operations.

Bank's loan policies, and other aspects of credit management, are influenced to a great extent by these unwritten principles, which are as under:

(a) safety of funds

(b) purpose

(c) profitability

(d) liquidity

(e) security

(f) risk spread

TYPES OF BORROWERS:

A borrower can be:

(a) An individual (Indian Contract Act)

(b) Sole proprietary firm

(c) Partnership firm and joint ventures (Indian Partnership Act)

(d) Hindu undivided family (the customary laws pertaining to Hindus)

(e) Companies (Companies Act)

(f) Statutory corporations (the Acts that created them)

(g) Trusts and co-operative Societies (Indian Trusts Act, Public Trusts Act, Co-operative Societies Act or the Societies Registration Act.)

(h) Clubs and Associations

(i) Local Authorities

(j) Limited Liability Partnerships

(k) Any other legal entity

The laws applicable to all these different kinds of borrowers are different.

TYPES OF CREDIT:

Bank credit can be either fund-based or non fund-based.

In fund-based credit, there is actual transfer of money from the bank to the borrower.

In non fund based credit, there is no transfer of money, but the commitment by the bank on behalf of the client, may result in future transfer of money to the beneficiary of such a commitment.

Example of this is a bank guarantee issued in favour of government departments (or any other beneficiary) on behalf of a contractor, who is bank's customer.

If the beneficiary invokes the guarantee, the bank will have to remit the amount to it and the client, for whom guarantee was issued, will be liable to pay this amount to the bank.

Thus, a non fund-based credit always has a possibility of getting converted into a fund-based credit.

Apart from guarantees, the other forms of non fund based credit are letters of credit, co-acceptance of bills, forward contracts, and derivatives.

The fund based credit can be further divided, based on period, as short term credit or long term credit (term loan).

Credit can also be classified based on purpose, like working capital finance, project finance, export finance, crop loan, etc.

Banks often classify their credit portfolio based on the type of the customers like, corporate, retail, agriculture, international, institutional credit, etc.

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ABM MODULE – C

Chapter 17: OVERVIEW OF CREDIT MANAGEMENT (PART-II)

What we will study?

***What are Components of Credit Management?**

***What is Appraisal ?**

***What is Restructuring/Rehabilitation ?**

COMPONENTS OF CREDIT MANAGEMENT:

Loan Policy of the Bank:

Each bank formulates its own loan policy and sanction of any credit proposal has to be within the framework of this policy.

The formulation of loan policy is influenced by various factors like market conditions, policies of the competitors, bank's own SWOT analysis and, of course, the RBI guidelines.

The loan policy normally contains guidelines about the following aspects:

(a) Exposure limits for single borrowers and groups
(b) Exposure limits for individual sectors like real estate, capital market, steel, cement, software, etc.
c) Discretionary powers at various levels for sanctioning of credit proposals.

Appraisal:

Before a lender agrees to give his money to a borrower, as per his proposal, a few questions arise in his mind. Normally, these questions are as follows:

(a) Is the borrower trustworthy?

(b) What is he going to do with my money? Is the project/activity, where he is going to put this money, viable? What are the risks involved?

(c) Should I give him the amount he has asked for or, a different amount?

(d) What should be the terms of repayment, interest rate, etc.?

(e) Should I take any collateral security or personal guarantee?

(f) How should charge be created over primary/collateral security? What documents should be taken to enforce my claim in a court of law in case of default?

The process of finding the answers to the above questions is credit appraisal.

The complexity of this appraisal will depend on various factors like, amount involved, duration and purpose of loan, category of borrower, risks involved, security available, RBI guidelines, etc.

Thus, appraisal for a small crop loan or a vehicle loan will be different from that for an industrial project.

Delivery: This relates to legal aspects of documentation and creation of charge over security.

This also covers the method of delivery (like loan or cash credit in case of working capital limits) and procedures for disbursal of a term loan.

Control and Monitoring:

This is necessary not only to ensure end use of the bank's funds but also to ensure safety of it.

An efficient monitoring is in the interest of the borrower as well, because the bank can provide timely help in case of unforeseen difficulties.

Credit Risk Management :

Credit risk is a major risk faced by a bank and it is very important that suitable policies are put in place to identify, measure and control this risk within acceptable limits.

Restructuring/Rehabilitation and Recovery:

Even with best of loan policies, appraisal, delivery, control and monitoring, credit default is possible either due to genuine business problems or due to intentional (called wilful) default.

In the first case, the banks normally examine the feasibility of providing additional assistance /concessions/re phasing etc. to help the enterprise to make its operations viable again.

The widely known terms like rehabilitation of sick SSI units and Corporate Debt Restructuring (CDR) are part of this process.

However, if rehabilitation is not considered feasible or, if the rehabilitation process does not yield the desired results, and in case of wilful defaults, bank has to start the recovery process.

Refinance: This aspect of credit management assumes importance in times of tight liquidity position.

There are elaborate norms for availing refinance from NABARD/SIDBI/RBI in respect of certain priority sector advances.

ROLE OF RBI'S GUIDELINES IN BANK'S CREDIT MANAGEMENT:

RBI has a direct influence on credit management of any bank in India.

In fact, keeping abreast with RBI guidelines and ensuring their compliance is an important work of the credit department of any bank.

Following are some of the important RBI/ Government guidelines/policies, which directly influence the credit management of a bank.

End Use of the Funds:

It is the primary responsibility of banks to 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 withdrawals from cash credit/overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them.

There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/subsidiaries, and acquisition of shares, debentures, units of mutual funds, and other investments in the capital market.

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ABM MODULE - C

Chapter 17: OVERVIEW OF CREDIT MANAGEMENT

(PART III-A)

What we will study?

All about The MSMED Act, 2006?

[Updated up to 30-05-2024]

MSMED Act 2006:

The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006) has made a paradigm shift in the MSME ecosystem in India.

As per the Act, the initial norms for classification of enterprises into Micro, Small or Medium was based on the original cost of plant and machinery (manufacturing units) and equipment (service units) and there were different yardsticks for manufacturing units and service units.

With effect from 1st July 2020, the differentiation as to manufacturing units and service units is taken away and new definitions have come into force, combining the amount of investment in plant and machinery or equipment and annual turnover, as follows:

Updated definition of MSMEs		
Type of enterprise	Investment	Turnover
Micro	Rs. 1 crore	Rs. 5 crores
Small	Rs. 10 crores	Rs. 50 crores
Medium	Rs. 50 crores	Rs. 250 crores

The above yardsticks are per entity and not per promoter. Hence different business entities promoted by same promoter will be different units for the purpose of the above.

The original cost concept in calculation of investment in plant and machinery or equipment has gone and now onwards it will be linked to the Income Tax Return of the previous years filed under the Income Tax Act.

In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.

Value of exports shall be excluded while calculating turnover and the information regarding turnover shall be linked to ITR or GST returns.

It has also been decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector vide RBI circular dated 7th July 2021.

Common guidelines/instructions for lending to MSME sector:

1. Issue of Acknowledgement of Loan Applications to MSME borrowers: **Banks have to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt.**

Banks are also required to put in place a system of Central Registration of loan applications, online submission of loan applications and a system of e-tracking of MSE loan applications.

2. Collateral: Banks are mandated not to accept collateral security in the case of loans up to Rs. 10 lakh extended to units in the MSE sector.

Banks are also advised to extend collateral-free loans up to Rs. 10 lakh to all units financed under the Prime Minister Employment Generation Programmed (PMEGP) administered by Khadi And Village Industries Commission (KVIC).

Banks may, on the basis of good track record and financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to Rs. 25 lakh (with the approval of the appropriate authority).

3. Composite loan: A composite loan limit of Rs. 1 crore can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

4. Credit Linked Capital Subsidy Scheme (CLSS):

The Scheme aims at facilitating technology upgradation by providing 15% upfront capital subsidy up to a maximum cap of 15.00 lakhs (i.e., maximum investment in approved machinery is 1.00 crore) to MSE units including tiny, khadi, village and coir industrial units on institutional finance availed by them for induction of state-of-the-art or near state-of-the-art technology for upgradation of the present technology level to a substantially higher one involving improved productivity and improvement in quality of product and improved environmental condition including work environment.

It would also include installation of improved packaging technique as well as anti-pollution measures, energy conservation machinery, in-house testing and online quality control.

5. General Credit Card:

The objective of General Credit Card scheme is to increase flow of credit to individuals for entrepreneurial activity in the non-farm sector.

All non-farm entrepreneurial credit extended to individuals, which is eligible for classification under the priority sector guidelines are eligible for GCC.

Any credit facility extended under the Scheme would include both working capital and term loan requirements of entrepreneurs.

The GCC, preferably, may be issued as a Smart card/Debit card (Biometric smart card compatible for use in the ATMs/Hand held Swipe Machines)

6. Streamlining flow of credit to Micro and Small Enterprises (MSES) for facilitating timely and adequate credit flow during their 'Life Cycle':

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', guidelines are issued to banks vide RBI dated August 27, 2015, relating to the following:

(a) To extend standby credit facility in case of term loans.

(b) Additional working capital to meet with emergent needs of MSE units.

(c) Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs every year based on the actual sales of the previous year.

(d) Timelines for Credit Decisions.

ABM MODULE - C

Chapter 17: OVERVIEW OF CREDIT MANAGEMENT

(PART III - B)

What we will study?

*All about Priority Sector lending (PSL).

Priority Sector:

When bank sanction loan, it gives priority to some sectors and these loans are called PS loan.

Categories under Priority Sector:

(i) Agriculture

(ii) Micro, Small and Medium Enterprises

(iii) Export Credit

(iv) Education

(v) Housing

(vi) Social Infrastructure

(vii) Renewable Energy

(viii) others

Targets are linked with ANBC or CEOBE (whichever is higher):

ANBC: Adjusted Net Bank Credit

CEOBE: Credit Equivalent of off-Balance Sheet Exposure

Targets/Sub-targets for Priority sector:

Domestic commercial banks & foreign banks with 20 branches and above (excl. RRBs & SFBs):

Categories	Target
Total Priority Sector	40%
Agriculture	18%#
Micro Enterprises	7.5%
Advances to weaker sections	12% (Table 1)
Small & Marginal Farmer	10% (Table 2)

#out of which a target of 10% is prescribed for Small and Marginal Famers (SMFs)

Weaker Sections Target: (Table 1)

Financial Year	Target
2020-2021	10%
2021-2022	11%
2022-2023	11.5%
2023-2024	12%

Small & Marginal Farmer Target: (Table 2)

Financial Year	Target
2020-2021	8%
2021-2022	9%
2022-2023	9.5%
2023-2024	10%

Foreign banks with less than 20 branches:

categories	Target
Total Priority Sector	40% Out of which up to 32% can be in the form of lending to exports and not less than 8% can be to any other priority sector

#Foreign bank has no other target or sub target.

Regional Rural Banks (RRBs):

Categories	Target
Total Priority Sector	75%*
Agriculture	18%#
Micro Enterprises	7.5%
Advances to weaker sections	15% (fix)
Small & Marginal Farmer	(Table 2)

***However, lending to Medium Enterprises, social Infrastructure and Renewable Energy shall be reckoned only up to 15% of ANBC.**

#out of which a target of 10% is prescribed for small and marginal farmers (SMFs)

Small & Marginal Farmer Target: (Table 2)

Financial Year	Target
2020-2021	8%
2021-2022	9%
2022-2023	9.5%
2023-2024	10%

Small Finance Banks (SFBs):

Categories	Target
Total Priority Sector	75%
Agriculture	18%#
Micro Enterprises	7.5%
Advances to weaker sections	12% (Table 1)
Small & Marginal Farmer	10% (Table 2)

#out of which a target of 10% is prescribed for small and marginal Farmers (SMFs)

Primary Urban Co-operative Bank:

Categories	Target
Total Priority Sector	40%*
Micro Enterprises	7.5%
Advances to weaker sections	12% (Table 1)

***40%, which shall stand increased to 75%, with effect from March 31, 2024 in following manner:**

Financial Year	Target
31-03-2020	40%
31-03-2021	45%
31-03-2022	50%
31-03-2023	60%
31-03-2024	75%

Weaker Sections Target: (Table 1)

Financial Year	Target
2020-2021	10%
2021-2022	11%
2022-2023	11.5%
2023-2024	12%

All domestic banks (other than UCBs) and foreign banks with more than 20 branches to ensures that the overall lending to Non-Corporate Farmers (NCFs) does not fall below the system-wide average of the last three years achievement which will be separately notified every year.

The applicable target for lending to the non-corporate farmers for FY 2022-23 will be 13.78% of ANBC or CEOBE whichever is higher.

1- Agriculture

The lending to agriculture sector will include Farm Credit (Agriculture and Allied Activities) and lending for Agriculture infrastructure and Ancillary Activities.

1- Components of Agriculture Credit:

A- Farm Credit - Individual farmers

B- Farm Credit - Corporate farmers

C- Agriculture Infrastructure

D- Ancillary Activity

NWR: Negotiable Warehouse Receipt

eNWR: Electronic Negotiable Warehouse Receipt

A- Farm Credit - Individual farmers

Loans to individual farmers, Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (Resham ke keede).

*Loans against pledge / hypothecation of agricultural produce (including warehouse receipts)

Max period: 12 Months

Max loan: 75 Lac (against NWRs/eNWRs)

Max loan: 50 Lac (against warehouse receipts other than NWRs/eNWRs)

*Loans to distressed farmers indebted to non-institutional lenders.

*Loans to farmers under the Kisan Credit Card (KCC).

*Loans to small and marginal farmers for purchase of land for agricultural purposes.

B- Loan to Corporate Farmers & Partnership firms:

*Loans to corporate farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities

Max Loan: 2 crores

*Loans against pledge / hypothecation of agricultural produce (including warehouse receipts)

Max period: 12 Months

Max loan: 75 Lac (against NWRs/eNWRs)

Max loan: 50 Lac (against warehouse receipts other than NWRs/eNWRs)

Loan to FPO/FPC:

FPO: Farmer Producer Organization

FPC: Farmer Producer Companies

Max Loan: 5 Crore per borrowing entity.

***UCBs are not permitted to lend to co- operatives of farmers.**

C- Agriculture infrastructure:

i) Loans for construction of cold storage facilities, warehouse, go downs irrespective of their location.

ii) Soil conservation and watershed development.

iii) Plant tissue culture and agri-biotechnology, seed production.

***Max Loan per borrower from banking system: ₹100 crore**

D- Ancillary Activity:

Following loans come under ancillary services:

***Loans for setting up of Agri clinics and Agribusiness Centres.**

*Loan to co-operative societies of farmers for purchase of the produce of members max ₹5 crore.

*Loan to Start-ups max ₹50 crore.

Those Start-ups (as per definition of Ministry of Commerce and Industry, Govt. of India) which are engaged in agriculture and allied services.

*Loans for Food and Agro-processing max of ₹100 crore per borrower from the banking system.

*Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

RIDF: Rural Infrastructure development fund

NABARD: National Bank for Agriculture and Rural Development

If Bank don't achieve PS Target:

*Domestic bank and foreign bank which do not achieve their priority sector target will deposit the shortfall penalty in RIDF.

E- Small and Marginal Farmers (SMFs):

Marginal Farmers:

Farmers with landholding of up to 1 hectare.

Small Farmers:

Farmers with a landholding of more than 1 hectare and up to 2 hectares.

For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include the following:

1. Farmers with landholding of up to 1 hectare (Marginal Farmer).

2. Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).

3. Landless agricultural labourers, tenant farmers, oral lessees and share-croppers whose share of landholding is within the limits prescribed for SMFs.

4. Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual SMFs directly engaged in Agriculture and Allied Activities.

5. Loans up to ₹2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria.

F- Lending by banks to NBFCs for on-lending in agriculture:

Bank credit to registered NBFCs (other than MFIs) towards on-lending for 'Term lending' component under agriculture will be allowed up to ₹ 10 lakh per borrower.

2- Micro, Small and Medium Enterprises (MSME):

***MSME under Priority Sector?**

Categories	Target
Total Priority Sector	40%
Micro Enterprises	7.5%

Micro, Small and Medium Enterprises (MSME):

In terms of Government of India Gazette Notification dated June 26, 2020 the definition of micro, small and medium enterprises is as under:

	Investment (Does not exceed)	Turnover (Does not exceed)
Micro	1 Cr	5 Cr
Small	10 Cr	50 Cr
Medium	50 Cr	250 Cr

(i) A micro enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore;

(ii) A small enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹50 crore and turnover does not exceed ₹250 crore.

Loan to MSME under Priority sector:

*Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall be eligible for classification under priority sector.

KVI: Khadi and Village Industries:

*All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 % prescribed for Micro Enterprises under priority sector.

*Loans up to ₹50 crore to MSME Start-ups, as per definition of Ministry of Commerce and Industry.

*Overdraft (OD) to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders up to Rs 10,000 will qualify as achievement of the target for lending to Micro Enterprises. [The Upper age limit for OD has been increased from 60 to 65 years.]

*Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

3- Export Credit:

*Export credit includes pre-shipment and post-shipment export credit.

*Export Credit targets are not applicable to RRBs.

*Export credit under agriculture and MSME sectors are allowed to be classified as PSL in the respective categories viz. agriculture and MSME.

Export Credit (other than in agriculture and MSME) will be allowed to be classified as priority sector as below:

Domestic Banks/SFBs/UCBs and foreign Banks (20+ branches):

Incremental export credit over preceding year, up to 2 % of ANBC or CEOBE, whichever is higher.

*Max loan up to ₹ 40 crore per borrower included in PS.

Foreign Banks with less than 20 branches:

Export credit will be allowed up to 32% of ANBC or CEOBE, whichever is higher.

4- Education:

Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh will be considered as eligible for priority sector classification.

*No restriction on education loan amount

*Loans currently classified as priority sector will continue till maturity.

5- Housing:

Bank loans to Housing sector as per limits prescribed below are eligible for priority sector classification:

For purchase or construction of House:

Metro Area: Max Loan: 35 Lakh

(Max cost of house: 45 Lakh)

Other Area: Max Loan: 25 Lakh

(Max cost of house: 30 Lakh)

Metro Area: Population of 10 lakh and above

For repair of House:

Metro Area: Max Loan: 10 Lakh

Other Area: Max Loan: 6 Lakh

*Housing loans to banks' own employees will not be eligible for classification under the priority sector.

*Bank loans to any governmental agency for construction of dwelling units will be covered under PS subject to dwelling units with carpet area of not more than 60 sq.m.

Bank loans to Housing Finance Company (HFCs): *Max loan per borrower Rs. 20 Lakh.

*Outstanding deposits with NHB on account of priority sector shortfall.

6- Social Infrastructure:

*Bank loans up to a limit of ₹5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc.

*Max loan per borrower: 5 Crore

*Maximum loan for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centers: Rs. 10 Crore

*Loans up to a limit of ₹10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centers.

7- Renewable Energy:

*Max loan to individual household: 10 Lakh.

*Bank loans up to a limit of ₹30 crore to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc., will be eligible for Priority Sector classification.

8- Others:

The following loans are eligible for priority sector classification:

*Loan up to Rs. 2.00 lakh provided directly by banks to SHG/JLG for activities other than agriculture or MSME, like loans for meeting social needs, construction or repair of house, construction of toilets by SHG.

***Loans to distressed persons [other than distressed farmers indebted to non-institutional lenders] not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders.**

***Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.**

Weaker section:

Priority sector loans to the following borrowers will be considered under Weaker Sections category:

*** Loan to Small and Marginal Farmers (Marginal up to 1 hectare, Small more than 1 hectare up to 2 hectare)**

***Loan to Artisans, village and cottage industries where individual credit limits do not exceed Rs. 1 lakh**

***Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)**

***Loan to Scheduled Castes (SC) and Scheduled Tribes (ST)**

***Beneficiaries of Differential Rate of Interest (DRI) scheme**

***Self Help Groups**

*Distressed farmers indebted to non-institutional lenders [no limit]

*Distressed persons other than farmers, with loan amount not exceeding Rs. 1 lakh per borrower to pay their debt to noninstitutional lenders

*Individual women beneficiaries up to Rs. 1 lakh per borrower

*Persons with disabilities.

*Overdraft under PMJDY of Rs. 10,000.

*Minority communities

Non-achievement of Priority Sector targets:

*Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD.

Common guidelines for priority sector loans:

Rate of interest: The rates of interest on bank loans will be as per directives issued by Department of Regulation (DoR), RBI from time to time.

Service charges for PS Loan up to Rs. 25,000:

*No loan related and ad hoc service charges/inspection charges should be levied.

*No collateral or margin for this loan

In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

*Receipt/Sanction/Rejection/Disbursement Register:

A register or electronic record should be maintained by the bank wherein the date of receipt, sanction, rejection, disbursement with reasons should be recorded.

Issue of Acknowledgement of Loan Applications:

Banks should provide acknowledgement for loan applications received under priority sector loans.

Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

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ABM MODULE – C

Chapter 17: OVERVIEW OF CREDIT MANAGEMENT (PART-IV)

What we will study?

***What is Exposure Norms?**

***What is MCLR?**

Credit Exposures Norms:

RBI has advised the banks to fix limits on their exposure to specific industry or sectors (to avoid concentration risk) and has prescribed regulatory limits on bank' exposure to single and group borrowers in India.

Some of the important points of these instructions are as under:

(a) For individual/Group Borrowers:

The exposure ceiling limits are 15 per cent of capital funds in case of a single borrower(maximum 20% allowed) and 40 per cent of capital funds in the case of a borrower group(maximum 50% allowed).

(b) For Exposures to NBFCs:

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC should not exceed 10% of bank's capital funds.

For NBFC-AFC (Asset Financing Companies) should not exceed 15% of bank's capital fund.

Banks may, however, assume exposures on a single NBFC/NBFC-AFC up to 15 per cent/20 per cent respectively, of their capital funds provided the exposure in excess of 10 per cent/15 per cent respectively, is on account of funds on-lent by the NBFC/NBFC-AFC to the infrastructure sector.

Interest Rates on Advances:

Presently, the banks are required to follow the following guidelines for pricing their advances:

General guidelines:

i. There shall be a comprehensive policy on interest rates on advances duly approved by the Board of Directors or any committee of the Board to which powers have been delegated.

ii. All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR).

Marginal Cost of Funds Based Lending Rate (MCLR):

i. The MCLR will comprise of:

a. Marginal cost of funds;

b. Negative carry on account of CRR;

c. Operating costs;

d. Tenor premium.

ii. Accordingly, banks shall publish the internal benchmark for the following maturities:

a. overnight MCLR,

b. one-month MCLR,

c. three-month MCLR,

d. six month MCLR,

e. One year MCLR.

In addition to the above, banks have the option of publishing MCLR of any other longer maturity.

Delivery of Credit:

RBI has advised the banks to follow, as far as feasible, the loan system, for delivery of bank credit. RBI guidelines in this respect are as under:

(a) In the case of borrowers enjoying working capital credit limits of Rs. 10 crore and above from the banking system, the loan component should normally be 80 per cent.

Term loan:80% and cash credit :20%

(b) In the case of borrowers enjoying working capital credit limit of less than Rs. 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.

Framework for dealing with loan frauds:

objective of this framework is to direct the focus of banks on the aspects relating to prevention, early detection,

prompt reporting to the RBI and to the investigative agencies (for instituting criminal proceedings against the fraudulent borrowers) and

timely initiation of the staff accountability proceedings (for determining negligence, if any)

Early Warning Signals (EWS) and Red Flagged Accounts (RFA):

The concept of a Red Flagged Account (RFA) has been introduced in the framework as an important step in fraud risk control.

A RFA is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS).

These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent.

Fair Practices Code :

RBI has issued guidelines on fair practices code for lending.

These are to be compulsorily followed by all banks in India.

These guidelines pertain to:

(a) application for loans and their processing

(b) loan appraisal and terms/conditions

(c) disbursements of loans

(d) post disbursement supervision

(2) general guidelines relating to discrimination based on sex, caste and religion, harassment in recovery, transfer/takeover of accounts, etc.

Banking Codes and Standard Board of India (BCSBI):

The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises.

This is a voluntary Code.

This sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs).