

Draft Reserve Bank of India (Rural Co-operative Banks – Resolution of Stressed Assets) Directions, 2025

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Reserve Bank of India (Rural Co-operative Banks – Resolution of Stressed Assets) Directions, 2025

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Introduction

These directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets. These Directions also rationalise and harmonise the instructions on compromise settlements and technical write-offs across all regulated entities, in order to provide further impetus to resolution of stressed assets in the system.

Some of the regulated entities may also be involved in implementation of various forms of Debt Relief Schemes (DRS) announced by State Governments that inter alia entail sacrifice / waiver of debt obligations of a targeted segment of borrowers, against fiscal support. If such schemes are announced frequently, incommensurately, or without due consideration to the principles of financial discipline, they would negatively affect credit discipline and in the long run, may be counter-productive to the credit flow to such borrowers. Apart from the broader implications for the credit discipline and moral hazard issues, DRS also raises certain prudential concerns, which include delay in receipt of dues; mismatch between the claims admitted / submitted by the REs and accepted by the concerned Government as per the terms of the scheme; mandatory requirement of fresh credit by the REs, etc. These Directions also lay down certain broad principles regarding participation of regulated entities in DRS and specifies a model operating procedure, which has been shared with the State Governments for their consideration while designing and implementing such DRS to avoid any non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

Accordingly, in exercise of the powers conferred by the Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949, the Reserve Bank, being satisfied that it is necessary and expedient in public interest to do so, hereby, issues these Directions hereinafter specified.

Chapter I - Preliminary

1. Short title and commencement

(1) These directions shall be called the Reserve Bank of India (Rural Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.

(2) These directions shall come into force with immediate effect unless specified otherwise.

2. Applicability

(1) These Directions shall be applicable to Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as a 'RCB').

In this context, rural co-operative banks shall mean State Co-operative Banks and Central Co-operative Banks, as defined in the National Bank for Agriculture and Rural Development Act, 1981.

(2) A RCB shall follow the requirements of the State Co-operative Societies Acts and / or rules made thereunder, or other statutory enactments, if they are more stringent than those prescribed hereby.

3. Definitions

(1) In these Directions, the following definitions shall apply, unless the context otherwise requires:

(i) '*compromise settlement*' shall refer to any negotiated arrangement with the borrower to fully settle the claims of a RCB against the borrower in cash.

Explanation: Compromise settlement may entail some sacrifice of the amount due from the borrower on the part of the RCB with corresponding waiver of claims of the RCB against the borrower to that extent.

(ii) '*default*' shall mean non-payment of debt (as defined under the Insolvency and Bankruptcy Code, 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.

Provided that for revolving facilities like cash credit, default would also mean, without prejudice to the above, the outstanding balance remaining continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.

- (iii) '*technical write-off*' shall refer to cases where the non- performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by the Regulated Entity only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

- (2) All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

Chapter II - General Requirements

4. Board approved policies:

(1) A RCB shall put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs, which shall *inter alia* include the following:

- (i) comprehensive prescription of the process to be followed for all compromise settlements and technical write-offs, with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value etc.;
- (ii) graded framework for examination of staff accountability in such cases with reasonable thresholds and timelines as may be decided by the Board;
- (iii) provisions relating to permissible sacrifice for various categories of exposures while arriving at the settlement amount, after prudently reckoning the current realisable value of security/collateral, where available;
- (iv) methodology for arriving at the realisable value of the security in respect of compromise settlements.
- (v) delegation of powers for approval / sanction of compromise settlements and technical write-offs, subject to the following:
 - (a) delegation of power for such approvals rests with an authority (individual or committee, as the case may be) which is at least one level higher in hierarchy than the authority vested with power to sanction the credit / investment exposure.

Provided that any official who was part of sanctioning the loan (as individual or part of a committee) shall not be part of the approving the proposal for compromise settlement of the same loan account, in any capacity.

(b) proposals for compromise settlements in respect of borrowers classified as fraud or wilful defaulter, as permitted in terms of Paragraph 8, shall require approval of the Board in all cases.

5. Early identification and reporting of stress

(1) A RCB shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days		
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

(2) The instructions on classification of borrower accounts into SMA categories are applicable for all loans (including retail loans), other than agricultural advances governed by crop season-based asset classification norms, irrespective of size of exposure of the regulated entity.

(3) A RCB shall adhere to the relevant provisions on submission of financial information to information utilities of Insolvency and Bankruptcy Code, 2016 and Insolvency and Bankruptcy Board of India (Information Utilities) Regulations, 2017 and immediately put in place appropriate systems and procedures to ensure compliance to the provisions of the Code and Regulations.

6. Disclosures

A RCB shall make suitable disclosures in its financial statements in the ‘Notes to Accounts’, as specified in the Reserve Bank of India (Rural Co-operative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter III - Prudential Norms Applicable to Restructuring

7. Restructuring of accounts: General Instructions

- (1) An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for atleast one year of satisfactory performance under the renegotiated or rescheduled terms.
- (2) The classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.
- (3) Borrowers who have committed frauds/ malfeasance/ wilful default as well as any entity with which a wilful defaulter is associated shall remain ineligible for restructuring.

A wilful defaulter or any entity with which a wilful defaulter is associated shall be eligible for restructuring subsequent to removal of the name of wilful defaulter from the List of Wilful Defaulters, subject to penal measures applicable to borrowers classified as wilful defaulter in terms of the Reserve Bank of India (Rural Co-operative Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025.

Chapter IV - Special Cases of Restructuring

8. Compromise Settlements and Technical Write-offs

(1) The objective of compromise settlements shall be to maximise the possible recovery from a distressed borrower at minimum expense, in the best interest of the RCB.

(2) Compromise settlement is not available to borrowers as a matter of right; rather it is a discretion to be exercised by a RCB based on its commercial judgement.

(3) The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between a RCB and a borrower relating to future contingent realizations or recovery by the RCB, subject to such claims not being recognised in any manner on the balance sheet of the RCB at the time of the settlement or subsequently till actual realization of such receivables.

Provided that any such claims recognised on the balance sheet of the RCB shall render the arrangement to be treated as restructuring.

(4) Notwithstanding sub-paragraph (3), compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring.

(5) Any arrangement involving part settlement with the borrower shall also fall under the definition of restructuring, and shall be governed by the provisions applicable thereto.

(6) Technical write-off is an accounting procedure undertaken by a RCB to cleanse the balance sheets of bad debts which are either considered unrecoverable or whose recovery is likely to consume disproportionate resources of the lenders. However, such technical write-offs do not entail any waiver of claims against the borrower and thus the RCB's right to recovery shall not be undermined in any manner. The legal obligation of the borrowers as well as the costs of such defaults for them remain unchanged vis-à-vis the position prior to technical write-offs.

(7) In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure.

Provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

(8) There shall be a reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority.

Provided that compromise settlements and technical write-offs approved by the MD & CEO / Board Level Committee shall be reported to the Board.

(9) The Board shall mandate a suitable reporting format so as to ensure adequate coverage of the following aspects at the minimum:

- (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y);
- (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts;
- (iii) amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts;
- (iv) extent of recovery in technically written-off accounts.

(10) In respect of borrowers subject to compromise settlements, there shall be a cooling period as determined by the respective Board approved policies before the RCB can assume fresh exposures to such borrowers.

Provided that the cooling period in respect of exposures other than farm credit exposures shall be subject to a floor of 12 months with a RCB being free to stipulate higher cooling periods in terms of their Board approved policies.

Provided further that the cooling period for farm credit exposures shall be determined by a RCB as per their respective Board approved policies.

Explanation: Farm credit for the above purpose shall refer to credit extended to agricultural activities as listed in Paragraph xx of the Reserve Bank of India (Rural Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

(11) The cooling period to be adopted in respect of exposures subjected to technical write-offs shall be as per the Board approved policies of a RCB.

(12) A RCB may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such borrowers.

(13) The penal measures applicable to borrowers classified as fraud or wilful defaulter in terms of the Reserve Bank of India (Fraud Risk Management in UCBs / StCBs / CCBs) Directions, 2024 and the Reserve Bank of India (Rural Co-operative Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025, respectively, shall continue to be applicable in cases where a RCB enter into compromise settlement with such borrowers, and the cooling periods specified in sub-paragraph (10) and (11), in respect of such borrowers, shall be without prejudice to such penal measures.

FAQ 1: From a public policy perspective, what is the rationale for permitting a RCB to enter into compromise settlement with borrowers classified as fraud or wilful defaulter?

The primary regulatory objective is to enable multiple avenues to a RCB to recover the money in default without much delay. Apart from the time value loss, inordinate delays result in asset value deterioration which hampers ultimate recoveries. Compromise settlement is recognized as a valid resolution mechanism under these Directions. The imperatives for a RCB are no different when it comes to recovery from borrowers classified as fraud or wilful defaulter. Continuing such exposures on the balance sheets of a RCB without resolution due to legal proceedings would lock the

RCB's funds in an unproductive asset, which would not be a desirable position. As long as larger policy concerns are suitably addressed and the costs of malafide actions are made to be borne by the perpetrators, early recoveries by a RCB should be a preferred option, subject to safeguards. Further, continuation of criminal proceedings underway or to be initiated against the borrowers classified as fraud or wilful defaulter, would ensure that perpetrators of any malafide action do not go scot-free.

FAQ 2: *A RCB is not permitted to restructure borrower accounts classified as fraud or wilful defaulter. Why a different treatment is prescribed for compromise settlements for such borrowers?*

Restructuring in general entails a RCB having a continuing exposure to the borrower entity even after restructuring and hence, in case of borrowers classified as fraud or wilful defaulter, permitting the RCB to continue its credit relationship with the borrower entity would be fraught with moral hazard. On the other hand, a compromise settlement entails a complete detachment of the RCB with the borrower. Therefore, permitting a RCB to settle with the borrowers as per their commercial judgement would enhance recovery prospects.

(14) The compromise settlements with the borrowers under these Directions shall be without prejudice to the provisions of any other statute in force.

(15) The monetary ceiling of cases referred to the Lok Adalats organised by Civil Courts for compromise settlements shall be ₹20 lakh.

(16) In addition to the requirement under sub-paragraph (11), wherever a RCB had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

9. Resolution of Accounts Impacted by Natural Calamities

A RCB shall follow the guidelines given in Annex 1 regarding relief measures in areas affected by natural calamities.

Chapter V - Government Debt Relief Schemes (DRS)

10. Prudential treatment in respect of Government Debt Relief Schemes (DRS):

- (i) A RCB may decide on participating in a particular DRS notified by a Government, based on its Board approved policy, subject to the extant regulatory norms.
- (ii) Any provision of the scheme that may warrant modification in long term interest of the borrowers or for prudential reasons may be duly brought to the notice of the concerned authority/ies through the State Level Bankers' Committee / District level Consultative Committee, during the consultation phase while designing the DRS.
- (iii) A RCB shall clearly determine the eventual outstanding that may crystallise in their books in respect of the borrowers proposed to be covered under the DRS, including the accumulated interest in non-performing accounts, by the time the dues are settled under the DRS, to enable the Government to suitably arrange for the extent of fiscal participation.
- (iv) A RCB shall ensure that the borrowers to be covered under DRS are selected strictly as per terms of such schemes so as to avoid subsequent non-admission by the authorities on technical grounds.
- (v) The terms and conditions of the scheme as well as the prudential aspects, including cooling period for extending fresh credit, impact on credit score etc., shall be clearly communicated to the borrowers at the time of obtaining explicit consent from the borrower for availing benefits under a proposed DRS.
- (vi) Any waiver of accrued but unrealised interest and/ or sacrifice of principal undertaken by a RCB in the borrower accounts of beneficiaries of the DRS, either as part of the implementation of the scheme or subsequent to its implementation, shall be treated as a compromise settlement and shall attract the prudential treatment contained in Paragraph 8.
- (vii) If the funds received by a RCB as part of the DRS covers the entire outstanding dues of the borrower, including principal and interest accrued till the date of receipt

of funds by the RCB, the same shall lead to extinguishment of borrower's debt obligations.

(viii) In cases where the funds received by a RCB as part of the scheme are not adequate to cover the entire outstanding dues of the borrower, leading to residual exposure (principal and / or accrued interest), the asset classification of the residual exposure shall be evaluated as per the terms and conditions of the original loan contract.

Provided that any changes / modifications to the terms and conditions of the original loan contract in such cases shall be evaluated against the test of restructuring as defined in these Directions and shall attract the prudential treatment therein.

(ix) Any fresh credit exposure to such borrowers shall be as per the commercial discretion of the RCB under relevant internal policy, subject to extant applicable regulations.

(x) A RCB's reporting in respect of the borrowers under the scheme to the credit information companies shall be guided by the extant guidelines in this regard.

(xi) There shall not be creation of any receivable against the Government on account of the DRS and the exposure shall continue to be on the borrower till receipt of funds by the RCB.

(xii) Till receipt of funds, a RCB shall continue to apply the prudential norms including prudential norms on income recognition, asset classification and provisioning, and wherever the accounts are non-performing, the RCB may pursue recovery measures as per their Board approved policy against such borrowers.

(xiii) The instructions contained in Sl. Nos. (i) to (xii) shall apply in respect of DRS' notified on or after December 31, 2024 and shall be without prejudice to the instructions on resolution of stressed assets contained in these Directions.

(xiv) In the context of these instructions, a model operating procedure (MOP) has also been shared with the State Governments (Annex 2) for their consideration while designing and implementing such DRS through a consultative approach, to avoid any

non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

(xv) In respect of relief measures announced prior to December 31, 2024, any dues pending receipt from Government, for more than 90 days shall attract specific provision of 100%.

(xvi) A RCB shall take necessary action and actively follow up with the respective Governments for settlement of dues referred to in Sl. No. (xv).

Chapter VI - Repeal and Other Provisions

11. Repeal and saving

(1) With the issue of these Directions, the existing directions, instructions, and guidelines relating to Resolution of Stressed Assets as applicable to Rural Co-operative Banks stands repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.

(2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

12. Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

13. Interpretations

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

Annexures

Annex 1

Guidelines for Relief Measures by RCBs in Areas Affected by Natural Calamities

A. Background

1. Periodic but frequent occurrence of natural calamity takes a heavy toll on human life and cause wide spread damage to economic pursuits in one or the other part of the country. The devastation caused by natural calamities calls for massive rehabilitation effort from all agencies. The Central, State and local authorities draw up programmes on economic rehabilitation for the people affected by natural calamities. The developmental role assigned to the Cooperative Banks warrant their active support in reviving the economic activities of those affected by the occurrence of a natural calamity.
2. In terms of the National Disaster Management Framework, there are two funds constituted viz. National Disaster Response Fund (NDRF) and State Disaster Response Fund (SDRF) for providing relief in the affected areas. The NDRF framework currently recognizes twelve types of natural calamities viz. cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave / frost. The Ministry of Agriculture is the nodal point for four of the calamities i.e. drought, hailstorms, pest attack and cold wave / frost and for the remaining eight, the Ministry of Home Affairs is the nodal ministry to make the necessary administrative arrangements. A slew of measures for relief are undertaken by the Sovereign (Central / State Government) from time to time to provide relief to the affected people including, inter alia, provision for input subsidies and financial assistance to farmers including small and marginal farmers.
3. The State Cooperative Banks (StCB) / District Central Cooperative Banks (DCCBs) as members of the State Level Bankers Committee (SLBC) / District Consultative Committee (DCC) play a key role in providing relief measures through rescheduling existing loans and sanctioning fresh loans as per the emerging requirement of the borrowers. To enable A RCB to take uniform and concerted action expeditiously, these guidelines are issued covering four aspects viz. Institutional Framework, Restructuring of Existing Loans, Providing Fresh Loans and Other Ancillary Relief Measures.

B. Institutional Framework

4. Establishing Policy / Procedures for dealing with Natural Calamities

The area, time of occurrence and intensity of the natural calamity cannot be anticipated. It is, therefore, imperative that A RCB has a blueprint of action duly approved by the Board of Directors for such eventualities so that the required relief and assistance are provided with utmost speed and without any loss of time. Further, all branches of the RCBs and PACS shall be familiar with these standing instructions. The standing instructions shall immediately come to force after the district / State authorities put in place the requisite declaration. It is essential that these instructions shall also be made available to the State Government authorities and all the District Collectors so that all concerned are aware about the action that shall be taken by the concerned authorities in the affected area.

5. Discretionary Powers to DCCBs

The DCCBs may be vested with certain discretionary powers to avoid the need to seek fresh approval from Registrar of Cooperative Societies / StCBs regarding the line of action decided by the District Consultative Committee / State Level Bankers' Committee. Some of the areas, among others where such discretionary powers are vital may be the adoption of scale of finance, need based restructuring of loans, extension of loan period, margin, security, sanction of new loan keeping in view the total liability of the borrower arising out of the old loan where the asset financed was damaged or lost as a result of the natural calamity and the new loan financed for creation / repair of such asset(s).

6. Meeting of State Level Bankers' Committee (SLBC) / District Consultative Committee (DCC)

(i) In the event of occurrence of a natural calamity which covers a larger part of a State, the State Level Bankers' Committee convener bank shall convene a special SLBC meeting immediately. The committee, in collaboration with the State Government authorities shall evolve a coordinated action plan for implementing the relief programme. If the calamity has affected only a small part of the state / a few districts, the convener of the District Consultative Committee of the affected district(s) shall convene a meeting immediately. In the special SLBC / DCC meeting, the position of the affected areas may

be assessed so as to ensure speedy formulation and implementation of suitable relief measures.

(ii) In the areas where the calamity is severe, the relief measure(s) implemented shall be reviewed periodically through a specially constituted Task Force / Sub- Committee byway of weekly / fortnightly meetings as decided by the SLBC / DCC.

7. Scope

The guidelines shall be applicable to farmers / loanees who have been affected by a natural calamity as declared by the State Govt. / Authorities and are willing to avail the benefits under the guidelines.

8. Declaration of Natural Calamity

(i) It is recognised that declaration of a natural calamity is in the domain of the Central / State Government. The inputs received from the State Governments revealed that there is no uniform procedure being followed for declaration of a natural calamity and issue of declarations / certificates. These declarations / certificates are called by different names such as Annewari, Paisewari, Girdawari, etc. in different States. Nevertheless, the common thread to extend relief measure towards agricultural loans including rescheduling of loans by A RCB, is that the crop loss assessed should be 33% or more. For assessing this loss, while some States are conducting crop cutting experiments to determine the loss in crop yield, some others are relying on the eye estimates / visual impressions.

(ii) In case of extreme situations such as wide-spread floods, when it is largely evident that most of the standing crops have been damaged and / or land and other assets have suffered a wide-spread damage, the matter shall be deliberated by State Government / District Authorities in a specially convened SLBC / DCC meeting where the concerned Government functionary / District Collector shall explain the reasons for not estimating 'Annewari' (percentage of crop loss - by whatever name called) through crop cutting experiments and that the decision to provide relief for the affected populace needs to be taken based on the eye estimate / visual impressions.

(iii) In both the cases, however, SLBC / DCC shall satisfy themselves fully that the crop loss has been 33% or more before acting on these pronouncements.

C. Restructuring of Existing Loans

In the event of a natural calamity, the repaying capacity of the people gets severely affected due to the disruption of their economic activities and loss of economic assets. Therefore, relief in loan repayment by restructuring the existing loan may become necessary.

9. Agriculture Loans : Short-term Production Credit (Crop Loans)

(i) All short-term loans, except those which are overdue at the time of occurrence of natural calamity, shall be eligible for restructuring. The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of the natural calamity maybe converted into term loan.

(ii) The repayment period of the restructured loan may vary depending on the severity of the calamity, the impact on loss of economic assets and distress it caused. A maximum repayment period of up to two years (including the moratorium period of one year) shall be allowed if the loss is between 33% and 50%. If the crop loss is 50% or more, repayment period may be extended upto a maximum of five years (including the one year moratorium period).

(iii) In all restructured loan accounts, moratorium period of at least one year shall be considered. A RCB may not insist on additional collateral security for such restructured loans.

10. Agriculture Loans : Long term (Investment) Credit

The existing term loan instalments shall be rescheduled keeping in view the repaying capacity of the borrower and the nature of natural calamity viz.

(i) In a natural calamity where only crop for that year is damaged and productive assets are not damaged, A RCB shall reschedule the payment of instalment during the year of natural calamity and extend the loan period by one year. Under this arrangement the

instalments defaulted wilfully in earlier years will not be eligible for rescheduling. The RCB may also have to postpone payment of interest by borrowers.

(ii) In a natural calamity where the productive assets are partially or totally damaged and borrowers are in need of a new loan, the rescheduling by way of extension of loan period shall be determined on the basis of overall repaying capacity of the borrower vis-a-vis total liability (old term loan, restructured crop loan, if any and the fresh crop / term loan being given) less the subsidies received from the Government agencies, compensation available under the insurance schemes etc. While the total repayment period for the restructured / fresh term loan may differ on base-to-case basis, generally it shall not exceed a period of 5 years.

11. Other Loans

(i) Depending on the severity of the calamity, SLBC / DCC shall take a view as to whether a general rescheduling of all other loans (i.e. besides the agriculture loans) such as loans granted for allied activities, loans to rural artisans, traders, micro / small industrial units or in case of extreme situations, medium enterprises are required. If such a decision is taken, while recovery of all the loans be postponed by the specified period, A RCB may assess the requirement of the individual borrowers in each case and depending on the nature of his / her account, repayment capacity and the need for fresh loans, appropriate decisions shall be taken by the individual RCB

(ii) The primary consideration for extending credit to any unit for its rehabilitation shall be based on the viability of the venture as assessed by the RCB.

12. Asset Classification

The asset classification status of the restructured loans shall be as under :

(i) The restructured portion of the short term as well as long-term loans may be treated as current dues and need not be classified as NPA. The asset classification of these term loans would thereafter be governed by the revised terms and conditions. Nevertheless, A RCB is required to make higher provisions for such restructured standard advances as

prescribed from time to time. Further, interest income from such restructured accounts classified as 'standard assets' will be recognized as per the norms prescribed.

- (ii) The asset classification for the remaining dues, which does not form a part of the restructured portion, will continue to be governed by the original terms and conditions of its sanction. Consequently, the dues from the borrower shall be classified by the lending RCB under different asset classification categories viz. standard, sub-standard, doubtful and loss.
- (iii) Additional finance, if any, shall be treated as 'standard asset' and its future asset classification will be governed by the terms and conditions of its sanction.
- (iv) With the objective to ensure that A RCB is proactive in extending relief to the affected persons, the benefit of asset classification of the restructured accounts as on the date of natural calamity will be available only if the restructuring is completed within a period of three months from the date of natural calamity. In the event of extreme calamity, when the SLBC / DCC is of the view that this period will not be sufficient for the branches to reschedule all the affected loans, it shall approach NABARD giving the reasons for seeking extension. These requests will be considered on the basis of merit of each case.
- (v) The accounts that are restructured for the second time or more on account of recurrence of natural calamities shall retain the same asset classification category on restructuring. Accordingly, for a restructured standard asset, the subsequent restructuring necessitated on account of natural calamity shall not be treated as second restructuring, i.e., the standard asset classification shall be maintained. However, all other restructuring norms shall apply.

13. Utilization of Insurance Proceeds

- (i) While the above measures relating to rescheduling of loans are intended to provide relief to the farmers, the insurance proceeds should, ideally, compensate the losses. In terms of orders issued by the Ministry of Agriculture, Department of Agriculture, Cooperation and Farmers Welfare, the Pradhan Mantri Fasal Bima Yojana (PMFBY) has replaced the existing schemes of National Agricultural Insurance Scheme (NAIS) & Modified National Agricultural Insurance Scheme (MNAIS) with effect from Kharif 2016.

Under the Prime Minister Fasal Bima Yojana (PMFBY), all Seasonal Agricultural Operations (SAO) loans for notified crops in notified areas are to be compulsorily provided insurance cover for all stages of the crop cycle including post-harvest risks in specified instances (Operational Guidelines - PMFBY issued by Ministry of Agriculture & Farmers' Welfare). Farmers' details are required to be entered by A RCB in the unified portal for crop insurance which is available at <http://www.agriinsurance.gov.in/> in order to facilitate assessment of coverage of crops insured, premiums deducted, etc.

(ii) While restructuring the loans in areas affected by a natural calamity, A RCB shall also take into account the insurance proceeds, if any, receivable from the Insurance Company. The insurance proceeds shall be adjusted to the 'restructured accounts' in cases where fresh loan has been granted to the borrower. However, The RCB shall act with empathy and consider restructuring and granting fresh loans without waiting for the receipt of insurance claim in cases where there is reasonable certainty of receiving the claim.

D. Providing Fresh Loans

14. Sanctioning of Fresh Loans

(i) Once the decision to reschedule loans is taken by SLBC / DCC, pending conversion of short-term loans, A RCB shall grant fresh crop loan to the affected farmers based on the scale of finance of the crop and the cultivation area as per the extant guidelines.

(ii) The bank assistance in agriculture and allied activities (poultry, fishery, animal husbandry, etc.) may also be needed for long term loans for a variety of purposes such as repair of existing economic asset(s) and / or acquisition of new asset(s). Similarly, rural artisans, self-employed persons, micro and small industrial units, etc. in the areas affected by a natural calamity may require fresh credit to sustain their livelihood. A RCB shall assess the need and decide on the quantum of loans to be granted to the affected borrowers taking into consideration, amongst others, the credit requirement and the due procedure for sanctioning fresh loans.

(iii) A RCB shall also grant consumption loan up to ₹10,000/- to existing borrowers without any collateral. The limit may, however, be enhanced beyond ₹10,000/- at the RCB's discretion.

15. Terms and Conditions

Guarantee, Security and Margin

- (i) Credit shall not be denied for want of a personal guarantee alone. Where the RCB'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 shall 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, An RCB shall take a sympathetic view.
- (ii) Where the crop loan (which has been converted into term loan) was earlier sanctioned against personal security / hypothecation of crop and the borrower is not able to offer charge / mortgage of land as security for the converted loan, she / he shall not be denied conversion facility merely on the ground of his / her inability to furnish land as security. If the borrower has already availed a term loan against mortgage / charge on land, the RCB shall be content with a second charge for the converted term loan. A RCB shall not insist on third party guarantee for providing conversion facility.
- (iii) Where land is taken as security, in the absence of original title record, a certificate issued by the Revenue Department officials shall be accepted for financing to farmers who have lost proof of their title such as title deed or registration certificate issued to registered share-croppers. In the areas covered by the Sixth Schedule of the Constitution, whereby the land is owned by the community, certificate issued by community authorities maybe accepted.
- (iv) Margin requirements may be waived or the grant / subsidy given by the concerned State Government shall be considered as margin.

16. Rate of Interest

- (i) The rate of interest shall be in accordance with the extant Directions in the matter. Within the areas of their discretion, however, a RCB shall take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people. In respect of default in current dues, no penal interest shall be charged. The RCB

shall also suitably defer the compounding of interest charges. A RCB shall not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted / rescheduled. Depending on the nature and severity of the natural calamity, the SLBC / DCC shall take a view on the interest rate concession that could be extended to borrowers so that there is uniformity in approach among RCBs in providing relief.

(ii) As notified by the Government of India from time to time (subject to inclusion in the IS Scheme on short term crop loans), to provide relief to farmers availing short term crop loans and affected by a natural calamity, an interest subvention of 2 percent per annum will be made available to a RCB for the first year on the restructured loan amount. Such restructured loans shall attract normal rates of interest from the second year onwards.

E. Other Ancillary Measures

17. Relaxation on Know Your Customer (KYC) Norms

It needs to be recognized that many persons displaced or adversely affected by a major calamity may not have access to their identification and personal records. In such cases a basic saving bank deposit account on the basis of photograph along with signature or thumb impression rendered in front of the bank official shall be opened. The above instruction shall 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.

18. Providing access to Banking Service

(i) A RCB may operate its natural calamity affected branches from temporary premises under advice to the concerned Regional Office of RBI / NABARD. For continuing the temporary premise beyond 30 days, the RCB may obtain specific approval from the appropriate authorities. The RCB may also make arrangements to render banking services in the affected areas by setting up satellite offices, extension counters or mobile banking facilities etc. under intimation to RBI / NABARD.

(ii) To meet the immediate cash requirements of the affected people, due importance may be given towards restoring the ATMs or other alternate arrangements shall be provided to avail such facilities.

(iii) Other measures that a RCB may initiate at their discretion to alleviate the condition of the affected people could be waiving ATM fees, increasing ATM withdrawal limits; waiving of fees towards overdraft / early withdrawal penalty on time deposits / late fee for credit card / other loan instalment payments etc. and giving option to credit card holders to convert their outstanding balance to EMIs repayable in 1-2 years. Besides, all charges debited to the farm loan account other than the regular interest may be waived considering the hardship caused to the affected people.

F. Riots and Disturbances : Applicability of the Guidelines

19. Whenever RBI / NABARD advises the RCB to extend rehabilitation assistance to the riot / disturbance affected persons, the aforesaid guidelines shall broadly be followed by the RCB for the purpose. It shall, however, be ensured that only genuine persons, duly identified by the State Administration as having been affected by the riots / disturbances, are provided assistance as per the guidelines. In the event of large scale riots where most part of the State / Area is affected and the State Administration is not in a position to identify the riot / disturbance affected persons and subject to SLBC's specific decision, the onus of identifying 'genuine persons' will rest with the RCB.

20. The issuance of advice to a RCB by RBI / NABARD on receipt of request / information from State Government and thereafter issue of instructions by the RCB to their branches generally results in delay in extending the assistance to riot-affected people. With a view to ensure quick relief to the affected people, it has been decided that the District Collector, on occurrence of the riot / disturbance, 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 life and property in the area affected by riot / disturbance. If the DCC is satisfied that there has been extensive loss to life and property on account of the riot / disturbance, the relief as per the above guidelines shall be extended to the people affected by the riot / disturbance. Incases where there are no District Consultative Committees, the District Collector may request the convener of the State Level Bankers' Committee of the State

to convene a meeting of recorded and shall form a part of the minutes of the meeting. A copy of the proceedings of the meeting shall be forwarded to the concerned Regional Office of Reserve Bank of India and NABARD.

Annex 2

Model Operating Procedure (Government Debt Relief Schemes)

Coverage and Meaning

1. For the purpose of the Model Operating Procedure (MOP), Debt Relief Schemes (DRS) refer to Schemes notified by the State Governments that entail funding by the fiscal authorities to cover debt obligations of a targeted segment of borrowers that the regulated entities are required to sacrifice / waive.
2. Announcement / notification of any such DRS should include the specific stress or distress situation necessitating announcement of such support. Given the broader implications of such DRS for the credit culture, while broad based relief measures can be addressed through pure fiscal support in the form of Direct Benefit Transfer (DBT), DRS should be considered only as a measure of last resort when other measures to alleviate financial stress have failed.

Pre-Notification Consultation

3. Before announcing any DRS, Governments may engage with the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC) to evolve a coordinated action plan for conceptualisation, design, and implementation of the DRS. The schemes should, cover critical aspects of the scheme like identification of borrowers, impact assessment, implementation timelines, resolution of issues concerning settlement of dues by Government to the lending institutions, etc.

4. The design features should ensure that the DRS do not impact the financial stability aspects of the region / State or create moral hazards in the borrower segments. Conformance to relevant regulatory guidelines on loan settlement, reporting to credit information companies etc. should also be taken into account.

Funding of Scheme

5. Detailed budgetary provisions / funding may be provided upfront towards any proposed DRS to fully cover the required settlement amounts. Where regulated entities have dues from the Government, pertaining to earlier DRS schemes, new schemes should be announced only on a fully pre-funded basis.

Design of Scheme

6. The DRS should be targeted only at the impacted borrowers and should not contain any restrictive covenant against timely repayments. Further, it should specify the criteria for determining eligible borrowers on an objective basis, detailed timeline of critical / material events, including cut-off dates for filing/ submission, acknowledgement, approval and settlement of claims along with compensation clauses for delays in settling the funds, on part of the Government.

7. The DRS should cover the entire outstanding dues of the borrowers being covered, including principal and accumulated interest till the date of receipt of funds by the regulated entities from the Government.

8. The DRS should not require the creation of a receivable in the books of the regulated entity against the Government. The exposure of regulated entities to the borrower shall continue and shall be reduced to the extent of funds received from the Government.

9. The entire implementation of the Scheme and settlement of claims by the Governments to the regulated entities, should generally be completed within 45 to 60 days.

10. The DRS should not contain any provision contrary to any regulatory instruction issued by RBI / NABARD.

11. The design of the DRS should not contain any provision that casts any obligations on the regulated entities, directly or indirectly, to:

- a. waive/ sacrifice a part or whole of its dues from the borrower;
- b. extend fresh credit to borrowers whose debt has been waived;
- c. make any commitments in anticipation of future budgetary support;
- d. stop pursuing legal avenues available to them, for recovery of dues from the borrower, pending receipt of funds from the Government.

However, if the regulated entities agree to any of the above at the time of design of DRS or subsequently, as per their Board-approved policies, it shall be subject to the applicable prudential guidelines.