

Draft Reserve Bank of India (Urban Co-operative Banks - Concentration Risk Management) Directions, 2025

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Reserve Bank of India (Urban Co-operative Banks - Concentration Risk Management) Directions, 2025

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Introduction

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

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks: Concentration Risk Management) Directions, 2025.
2. These Directions shall become effective from the date of issue.

B. Applicability

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

In this context, urban co-operative banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them in the ensuing paragraphs.
5. “**Credit Exposure**” shall include funded and non-funded credit limits and underwriting and similar commitments; facilities extended by way of equipment leasing and hire purchase financing; and ad hoc limits sanctioned to the borrowers to meet the contingencies.
 - (1) The sanctioned limit or outstanding whichever is higher shall be reckoned for arriving at credit exposure limit. Further, in case of fully drawn term loans, where there is no scope of re-drawal of any portion of the sanctioned limit, a UCB may reckon the outstanding for arriving at credit exposure limit.
 - (2) In respect of non-funded credit limit, 100 percent of such limit or outstanding, whichever is higher, need be taken into account for the purpose.

- (3) The level of an individual UCB's share in Consortium / Multiple Banking / Syndication shall be governed by single borrower / group exposure.
- (4) Credit exposure shall not include loans and advances granted against the security of a UCB's own term deposits.
6. **"Investment Exposure (Non-SLR securities)"** shall be the same as prescribed by provisions contained at *Reserve Bank of India (Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025*.
7. **"Exposure"** shall include both credit exposure (Loans and Advances) and investment exposure (Non-SLR securities) as indicated in paragraphs 5 and 6.
8. **"Group":**
- (1) The decision in regard to definition of a group is left to the perception of a UCB, which is generally aware of the basic constitution of its clientele. The group to which a particular borrowing unit belongs may, therefore, be decided by the UCB on the basis of relevant information available with it, the guiding principle in this regard being commonality of management and effective control.
- (2) The different firms with one or more common partners engaged in the same line of business, viz., manufacturing, processing, trading activity, etc. shall be deemed to be connected group and units coming under common ownership shall be deemed to be a single party.
9. **"Tier-I Capital"** as on March 31 of the preceding financial year shall be reckoned for the purpose of fixing the exposure limits. Tier-I capital for the purpose shall be the same as that prescribed in *Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Capital Adequacy) Directions, 2025*.
10. **"Unsecured advances"** shall include clean overdrafts, loans against personal security, clean bills or Multani hundies purchased or discounted, cheques purchased and drawals allowed against cheques sent for collection but shall exclude:
- (1) advances backed by guarantee of the central or state governments, public sector financial institutions, banks and Deposit Insurance & Credit Guarantee Corporation;
- (2) advances against supply bills drawn on the central or state governments or state owned undertakings which are accompanied by duly authorised inspection notes or receipted challans;

- (3) advances against trust receipts;
- (4) advances against inland Document against Acceptance (D/A) bills drawn under letters of credit;
- (5) advances against inland D/A bills (even where such bills are not drawn under letters of credit) having a usance of not exceeding 90 days;
- (6) advances granted to salaried employees against personal security,

provided that the Co-operative Societies Act of the State concerned contains an obligatory provision for deduction of periodical loan instalments by the employer out of the employee's salary / wages to meet the UCB's claims, and

provided further that the UCB has taken advantages of this provision in respect of each of such advances (please refer to paragraphs 30 and 31);
- (7) advances against supply bills drawn on private parties of repute and receipted challans of public limited companies and concerns of repute and not outstanding for more than 90 days;
- (8) advances against book debts which are not outstanding for more than 90 days;
- (9) cheques issued by governments, public corporation and local self-governing institutions;
- (10) advances in the form of packing credit for exports;
- (11) demand drafts purchased;
- (12) the secured portion of partly secured advances; and
- (13) advances against legal assignment of contract moneys due, or to become due.

Note: All bills of exchange not accompanied by the official receipts of the Indian Railways or Indian Airlines Corporation or Road and Water Transport Operators shall be deemed to be clean bills.

Chapter II - Exposure Norms

11. As a prudential measure aimed at better risk management and avoidance of concentration of credit risk, UCBs have been advised to fix limits on their exposure:

- (1) to individual borrowers and group borrowers;
- (2) to specific sectors; and
- (3) towards unsecured advances.

A. Role of the Board

12. A UCB shall put in place a comprehensive Board approved policy, which shall, inter-alia, include the following provisions, with the details outlined in the ensuing paragraphs.

- (1) Fixing of exposure ceiling in relation to the UCB's Tier-I capital.
- (2) Comprehensive prudential norms for ceiling on the total amount of real estate loans.
- (3) The Periodic review of the small value loan portfolio behaviour and quality under different loan-size categories, shall be placed before the Board.

B. Exposure Ceiling to Individual / Group Borrowers

13. The UCB shall fix, with the approval of its Board of Directors, exposure ceiling in relation to its Tier-I capital. The exposure for the purpose shall comprise both credit exposure (loans and advances) and investment exposure (Non-SLR securities) as detailed at paragraphs 5 and 6 respectively, so that -

- (1) the exposure to an individual borrower does not exceed 15 percent of Tier-I capital; and
- (2) the exposure to a group of connected borrowers / parties does not exceed 25 percent of Tier-I capital.

Note: A UCB's contribution towards eligible funds with NABARD, NHB, SIDBI, MUDRA Ltd., or any other entity specified by RBI, on account of shortfall in priority sector lending (PSL) targets shall not be included while computing the aggregate exposure of a UCB to individual / group borrowers for deciding the above prudential exposure limits. PSL-related instructions are contained in [Master Direction FIDD.CO.PSD.BC.13/04.09.001/2024-25 dated March 24, 2025](#) on 'Priority Sector Lending (PSL) – Targets and Classification', as amended from time to time.

14. The exposure limits prescribed in paragraph 13 apply to all types of fresh exposures taken by a UCB after March 13, 2020, and the UCB was required to bring down its

exposures which were in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. However, where the existing exposure comprises only term loans and non-fund-based facilities, while no further exposure shall be taken on such borrowers, these facilities may be allowed to continue as per their respective repayment schedule / till maturity.

15. Whether borrowers / parties belong to a 'group of connected borrowers / parties' shall be determined based on the instructions contained at paragraph 8 above.

C. Computation of exposure ceiling for individual / group borrowers

16. The exercise of computing the exposure ceilings shall be conducted every year after the finalisation and audit of balance sheet of the UCB and the exposure ceilings may be advised to the loan sanctioning authorities and the investment department in the UCB. In view of the linking of shareholding to lending, accretion to or reduction in the share capital after the balance sheet date, shall be taken into account for determining exposure ceiling at half-yearly intervals, with the approval of its Board. Accordingly, a UCB may, if it so desires, fix a fresh exposure limit taking into account the amount of share capital available as on September 30. However, accretion to capital funds other than to share capital, such as half-yearly profit etc., shall not be eligible for reckoning the exposure ceiling. The UCB shall not take exposures in excess of ceiling prescribed in anticipation of infusion of capital on a future date.

D. Small value loans

17. The UCB shall have at least 50 percent of its aggregate loans and advances comprising of Small Value Loans, i.e., loans of value not more than ₹25 lakh or 0.4 percent of its Tier-I capital, whichever is higher, subject to a ceiling of ₹3 crore per borrower. The Board of the UCB, however, shall periodically review the portfolio behaviour and quality under different loan-size categories and where necessary, may consider fixing lower ceilings. Tier-I capital for this purpose shall be reckoned in the manner provided in paragraph 9 above. Notwithstanding the above, the UCB shall adhere to the exposure limits stipulated at paragraph 13 above. 'Loans' for the purpose shall include all types of funded and non-funded exposures in the nature of credit. The UCB which does not, at present, comply with the prescribed threshold shall be in conformity with the above requirements as per following glide path:

| Target Date → | March 31, 2025 | March 31, 2026 |
|---|-------------------|-------------------|
| Minimum percentage of Small Value Loans in aggregate loans and advances → | 40 percent | 50 percent |

D.1 Real Estate Exposure Norms

18. The UCB shall frame, with the approval of its Board of Directors, comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, keeping in view the RBI guidelines to ensure that the UCB credit is used for construction activity and not for activity connected with speculation in real estate subject to the instructions in following paragraphs.

D.1.1 Aggregate Housing / Real estate Limits

19. Aggregate exposure of a UCB to residential mortgages (housing loans to individuals), other than those eligible to be classified as priority sector, shall not exceed 25 percent of its total loans and advances.

20. Aggregate exposure of a UCB to real estate sector, excluding housing loans to individuals, shall not exceed five percent of its total loans and advances.

21. Working capital loans given by a UCB against hypothecation of construction materials provided to the contractors who undertake comparatively small construction on their own without receiving advance payments is exempted from the prescribed limit.

22. A UCB is not permitted to exceed the limit prescribed for grant of housing, real estate, commercial real estate loans to the extent of funds obtained from higher financing agencies and refinance from National Housing Bank.

E. Inter-bank Exposure Limit

E.1 Prudential Inter-bank (Gross) Exposure Limit

23. The UCB shall be guided by provisions contained in *Reserve Bank of India (Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025*, as amended from time to time.

E.2 Prudential Inter-bank Counterparty Limit

24. A UCB shall be guided by provisions contained in *Reserve Bank of India (Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025*, as amended from time to time.

F. Ceiling on Unsecured Advances (with Surety or without Surety)

F.1 Limits on unsecured advances

25. The limits for individual borrower and group borrower on unsecured advances (with or without surety) shall be governed by *Reserve Bank of India (Urban Co-operative Banks – Credit Facilities) Directions, 2025*.

G. Aggregate Ceiling on Unsecured Advance

26. The total unsecured loans and advances (with surety or without surety or for cheque purchase) granted by a UCB to its members should not exceed 10 percent of its total assets as per the audited balance-sheet as on March 31 of the preceding financial year.

27. A UCB shall not finance a borrower, who is already enjoying credit facilities with another bank, without obtaining a 'NOC' from such financing bank and where the aggregate of the credit facilities enjoyed by the borrower exceeds the ceiling stipulated in the directive for a single party, the prior approval of RBI shall be obtained.

28. In order to provide further impetus to UCBs engaged in financial inclusion, it has been decided that for a UCB whose priority sector loan portfolio is not less than 90 percent of the gross loans may, with the prior approval of the RBI, grant unsecured advances to the extent of 35 percent of its total assets as per the audited balance sheet at the end of the preceding financial year, subject to the following conditions:

- (1) The entire unsecured loan portfolio in excess of the normally permitted 10 percent, shall comprise of priority sector loans and the exposure to any individual borrower shall not exceed ₹40,000.
- (2) CRAR of not less than 9 percent as per the latest Inspection Report and audited financial statements.
- (3) Gross NPAs of not more than 7 percent as per the latest Inspection Report and audited financial statements.

29. In respect of the UCB whose priority sector lending portfolio is less than 90 percent, unsecured loans up to ₹10,000 sanctioned by the UCB shall be exempt from the aggregate

ceiling on unsecured exposure of 10 percent of total assets as per audited balance sheet as on March 31 of the previous financial year, subject to following conditions:

- (1) The individual amount sanctioned should not exceed ₹10,000.
- (2) The loan should be for productive purpose and the UCB should ensure end use of funds lent.
- (3) The UCB should have CRAR of at least nine percent.
- (4) The Gross NPAs of the UCB should not be more than seven percent.
- (5) The unsecured loans so extended by the UCB shall not exceed 15 percent of its total assets. Financial parameters detailed above shall be as per the latest Inspection Report and audited financial statements.

30. In view of the fact that salary earners' UCB grants advances to salaried employees of a particular institution / group of institutions to which its membership is restricted and deductions are made from the salaries through their employers, the salary earners' UCB may allow such advances in excess of the limits, ranging from ₹0.25 lakh to ₹5 lakh, subject to the following conditions:

- (1) The Co-operative Societies Act of the State concerned contains an obligatory provision for deduction of periodical loan instalments by the employer out of employee's salaries / wages to meet bank's claims.
- (2) The UCB has taken advantage of this provision in respect of each of such advance.
- (3) A general limit for such advances is fixed by the UCB in terms of certain multiples of the pay packet taking into account the monthly income of the employees.

31. The advances granted by a UCB, other than salary earners' societies, to all salaried borrowers wherein repayment is sought to be ensured through deduction from borrower's salaries as per the provisions of the State Co-operative Societies Act, should be reckoned as secured only for the purpose of computation of total unsecured advances to the members as a whole. While granting advances to the individual salaried borrowers, the UCB should ensure that these advances do not exceed the maximum limit on unsecured advances as indicated in *Reserve Bank of India (Urban Co-operative Banks – Credit Facilities) Directions, 2025*.

Chapter III - Repeal and other provisions

A. Repeal and saving

32. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Concentration Risk Management as applicable to Urban Co-operative Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

33. 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.

B. Application of other laws not barred

34. 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.

C. Interpretations

35. 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 RBI 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 RBI shall be final and binding.