

**Draft Reserve Bank of India (Rural Co-operative Banks – Credit Risk Management)
Directions, 2025**

DRAFT FOR COMMENTS

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Introduction

Rural Co-operative Banks (RCBs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of RCBs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of RCBs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

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

Chapter-I - Preliminary

A. Short title and Commencement

1. These directions shall be called the Reserve Bank of India (Rural Co-operative Banks – Credit Risk Management) Directions, 2025.
2. These directions shall come into force with immediate effect.

B. Applicability

3. 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.

C. Definitions

4. All 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 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank or as used in commercial parlance, as the case may be.

Chapter-II- Credit Risk Evaluation

5. The banks shall strictly follow the credit risk management guidelines contained in 'Guidance Note on Credit Risk Management', as issued from time to time.

Chapter-III - Statutory Restrictions

6. Consequent upon amendment of Banking Regulation Act, 1949 by the Banking Regulation (Amendment) Act, 2020, section 20 of the principal Act has become applicable to RCBs with effect from April 1, 2021.

7. **Advances against Bank's Own Shares**

In terms of Section 20(1)(a) of the Banking Regulation Act, 1949, an RCB cannot grant loans and advances on the security of its own shares.

8. **Advances to Banks' Directors**

In terms of Section 20(1)(b) of the Banking Regulation Act, 1949, an RCB shall not enter into any commitment for granting any loan or advance to or on behalf of –

(i) any of its directors,

(ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or

(iii) any company not being a subsidiary of the co-operative bank or a company registered under Section 25 of the Companies Act, 1956, or a Government company of which or the subsidiary or the holding company of which any of the directors of the co-operative bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

(iv) any individual in respect of whom any of its directors is a partner or guarantor.

9. Restrictions on Power to Remit Debts

1) Section 20A(1) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) stipulates that an RCB shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

- i) any of its past or present directors, or
- ii) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- iii) any individual, if any of its directors is his partner or guarantor.

10. In terms of Section 20A(2) of the said Act, any remission made in contravention of the provisions of sub-section (1) above shall be void and of no effect.

Chapter-IV- Regulatory Restrictions

A. Financing Units with Negative network / other irregularities

11. State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) shall insist on drawing and implementation of a time-bound realistic plan for bringing back such units to normalcy / viability in operations, monitor such plans closely, and pending such revival, any fresh finance shall be subject to closer scrutiny and case by case review/approval by the Board / Competent Authority. Further, any credit facility to such units shall be subject to obtention of Government Default Guarantee for non-credit cooperative societies/Government owned units, and against adequate collateral security for the units outside the co-operative fold.

B. State Government Default Guarantee

12. In respect of sugar mill having negative net worth, the condition of State Government's irrevocable default guarantee in favour of the financing bank would have to be adhered to strictly, since negative net worth is a sign of weak financial position of the sugar mills and denotes complete erosion of owned funds of such units. As a result, these sugar mills are not in a position to provide requisite margin on pledge/hypothecation limits. In order to safeguard the interest of the financing bank, collateral security in the form of State Government guarantee is considered essential, besides the primary security in the form of sugar stock. This would also signify intention of continuing involvement of the State Government in the well being of such units.

C. Credit Dispensation to Certain Activities

13. Considering their resource pattern, priorities and the expertise available, StCBs and DCCBs shall not grant credit facilities for certain activities/institutions, such as real estate, housing (except to the extent permitted by Reserve Bank), infrastructure, power schemes/projects especially where state government's budgetary support is available, and NBFCs.

14. RCB's shall not extend any financial assistance (including working capital funds) to NBFCs

D. Review of large advances by Board

15. An RCB shall continue to review the quality of their lending to non-credit cooperative societies / units outside the cooperative fold and individuals, on a quarterly basis and submit a Memorandum thereon to their Board. Such a review may cover, inter alia, details of sectoral / sub-sectoral credit limits / loans sanctioned, comments on operations on the major accounts on adequacy of margin, utilisation of the limit, end use of credit, irregularities, if any, in the operations of the unit or any other problems faced by the unit, etc., together with the RCB's sectoral exposure and any other relevant issue. A copy of such review notes may be submitted to the Regional Office of NABARD. In the case of the DCCBs, a copy may also be given to the concerned StCB.

Chapter-V- Repeal and other provisions

A. Repeal and saving

16. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to credit risk management as applicable to Rural Cooperative Banks, stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.
17. 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

18. 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

19. 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.