

**Draft Reserve Bank of India (Urban Co-operative Banks – Credit Facilities)
Directions, 2025**

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**Reserve Bank of India (Urban Co-operative Banks – Credit Facilities) Directions,
2025**

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Preamble

Reserve Bank of India (Reserve Bank) is statutorily mandated to operate the credit system of the country to its advantage. In pursuit of this mandate, the Reserve Bank encourages innovation in the financial systems, credit products and delivery mechanisms while ensuring orderly growth, financial stability and the protection of depositors' and borrowers' interest. With the progressive deregulation of bank credit, prudential norms primarily serve as regulatory safeguards. These norms, issued from time to time, provide guidance to Urban Cooperative Banks (UCBs) on the design and delivery of credit-related products and services. These Directions consolidate the instructions issued to Urban Co-operative Banks on credit facilities

Accordingly, in exercise of powers conferred by Section 21, 35A and 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 (Urban Co-operative Banks – Credit Facilities) Directions, 2025.
2. These Directions shall come into effect immediately upon its issuance, unless indicated otherwise in specific cases.

B. Applicability

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

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. (1) For the purpose of these Directions, following definitions shall apply:
- i) **Actual DCCO:** Refers to the date on which the project is put to commercial use and completion certificate / provisional completion certificate / occupancy certificate (in case of CRE and CRE-RH projects) or its equivalent is issued to the concessionaire / project developer / promoter.
 - ii) **Annual Percentage Rate (APR):** APR as defined under Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025.
 - iii) **Appointed Date:** Refers to the date, as defined in the concession agreement entered into between the concessionaire and the concession granting authority, on which the concession agreement comes into force in accordance with the terms outlined therein (applicable only in the case of infrastructure projects under Public Private Partnership (PPP) model).
 - iv) **Credit Event:** In the context of project finance exposures, shall be deemed to have been triggered on the occurrence of any of the following:
 - a) Default with any lender;
 - b) Any lender(s) determines a need for extension of the original / extended Date of Commencement of Commercial Operations (DCCO), as the case may be, of the project;
 - c) Expiry of original / extended DCCO, as the case may be;
 - d) Any lender(s) determines a need for infusion of additional debt;
 - e) The project is faced with financial difficulty as determined under the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.

Explanation: A lender to whom the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025 is not applicable shall also be guided by the same principles for the purpose of determining financial difficulty.
 - v) **Default Loss Guarantee (DLG):** A contractual arrangement, called by whatever name, between the bank and another entity, under which the latter guarantees to compensate the bank, for the loss due to default up to a certain percentage of the loan portfolio of the bank, specified upfront. Any other implicit guarantee of similar nature, linked to the performance of the loan portfolio of the bank and specified upfront, shall also be covered under the definition of DLG.

- vi) Digital Lending: A remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.
- vii) Digital Lending Apps / Platforms (DLAs): Mobile and / or web-based applications, on a standalone basis or as a part of suite of functions of an application with user interface that facilitate digital lending services. DLAs shall include applications of the bank as well as those operated by Lending Service Provider (LSP) engaged by bank for extending any credit facilitation services in conformity with extant outsourcing guidelines issued by the Reserve Bank.
- viii) Date of Financial Closure: Refers to the date on which the capital structure of the project, including equity, debt, grant (only in the case of infrastructure PPP projects) (if any), accounting for minimum 90% of total project cost, becomes legally binding on all stakeholders.

Explanation: In the case of CRE-RH projects, lenders may reckon contingent sales receivables (if any) as part of promoters' contribution to the project.

- ix) Default: Refers to non-payment of debt (as defined in Insolvency and Bankruptcy Code (IBC), 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor.
- x) Extended DCCO: If the original DCCO is revised, then the revised DCCO shall be termed as the Extended DCCO.
- xi) Interest During Construction (IDC): Refers to the interest accrued on debt provided by a lender and capitalised during the construction phase of the project.
- xii) Lending Service Provider (LSP): An agent of the bank (including another bank) who carries out one or more of bank's digital lending functions, or part thereof, in customer acquisition, services incidental to underwriting and pricing, servicing, monitoring, recovery of specific loan or loan portfolio on behalf of the bank in conformity with extant outsourcing guidelines issued by the Reserve Bank.

Provided that, while entities offering only Payment Aggregator (PA) services in terms of the extant instructions issued by the Reserve Bank shall remain out of the ambit of these Directions, any PA also performing the role of an LSP shall comply with the Chapter III of these Directions.

- xiii) Original Date of Commencement of Commercial Operations (Original DCCO): Refers to the date, as envisaged at the time of financial closure, by which the project is expected to be put to commercial use and completion certificate /

provisional completion certificate, or its equivalent, is expected to be issued to the concessionaire / project developer / promoter.

Provided that, in the case of CRE and CRE-RH projects, original DCCO shall be the date on which Occupancy Certificate, or its equivalent, is expected to be obtained from the competent authority.

- xiv) Project: Refers to ventures undertaken through capital expenditure (involving current and future outlay of funds) for creation / expansion / upgradation of tangible assets and / or facilities in the expectation of stream of cash flow benefits extending far into the future. Projects usually have the characteristics of a long gestation period, irreversibility and substantial capital outlays.
 - xv) Project Finance: Refers to the method of funding a project in which the revenues to be generated by the funded project serve as the primary security for the loan, and also as a source of repayment. Project finance may take the form of financing the construction of a new capital installation (greenfield) or financing an improvement / enhancement in the existing installation (brownfield). For the purpose of these Directions, an exposure shall qualify as a project finance exposure only if the following conditions are satisfied:
 - (a) The pre-dominant source of repayment as envisaged at the time of financial closure (i.e., at least 51%) must be from cash flows arising from the project which is being financed.
 - (b) All the lenders have a common agreement with the debtor.
- Explanation:* A common agreement may have different loan terms (except original / extended / actual DCCO as specified in paragraph 68 of these Directions) for each of the lender provided the same has been agreed upon by the debtor and all the Lender(s) to the project.
- xvi) Restructuring shall have the same meaning as given in Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
 - xvii) Resolution Plan (RP) shall mean the same as defined under Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
 - xviii) Bullet Repayment Loans: Refers to loans where both principal and interest are due for payment at the maturity of the loan.

- xix) Collateral Security or Collateral: Refers to an existing asset of the borrower pledged to the lender for availing and securing a credit facility extended by the lender to the borrower.
- xx) Consumption Loan: In the context of loans against gold and silver collateral, refers to any permissible loan that does not fit the definition of 'income generating loan' as defined subsequently.
- xxi) Eligible Collateral: Refers to the specific collateral security or securities against which a specific credit facility is extended.
- xxii) Loan to Value (LTV) ratio: LTV Ratio on a day means the ratio of the outstanding loan amount to the value of the pledged eligible collateral or primary security, as the case may be, on that day. In case of bullet repayment loans, however, the LTV calculation shall take into account the total amount repayable at maturity.
- xxiii) Income Generating Loan: Refers to loans extended for the purpose of productive economic activities, such as farm credit, loans for business or commercial purposes, loans for creation or acquisition of productive assets etc.
- xxiv) Jewellery: Refers to items that are designed to be worn as personal adornments.
- xxv) Ornaments: Refers to items meant for use as adornment of any object, decorative items, or utensils, excluding those items that fall under the definition of *jewellery* as defined under 4(vii) above.
- xxvi) Primary Gold and Primary Silver: Refers to gold and silver in any form other than in the form of a jewellery, ornaments and coins.
- xxvii) Top-up Loan: Refers to an additional loan sanctioned over and above an outstanding loan, during the tenor of the original loan, based on the strength of the collateral already pledged for the existing loan.
- xxviii) 'Pre-shipment / Packing Credit: Refers to any loan or advance granted or any other credit provided by the bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods / services from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has been waived.

- xxix) Post-shipment Credit: Refers to any loan or advance granted or any other credit provided by the bank to an exporter of goods / services from India from the date of extending credit after shipment of goods / rendering of services to the date of realisation of export proceeds, and includes any loan or advance granted to an exporter, in consideration of, or on the security of any duty drawback allowed by the Government from time to time.
- xxx) Beneficiary: Refers to the party in whose favour the NFB facility is issued by a RE.
- xxxi) Co-acceptance of bills: Refers to an undertaking to make payment to the drawer of the bill (seller / exporter) on due date if the buyer / importer fails to make the payment on that date.
- xxxii) Guarantee: Refers to a contract to perform the promise, or discharge the liability, of a third person in the contingent case of his non-performance or default, in terms of The Indian Contract Act, 1872.
- xxxiii) Guarantor: Refers to the party which issues the guarantee.
- xxxiv) Obligor: Refers to a party against whose obligations, financial or otherwise, a NFB facility has been issued. In the case of guarantees, the obligor may also be termed as 'principal debtor', as defined under the Indian Contract Act, 1872.
- xxxv) Secured portion of an NFB facility: Refers to the portion of the facility covered by realisable value of tangible security/ collateral estimated on a realistic basis.

2) All other expressions unless defined herein shall have the same meanings as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, 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 – Board Approved Policies

A. Role of Board

5. UCBs shall put in place Board approved policies covering, inter alia, the areas specified below. The specific aspects to be addressed in these policies are detailed in the relevant paragraphs of this Directions.
 - i) Digital Lending including DLG
 - ii) Lending Against Gold and Silver Collateral
 - iii) Microfinance Loans
 - iv) Project Finance
 - v) Housing Finance
 - vi) Loans Against Financial Assets
 - vii) Export Credit
 - viii) Bank Finance to Non-Banking Financial Companies

Chapter III - Digital Lending

A. General Requirements for UCB-LSP Arrangements

6. Due diligence requirements with respect to LSPs

- 1) Digital lending by a UCB involving an LSP, shall be carried out under a contractual agreement between the UCB and the LSP, which clearly defines the respective roles, rights, and obligations of each party thereto.
- 2) UCB shall conduct enhanced due diligence before they enter into an agreement with a LSP for digital lending, taking into account LSP's technical capabilities, robustness of data privacy policies and storage systems, fairness in conduct with borrowers, past records of conduct and ability to comply with all applicable regulations and statutes.
- 3) UCB shall carry out periodic review of the conduct of the LSP vis-à-vis the terms of the contractual agreement and shall take appropriate action in the event of any deviation therefrom.
- 4) UCB shall lay down, as part of its policy, suitable monitoring mechanisms for the loan portfolios originated with the support of LSPs.
- 5) UCB shall impart necessary guidance to LSP acting as a recovery agent, to discharge their duties responsibly and ensure that LSP complies with the applicable instructions Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025, and other relevant instructions as issued from time to time.
- 6) UCB shall continue to conform to the extant guidelines on outsourcing (Reserve Bank of India (Urban Co-operative Banks – Managing Risks in Outsourcing) Directions, 2025) and shall ensure that the LSPs engaged by them and the DLAs (either of the UCB or of the LSPs engaged by the UCB) comply with these Directions.
- 7) As an overarching principle, any outsourcing agreement entered into by the UCB with an LSP shall in no manner dilute or absolve the UCB of its obligations under any statutory or regulatory provision, and the UCB shall remain fully responsible and liable for all acts and omissions of the LSP.

7. UCB-LSP arrangements involving multiple lenders

In cases where a LSP has agreements with multiple REs for digital lending, UCB shall ensure the following:

- 1) LSP shall provide a digital view of all the loan offers matching the borrower's request on the DLA which meets the requirement of the borrower. The name of the unmatched lenders shall also be disclosed in the digital view.
- 2) While the LSP may adopt any mechanism to match the request of borrowers with the lender (s) to offer a loan, it shall follow a consistent approach for similarly placed borrowers and products. The mechanism adopted by the LSP and any subsequent changes to this mechanism shall be properly documented.
- 3) The digital view of loan offers from matching lenders shall include the name (s) of the lender (s) extending the loan offer, amount and tenor of loan, APR, monthly repayment obligation and penal charges (if applicable), in a way which enables the borrower to make a fair comparison between various offers. A link to the KFS shall also be provided in respect of each of the lender.
- 4) The content displayed by the LSP shall be unbiased, objective and shall not directly/ indirectly promote or push a product of a particular lender, including the use of dark patterns/deceptive patterns designed to mislead borrowers into choosing a particular loan offer. However, ranking of loan offers based on a publicly pre-disclosed metric for such ranking shall not be construed as promoting a particular product.

Note: Dark patterns shall have the same meaning as defined under section 2(e) of the 'Guidelines for Prevention and Regulation of Dark Patterns, 2023' dated November 30, 2023, issued by Central Consumer Protection Authority, and as amended from time to time.

- 5) The instructions contained in this paragraph (paragraph 7) would come into effect from November 1, 2025.

B. Conduct and Customer Protection Requirements

8. Assessing the borrower's creditworthiness

- 1) UCB shall obtain the necessary information relating to economic profile of the borrower with a view to assessing the borrower's creditworthiness before

extending any loan, including, at a minimum, age, occupation and income details. The same shall be kept on record for audit purposes.

2) UCB shall ensure that there is no automatic increase in credit limit unless an explicit request is received, evaluated and kept on record from the borrower for such increase.

9. Disclosures to borrowers

1) UCB shall provide a Key Fact Statement (KFS), as per instructions contained in Reserve Bank of India (Urban Cooperative Banks – Responsible Business Conduct) Directions, 2025.

2) As regards penal charges, UCB shall be guided by Reserve Bank of India (Urban Cooperative Banks – Responsible Business Conduct) Directions, 2025.

3) UCB shall ensure that digitally signed documents (on the letter head of the UCB) viz., KFS, summary of loan product, sanction letter, terms and conditions, account statements, privacy policies of the UCB / LSP with respect to storage and usage of borrowers' data, etc. shall automatically flow to the borrower on the registered and verified email/ SMS upon execution of the loan contract/ transactions.

Note: Digitally signed documents shall be in compliance with the provisions of the Information Technology Act, 2000, as amended from time to time.

4) UCB shall maintain a website of their own in public domain, which shall be kept up to date, *inter-alia*, with the following details at a prominent single place on the website for ease of accessibility:

- i) Details of all of its digital lending products and its DLAs;
- ii) Details of LSPs and the DLAs of the LSPs along with the details of the activities for which they have been engaged for;
- iii) Particulars of UCB's customer care and internal grievance redressal mechanism;
- iv) Link to RBI's Complaint Management System (CMS) and Sachet Portal;
- v) Privacy policies and other details as required under extant guidelines of the Reserve Bank.

UCBs shall ensure that DLAs / LSPs have links to the above website of the UCB.

5) In case of a loan default, when a recovery agent is assigned for recovery or there is a change in the recovery agent already assigned, the particulars of such recovery agent authorised to approach the borrower for recovery shall be communicated to the borrower through email/ SMS before the recovery agent contacts the borrower for recovery.

10. Loan disbursal, servicing and repayment

1) Disbursement of loan by the UCB shall always be made into the bank account of the borrower except for disbursals covered exclusively under statutory or regulatory mandate (of RBI or of any other regulator), flow of money between lenders for co-lending transactions and disbursals for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary. UCB shall ensure that in no case, disbursal is made to a third-party account, including the accounts of LSP, except as provided for in this Chapter.

Provided that advances against salary, where the loan is disbursed directly to the bank account of the borrower, but the repayment is from the corporate employer, can be allowed subject to the condition that the loan is repaid by the corporate employer by deducting the amount from the borrower's salary. However, it must be ensured that LSPs do not have any control over the flow of funds directly or indirectly in such transactions and that repayment is directly from the bank account of the employer to the UCB.

Note: Co-lending arrangements shall be governed by the Reserve Bank of India (Urban Cooperative Banks – Transfer and Distribution of Credit Risk) Directions, 2025, as amended from time to time, subject to the condition that no third party other than the lenders in a co-lending transaction shall have direct or indirect control over the flow of funds at any point of time.

2) UCBs shall ensure that all loan servicing, repayment, etc. is executed by the borrower directly in the UCB's account without any pass-through account/ pool account of any third party, including the accounts of LSP.

3) The flow of funds between the bank accounts of the borrower and the UCB shall not be controlled either directly or indirectly by a third-party, including the LSP.

4) UCBs shall ensure that any fees, charges, reimbursements, etc. payable to LSP are paid directly by the UCB and are not charged to or collected from the borrowers separately by LSP.

5) In case of delinquent loans, UCBs may deploy physical interface to recover loans in cash, wherever necessary. In order to afford operational flexibility to UCBs, such transactions are exempted from the requirement of direct repayment of loan in the UCB's bank account. However, any recovery by cash shall be duly reflected in full in the borrower's account on the same day and UCB shall ensure that any fees, charges, etc., payable to LSPs for such recovery are paid directly by the UCB and are not charged by LSP to the borrower either directly or indirectly from the recovery proceeds.

11. Cooling-off period

1) The borrower shall be given an explicit option to exit a digital loan by paying the principal and the proportionate APR without any penalty during an initial "cooling-off period". The cooling off period shall be determined by the Board of the UCB as laid down in their credit policy, subject to the period so determined not being less than one day. For borrower continuing with the loan even after cooling-off period, pre-payment shall continue to be allowed as per Reserve Bank of India (Urban Cooperative Banks – Responsible Business Conduct) Directions, 2025.

2) UCB may retain a reasonable one-time processing fee, if the customer exits the loan during the cooling-off period. This, if applicable, shall be disclosed to the customer upfront in KFS.

12. Grievance redressal

1) The UCB, and the LSP which has an interface with the borrower, shall designate nodal grievance redressal officers to deal with digital lending related complaints/ issues raised by the borrower.

2) Contact details of the nodal grievance redressal officers shall be prominently displayed on the websites of the UCB, its LSP and on the DLA, as well as in the KFS provided to the borrower.

3) The facility of lodging complaint shall also be made available on the DLA and on the website as stated above. It is reiterated that responsibility of grievance redressal shall continue to remain with the UCB.

4) If any complaint lodged by the borrower against the UCB or the LSP engaged by the UCB is rejected wholly or partly by the UCB, or the borrower is not satisfied with the reply; or the borrower has not received any reply within 30 days of receipt of complaint by the UCB, the said borrower can lodge a complaint over the Complaint Management System (CMS - <https://cms.rbi.org.in/>) portal under the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS - Issued vide Notification CEPD. PRD. No.S873/13.01.001/2021-22 dated November 12, 2021) or send a physical complaint to “Centralised Receipt and Processing Centre, 4th Floor, Reserve Bank of India, Sector -17, Central Vista, Chandigarh - 160017” as per the grievance redressal mechanism prescribed by the Reserve Bank. This information shall be suitably conveyed to the borrower.

C. Technology and Data Requirement

13. Collection, usage and sharing of data with third parties

1) UCB shall ensure that any collection of data by their DLA and DLA of their LSP is need-based and with prior and explicit consent of the borrower having audit trail. In any case, UCB shall also ensure that DLA of UCB/LSP desist from accessing mobile phone resources like file and media, contact list, call logs, telephony functions, etc. A one-time access can be taken for camera, microphone, location or any other facility necessary for the purpose of on-boarding/ KYC requirements only, with the explicit consent of the borrower.

2) The borrower shall be provided with an option to give or deny consent for use of specific data, restrict disclosure to third parties, data retention, revoke consent already granted to collect personal data and if required, make the UCB/LSP delete/ forget the data.

3) The purpose of obtaining borrowers' consent needs to be disclosed at each stage of interface with the borrowers.

4) Explicit consent of the borrower shall be taken before sharing personal information with any third party, except for cases where such sharing is required as per statutory or regulatory requirement.

14. Storage of data

- 1) UCB shall ensure that LSP engaged by them do not store personal information of borrower except some basic minimal data (viz., name, address, contact details of the customer, etc.) that may be required to carry out their operations or service within the scope of the UCB-LSP agreement. Responsibility regarding data privacy and security of the customer's personal information on an ongoing basis shall be that of the UCB.
- 2) UCB shall ensure that clear policy guidelines regarding the storage of customer data including the type of data that can be stored, the length of time for which data can be stored, restrictions on the use of data, data destruction protocol, standards for handling security breach, etc., are put in place and also disclosed by the UCB and the LSP engaged by the UCB prominently on their website and DLA at all times.
- 3) UCB shall ensure that no biometric data is stored/ collected by the UCB and LSP, unless allowed under extant statutory guidelines.
- 4) UCB shall ensure that all data is stored only in servers located within India, while ensuring compliance with statutory obligations/ regulatory instructions. Further, in case the data is processed outside India, the same shall be deleted from servers outside India and brought back to India within 24 hours of processing.

15. Comprehensive privacy policy

- 1) UCB and LSPs engaged by UCB shall have a comprehensive privacy policy compliant with applicable laws, associated regulations and RBI guidelines which shall be made available publicly on the website of UCB and LSP, as the case may be.
- 2) Details of third parties (where applicable) allowed to collect personal information through the DLA shall also be disclosed in the privacy policy.

16. Technology standards

- 1) UCB shall ensure that they and the LSPs engaged by them comply with various technology standards/ requirements on cybersecurity stipulated by RBI and other relevant agencies, or as may be specified from time to time, for undertaking digital lending.

D. Reporting of Credit Information and DLAs

17. Reporting to Credit Information Companies (CICs)

1) As per the provisions of the Credit Information Companies (CIC) (Regulation) Act, 2005; CIC Rules, 2006; CIC Regulations, 2006 and related guidelines issued by RBI from time to time, UCB shall ensure that any lending done through their DLAs and/ or DLAs of LSPs is reported by them to CICs irrespective of its nature/ tenor.

2) Extension of structured digital lending products by UCB and/or LSPs engaged by UCB over a merchant platform involving short term, unsecured/ secured credits or deferred payments, need to be reported to CICs by the UCB. UCB shall ensure that LSPs, if any, associated with such deferred payment credit products shall abide by the extant outsourcing guidelines issued by the Reserve Bank and be guided by these Directions.

18. Reporting of DLAs to RBI

1) UCB shall report all DLAs deployed/ joined by them, whether their own or those of the LSPs, either exclusively or as a platform participant, on the Centralised Information Management System (CIMS) portal of RBI in the requisite format as given in the Annex-I to these Directions.

2) UCB shall update the aforesaid list as and when additional DLA (s) are deployed or the engagement with the existing DLA (s) ceases to exist by filing the updated data in the CIMS portal.

3) The Chief Compliance Officer of the UCB or any other official designated by the Board of the UCB for the purpose shall certify that the data on DLAs submitted by them on the CIMS portal is correct and the DLAs are compliant with all the extant regulatory instructions, including the provisions of this Chapter, as updated from time to time.

4) Without prejudice to the generality of the above, the Chief Compliance Officer/ other official designated by the Board of the UCB shall certify the following aspects:

- i) DLAs have link to UCB's website where further information about the loan products, the lender, the LSP, particulars of customer care, link to Sachet Portal, privacy policies, etc. can be accessed by the borrower.
 - ii) DLAs (in case owned by LSP), have appointed a suitable nodal grievance redressal officer to deal with digital lending related complaints/ issues raised by the borrower, details of which are prominently available on the respective DLA.
 - iii) Data collection and storage by DLAs is in compliance with paragraph 13 and 14 of these Directions and other statutory and regulatory requirements, as applicable from time to time.
 - iv) The DLA's particulars submitted by the UCB are also suitably disclosed on the UCB's website as required under paragraph 9(iv) of these Directions.
- 5) UCB shall ensure the correctness and timeliness of information regarding DLAs, as the data, as submitted by the UCB on CIMS, shall be published on the website of RBI in an automated manner and RBI shall not verify/ validate the data submitted on CIMS. All issues and grievances of customers concerning DLAs shall be addressed and dealt with by the UCB directly.
- 6) UCB shall ensure that the inclusion of any third party DLAs deployed by them as part of above reporting, shall not be construed by the DLAs or any associated entity as conferring any form of registration, authorization, or endorsement by the Reserve Bank. UCB shall also ensure that such inclusion is not misrepresented in any marketing, promotional, or other materials issued by or on behalf of the DLAs.

E. Loss sharing arrangement in case of default

19. Eligibility as DLG provider

- 1) UCB may enter into DLG arrangements only with an LSP/ other lender engaged as an LSP. Further, the LSP providing DLG shall be incorporated as a company under the Companies Act, 2013.

20. Due diligence and other requirements with respect to DLG provider

- 1) UCB, including a UCB acting as DLG provider, shall lay down, as part of its policy, the eligibility criteria for DLG provider, nature and extent of DLG

cover, process of monitoring and reviewing the DLG arrangement, and the details of the fees, if any, payable to/ received by the DLG provider, as the case may be before entering into any DLG arrangement. .

- 2) UCB shall ensure that any DLG arrangement does not act as a substitute for credit appraisal requirements and robust credit underwriting standards need to be put in place irrespective of the DLG cover.
- 3) Every time a UCB enters into or renews a DLG arrangement, it shall obtain adequate information to satisfy itself that the entity extending DLG would be able to honour it. Such information shall, at a minimum, include a declaration from the DLG provider, certified by the statutory auditor of the DLG provider, on the aggregate DLG amount outstanding, the number of lenders and the respective number of portfolios against which DLG has been provided. The declaration shall also contain past default rates on similar portfolios.
- 4) It is clarified that the due-diligence requirements specified herein are in addition to the general requirements applicable to UCB-LSP arrangements as set out in paragraph 7 of these Directions.

21. Restrictions on entering into DLG arrangements

- 1) UCB shall not enter into DLG arrangements for revolving credit facilities offered through digital lending channel and credit cards as defined under Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022 dated April 21, 2022.
- 2) UCB shall not enter into DLG arrangements on the loans which are covered by the credit guarantee schemes administered by trust funds as specified under Reserve Bank of India (UCBs – Prudential Norms on Capital Adequacy) Directions, 2025, as amended from time to time.

22. Structure of DLG arrangements

- 1) DLG arrangements shall be backed by an explicit and legally enforceable contract between the UCB and the DLG provider. Such contract, among other things, shall contain the following details:
 - i) Extent of DLG cover;

- ii) Form in which DLG cover is to be maintained with the UCB;
- iii) Timeline for DLG invocation;
- iv) Disclosure requirements as under paragraph 28 of these Directions.

23. **Forms of DLG**

- 1) UCB shall accept DLG only in one or more of the following forms:
 - i) Cash deposited with UCB RE;
 - ii) Fixed Deposit maintained with a Scheduled Commercial Bank with a lien marked in favour of the UCB;
 - iii) Bank Guarantee in favour of the UCB.

24. **Cap on DLG**

- 1) UCB shall ensure that the total amount of DLG cover on any outstanding portfolio which is specified upfront shall not exceed five per cent of the total amount disbursed out of that loan portfolio at any given time. In case of implicit guarantee arrangements, the DLG Provider shall not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.
- 2) The portfolio over which DLG can be offered shall consist of identifiable and measurable loan assets which have been sanctioned (the 'DLG set'). This portfolio shall remain fixed for the purpose of DLG cover and is not meant to be dynamic.
- 3) Illustrative examples on cap on DLG: .

Illustration 1

Assume that as on April 1, 2024 the RE earmarks a portfolio of ₹40 crore (out of the total **sanctioned** loans) under a DLG arrangement (DLG set). This portfolio shall remain "frozen" for the purpose of the specific DLG arrangement - meaning that no loan assets can be added or removed from it, except through loan repayment/ write-off. The UCB can have such multiple DLG sets.

The ceiling for DLG cover on such portfolio shall be fixed at ₹2 crore (5% of ₹40 crore), which shall get activated proportionately as and when the loans are **disbursed**.

Illustration 2

Assume that out of the above DLG set, loans amounting to ₹10 crore are disbursed immediately. Then as on April 1, 2024, the DLG cover available for the portfolio shall be ₹0.5 crore (5% of disbursed).

Subsequently, if loans of ₹10 crore are further disbursed on April 15, 2024, the DLG cover shall proportionately increase to ₹1 crore effective April 15, 2024.

(Refer table below also for summary of each case)

Case 1: As on June 30, 2024, loans worth ₹5 crore mature without any default. In this case, the outstanding portfolio in the books of the UCB would be ₹15 crore and the DLG cover shall remain at ₹1 crore.

Case 2: Subsequently, there is a default of ₹2 crore during Q2-2024 and consequently the UCB invokes the entire DLG of ₹1 crore (assuming that till date zero principal/interest have been received towards these loans). In this case, as of Sept 30, 2024 the outstanding portfolio in the books of the UCB shall be ₹15 crore (₹20 crore original portfolio less ₹5 crore loans matured without default) but no headroom for DLG will be available as the maximum permissible DLG cover of ₹1 crore (5% of disbursed) has been exhausted.

Case 3: Going further, let's assume that recovery worth ₹1 crore is made by the RE during October 2024 on the defaulted loans of ₹2 crore. In such a case, the amount of the outstanding portfolio in the books of the UCB as on October 31, 2024 shall come down to ₹14 crore (₹20 crore original portfolio less ₹5 crore loans matured without any default less ₹1 crore loans which were in default and recovered). However, the recovery amount of ₹1 crore cannot be added to reinstate the DLG cover.

(figures in ₹ crore)							
Period	Disbursed	Loan maturing without default	Default Amount	DLG Invoked	Recovery/ Write-off	Outstanding Portfolio	Available DLG Cover
Initial Position	10	-	-	-	-	10	0.5
Further disbursement	10	-	-	-	-	20	1
Case 1	20	5	-	-	-	15	1
Case 2	20	5	2	1	-	15	0
Case 3	20	5	2	1	1	14	0

25. Recognition of NPA

- 1) Recognition of individual loan assets in the portfolio as Non-Performing Asset (NPA) and consequent provisioning shall be the responsibility of the UCB Reserve Bank of India (Primary (Urban) Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 irrespective of any DLG cover available at the portfolio level.
- 2) The amount of DLG invoked shall not be set off against the underlying individual loans, i.e. the liability of the borrowers in respect of the underlying loan shall remain unaffected.
- 3) Recovery by the UCB, if any, from the loans on which DLG has been invoked and realised, can be shared with the DLG provider in terms of the contractual arrangement.
- 4) DLG amount once invoked by the UCB shall not be reinstated, including through loan recovery.

26. Treatment of DLG for regulatory capital

- 1) Capital computation, i.e., computation of exposure and application of Credit Risk Mitigation benefits on individual loan assets in the portfolio shall continue to be governed by Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
- 2) In case, DLG provider is an UCB, it shall deduct full amount of the DLG which is outstanding from its capital.

27. Invocation and tenor of DLG

- 1) UCB shall invoke DLG within a maximum overdue period of 120 days, unless the loan dues are made good by the borrower before that.
- 2) The period for which the DLG agreement remains in force shall not be less than the longest tenor of the loan in the underlying loan portfolio.

28. Disclosure requirements

- 1) UCB shall put in place a mechanism to ensure that LSPs with whom they have a DLG arrangement shall publish on their website the total number of

portfolios and the respective amount of each portfolio on which DLG has been offered. The name of the lender may or may not be disclosed as part of disclosure under this provision.

2) Disclosure under para (i) above shall be made on a monthly basis, with the disclosure for any given month to be provided no later than seven (7) working days following the conclusion of that month.

29. Exceptions

Guarantees covered under the following schemes/ entities shall not be covered within the definition of DLG:

1) Guarantee schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC).

2) Credit guarantee provided by Bank for International Settlements (BIS), International Monetary Fund (IMF) as well as Multilateral Development Banks as referred to in Reserve Bank of India (UCBs – Prudential Norms on Capital Adequacy) Directions, 2025, as amended from time to time.

F. General Provisions

30. General provisions

1) EMI programmes on Credit Card are governed specifically by the Reserve Bank of India (Urban Co-operative Banks – Credit Cards and Debit Cards: Issuance and Conduct) Directions, 2025. Such transactions shall not be covered under these Directions. However other loan products offered on Credit Cards which are not covered/ envisaged under the aforesaid para of the Master Direction shall be governed by the stipulations laid down under this Chapter on Digital Lending. Further, the directions of this chapter shall also be applicable to all loans offered on Debit Card, including EMI programmes.

2) DLG arrangements entered between UCB and LSP conforming to the instructions laid down in this Chapter shall neither be treated as “synthetic securitisation”, nor attract the provisions of ‘loan participation’ as defined under

Reserve Bank of India (Urban Co-operative Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

Chapter IV - Lending against Gold and Silver Collateral

31. Reserve Bank has restricted lending against primary gold such as gold bullion due to broader macro-prudential concerns as also due to speculative and non-productive nature of gold. However, banks have been permitted to lend against the collateral security of gold jewellery, ornaments and coins for meeting the short-term financing needs of borrowers. The extant regulations are guided, inter alia, by the objective of providing the borrowers an avenue to tide over their tight liquidity conditions by leveraging the gold jewellery, ornaments or coins that are kept idle, while simultaneously addressing the risks for the lenders. Similar concerns and objectives guide a few regulations issued in the past on lending against the collateral of silver.
32. Instructions issued vide these Directions shall be complied with as expeditiously as possible but no later than April 1, 2026. Loans sanctioned prior to the date of adoption of the Directions by the bank shall continue to be governed by the instructions mentioned in the Annex II and applicable before the issuance of these Directions.

A. General Provisions

33. The credit policy (hereinafter called the policy) of a bank, as required in terms of the chapter – II on ‘Board Approved Policies’, shall include, inter alia, appropriate single borrower limits and aggregate limits for the portfolio of loans against eligible collateral as defined in these Directions; maximum LTV ratio permissible for such loans; action to be taken in cases of breach of LTV ratio; valuation standards and norms; and standards of gold and silver purity. The policy shall also include appropriate documentation to be obtained and maintained for loans proposed to be categorised under priority sector lending.
34. A bank may decide on a suitable approach for lending against collateral of jewellery, ornaments or coins made of gold or silver (“eligible collateral” for this Chapter) as part of its credit risk management framework, consistent, inter alia, with the principle of proportionality and ease of access for small ticket loans. However, detailed credit assessment, including assessment of borrower’s repayment capacity shall be undertaken in case the total loan amount against eligible collateral is above ₹2.5 lakh to a borrower.

Provided that in case of Bullet repayment loans, the threshold loan amount for detailed credit assessment shall be the total amount payable at maturity.

35. A bank may renew an existing loan or sanction a top-up loan upon a formal request

from the borrower and subject to a credit assessment in accordance with paragraph 34. Such renewal or top-up shall be permitted only within the permissible LTV, and provided the loan is classified as standard. Further, renewal of bullet repayment loan shall be allowed only after payment of accrued interest, if any. The bank shall ensure that such renewals and top-ups are clearly identifiable in its Core Banking System or Loan Processing System.

B. Restrictions and Ceilings

36. A bank shall not grant any advance or loan:

- (1) For purchase of gold in any form including primary gold, ornaments, jewellery, or coins, or for purchase of financial assets backed by gold, e.g., units of Exchange-traded funds (ETFs) or units of Mutual Funds; and
- (2) against primary gold or silver or financial assets backed by primary gold or silver.

Provided that a Tier 3 or 4 bank may extend need-based working capital finance to borrowers who use gold or silver as a raw material or as an input in their manufacturing or industrial processing activity, where such gold or silver can also be accepted as security. A bank extending such finance shall ensure that borrowers do not acquire or hold gold for investment or speculative purposes.

37. A bank shall not extend a loan where ownership of the collateral is doubtful. A suitable document or declaration shall be obtained from the borrower in all cases to the effect that the borrower is the rightful owner of the eligible collateral. Multiple or frequent sanction of loans against eligible collateral to the same borrower, aggregating to a value in excess of a threshold to be decided by the lender, must be examined closely as part of the transaction monitoring under the anti-money laundering (AML) framework.

38. A bank shall not:

- (1) Avail loans by re-pledging gold or silver pledged to it by its borrowers.
- (2) Extend loans to other lenders, entities or individuals by accepting gold or silver collateral pledged to such lenders, entities, or individuals by their borrowers as collateral.

For removal of doubt, it is clarified that the above provision does not preclude a lender from financing another lender against the security of underlying receivables.

39. Tenor of consumption loans in the nature of bullet repayment loans shall be capped at 12 months, which may be renewed in terms of paragraph 37.

40. Loans against ornaments and coins shall be subject to the following:

- 1) The aggregate weight of ornaments pledged for all loans to a borrower shall not exceed 1 kilogram for gold ornaments, and 10 kilograms for silver ornaments.
- 2) The aggregate weight of coin(s) pledged for all loans to a borrower shall not exceed 50 grams in case of gold coins, and 500 grams in case of silver coins.

C. Valuation and Assaying of Gold and Silver collateral

41. Gold or silver accepted as collateral shall be valued based on the reference price corresponding to its actual purity (caratage). For this purpose, the lower of
 - (a) the average closing price for gold or silver, as the case may be, of that specific purity over the preceding 30 days, or
 - (b) the closing price for gold or silver, as the case may be, of that specific purity on the preceding day, as published either by the India Bullion and Jewellers Association Ltd. (IBJA) or by a commodity exchange regulated by the Securities and Exchange Board of India (SEBI) shall be used.
42. If price information for the specific purity is not directly available, the lender shall use the published price available for the nearest available purity and proportionately adjust the weight of the collateral based on its actual purity to arrive at valuation.
43. For the purpose of valuation, only the intrinsic value of the gold or silver contained in the eligible collateral shall be reckoned and no other cost elements, such as precious stones or gems, shall be added thereto.

D. Loan to Value Ratio (LTV)

44. The maximum LTV ratio in respect of consumption loans against the eligible collateral shall not exceed LTV ratios as provided in the table below:

Total consumption loan amount* per borrower	Maximum LTV ratio
≤ ₹2.5 lakh	85 per cent
> ₹2.5 lakh & ≤ ₹5 lakh	80 per cent
> ₹5 lakh	75 per cent

* In case of Bullet repayment loans, the loan amount as well as LTV shall be calculated taking into account the total amount payable at maturity.

45. The prescribed LTV ratio shall be maintained on an ongoing basis throughout the tenor of the loan.

E. Other Provisions

46. For conduct related aspects, collateral management and other instructions, the bank shall be guided by the instructions contained in Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025.

47. The bank shall disburse loans into borrower's bank accounts. All lenders shall comply with the Reserve Bank of India (Urban Co-operative Banks – Know Your Customer) Directions, 2025. Provisions of Sections 269 SS and 269 T of the Income Tax Act, 1961, and associated rules shall be complied with, as may be applicable.

48. In case of bank transfers, the bank shall ensure that:

(i) Loan disbursements are made to the borrower's account and not to a third-party account (except for disbursements covered exclusively under statutory or regulatory mandate (of RBI or of any other regulator), flow of money between lenders for co-lending transactions and disbursements for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary); and

(ii) Loan servicing, repayment, etc. is executed by the borrower directly in the bank's account without any pass-through account or pool account of any third party.

49. Running multiple loans simultaneously to a single borrower or a group of related borrowers may be prone to misuse and susceptible to fraud. Consequently, such practices shall be subject to stricter internal audit and supervisory examination.

50. For instructions on disclosure requirements, the bank shall be guided by the instructions contained in of Reserve Bank of India (Urban Co-operative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter V - Microfinance

A. Definition of Microfinance

51. A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

52. All collateral-free loans, irrespective of end use and mode of application / processing / disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

Explanation: To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

B. Assessment of Household Income

53. Each bank shall put in place a board-approved policy for assessment of household income. Indicative methodology for assessment of household income is outlined below:

(1) For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

a) Composition of the household

i. Number of earning members

ii. Number of non-earning members

b) Type of accommodation (owned / rented, etc.)

c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)

d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

a) Primary source of income

i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)

ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)

iii. Frequency of income (daily / weekly / monthly)

iv. Months / days of employment over last one year

v. Self-reported monthly income

vi. Average monthly income (to be derived from (iv) & (v) above)

b) Other sources of income

i. Remittance

ii. Rent/ Lease

iii. Pension

iv. Government transfer

v. Scholarship

vi. Others (specify details)

c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

a) Regular monthly expenses (food, utilities, transport, house / shop rent, clothing, regular medical costs, school / college fees, etc.)

b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

(2) Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

54. Self-regulatory organisations (SROs) and other associations / agencies may also develop a common framework based on the indicative methodology. The banks may adopt / modify this framework suitably as per their requirements with approval of their boards.

55. Each bank shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already

reported household income and assessed household income shall be specifically ascertained from the borrower(s) before updating the assessed household income with CICs.

C. Limit on Loan Repayment Obligations of a Household

56. Each bank shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.

57. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

58. Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

59. Each bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the bank shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

D. Other provisions

60. The bank shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

61. The bank providing microfinance loans shall refer to:

- 1) Reserve Bank of India (Urban Co-operative Banks – Interest Rates on Advances) Directions, 2025 for pricing of loans.
- 2) Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025 for instructions related to Key Fact Statement and guidelines on conduct towards microfinance borrowers.

- 3) Reserve Bank of India (Urban Co-operative Banks – Management of Third-Party Dependencies) Directions, 2025 for instructions pertaining to responsibilities for outsourced activities.

Chapter VI - Project Finance

62. The Directions contained in this chapter provide a harmonised framework for financing of projects in infrastructure and non-infrastructure (including commercial real estate & commercial real estate - residential housing) sectors by banks.

63. The Directions of this chapter shall come into force with effect from October 01, 2025 (the 'Effective Date' for this Chapter).

64. The Directions contained in this Chapter shall not apply to projects where financial closure has been achieved as on the effective date. Such projects shall continue to be guided by the existing prudential guidelines on project finance, which otherwise shall be treated as repealed. However, any resolution of a fresh credit event and / or change in material terms and conditions in the loan contract in such projects, subsequent to the effective date, as per these Directions to be eligible to avail resolution benefits as specified under Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.

A. Phases of Projects

65. For the purpose of application of prudential guidelines contained in this Chapter, Projects shall be broadly divided into three phases namely:

- 1) Design phase – This is the first phase which starts with the genesis of the project and includes, *inter-alia*, designing, planning, obtaining all applicable clearances / approvals till its financial closure.
- 2) Construction phase – This is the second phase which begins after the financial closure and ends on the day before the actual DCCO.
- 3) Operational Phase – This is the last phase which starts with commencement of commercial operation by the project on the day of the actual DCCO and ends with full repayment of the project finance exposure.

B. Prudential Conditions Related to Sanction

66. The credit policies of a bank shall incorporate suitable clauses for sanction of project finance exposures, taking into account *inter alia* the provisions under this Chapter.

67. For all projects financed by the bank, it shall be ensured that:

- 1) Financial closure has been achieved and original DCCO is clearly spelt out and documented prior to disbursement of funds.

- 2) The project specific disbursement schedule vis-à-vis stage of completion of the project is included in the loan agreement.
- 3) The post DCCO repayment schedule has been realistically designed to factor in the initial cash flows.

Provided that, the original or revised repayment tenor, including the moratorium period, if any, shall not exceed 85% of the economic life of a project.

68. For a given project, original / extended / actual DCCO, as the case may be, shall be same across all lenders to the project.

69. In under-construction projects where the aggregate exposure of the lenders is up to ₹1,500 crores, no individual bank shall have an exposure which is less than 10% of the aggregate exposure. For projects where aggregate exposure of all lenders is more than ₹1,500 crores, the exposure floor for an individual bank shall be 5% or ₹150 crores, whichever is higher.

Provided that, the above minimum exposure requirements shall not apply post-actual DCCO and bank may freely acquire from or sell exposures to other lenders, in compliance with guidelines contained in the Reserve Bank of India (Urban Co-operative Banks – Transfer and Distribution of Credit Risk) Directions, 2025 as updated from time to time. Prior to actual DCCO, lenders may acquire from or sell exposures to other lenders under a syndication arrangement (as Reserve Bank of India (Urban Co-operative Banks – Transfer and Distribution of Credit Risk) Directions, 2025), provided the share of individual bank is in adherence to the above limits.

70. The bank shall ensure that all applicable approvals / clearances for implementing / constructing the project are obtained before financial closure. An indicative list of such pre-requisite approvals / clearances includes environmental clearance, legal clearance, regulatory clearances, etc., as applicable to the project.

71. Approvals / clearances which are contingent upon achievement of certain milestones in terms of project completion shall be deemed to be applicable only when such milestones are achieved. For example, consent to operate a boiler can only be applied for after the construction of a boiler. Hence, the same shall not be treated as an applicable mandatory pre-requisite at the time of financial closure.

C. Prudential Conditions Related to Disbursement and Monitoring

72. The bank shall ensure availability of sufficient land / right of way for all projects before disbursement of funds, subject to the following minimum requirements:

- 1) For infrastructure projects under PPP model – 50%
- 2) For all other projects (non-PPP infrastructure, and non-infrastructure including CRE & CRE-RH) – 75%
- 3) For transmission line projects – as decided by the bank

73. In case of infrastructure projects under PPP model, disbursement of funds shall begin only after declaration of the Appointed Date or its equivalent, for the project. However, in cases where non-fund based credit facilities may be mandated by the concession granting authority as a pre-requisite for declaration of appointed date, the bank may sanction such credit facilities, in adherence with the instructions on non-fund based facilities as prescribed in Chapter VII of this Direction.

74. Further, in respect of the exposures mentioned at paragraph 73 above, the original DCCO documented in the financial closure document shall be modified to reflect any change in the 'Appointed Date' by the Concession granting authority prior to disbursement of funds by way of a supplementary agreement between a lender and the debtor subject to reassessment of project viability and obtention of sanction from appropriate authorities. A Techno-Economic Viability (TEV) study shall be required for this purpose for all projects where the aggregate exposure of all lenders is ₹100 crores or more.

75. The bank shall ensure that disbursal is proportionate to the stages of completion of the project as also to the progress in equity infusion and other sources of finance, agreed as part of financial closure and receipt of remaining applicable clearances. The lender's Independent Engineer (LIE) / Architect shall certify the stages of completion of the project.

76. A project finance account may be classified as NPA during any time before actual DCCO as per record of recovery, in terms of Reserve Bank of India (Urban Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

D. Other Provisions

77. Creation and Maintenance of Database - Project specific data, in electronic and easily accessible format, shall be captured and maintained by the bank on an ongoing basis. A list of the relevant parameters which shall form part of project finance database, at a minimum, is given below.

No	Parameters for Project Finance Database
1	Debtor Profile Name of the Project/SPV, PAN, LEI, Name(s) of the Sponsor, Shareholding details, Banking Arrangement, Sector, Sub-Sector.
2	Original Project Profile Nature of Project, External Credit Rating, Economic Life, Date of Financial Closure, original Date of Commencement of Commercial Operations, Total project cost excluding IDC, IDC, Capital Structure, D/E, DSCR, Repayment Tenor, Repayment Start Date, Repayment Frequency.
3	Change in DCCO Date of Change, reason for change, extended DCCO, revised project debt, revised project total cost, increase in cost, cost overrun, % of total increase financed by equity, % of total increase financed by debt, revised D/E, revised DSCR, revised repayment tenor, revised repayment start date, revised repayment frequency, revised external credit rating.
4	Credit event other than deferment of original/extended DCCO Date of Change, reason, total increase in project cost, % of project cost financed through equity, % of project cost financed through debt, revised D/E, revised DSCR, revised repayment tenor, revised repayment start date, revised repayment frequency, revised external credit rating.
5	Current Specification of the Project Asset classification, original/ extended DCCO, economic life, external rating, total outstanding, provision held, current project cost excluding IDC, IDC, current capital structure, D/E, DSCR, repayment tenor, repayment frequency.

78. The bank shall update any change in parameters of a project finance exposure at the earliest, but not later than 15 days from such change. The necessary system in this regard shall be put in place within 3 months of the effective date.
79. The bank shall make appropriate disclosures in their financial statements, under 'Notes to Accounts', as specified in Reserve Bank of India (Urban Co-operative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter VII - Non Fund Based (NFB) Credit Facilities

80. Non-fund based (NFB) facilities like guarantees, letters of credit, co-acceptances etc. facilitate effective credit intermediation and smooth business transactions. In order to harmonize and consolidate guidelines covering these facilities and to broaden the funding sources for infrastructure financing, the Reserve Bank had issued the following guidelines on non-fund based credit facilities.

81. The directions in this chapter shall not apply to the derivative exposures of the bank, other than the general conditions as laid down in this chapter.

82. The directions of this chapter shall come into force from April 1, 2026, or from any earlier date as decided by the bank as per its internal policy ("effective date"). Extension of any new NFB facility and renewal of an existing NFB facility after the effective date, shall be governed in terms of these Directions. All existing NFB facilities extended / renewed till the effective date shall continue to be governed by the guidelines mentioned in the Annex III and applicable before the issuance of these Directions.

A. General Conditions

83. The credit policy of the bank shall incorporate suitable provisions for issue of NFB facilities, *inter alia*, covering aspects relating to type of NFB facilities, limits granted, credit appraisal, security requirement, fraud prevention, overall monitoring mechanism including post-sanction monitoring, delegation matrix, audit and internal controls, compliance to uniform standards issued by standard setting bodies and other safeguards.

84. The bank shall issue a NFB facility only on behalf of a customer having funded credit facility from the bank.

Provided that this clause shall not be applicable in respect of:

- 1) Derivative contracts entered into by the bank with counterparty.
- 2) NFB facilities issued based on the counter guarantee of another RE, as permitted under this chapter.
- 3) NFB facilities on behalf of an obligor who has not availed any fund based facility from any RE in India.
- 4) NFB facilities extended by the bank against No Objection Certificate issued by the RE / REs which has / have provided fund based facility to the obligor.

5) NFB facilities which are fully secured by eligible financial collateral.

Explanation: The eligible financial collateral specified herein shall be as defined under Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Capital Adequacy) Directions, 2025 as updated from time to time

85. The bank shall not issue a NFB facility to any entity assuring redemption / repayment of funds raised by any entity *via* deposits, issuance of bonds, or in any other form, unless specifically permitted under any regulatory guidelines / directions issued by the Reserve Bank.

86. Once a NFB facility devolves and is converted into a fund based facility, then the prudential norms shall be as applicable to fund based facilities.

B. Guarantees

87. In general, a guarantee (or a counter-guarantee) issued by the bank (guarantor) shall be irrevocable (i.e., there shall be no clause in the contract that would allow the guarantor to unilaterally cancel the same), unconditional (i.e. there shall be no clause in the contract that could prevent the bank from being obliged to pay out in a timely manner in the event that the original counterparty fails to meet its obligation), incontrovertible and shall contain a clear mechanism for honouring the same without demur as and when invoked.

88. The bank shall put in place suitable internal aggregate / individual ceilings for issuance of guarantees in general and unsecured guarantees in particular.

Provided that the total volume of guaranteed obligations outstanding at any time shall not exceed 5% of their total assets as per the previous financial year's balance sheet. Further, unsecured guarantees shall be restricted to 1.25% of total assets. Any such bank in breach of the above stipulation as on the date of issue of these Directions shall meet the above threshold by April 01, 2027.

89. The provisions of the internal policy relating to guarantees shall, *inter alia*, address aspects related to invocation and settlement mechanism, claim period, tenor, fee / commission / applicable charges, timelines for release of security, renewal, fraud prevention measures etc.

90. A RE shall honour the guarantee issued by it as and when invoked in accordance with the terms and conditions of the guarantee deed unless there is court order

restraining the same

C. Usage of electronic-Guarantee

91. Wherever the bank issues an electronic Guarantee, it shall frame a standard operating procedure (SOP) aimed at minimization of manual intervention; meeting system integration requirements; ensuring technological compatibility between the bank's interface and the electronic Guarantee platforms, audit and internal controls etc. The SOP shall, *inter alia*, consider the aspects mentioned below.

92. Policy and SOP for issuance of Electronic Guarantees

- 1) The bank shall have suitable enabling provisions in its credit policy which shall, *inter alia*, envisage the adoption of electronic Guarantees, the risk controls to be put in place, delegation of authority, the monitoring process, etc.
- 2) The bank shall put in place appropriate SOPs for user reference, detailing all the steps to be followed during the entire electronic Guarantee lifecycle. Electronic Guarantees shall not be issued without ensuring that the underlying transaction has been duly reflected in the Core Banking System (CBS)/ Trade Finance System (TFS).

93. Integration of the systems with regard to for issuance of Electronic Guarantees

- 3) The bank shall have a strong control environment covering the policies, processes and systems; sound internal controls; and appropriate risk mitigation strategies for all operations pertaining to electronic Guarantees.
- 4) The bank shall ensure that all features relating to the entire lifecycle events of electronic Guarantees such as issuance, amendment, invocation, cancellation etc. shall be available on the its platform through suitable integration with the electronic Guarantee service provider.
- 5) The CBS / TFS shall be integrated with the APIs and other related messaging platforms offered by the electronic Guarantee service provider, in Straight Through Processing (STP) mode, without any manual intervention.

94. User Roles for issuance of Electronic Guarantees

- 6) The bank shall have an efficient system of 'Maker, Checker and Authorizer' for issuance and monitoring of electronic Guarantees, while ensuring strict access

control and an effective segregation of the role and accountability.

- 7) No role involved in electronic Guarantee issuance lifecycle shall violate principle of segregation of duties, four / six eye principle and no employee shall be allocated roles / privileges across systems, applications that are conflicting in nature or in violation of four/ six eye principle.
- 8) The system access shall be provided only to specified users, and access through generic user IDs shall not be permitted. User review shall be continuous, at defined periodicity and identifiable at any point of time with respective rights and privileges. The user privileges shall be decided on "need to know/ need to do" basis.

95. Control Measures issuance of Electronic Guarantees

- 9) The bank shall have in place a system of periodical review and reconciliation of all the electronic Guarantees issued / modified / cancelled, during the specified period.
- 10) The issuance of electronic Guarantees shall be mandatorily covered within the scope of concurrent audit and RBIA of the bank.

96. Other aspects pertaining to issuance of Electronic Guarantees

- 11) The robustness of the electronic Guarantee systems shall be part of the Vulnerability Assessment / Penetration Testing (VA / PT), Information Systems Audit.
- 12) Dependence on the vendors for day-to-day transactions shall be avoided. Access to production systems shall be provided to vendors only in a controlled environment, and audit trail shall be maintained.
- 13) Security Incident and Event Management (SIEM) tool shall be integrated with the concerned servers and consoles / PCs connected to electronic Guarantee related critical systems directly in its VLAN to generate automatic alerts.
- 14) The bank shall integrate electronic Guarantee systems with Privileged User Management Systems / Identity and Access Management systems. The logs of the same shall be monitored through Security Operation Centre (SOC) setup.
- 15) Business Continuity Measures and contingency plans for system failures, shall be put in place by the bank.

D. Guarantee favouring another RE

97. The bank shall, in general, not provide a guarantee favouring another RE to enable it to provide any fund based credit facility to an obligor.

Provided that this clause shall not be applicable in case of credit facilities extended against guarantees pertaining to trade related transactions.

98. However, the bank may provide a guarantee favouring another RE for a NFB facility extended by the latter. Such guarantee issued by a RE shall be treated as an exposure on the obligor on whose behalf the guarantee has been issued by it, for all purposes including for the calculation of capital adequacy. The exposure of the RE extending credit facility against a guarantee shall be treated as a claim / exposure on the RE which is providing the counter guarantee.

E. Co-acceptances

99. Only genuine trade bills shall be co-accepted, and it shall be ensured that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.

100. Proper records of the bills co-accepted for each customer shall be maintained, so that the commitments for each customer and the total commitments at a branch can be readily ascertained, and these shall be part of internal audit.

101. The bank shall not co-accept bills drawn by another RE or where the buyer / seller has received funding for the underlying trade transaction from any RE.

F. Guarantee and related business involving overseas current or capital account transaction

102. REs permitted as Authorized Dealer (AD) may extend NFB facilities as permitted under the extant regulations / Directions issued under Foreign Exchange Management Act, 1999, for bonafide current or capital account transaction,

including guarantees in respect of debt or other liability incurred by an exporter on account of exports from India.

103. AD banks are also permitted to issue guarantee to or on behalf of a foreign entity, or any of its step-down subsidiary in which an Indian entity has acquired control through the foreign entity, which is backed by a counter-guarantee or collateral by the Indian entity or its group company.

Provided that such guarantees shall not be issued by banks, including overseas branches / subsidiaries of Indian banks, for the purpose of raising loans / advances of any kind by the foreign entity except in connection with the ordinary course of business overseas. Further while extending such guarantees, banks shall ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

104. For disclosure of the details of NFB credit facilities, the bank shall be guided by Reserve Bank of India (Urban Cooperative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

105. The Directions in this chapter have been issued without prejudice to Directions under Foreign Exchange Management Act (FEMA), 1999; Foreign Exchange Management (Guarantees) Regulations, 2000, notified *vide* [Notification No. FEMA 8/2000-RB dated May 03, 2000](#); as amended from time to time.

106. Notwithstanding paragraph 105 above, RE shall comply with all the related regulatory norms including exposure norms issued by RBI as amended from time to time

Chapter VIII - Housing Finance

107. UCBs are permitted to extend housing loans within specified limits from their own resources. However, wherever banks are still required to obtain special permission of the Registrar for financing housing societies, it is suggested that these banks shall obtain general permission to finance housing societies subject to such terms and conditions as may be prescribed for the purpose.

A. Eligible Category of Borrowers

108. UCBs may grant loans to the following categories of borrowers:

- 1) Individuals and co-operative / group housing societies.
- 2) Housing boards undertaking housing projects or schemes for economically weaker Chapters (EWS), low income groups (LIG) and middle income groups (MIG).
- 3) Owners of houses / flats for extension and up-gradation, including major repairs.

B. Eligibility for Housing Finance

109. The borrowers in the above categories will be eligible for finance for the following purposes:

- 1) Construction / purchase of houses / flats by individuals
- 2) Repairs, alterations and additions to houses / flats by individuals
- 3) Schemes for housing and hostels for scheduled castes and scheduled tribes
- 4) Under slum clearance schemes - directly to the slum dwellers on the guarantee of the Government, or indirectly through Statutory Boards established for this purpose
- 5) Education, health, social, cultural or other institutions / centres which are part of a housing project and considered necessary for the development of settlements or townships
- 6) Shopping centres, markets and such other centres catering to the day to day needs of the residents of the housing colonies and forming part of a housing project

C. Maximum Loan Amount & Margins

110. 1) UCBs, based on their commercial judgment and other prudential business considerations, with the approval of their Board of Directors, are free to identify the eligible borrowers, decide margins and grant housing loans depending upon the repaying capacity of borrowers

2) Housing loans to individuals shall be subject to the following ceilings:

UCB Tier	Loan amount* per dwelling unit
Tier 1	₹60 lakh
Tier 2	₹1.40 crore
Tier 3	₹2 crore
Tier 4	₹3 crore
*subject to extant single borrower exposure limits	

UCBs are categorized under respective tiers in terms of the Reserve Bank of India (Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025.

The ceiling on loans to individuals for carrying out repairs / additions / alterations to their dwelling units shall be ₹10 lakh in metropolitan centres (those centres with population of 10 lakh and above) and ₹6 lakh in other centres.

3) The prudential exposure limits for UCBs for a single borrower/party and a group of connected borrowers/parties shall be 15 per cent and 25 per cent, respectively, of their tier-I capital.

D. Interest rates

111. UCBs may, with the approval of their Boards, determine the rate of interest, keeping in view the size of accommodation, degree of risk and other relevant considerations. UCBs shall also be guided by provisions contained at Reserve Bank of India (Urban Co-operative Banks – Interest Rates on Advances) Directions, 2025.

E. Foreclosure Charges / Prepayment Penalty

112. UCBs shall be guided by the provisions contained in Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025.

F. Reset of floating interest rate on EMI based housing loans

113. At the time of sanction of EMI based floating rate housing loans, UCBs shall take into account the repayment capacity of borrowers to ensure that adequate headroom/margin is available for elongation of tenor and/or increase in EMI, in the scenario of possible increase in the benchmark rate during the tenor of the loan.

Further, UCBs shall put in place an appropriate policy framework for reset of floating interest rates on EMI based housing loans, complying with the requirements contained in the Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025.

G. Penal charges and Key Facts Statement (KFS) for Loans & Advances

114. UCBs shall comply to instructions on penal charges and KFS contained under Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025

H. Security

115. 1) UCBs may secure housing loans either
- i. by mortgage of property, or
 - ii. by government guarantee where forthcoming, or
 - iii. by both.
- 2) Where this is not feasible, banks may accept security of adequate value in the form of LIC policies, Government Promissory Notes, shares / debentures, gold ornaments or such other security as they deem appropriate.
- 3) With regard to release of movable/ immovable property documents upon receiving full repayment and closure of loan account, the UCBs shall comply with the instructions contained in Reserve Bank of India (Urban Co-operative Banks – Responsible Business Conduct) Directions, 2025.

I. Period of Loan

116. 1) Housing loans shall be repayable within a maximum period of 20 years, including moratorium or repayment holiday.
- 2) The moratorium or repayment holiday may be granted:
- i. at the option of the beneficiary, or
 - ii. till completion of construction, or
 - iii. 18 months from the date of disbursement of first instalment of the loan, whichever is earlier.

J. Graduated Instalments

117. 1) The instalments should be fixed on a realistic basis taking into account the repaying capacity of the borrower.
- 3) In order to make housing finance affordable, banks may consider fixing the instalments on a graduated basis, if there is reasonable expectation of growth in the income of the borrower in the coming years. Graduated basis means fixing lower repayment instalments in the initial years and gradually increasing the instalment amount in subsequent years coinciding with expected increase in income in subsequent years.

K. Classification of Commercial Real Estate

118. Finance extended to the eligible category of borrowers mentioned in paragraph 109 above will only be eligible to be treated as housing finance. While the purpose of the loan shall determine whether the loans granted against the security of immovable property need to be classified as real estate loans, the source of repayment will determine whether the exposure is against commercial real estate. For classification of such loans as Real Estate / Commercial Real Estate, UCBs may be guided by the instructions below:
- 1) Real Estate is generally defined as an immovable asset - land (earth space) and the permanently attached improvements to it. Income-producing real estate (IPRE) is defined in Reserve Bank of India (Urban

Co-operative Banks – Prudential Norms on Capital Adequacy)
Directions, 2025 as under:

- i) "Income-producing real estate (IPRE) refers to a method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset. The borrower may be, but is not required to be, an SPE (Special Purpose Entity), an operating company focused on real estate construction or holdings, or an operating company with sources of revenue other than real estate. The distinguishing characteristic of IPRE versus other corporate exposures that are collateralised by real estate is the strong positive correlation between the prospects for repayment of the exposure and the prospects for recovery in the event of default, with both depending primarily on the cash flows generated by a property".
- ii) The Income Producing Real Estate (IPRE) is synonymous with Commercial Real Estate (CRE). From the definition of IPRE given above, it may be seen that for an exposure to be classified as IPRE / CRE, the essential feature would be that the funding will result in the creation / acquisition of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment would depend primarily on the cash flows generated by the asset. Additionally, the prospect of recovery in the event of default would also depend primarily on the cash flows generated from such funded asset which is taken as security, as would generally be the case. The primary source of cash flow (i.e., more than 50% of cash flows) for repayment would generally be lease or rental payments or the sale of the assets as also for recovery in the event of default where such asset is taken as security.
- iii) In certain cases where the exposure may not be directly linked to the creation or acquisition of CRE, but the repayment would come from the cash flows generated by CRE. For example, exposures taken against existing commercial real estate whose prospects of repayments primarily depend on rental / sale proceeds of the real estate should be classified as CRE. Other

such cases may include extension of guarantees on behalf of companies engaged in commercial real estate activities, corporate loans extended to real estate companies etc.

iv) It follows from the definition at para (ii) and (iii) above that if the repayment primarily depends on other factors such as operating profit from business operations, quality of goods and services, tourist arrivals etc., the exposure would not be counted as Commercial Real Estate.

v) UCBs should not extend finance for acquisition of land even if it is part of a project. However, finance can be granted to individuals for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, within such period as may be laid down by the banks themselves.

Simultaneous Classification of CRE into other Regulatory Categories

vi) It is possible for an exposure to get classified simultaneously into more than one category, real estate, CRE, infrastructure etc. as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory / prudential exposure limit, if any, fixed by RBI or by the bank itself, for all the categories to which the exposure is assigned. For the purpose of capital adequacy, the largest of the risk weights applicable among all the categories would be applicable for the exposure. The rationale for such an approach is that, while at times certain classifications / categorizations could be driven by socio-economic considerations and may be aimed at encouraging flow of credit towards certain activities, these exposures should be subjected to appropriate risk management / prudential / capital adequacy norms so as to address the risk inherent in them. Similarly, if an exposure has sensitivity to more than one risk factor it should be subjected to the risk management framework applicable to all the relevant risk factors.

vii) In order to assist banks in determining as to whether a particular exposure should be classified as CRE or not, some examples based on the principles described above are given below. Based on the above principles and illustrations given, banks should be able to determine, whether an exposure not included in the illustrative examples is a CRE or not and should record a reasoned note justifying the classification.

Illustrative Examples

A. Exposures which should be classified as CRE

i) Loans extended to builders for construction of any property which is intended to be sold or given on lease (e.g., loans extended to builders for housing buildings, hotels, restaurants, gymnasiums, hospitals, condominiums, shopping malls, office blocks, theatres, amusement parks, cold storages, warehouses, educational institutions, industrial parks). In such cases, the source of repayment in normal course would be the cash flows generated by the sale / lease rentals of the property. In case of default of the loan, the recovery will also be made from sale of the property if the exposure is secured by these assets as would generally be the case.

ii) Loans for Multiple Houses intended to be rented out

The housing loans extended in cases where houses are rented out need to be treated differently. If the total number of such units is more than two, the exposure for the third unit onwards may be treated as CRE exposure as the borrower may be renting these housing units and the rental income would be the primary source of repayment.

iii) Loans for Integrated Township Projects

Where the CRE is part of a big project which has small non-CRE component, it will be classified as CRE exposure since the primary source of repayment for such exposures would be the sale proceeds of buildings meant for sale.

iv) Exposures to Real Estate Companies

In some cases, exposure to real estate companies is not directly linked to the creation or acquisition of CRE, but the repayment would come from the cash flows generated by Commercial Real Estate. Such exposures illustratively could be:

- Corporate Loans extended to these companies
- Investments made in the debt instruments of these companies
- Extension of guarantees on behalf of these companies

v) General Purpose loans where repayment is dependent on real estate prices
Exposures intended to be repaid out of rentals / sale proceeds generated by the existing CRE owned by the borrower, where the finance may have been extended for a general purpose.

B. Exposures which may not be classified as CRE

i) Exposures to entrepreneurs for acquiring real estate for the purpose of their carrying on business activities, which would be serviced out of the cash flows generated by those business activities. The exposure could be secured by the real estate where the activity is carried out, as would generally be the case, or could even be unsecured.

a. Loans extended for construction of a cinema theatre, establishment of an amusement park, hotels and hospitals, cold storages, warehouses, educational institutions, running haircutting saloons and beauty parlours, restaurant, gymnasium etc. to those entrepreneurs who themselves run these ventures would fall in this category. Such loans would generally be secured by these properties.

For instance, in the case of hotels and hospitals, the source of repayment in normal course would be the cash flows generated by the services rendered by the hotel and hospital. In the case of a hotel, the cash flows would be mainly sensitive to the factors influencing the flow of tourism, not directly to the fluctuations in the real estate prices. In the case of a hospital, the cash flows in normal course would be sensitive to the quality of doctors and other diagnostic services provided by the hospital. In these cases, the source of repayment might also depend to some extent upon the real estate prices to the extent the fluctuation in prices influence the room rents, but it will be a minor factor in determining the overall cash flows. In these cases, however, the recovery in case of default, if the exposure is secured by the Commercial Real Estate, would depend upon the sale price of the hotel / hospital as well as upon the maintenance and quality of equipment and furnishings.

The above principle will also be applicable in the cases where the developers / owners of the real estate assets (hotels, hospitals, warehouses, etc.) lease out the assets on revenue sharing or profit sharing arrangement and the repayment of exposure depends upon the cash flows generated by the services rendered, instead of fixed lease rentals.

b. Loans extended to entrepreneurs, for setting up industrial units will also fall in this category. In such cases, the repayment would be made from the cash flows generated by the industrial unit from sale of the material produced which

would mainly depend upon demand and supply factors. The recovery in case of default may partly depend upon the sale of land and building if secured by these assets.

Thus, it may be seen that in these cases the real estate prices do not affect repayment though recovery of the loan could partly be from sale of real estate.

ii) Loans extended to a company for a specific purpose, not linked to a real estate activity, which is engaged in mixed activities including real estate activity.

For instance, a company has two divisions. One division is engaged in real estate activity, and other division is engaged in power production. An infrastructure loan, for setting up of a power plant extended to such a company, to be repaid by the sale of electricity would not be classified as CRE. The exposure may or may not be secured by plant and machinery.

iii) Loans extended against the Security of future rent receivables

A few banks have formulated schemes where the owners of existing real estate such as shopping malls, office premises, etc. have been offered finance to be repaid out of the rentals generated by these properties. Even though such exposures do not result in funding / acquisition of commercial real estate, the repayment might be sensitive to fall in real estate rentals and such exposures should be classified as CRE. However, if there are certain in built safety conditions which have the effect of delinking the repayments from real estate price volatility like, the lease rental agreement between the lessor and lessee has a lock in period which is not shorter than the tenor of loan and there is no clause which allows a downward revision in the rentals during the period covered by the loan banks can classify such exposures as non CRE. Banks may, however, record a reasoned note in all such cases.

iv) Credit facilities provided to construction companies which work as Contractors

The working capital facilities extended to construction companies working as contractors, rather than builders, will not be treated as CRE exposures because the repayment would depend upon the contractual payments received in accordance with the progress in completion of work.

v) Financing of acquisition / renovation of self-owned office / company premises

Such exposures will not be treated as CRE exposures because the repayment will come from company revenues. The exposures to industrial units towards setting up of units or projects and working capital requirement, etc. would not be treated as CRE exposures.

119. As loans to the residential housing projects under the Commercial Real Estate (CRE) Sector exhibit lesser risk and volatility than the CRE Sector taken as a whole, a separate sub-sector called 'Commercial Real Estate– Residential Housing' (CRE-RH) has been carved out from the CRE Sector. CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans shall be classified as CRE and not CRE-RH.
120. UCBs shall not exceed the limit prescribed for grant of housing, real estate, commercial real estate loans even for the funds obtained from higher financing agencies and refinance from National Housing Bank.

K. Additional / Supplementary Finance

- 121.
- 1) UCBs may extend additional finance to carry out alterations, additions, repairs to houses / flats already financed by them, subject to, repayment capacity of borrowers.
 - 2) In the case of individuals who might have raised funds for construction / acquisition of accommodation from other sources and need supplementary finance, banks may extend credit after obtaining *pari passu* or second mortgage charge over the property mortgaged in favour of other lenders and / or against such other security as they may deem appropriate after due assessment of aggregate repayment capacity of borrowers.

- 3) UCBs may extend need-based credit up to a maximum of ₹10 lakh in metropolitan centres and up to ₹6 lakh in other centres for repairs/additions/alterations, irrespective of whether the house / flat is owner occupied or tenant occupied, after obtaining such security as the banks may deem appropriate. The banks shall satisfy themselves regarding the estimated cost of repairs, additions, etc. having regard to the extent of such repairs or additions, materials to be used, cost of labour and other charges and after obtaining certificate/s from qualified engineers / architects in respect thereof, considered necessary.
- 4) The terms and conditions relating to margin, interest rates, repayment period etc. in respect of additional / supplementary finance may be same as indicated in respect of loans for construction / acquisition.

L. Lending to Housing Boards

122.

- 1) UCBs may extend loans to housing boards within their States. The rate of interest to be charged on the loans to such boards may be fixed at the discretion of the banks.
- 2) While extending loans to housing boards, banks may not only keep in view the past performance of the housing boards in the matter of recovery from the beneficiaries but shall also stipulate that the boards will ensure prompt and regular recovery of loan instalments from the beneficiaries.

M. Advances to Builders / Contractors

123.

- 1) Builders / contractors generally require huge funds, take advance payments from the prospective buyers or from those on whose behalf construction is undertaken and, therefore, may not normally require bank finance for the purpose. Any financial assistance extended to them by UCBs may result in dual financing. Banks shall, therefore, normally refrain from sanctioning loans and advances to this category of borrowers.
- 2) However, where contractors undertake comparatively small construction work on their own, (i.e., when no advance payments are received by them for the

purpose), banks may consider extending financial assistance to them against the hypothecation of construction materials, provided such loans and advances are in accordance with the bye laws of the bank and instructions / directives issued by the Reserve Bank from time to time.

- 3) Banks shall undertake a proper scrutiny of the relevant loan applications, and satisfy themselves, among other things, about the genuineness of the purpose, the quantum of financial assistance required, creditworthiness of the borrower, repayment capacity, etc. and also observe the usual safeguards, such as, obtaining periodic stock statements, carrying out periodic inspections, determining drawing power strictly on the basis of the stock held, maintaining a margin of not less than 40 to 50 percent, etc. They shall also ensure that materials used up in the construction work are not included in the stock statements for the purpose of determining the drawing power.
- 4) Valuation of land: It has been observed that while financing builders / contractors, certain banks valued the land for the purpose of security, on the basis of the discounted value of the property after it is developed, less the cost of development. This is not in conformity with established norms. In this connection, it is clarified that UCBs shall not extend fund based / non-fund based facilities to builders / contractors for acquisition of land even as a part of a housing project. Further, wherever land is accepted as collateral, valuation of such land should be at the current market price only.
- 5) UCBs may also take collateral security, wherever available. As construction work progresses, contractors will get paid and such payments should be applied to reduce the balance in the borrowal accounts. If possible, banks could perhaps enter into a tripartite agreement with the borrower and his clients, particularly when no collateral securities are available for such advances.
- 6) It has been observed that some banks have introduced certain innovative Housing Loan Schemes in association with developers / builders, e.g., upfront disbursement of sanctioned individual housing loans to builders without linking the disbursements to various stages of construction of housing project, interest / EMI on the housing loan availed of by the individual borrower being serviced by the builders during the construction period / specified period, etc. In view of the higher risks associated with such lump-sum disbursement of sanctioned housing loans and customer suitability issues, UCBs are advised that disbursement of

housing loans sanctioned to individuals shall be closely linked to the stages of construction of the housing project / houses and upfront disbursal shall not be made in cases of incomplete / under-construction / green field housing projects.

N. Housing Loans under Priority Sector

124. Instructions on loans to Housing sector eligible for priority sector classification shall be as per Master Directions - Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025 dated March 24, 2025, as amended from time to time.

O. Precautions

125.

- 1) A number of cases have come to the notice of Reserve Bank, where unscrupulous persons have defrauded the banks by obtaining multiple bank finance against the same property by preparing a number of sets of the original documents and submitting the same to various banks for obtaining housing finance. Similarly, the salary certificates of employees of certain public sector undertakings were fabricated, so as to match the requirement of banks for availing higher amounts of loan. The estimates given were also on the higher side, so as to avoid contribution of margin money by the borrowers.

Such frauds could take place on account of laxity on the part of the bank officials to follow the laid down procedures for verifying the genuineness of the documents submitted by borrowers independently through their own advocates / solicitors. Banks should, therefore, take due precaution while accepting various documents.

- 2) Banks shall satisfy themselves that loans extended by them are not for unauthorized construction or for misuse of properties / encroachment on public land.
- 3) In a case which came up before the Hon'ble High Court of Judicature at Bombay, the Hon'ble Court observed that the bank granting finance to housing / development projects should insist on disclosure of the charge / or any other liability on the plot, in the brochure, pamphlets etc., which

may be published by developer / owner inviting public at large to purchase flats and properties. The Court also added that this obviously would be part of the terms and conditions on which the loan may be sanctioned by the bank. Keeping in view the above observations, while granting finance for eligible housing schemes, UCBs are advised to stipulate as part of terms and conditions that:

- i. The builder / developer shall disclose in the pamphlets / brochures etc., the name(s) of the bank(s) to which the property is mortgaged.
- ii. The builder / developer would append the information relating to mortgage while advertising for a particular scheme in newspapers / magazines etc.
- iii. The builder / developer would indicate in the pamphlets / brochures that he would provide No Objection Certificate (NOC) / permission of the mortgagee bank for sale of flats / property, if required. UCBs are advised to ensure compliance of the above terms and conditions. Funds should not be released unless the builder / developer fulfils the above requirements.

P. National Building Code

126. The Bureau of Indian Standards (BIS) formulates comprehensive building Code namely National Building Code (NBC) of India providing guidelines for regulating the building construction activities across the country. The Code, updated from time to time contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements; fire safety requirements; stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. Adherence to NBC will be advisable in view of the importance of safety of buildings especially against natural disasters. Banks' boards may consider this aspect for incorporation in their loan policies. Further information regarding the NBC can be accessed from the website of Bureau of Indian Standards (<http://www.bis.gov.in/>).

Chapter IX – Export Credit

A. Scope

127. This Chapter is applicable on Authorised Dealer UCBs who are allowed to undertake Export Finance.

B. Rediscounting of Export Bills Abroad

128. The details of the scheme on 'Rediscounting of Export is furnished below:

1) Scheme

(i) It will be comparatively easier to have a facility against bills portfolio (covering all eligible bills) than to have a rediscounting facility abroad on bill by bill basis, as various rediscounting agencies may require detailed information relating to the underlying transactions, such as names of exporters and importers, commodities exported, letter of credit details (if covered as such) etc. Authorised Dealers in India (ADs) may, therefore, arrange a "Bankers Acceptance Facility" (BAF) there against. Each AD can have his own BAF limit/s fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency (in case of factoring arrangement, it should be on "without recourse" basis only). The BAF may be covered by a collateralised document, BAF should be arranged without any margin. There will, however, be no bar if rediscounting facility on bill to bill basis is arranged by an AD in case of any particular exporter, especially for large value transactions.

(ii) The exporter, on their own can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills direct subject to the following conditions:

a) Direct discounting of export bills by exporters with overseas bank and or any other agency will be done only through the branch of an authorised dealer designated by him for his purpose.

b) Discounting of export bills will be routed through designated bank/authorised dealer from whom the packing credit facility has been availed of. In case, those are routed through any other bank/authorised dealer, the later will first arrange to adjust the amount outstanding under

packing credit with the concerned bank out of the proceeds of the rediscounted bills.

2) Eligibility Criteria

(i) The Scheme will cover mainly export bills with usance period upto 180 days from the date of shipment (inclusive of normal transit period and grace period, if any). There is, however, no bar to include demand bills if overseas institution has no objection to it.

(ii) In case borrower is eligible to draw usance bills for periods exceeding 180 days as per the extant instructions of FED, Post-shipment Credit under the EBR may be provided beyond 180 days.

(iii) The facility under the Scheme of Rediscounting may be offered in any convertible currency.

(iv) For operational convenience, the BAF Scheme shall be centralised at a branch designated by the AD. There shall, however, be no bar for other branches of the UCB to operate the Scheme as per their internal guidelines/instructions.

3) Source of on-shore funds

There will be no bar on ADs to utilise the foreign exchange resources available with them in Exchange Earners Foreign Currency Accounts, (EEFC), Resident Foreign Currency Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, to discount usance bills and retain them in their portfolio without resorting to rediscounting. In the case of demand bills (subject to what has been stated in paragraph 2 (a) above), these may have to be routed through the existing post-shipment credit facility or by way of foreign exchange loans to the exporters out of the foreign currency balances available with banks in the Schemes *ibid*.

4) Facility of rediscounting "with recourse" and "without recourse"

It is recognised that it will be difficult to get "without recourse" facility from abroad under BAF on any other facility. Therefore, the bills may be rediscounted "with recourse". However, if an AD is in position to arrange "without recourse" facility on competitive terms, it is permitted to avail itself as such a facility.

5) Accounting aspects

- (i) The Rupee equivalent of the discounted value of the export bills will be payable to the exporter and the same should be utilised to liquidate the outstanding export packing credit.
- (ii) As the discounting of bills/extension of foreign exchange loans (DP bills) will be in actual foreign exchange, ADs may apply appropriate spot rate for the transactions.
- (iii) The rupee equivalents of discounted amounts/ foreign exchange loan may be held in the banks books distinct from the existing post shipment credit accounts.
- (iv) In case of overdue bills, UCBs may charge interest from the due date to the date of crystallization as per the interest rate policy of the UCB.

6) Exemption from CRR/SLR requirements.

If UCBs avail of BAF while rediscounting export bills abroad, the liabilities arising out of utilisation of the limits under the said facility would be exempted from the maintenance of cash reserve ratio and statutory liquidity ratio requirements and accordingly, these liabilities will not form part of net demand and time liabilities for the purpose of reserve requirements.

7) Restoration of limits and availability of export benefits such as EEFC account

As stated in paragraph 128 (4) above, "Without Recourse" facility may not generally be available. Thus the restoration of limits and the availability of export benefits, such as credit to EEFC accounts, in case of "with recourse" facility, will be effected only on realisation of export proceeds and not on the date of discounting/rediscounting of the bills. However, if the bills are rediscounted "without recourse", the restoration of limits and availability of export benefits may be given effect immediately on rediscounting.

8) ECGC Cover

In the case of export bills rediscounted "with recourse", there will not be any change in the existing system of coverage provided by Export Credit Guarantee Corporation (ECGC) as the liability of the exporter continues till the relative bill is retired/paid. In other cases, where the bills are rediscounted without recourse; the liability of ECGC ceases as soon as the relative bills are rediscounted.

129. To facilitate the growth of local market for rediscounting export bills, establishment and development of an active interbank market is desirable. It is possible that ADs may hold bills in their own portfolio without rediscounting. However it is felt that in case of need, the ADs should also have access to the local markets which will enable the country to save foreign exchange to the extent of the cost of rediscounting. Further, as different UCBs may be having BAF for varying amounts, it will be possible for a UCB which has balance available in its limit, to offer rediscounting facility to another UCB which may have exhausted its limits or could not arrange for such a facility.

C. Pre-shipment Credit in Foreign Currency (PCFC)

130. Primary co-operative banks which are Authorised Dealers in India (ADs) are allowed to extend PCFC to enable the Indian exporters to compete in the international market.
131. The scheme will cover both domestic as well as imported inputs of exported goods. The operational instructions in this regard are given below:

1) Scheme

- i) The Pre-shipment Credit in Foreign Currency will be available to cover both the domestic and imported inputs of the goods exported from ADs in India. The facility will be available in one of the convertible currencies. The credit shall be self-liquidating in nature and accordingly after the shipment of goods, the bills shall be eligible for discounting/rediscounting or for post-shipment credit in foreign currency. This will be an additional window in addition to rupee packing credit scheme.
- ii) Thus, the exporter will have the following two options to avail of export finance:
 - a) to avail of pre shipment credit in rupees and then the post-shipment credit either in rupees or in foreign currency denominated credit or discounting/ rediscounting of export bills,
 - b) to avail of pre shipment credit in foreign currency and discounting/rediscounting of the export bills in foreign currency.

2) Source of funds

The foreign exchange balances available with the UCB in Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency Account (RFC) and funds mobilised under Foreign Currency (Non-Resident) Accounts (Banks) Scheme could be utilised for financing the pre-shipment credit in foreign currency. As Authorised Dealers (ADs) in India are already allowed to raise lines of credit to finance imported components of the exported goods, it will be in order for the ADs in India to raise short term foreign currency loans.

3) Period of Credit

The PCFC will be available for a maximum period of 360 days.; any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit. Any further extension will shall be subject to the terms and conditions fixed by the AD concerned and if no export takes place within 360 days, the pre-shipment credit in foreign currency will be adjusted at TT selling rate for the currency concerned. In such cases ADs can arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of RBI.

4) Eligibility Criteria

- (i) Pre-shipment Credit in Foreign Currency shall be extended only on the basis of confirmed/firm export orders or confirmed letters of credit (L/Cs).
- (ii) With a view to promote export and also to allow operational flexibility both to the exporters and UCBs, 'Running Account' Facility is permitted under the PCFC Scheme to all commodities on the same lines of the facility available under rupee credit subject to the following conditions:
 - (a) The facility may be extended provided the need for 'Running Account' facility has been established by the exporters, to the satisfaction of the UCB.
 - (b) UCBs may extend the 'Running Account' Facility only to those exporters whose track record has been good.
 - (c) In all cases, where Pre-Shipment Credit 'Running Account' Facility has been extended, letters of credit/firm orders should be produced within a reasonable period of time;

(d) The draws made under Rupee 'Running Account' Facility should not be converted into PCFC advances.

(e) The PCFC will be marked-off on the 'First-in-First-Out' basis.

(iii) For operational convenience, the PCFC Scheme may be centralised at a branch designated by the AD. There shall be no bar for other branches of the UCB to operate the Scheme as per their internal guidelines/instructions.

5) Interest rate

(i) UCBs are free to determine interest rates on export credit in foreign currency using any widely accepted Alternative Reference Rate (ARR) in the currency concerned for floating as well as fixed rate loans in accordance with their Board-approved policy and subject to the relevant guidelines contained in the Master Circular- Management of Advances- UCBs, as amended from time to time or any other applicable regulation.

6) Accounting Procedure

(i) In case full amount of PCFC on part thereof is utilised to finance domestic input, ADs shall apply appropriate spot rate for the transaction.

(ii) As the facility of PCFC will be self-liquidating in nature, the PCFC should be liquidated by submission of export documents for discounting/rediscounting under the schemes of discounting/rediscounting of export bills.

(iii) In case of cancellation of export order, the PCFC may be liquidated by selling equivalent amount of foreign exchange (principal plus interest) at TT selling rate prevailing on the date of liquidation. Authorised primary co-operative banks may also extend PCFC to such exporters subsequently after ensuring that the earlier cancellation of PCFC was due to genuine reasons and not for speculative purposes.

7) General

The following points shall also have a bearing on the operation of the Scheme.

(i) The applicable benefits such as credit of eligible percentage of export proceeds to EEFC Account etc. to the exporters will accrue only after realisation of the export bills and not at the stage of conversion of pre-

shipment credit to post-shipment credit (except when bills are discounted/rediscounted 'without recourse').

(ii) ECGC cover will be available in rupees only, whereas PCFC is in foreign currency.

(iii) For the purpose of reckoning the authorised primary co-operative banks performance in extending export credit, the rupee equivalent of the PCFC will be taken into account.

132. The broad aspects of the Scheme are given below:

(i) Authorised primary co-operative banks in India shall arrange for lines of credit from abroad. Banks may negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the RBI.

(ii) The applicable benefit to the exporters will accrue only after the realisation of the export bills or when the resultant export bills are rediscounted 'without recourse' basis.

(iii) The borrowings under the Scheme will be subject to compliance with the existing credit disciplines.

133. Taking into account the peculiar nature of the diamond trade and especially that a major portion of the Export Packing Credit is required for import of rough diamonds, for which a firm export order/confirmed Letter of Credit cannot be produced, 'Running Account' facility is extended for export of Diamonds under PCFC Scheme subject to the following conditions:

(i) PCFC will be granted on the basis of the method followed hitherto under Rupee Export Packing Credit Scheme conforming to normal credit discipline.

(ii) PCFC will be liquidated by export proceeds only.

(iii) The availability of 'Running Account' Facility will be subject to review after a year

D. Pre-shipment Credit in Foreign Currency (PCFC) – Clarifications

134. There are certain relaxation/clarifications on some of the operational aspects of the Scheme for guidance of the UCBs:

- a) PCFC is self-liquidating in nature and accordingly the export bills will have to be discounted or covered by grant of foreign currency loans (DP bills) to liquidate outstanding PCFC. Thus, the question of sending export bills for collection does not arise.
- b) Surplus of export proceeds available after adjusting relative export finance and credit to EEFC Account should not be allowed for setting off of import bills.
- c) Besides the source of funds (for extending credit under PCFC Scheme) indicated in paragraph 131(2), banks are permitted to utilise the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for the purpose subject to ensuring that the requirements of funds of the account holders for permissible transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded.
- d) UCBs should draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available the line of credit stipulate a minimum amount for drawals which should not be very large, the small unutilised portion may be managed by the UCB within their foreign exchange position and AGL limits. Similarly, any early delivery (pre-payment by the exporter) may also be taken within their foreign exchange position on AGL limits.
- e) In certain cases, UCBs have been permitted to extend EPC higher than the E.D.B. value or domestic value of goods exported, such as HPS groundnut/oil extracts and in such cases excess EPC is to be liquidated within 30 days, from the date of drawal. As PCFC is self-liquidating in foreign exchange, it will not be feasible to liquidate PCFC if allowed in such cases. UCBs may grant EPC both in Rupees and in foreign currency to cover the export of above items, restricting, PCFC only to the portion to be exported EPC in respect of non-exported portion in Rupees should be liquidated within 30 days as per existing stipulation.
- f) UCBs are also permitted to extend PCFC on the basis of irrevocable L/C or L/C of a first class internationally reputed bank on their judgement.
- h) To enable the exporters to have operational flexibility it will be in order for UCBs to extend PCFC in one convertible currency in respect of an export

order involved in another convertible currency. For example, an exporter can avail of PCFC in US \$ against an export order involved in DM. The risk and cost of cross currency transaction will be that of the exporter.

g) UCBs are permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC. On availing of PCFC by exporter, the contract should be cancelled at prevailing market rates to the extent of PCFC amount.

h) As regards the minimum lots of transactions, it is left to the operational convenience of the UCBs to stipulate the minimum lots taking into account the availability of their own resources. However, while fixing the minimum lot UCBs may take into account the needs of their small customers also.

i) UCBs are permitted to extend PCFC for exports to ACU countries.

E. Extension of Facility of Pre-shipment Credit in Foreign Currency (PCFC) for Deemed Exports

135. PCFC may be allowed for Deemed Exports only for supplies to projects financed by multilateral/bilateral agencies/funds.
136. The PCFC released should be liquidated by grant of foreign currency loan at post-supply stage, for a maximum period of 30 days or upto the date of payment by the project authorities, whichever is earlier, subject to compliance with other conditions relating to Deemed Exports.

F. Credit extended to Diamond Exporters Embargo on Import of Conflict Diamonds Liberia

137. UN Security Council Resolution No.1343 (2001) has imposed a ban on the direct or indirect import of all rough diamonds from Liberia, whether or not such diamonds originated in Liberia. Accordingly, it has been decided that UCBs should obtain afresh the modified undertaking in the enclosed format in Annex IV from all their clients who are being extended credit for doing any business relating to diamonds.
138. Further, the UN Security Council Resolution Nos.1173, 1176, 1306(2000) and 1343(2001) adopted so far on conflict diamonds require that any violation of the

ban/prohibition imposed should be reported to the UN immediately. In view of this, you may report to us promptly violation of provisions of these UN Regulations as and when noticed.

G. Exports to Asian Clearing Union Countries - Granting of Export Credit in Foreign Currency under Pre-shipment Credit in Foreign Currency (PCFC), Export Bills Rediscounting (EBR) and Post-shipment Credit denominated in Foreign Currency (PSCFC) Schemes

139. UCBs are permitted to extend pre-shipment and post-shipment credit in foreign currency under captioned schemes for exports to ACU countries.
140. Other terms, conditions, stipulations prescribed for operation of the PCFC/EBR and PSCFC schemes will remain unchanged.

H. Report of the Committee on Structure of Export Credit - Streamlining of Procedure for Loans and Advances with particular reference to Export Credit

141. UCBs are advised to ensure the implementation of guidelines such as delegation of powers to overseas branches, raising the threshold limit for obligatory formation of consortium etc., as they relate to streamlining the sanctioning, procedures for loans and advances with particular reference to export credit and introduction of a suitable mechanism to deal with exporters' grievances particularly with regard to timely sanction of various limits and adequacy of credit. UCBs shall also take steps to implement the suggestions regarding a time-frame for sanction of fresh/enhanced adhoc limits or for renewal of the limits; delegation of adequate powers to various functionaries and periodical review of such delegation; conducting of periodical seminars and workshops to educate the borrowers, advising the internal inspection teams to offer specific comments on timely sanction of export credit limits within the prescribed time-frame, submission of quarterly review note furnishing position of credit limits to exporters in so far as they apply to your bank..

I. Payment of Compensation to the Exporters in respect of Delayed Credit of Export Bills

142. It has been observed that generally the export proceeds are not being credited to exporters' accounts promptly on receipt of relative advices and compensation to the exporters for the delay on the part of branches of UCBs in payment of export bills are paid to them only after their representations. In respect of the delay in affording credit in respect of credit advices complete in all respects, the compensation stipulated by FEDAI should be paid to the exporter client, without waiting for a demand from the exporter. UCBs should devise a system to monitor timely credit of the export proceeds to the exporter's account and payment of compensation as per FEDAI rules. The internal audit and inspection teams of UCBs may be advised to specifically comment on these aspects in the reports.

J. Financing of Exports - Timely and Adequate Provision of Export Credit

143. Banks shall ensure timely and adequate credit to the exporters to meet their genuine requirements and also properly guide and educate them on procedural formalities and export opportunities.
144. Banks shall review the existing arrangement in this regard and take such action as is necessary, including delegating enough powers to branch managers/regional managers to dispose of export credit proposals promptly and ensure smooth flow of credit to export sector.
145. Banks shall strive to improve the customer service in view of the complexities of the export trade and complete the formalities expeditiously.
146. Banks shall entrust a senior official to review aspects, locate the inadequacies and suggest suitable remedial measures. The Board of Directors may also be kept apprised of the action taken to improve the services rendered to exporters.

Chapter X - Loans Against Financial Assets

L. Loans Against Shares

147. Bank Finance to Stock Brokers

- 1) UCBs are prohibited from extending any fund based or non fund based credit facilities, whether secured or unsecured, to stockbrokers against shares and debentures / bonds, or other securities, such as fixed deposits, LIC policies etc.
- 2) UCBs are not permitted to extend any facility to commodity brokers. This would include issue of guarantees on their behalf.
 - i) Advances against units of mutual funds can be extended only to individuals as in the case of advances against the security of shares, debentures and bonds.
 - ii) 184. Loans against the primary / collateral security of shares / debentures should be limited to ₹5 lakh if the security is in physical form and up to ₹10 lakh if the security is in demat form.
 - iii) A margin of 50 per cent should be maintained on all such advances.
 - iv) Aggregate of all loans against the security of shares and debentures should be within the overall ceiling of 20 per cent of Tier - I capital of the bank as on 31st March of the previous financial year, as defined in Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
 - v) UCBs shall be guided by provisions of Master Direction – Reserve Bank of India (Filing of Supervisory Returns) Directions – 2024 dated February 27, 2024, as amended from time to time, for submission of return on advances against security of shares / debentures.
 - vi) UCBs shall put in place appropriate risk management systems, before accepting shares as security. All the approved loan proposals shall be placed before the Audit Committee of the Bank at least once in two months. The Management and Audit Committee shall ensure that all loans against shares are made only to those individuals who are not in any way connected with any stock broking entity. Details of the loan sanctioned shall be reported to the Board in its subsequent meeting.

M. Bank Finance against Preference Shares and Long Term (Subordinated) Bonds

148. UCBs shall not grant any loan or advance to any person for purchasing their own Perpetual Non Cumulative Preference Shares (PNCPS), Tier-II preference shares (such as Perpetual Cumulative Preference Shares, Redeemable Non Cumulative Preference Shares and Redeemable Cumulative Preference Shares), Perpetual Debt instruments (PDI) and Long Term Subordinated bonds (LTSB). UCBs shall not grant any loan or advance to any person for purchasing PNCPS, Tier-II preference shares, PDI and LTSB of other banks. UCBs should not invest in PNCPS (Tier-I), other Preference shares (Tier-II) and also in Long Term (Subordinated) Deposits (Tier-II), PDI, LTSB issued by other banks; nor should they grant advances against the security of the above instruments issued by them or other banks.

N. Advances against Fixed Deposit Receipts (FDRs) Issued by Other Banks

149. The banks should desist from sanctioning advances against FDRs / term deposits of other banks.
150. Maximum Ceiling on Advances to Nominal Members UCBs may sanction loans to nominal members for short / temporary period and for purchase of consumer durables, subject to the following ceiling:

UCBs		Ceiling of Loan Amount
i)	With Deposits up to ₹ 50 crore	₹ 50,000 per borrower
ii)	With Deposits above ₹ 50 crore	₹ 1,00,000 per borrower

O. Advances by Salary Earners' Primary (Urban) Co-operative Banks (SEBs) against Term Deposits of Non-members

151. SEBs are permitted to grant advances against term deposits of non-members, subject to the following conditions:
- i) The SEB should be fulfilling all the criteria for financially sound and well managed (FSWM) UCBs.
 - ii) The SEB should have in place an Audit Committee of the Board of Directors which is constituted and functioning in compliance with the instructions

contained in RBI circular UBD.No.Plan.(PCB).9/09.06.00-94/95 dated July 25, 1994.

- iii) The bye-laws of SEB should have a provision for giving loans to nonmembers against term deposits held in their own name singly or jointly with other non-members/ members.
- iv) The SEB should maintain a reasonable margin against such advances at all times as per the policy approved by its Board.
- v) No credit facilities, other than advances against term deposits, shall be granted to non-members

Chapter XI - Discounting / Rediscounting of Bills by UCBs

152. UCBs shall adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills:

- 1) Banks shall sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the Board approved policy.
- 2) UCBs shall clearly lay down a bill discounting policy approved by their Board of Directors, which shall be consistent with their policy of sanctioning of working capital limits. In this case, the procedure for Board approval shall include banks' core operating process from the time the bills are tendered till these are realised. UCBs may review their core operating processes and simplify the procedure in respect of bills financing. In order to address the problem of delay in realisation of bills, UCBs shall take advantage of improved computer / communication network like Structured Financial Messaging System (SFMS), wherever available, and adopt the system of 'value dating' of their clients' accounts.

153. UCBs shall open letters of credit (LCs) and purchase / discount / negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents who have been sanctioned regular credit facilities by the banks. UCBs shall not, therefore, extend fund based (including bills financing) or non-fund based facilities like opening of LCs, providing guarantees and acceptances to non-constituent borrower or / and non-constituent member of a consortium / multiple banking arrangement.

154. With effect from March 30, 2012, in case of bills drawn under LCs restricted to a particular UCB, and the beneficiary of the LC is not a borrower who has been granted regular credit facility by that UCB, the UCB concerned may, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank, negotiate such LCs, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary of the LC. However, the prohibition regarding negotiation of unrestricted LCs for borrowers who have not been sanctioned regular credit facilities will continue to be in force.

155. UCBs negotiating bills as above, under restricted LCs, would have to adhere to the instructions of the Reserve Bank / RCS or CRCS regarding share linking to borrowing and provisions of Co- operative Societies Act on membership.
156. For the purpose of credit exposure, bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above will be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure shall be treated as on the borrower and risk weight assigned accordingly.
157. While purchasing / discounting / negotiating bills under LCs or otherwise, UCBs shall establish genuineness of underlying transactions / documents.
158. UCBs shall ensure that blank LC forms are kept in safe custody as in case of security items like blank cheques, demand drafts etc. and verified / balanced on daily basis. LC forms shall be issued to customers under joint signatures of the bank's authorised officials.
159. The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' shall be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. UCBs shall not, therefore, open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause.
160. Accommodation bills shall not be purchased / discounted / negotiated by banks. The underlying trade transactions shall be clearly identified, and a proper record thereof maintained at the branches conducting the bills business.
161. UCBs should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.
162. Bills rediscounts should be restricted to usance bills held by other banks. UCBs should not rediscount bills earlier discounted by NBFCs except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.
163. UCBs may exercise their commercial judgment in discounting of bills of services sector. However, while discounting such bills, UCBs shall ensure that actual services are rendered, and accommodation bills are not discounted. Services sector bills should not be eligible for rediscounting. Further, providing finance

against discounting of services sector bills may be treated as unsecured advance and therefore, should be within the limits prescribed by Reserve Bank of India for sanction of unsecured advances.

164. In order to promote payment discipline which would to a certain extent encourage acceptance of bills, all corporate and other constituent borrowers having turnover above threshold level as fixed by the bank's Board of Directors should be mandated to disclose 'aging schedule' of their overdue payables in their periodical returns submitted to banks.

Chapter XIV - Bank Finance to Non-Banking Financial Companies (NBFCs)

A. Admission of NBFCs as Members

165. UCBs shall not finance NBFCs, other than those engaged in hire-purchase / leasing, subject to obtaining prior approval of the Registrar of Co-operative Societies concerned before admitting such leasing / hire purchase companies as members for the purpose of lending.

B. Activities eligible for finance to NBFCs engaged in Hire Purchase / Leasing Activities

166. Within the prescribed credit exposure norms and above stated restrictions, UCBs, with working capital funds aggregating to ₹25 crore and above, may finance the NBFC - Investment and Credit Companies (NBFC-ICC), subject to the following limits:

Type of NBFC		Maximum Limit on Bank Finance
(i)	NBFC-ICC having not less than 75 per cent of their assets in equipment leasing and hire purchase, and 75 per cent of their gross income from these two types of activities as per the last audited balance sheet of the companies.	3 times of the Net Owned Funds (NOF) of the NBFC or single borrower exposure limit of the lending UCB, whichever is lower.
(ii)	NBFC-ICC carrying out equipment leasing and hire purchase other than (i) above	2 times of the Net Owned Funds (NOF) of the NBFC or single borrower exposure limit of the lending UCB, whichever is lower.

Note

(i) The maximum limit on aggregate bank finance to an NBFC should be within the overall ceiling of borrowing by NBFCs, upto ten times of their NOF.

(ii) Bank finance to leasing concerns should be restricted only to "full payout" leases i.e., those leases where the cost of the asset is fully recovered during

the primary lease period itself and further it should cover purchases of only new equipment.

(iii) As a prudent policy, lease rentals due during the period of next five years should alone be taken into account for the purpose of lending.

C. Activities not Eligible for Finance to NBFCs engaged in Hire Purchase / Leasing Activities

167.

(1) The following activities undertaken by non-banking financial companies engaged in hire purchase / leasing activities are not eligible for bank credit. As such, these items should be excluded from the build-up of current assets while arriving at permissible bank finance for all categories of NBFCs:

- i. Bills discounted / rediscounted by NBFCs, except where specifically permitted;
- ii. Investments made in shares, debentures etc. of a current nature, i.e., stock-in-trade;
- iii. Investment in and advances to subsidiaries, group companies or other entities; and,
- iv. Investments in and inter-corporate loans / deposits to other companies.

(2) In respect of items indicated at (i) and (ii) above, banks should not make any adjustment in the projected net working capital (NWC). It may be added that the projected NWC represents long-term surplus available to support current operations and, therefore, does not need to be adjusted as a result of changing / pruning the level of current assets while reducing the level of maximum permissible bank finance.

D. Financing of NBFCs by Scheduled UCBs

168. Scheduled UCBs may rediscount bills discounted by NBFCs arising from sale of commercial vehicles, including light commercial vehicles, two wheeler and three wheeler vehicles, subject to normal lending safeguards and the following conditions:

- 1) the bills should have been drawn by the manufacturers on dealers only;
- 2) the bills should represent genuine sale transactions as may be ascertained from the chassis / engine numbers; and,

- 3) before rediscounting the bills, the UCBs should satisfy themselves about the bona- fides and track record of NBFCs which have discounted the bills.

Chapter XIII - Miscellaneous Provisions

A. Bridge Loans / Interim Finance

169. The grant of bridge loan / interim finance by UCBs to any company (including finance companies) is totally prohibited.
170. The UCBs should not circumvent these instructions by purport and / or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc. as also short-term loans, the repayment of which is proposed / expected to be made out of funds to be or likely to be mobilised from external / other sources and not out of the surplus generated by the use of the asset(s).

B. Grant of Loans for Acquisition of / Investing in Small Savings Instruments including Kisan Vikas Patras (KVP)

171. Grant of loans for acquiring / investing in KVPs does not promote fresh savings and, rather, channelise the existing savings in the form of bank deposits to small savings instruments and thereby defeat the very purpose of such schemes. UCBs may therefore ensure that no loans are sanctioned for acquisition of / investing in small savings instruments including KVPs.

C. Lending to Public Sector Undertakings

172. UCBs are advised, as a matter of principle, generally not to grant large value loans to Public Sector / Government Undertakings.

D. Financing Equipment Leasing and Hire Purchase Financing

173. Consequent to the Government of India notification dated December 12, 1995 specifying 'Hire Purchase' and 'Equipment Leasing' as forms of business in which it is lawful for a primary cooperative bank to engage, Scheduled UCBs are allowed to undertake these activities. Scheduled UCBs are advised to ensure that:

- 1) These activities are undertaken only at select branches of banks.
 - 2) These activities are to be treated at par with loans and advances and subject to extant exposure norms on individual / group borrowers.
 - 3) The banks should maintain a balanced portfolio of equipment leasing, hire purchase vis-a-vis aggregate credit. Credit exposure to each of these activities should not exceed 5 per cent of total advances.
 - 4) The banks undertaking these activities should follow prudent accounting standards. Entire lease rental should not be taken to banks' income account. Only the interest component should be taken to income account. The component representing replacement cost of the asset should be carried to the Balance Sheet in the form of a provision for depreciation.
 - 5) As a prudent measure, full depreciation should be provided during the primary lease period of the asset.
- Non Scheduled UCBs, which also desire to undertake these activities should obtain RBI permission.

E. Financing for Agricultural Activities

174. UCBs are permitted to finance agricultural activities subject to the following conditions:

- 1) UCBs would provide direct finance only to members (no nominal members) and not through any agency like primary agricultural credit societies and primary land development banks etc.,
- 2) Credit should be extended only after obtaining 'no dues certificate' from the existing credit agencies in the area, and
- 3) Banks should follow the scales of finance and obtain security as per guideline issued by RBI / NABARD.

G. Limits on unsecured advances

175. The limits on unsecured advances (with or without surety) are as under:

Limits for Individual Borrower and Group Borrower
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Criteria	UCBs with DTL up to ₹10 Crore	UCBs with DTL above ₹10 crore & up to ₹50 Crore	UCBs with DTL above ₹50 Crore & up to ₹100 Crore	UCBs with DTL above ₹100 Crore
UCBs having CRAR equal to or more than 9%	₹1.00 lakh	₹2.00 lakh	₹3.00 lakh	₹5.00 lakh
UCBs having CRAR less than 9%	₹0.25 lakh	₹0.50 lakh	₹1.00 lakh	₹2.00 lakh

H. Restriction on Advances to Defaulters of Statutory Dues

176. Under the law, employees' contributions to provident fund deducted from wages of the employees / members, for a period of more than six months and not paid to the Commissioner are a first charge on the assets of the borrowers, in the case of the insolvency / winding up of the borrowing employer. In the circumstances, primary (urban) cooperative banks should safeguard their interest vis-à-vis such statutory dues.
177. Therefore, banks should satisfy themselves that there are no arrears of Provident Fund and other statutory dues of the borrowers by obtaining a declaration from them that all such dues have been duly paid. Proof in this regard may be called for only in cases where banks have reason to doubt the borrowers' declaration. Even where a proof is required, it is not necessary to insist on a certificate from the Regional Provident Fund Commissioner; production of a receipt evidencing the payment of the dues or a certificate from the auditors of the borrower or any other similar proof may be considered sufficient. In the case of sick units where there are arrears for reasons beyond the control of the borrowers, banks may continue to consider such cases on merits.

Chapter XIII – Repeal and other provisions

A. Repeal and saving

178. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to credit facilities for Urban Cooperative Banks, stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.
179. 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

180. 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

181. 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

Annexures

Annex - I

Digital Lending -

Data to be submitted on the CIMS portal

Sl. No.	Name of the DLA	Name of the owner of DLA (Self-owned/ name of LSP in case DLA is of LSP)	Available on (Website/ Name of app store)	Link to DLA [#]	Name of Grievance Redressal Officer	Email id of Grievance Redressal Officer	Telephone number of Grievance Redressal Officer	Mobile number of Grievance Redressal Officer	Website of RE

**Each DLA to be reported as a separate line item. In case any DLA is available on multiple app stores, each entry is required to be reported separately with specific links to the DLA on the app store*

In case DLA is a website, provide link to the website, or in case DLA is an app hosted on one of the app-stores, provide the link of the DLA on the app-store

Lending Against Gold and Silver Collateral –

A. Advances against pledge of Gold / Silver Ornaments

1. In order to mitigate the inherent risks attached to sanction of loans and advances against gold / silver ornaments, UCBs are advised to observe the safeguards as detailed below:

1) Safeguards to be observed Advances against Pledge of Gold / Silver Ornaments

i) Ownership of Ornaments

It is advisable that the advances are made to persons properly introduced to the UCB. The UCB should satisfy itself about the ownership of the gold ornaments etc. before accepting them for pledge. The UCB should obtain a declaration from the borrower that the ornaments are his own property and that he has the fullest right to pledge them to the UCB. Taking of ornaments for pledge and release thereof to the parties concerned after repayment of the bank's dues should be done strictly in the authorised official's room to avoid any risk.

ii) Appraiser

The UCB should appoint an approved jeweller or shroff as an appraiser for valuation of the gold ornaments proposed to be pledged to the UCB and obtain adequate security from him in the form of cash and indemnity bond. Valuation and appraisal of the ornaments in the bank's premises itself would be ideal but when these are not possible, the UCB should take suitable precautions against their loss while in transit. The UCB should send the ornaments to the appraiser in a locked box, one key of which should be kept with the appraiser and the other with the UCB. The box should be sent through a responsible member of the staff along with the prospective borrower. The placing of ornaments in the box at both the ends should be done in the presence of the employee carrying the ornaments to the appraiser and the borrower. The UCB should take a suitable insurance cover for loss of the ornaments while in transit.

iii) Valuation Report

The valuation certificate of the appraiser should clearly indicate the description of the ornaments, their fitness, gross weight of the ornaments, net weight of the gold content

exclusive of stones, lac, alloy, strings, fastenings and the value of the gold at the prevailing market price. The valuation report should be duly signed by the appraiser and kept along with the loan documents by the UCB.

In order to standardize the valuation and make it more transparent to the borrower, it has been decided that gold jewellery accepted as security/collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. In terms of circular DCBR.BPD. (PCB/RCB). Cir. No. 3/13.05.001/2015-16 dated October 15, 2015, UCBs may also use the historical spot gold price data of the preceding 30 days publicly disseminated by a Commodity Exchange regulated by the Securities and Exchange Board of India. If the gold is of purity less than 22 carats, the UCB should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately

iv) Record of Security

The full name of the borrower, his residential address, date of advance, amount and description of the ornaments in detail should be recorded in the gold ornaments register which should be checked / initialled by the Manager.

v) Custody of Ornaments

The ornaments belonging to each borrower (or articles of each loan) together with a list indicating the description of ornaments, gold loan account number, name of party, etc. should be kept separately in small cloth bags. A tag indicating loan account number and name of the party should be tied to the bag to facilitate identification. The bags should be arranged in trays according to loan account numbers and kept in the strong room or fire proof safes under joint custody.

vi) Period

The period of advance against gold ornaments should be generally restricted to 6 months or 1 year.

vii) Margin

As a prudential measure, Loan to Value (LTV) Ratio of not exceeding 75% is applicable for UCBs' lending against gold jewellery (including bullet repayment loans against pledge of gold jewellery). The UCB should collect interest on advances promptly. In no circumstances should it allow to water down the margin by debiting the interest accrued to the loan account.

Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. UCBs would find granting of advances against the security of such hallmarked jewellery safer and easier. Preferential treatment of hallmarked jewellery is likely to encourage practice of hallmarking which will be in the long-term interest of consumers, lenders and the industry. Therefore, UCBs while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.

viii) Return of Ornaments

On repayment of the loan together with the interest payable in the account, the ornaments should be returned to the borrower and his receipt obtained in token of having received the ornaments.

ix) Part Release

While allowing part release of the ornaments against part repayment of the loan, care should be taken to ensure that the value of the left-over ornaments is sufficient to cover outstanding balance with the margin prescribed in the account.

x) Delivery to Third Parties

When the ornaments are delivered to third parties, a letter of authority from the borrower and subsequent confirmation of the borrower should be obtained. The letter of authority should contain an undertaking by the borrower, absolving the UCB of any responsibility in the event of dispute or loss arising from the delivery of the ornaments to the party named therein. The receipt of the third party should be obtained on the letter of authority as well as in the gold loan ledger.

xi) Default

When the borrower fails to repay the loan on the due date, a notice calling upon him to repay the loan within a specified time should be given and if no response is

received, a reminder should be sent by registered post informing the borrower that the ornaments would be auctioned and after adjusting the sale proceeds against the outstanding dues to the UCB, the balance, if any, would be paid to the borrower against his receipt.

xii) Re-pledge of Ornaments

It is not advisable for UCBs to make advances against re-pledge of ornaments as this facility is likely to be misused for financing moneylenders, which is not a desirable activity.

xiii) Insurance

The jewels pledged to the UCB should be insured for the appraised value against the risk of burglary. If UCBs store the pledged jewels in fire-proof strong rooms, insuring them against fire may not be necessary. UCBs may take blanket insurance policy covering cash, jewels and other valuables and also covering all types of risks.

xiv) Verification

Surprise verification of the packets containing gold / silver ornaments by an officer other than the joint custodian be undertaken and should be recorded in a separate register with necessary details.

2. Bullet Repayment

1) With effect from October 30, 2014 the quantum of loans against gold ornaments that could be granted under the bullet repayment scheme with the approval of their bank's Board has been enhanced from ₹1 lakh to ₹2 lakh subject to the following guidelines:

- i) The amount of loan sanctioned should not exceed ₹2 lakh at any point of time.
- ii) The period of the loan shall not exceed 12 months from the date of sanction.
- iii) Interest will be charged to the account at monthly rests but will become due for payment along with principal only at the end of 12 months from the date of sanction.

- iv) UCBs should maintain a Loan to Value (LTV) ratio of 75% on the outstanding amount of loan including the interest on an ongoing basis, failing which the loan will be treated as Non Performing Asset (NPA).
- v) Such loans shall be governed by the extant income recognition, asset classification and provisioning norms which shall be applicable once the principal and interest become overdue.

2) With a view to providing incentives to UCBs meeting PSL targets, with effect from October 6, 2023, the monetary ceiling of gold loans that can be granted under the bullet repayment scheme, has been increased from ₹2.00 lakh to ₹4.00 lakh for those UCBs who have met the overall PSL target and sub targets as on March 31, 2023 and continue to meet the targets and sub-targets as prescribed at para 7.2 of Master Directions - Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025 dated March 24, 2025, as amended from time to time. All other provisions of the scheme remain unchanged.

3. Crop loans sanctioned against the collateral security of gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.

4. UCBs are not permitted to grant any advance for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.

Non-Fund Based Credit Facilities

A. Guarantees

A.1 Purpose

1. As a general rule, banks may provide only financial guarantees and not performance guarantees.
2. However, scheduled banks may issue performance guarantees on behalf of their constituents subject to exercising due caution in the matter.

A.2 Maturity

3. UCBs may confine their guarantees to relatively short-term maturities. Guarantees shall not be issued for periods exceeding ten years in any case.

A.3 Volume

4. The total volume of guarantee obligations outstanding at any time shall not exceed 10 per cent of the total owned resources of the bank comprising paid up capital, reserves and deposits. Within the overall ceiling, proportion of unsecured guarantees outstanding at any time shall be limited to an amount equivalent to 25% of the owned funds (paid up capital + reserves) of the bank or 25% of the total amount of guarantees, whichever is less.

A.4 Secured Guarantees

5. Banks shall preferably issue secured guarantees. A secured guarantee means a guarantee made on the security of assets (including cash margin), the market value of which will not at any time be less than the amount of the contingent liability on the guarantee, or a guarantee fully covered by counter guarantee/s of the Central Government, State Governments, public sector financial institutions and / or insurance companies.

A.5 Unsecured Guarantees

6. Banks shall avoid undue concentration of unsecured guarantee commitments to particular groups of customers and / or trades. The banks' Board of Directors shall fix suitable proportions for issuance of unsecured guarantees on behalf of any individual constituent so that these guarantees do not exceed a -
 - (i) reasonable proportion of the total obligations in respect of unsecured guarantees provided by the bank to all such constituents at any time, and

- (ii) reasonable multiple of the shareholdings in the bank.

A.6 Deferred Payment Guarantees

7. (1) Banks shall generally provide deferred payment guarantees backed by adequate tangible securities or by counter guarantees of the Central or the State Government or public sector financial institutions or of insurance companies and other banks.

(2) Banks issuing deferred payment guarantees on behalf of their borrowers for acquisition of capital assets shall ensure that the total credit facilities including the proposed deferred payment guarantees do not exceed the prescribed exposure ceilings.

(3) The proposals for deferred payment guarantees shall be examined having regard to the profitability / cash flows of the project to ensure that sufficient surpluses are generated by the borrowing unit to meet the commitments as a bank has to meet the liability at regular intervals in respect of the instalments due. The criteria generally followed for appraising a term loan proposal for acquisition of capital assets shall also be applied while issuing deferred payment guarantees.

A.7 Guarantees in respect of Commodities covered under Selective Credit Controls

8. UCBs shall not issue, either to a Court or to Government, or any other person, a guarantee on behalf of or on account of any importers guaranteeing payment of customs duty and / or import duty, or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin equivalent to at least one half of the amount payable under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

A.8 Safeguards in Issuance of Guarantees

9. While issuing financial guarantees, banks shall observe the following safeguards:

- i) UCBs shall appraise the proposals for guarantees with the same diligence as in the case of fund based limits and such assessments shall inter alia factor in the presence of security, adequate margin, etc., or otherwise.
- ii) Bank guarantees shall be issued in security forms serially numbered to prevent issuance of fake guarantees.

- iii) Guarantees above a particular cut off point, as may be decided by each bank, shall be issued under two signatures in triplicate, one copy each for the branch, beneficiary and Controlling Office / Head Office. It shall be binding on the part of the beneficiary to seek confirmation of the Controlling Office / Head Office as well for which a specific stipulation be incorporated in the guarantee itself.
- iv) The guarantees shall not normally be allowed to the customers who do not enjoy credit facilities with the banks but only maintain current accounts. If any requests are received from such customers, the banks shall subject the proposals to thorough scrutiny and satisfy themselves about the genuine need of the customers. Banks should be satisfied that the customers would be in a position to meet the claims under the guarantees, when received, and not approach the bank for credit facility in this regard. For this purpose the banks shall enquire into the financial position of the customers, the source of funds from which they would be in a position to meet the liability and prescribe a suitable margin and obtain other security, as necessary. The banks may also call for the detailed financial statements and Wealth-tax / Income-tax returns of the customer to satisfy themselves of their financial status. The observations of the banks in respect of all these points shall be recorded in banks' books.
- v) Where the customers enjoy credit facilities with other banks, the reasons for their approaching the bank for extending the guarantees shall be ascertained and invariably, a reference shall be made to their existing bankers with whom they are enjoying credit facilities.
- vi) Banks, when approached to issue guarantees in favour of other banks for grant of credit facilities by another bank, shall examine thoroughly the reasons for approaching another bank for grant of credit facilities and satisfy themselves of the need for doing so. This shall be recorded in bank's books.

10. When it is considered necessary to issue such guarantees, the banks concerned shall ensure that the relative guarantee document, beyond a stipulated amount, shall not be signed singly but by two authorised officials jointly after obtaining proper sanction and authority and proper record of such guarantee issued being maintained. The credit proposals shall be subjected to usual scrutiny by the lending bank ensuring

that the proposals conform to the prescribed norms and guidelines and credit facilities are allowed only if the bank is satisfied about the merits of the proposal and the availability of another bank's guarantee shall not result in a dilution of the standards of evaluation of the proposal and financial discipline in lending.

A.9 Payment under Bank Guarantees - Immediate Settlement of Cases

11.

- 1) Government of India and Reserve Bank of India have been receiving a number of complaints on non-payment or delay in payment of bank guarantees upon invocation.
- 2) The bank guarantee is a commitment made by the issuing bank to make payment to the beneficiary (albeit at the behest of the bank's constituent). Failure on the part of the bank to honour the claim legitimately made on it projects a distorted picture of its functioning.
- 3) In fact some strictures were passed by Courts in the past against banks for not honouring the guarantee commitments promptly. In this connection, an extract of a judgment pronounced by the Hon'ble Supreme Court, in a case on the issue of injunctions obtained by parties from courts restraining payment of invoked guarantees is appended :
"We are therefore, of the opinion that the correct position of law is that commitment of banks must be honoured free from interference by the courts and it is only in exceptional cases, that is to say, in case of fraud or in case where irretrievable injustice would be done, if bank guarantee is allowed to be encashed, the court should interfere."
- 4) The UCBs shall , therefore, honour bank guarantees issued by them promptly on their invocation as reluctance on their part to honour commitments in respect of invoked guarantees tend to bring the banking system into disrepute.

A.10 Delay in Obtaining Certified Copies of Judgments

12.

- 1) The Ministry of Finance has advised that some of the Departments such as Department of Revenue, Govt. of India, are finding it difficult to execute judgments delivered by various courts in their favour as banks do not honour

their guarantees unless certified copies of the court judgments are made available to them.

2) Keeping in view these difficulties, banks may follow the following procedure:

- i) Where the bank is a party to the proceeding initiated by Government for enforcement of bank guarantee and the case is decided in favour of the Government by the Court, bank shall not insist on production of certified copy of the judgment as the judgment order is pronounced in open court in the presence of the parties / their counsels and the judgment is known to the bank and a copy of the judgement is available on websites of the Courts.
- ii) In case the bank is not a party to the proceeding, a signed copy of the minutes of the order certified by the Registrar / Deputy or Assistant Registrar of the High Court duly attested to be true copy by Govt. Counsel should be sufficient for honouring the obligation under the guarantees unless the guarantor bank decides to file any appeal against the order of the High Court.

A.11 Correspondence with Government Departments

13.

- 1) The Constitution of India states that all executive action relating to Union of India shall be, and shall be stated to be, in the name of President of India. However, the business of the Government of India is transacted through several ministries / departments and even though documents such as guarantees reflect the President of India as one of the parties, correspondence is not to be exchanged with the President of India but with concerned Government Ministry / Departments.
- 2) The banks should, therefore, ensure that any correspondence relating to guarantees furnished by the banks in the name of the President of India favouring the Government Departments should not be addressed to the President of India causing avoidable inconvenience to the President's Secretariat.

B. Co-acceptance of Bills

B.1 Irregularities in Co-acceptance of Bills

14.

- 1) Banks have been co-accepting bills of their customers. On many occasions these bills turn out to be accommodation bills drawn by groups of sister concerns on each other where no genuine trade transaction takes place. Such bills on maturity are not honoured by the drawees and the banks which have co-accepted the bills have to make payment of these bills and thereafter, they find it difficult to recover the amount from the drawers / drawees of bills. This happens because the financial position and capacity of the parties to honour the bills, in the event of need, is not gone into by the banks co-accepting the bills.
- 2) There have also been cases where the particulars regarding co- acceptance of bills are not recorded in the bank's books with the result that the extent of co- acceptance cannot be verified during inspections and the Head Office becomes aware of the co-acceptance only when a claim is received from the discounting bank.

B.2 Safeguards

15. In view of the above, banks shall keep in view the following safeguards:

- i) While sanctioning co-acceptance limits to their customers, the need therefore shall be ascertained and such limits shall be extended only to their customers enjoying other limits with the bank.
- ii) Only genuine trade bills shall be co-accepted and the banks shall ensure that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.
- iii) The valuation of the goods as mentioned in the accompanying invoice shall also be verified to see that there is no over valuation of stocks.
- iv) The banks shall not extend their co-acceptance to house bills / accommodation bills drawn by group concerns on one another.
- v) The powers to co-accept bills, beyond a stipulated limit, must be exercised by two authorised officials jointly.
- vi) Proper records of the bills co-accepted for each customer shall be maintained so that the commitments for each customer and the total commitments at a branch can be readily ascertained and these should be scrutinised by internal inspectors and commented upon in their reports.

- vii) Proper periodical returns may be prescribed so that the Branch Managers report such co-acceptance commitments entered into by them to the controlling offices. Such returns should also reveal the position of bills that have become overdue and which the bank had to meet under the co-acceptance obligation. This will enable the controlling offices to monitor such co-acceptances furnished by the branches and take suitable action in time, in difficult cases.

C. Letters of Credit (LCs)

C.1 Guidelines for Grant of LCs Facility

16. UCBs shall not normally grant LC facilities in respect of parties who maintain only nominal current accounts. In case of borrowers maintaining only current accounts, who approach for opening of LCs, banks shall invariably ascertain from the existing bankers of the borrowers the reasons as to why they are not extending LC facilities to the concerned borrowers. Banks should open LCs in respect of such parties only after making proper enquiries in regard to the antecedents of the borrowers from the bankers with whom the parties are enjoying main limits, their financial position and their ability to retire the bills. They shall also prescribe a suitable margin and obtain other security, as necessary.

C.2 LCs for Commodities covered under Selective Credit Controls

17. There is no restriction for the banks in opening LCs for import of essential items. However, banks are not permitted to open inland LCs, providing a clause therein which would enable other banks to discount usance bills under the LCs.

C.3 Safeguards in Opening of LCs

18. Before opening LCs, banks shall ensure that:

- 1) LCs are issued in security forms only;
- 2) Large LCs are issued under two authorised signatures where one of the signatures for LCs shall be from the Head Office / Controlling Office. As the need for large LCs may not arise overnight, with the availability of courier service, speed post service etc., this procedure may not result in delay. In the LCs itself a column may be provided to indicate the authority who had sanctioned it together with the particulars thereof;
- 3) LCs are not issued for amounts out of proportion to the borrowers' genuine requirements and these are opened only after ensuring that the borrowers have made

adequate arrangements for retiring the bills received under LCs out of their own resources or from the existing borrowing arrangements;

4) where LCs are for purchase of raw materials, borrowers do not maintain unduly high inventory of raw materials in relation to the norms / past trends. Where such LCs are to be opened on D/A basis, credit on the relative purchase is duly taken into account for the purpose of working out drawing power in cash credit accounts;

5) in the case of borrowers having banking arrangements on a consortium basis, the LCs are opened within the sanctioned limit on the basis of the agreed share of each of the banks. Member-banks should not, however, open LCs outside the sanctioned limits without the knowledge of the lead bank / other banks;

6) if there is no formal consortium arrangement for financing the borrower, LCs should not be opened by the existing bank or a new bank, without the knowledge of the other banks;

7) LCs for acquisition of capital goods should be opened only after banks have satisfied themselves about tying up of funds for meeting the relative liability by way of providing for long term funds or term loans from financial institutions / banks;

8) In no case, working capital limits should be allowed to be utilised for retiring bills pertaining to acquisition of capital assets.

9) Banks shall not extend any non-fund based facilities or additional / ad-hoc credit facilities to parties who are not their (the bank's) regular constituents for their production finance requirements; nor should they discount bills drawn under LCs or otherwise for beneficiaries who are not their regular clients. In case it becomes unavoidably necessary to provide such a facility to a party not being a regular client, banks should invariably seek the prior concurrence of the existing banker of the borrowers and also make proper enquiries in regard to the antecedents of the borrowers, their financial position and ability to retire the bills etc. in time.

10) With effect from March 30, 2012 in case of bills drawn under LCs restricted to a particular UCB, and the beneficiary of the LC is not a borrower who has been granted regular credit facility by that UCB, the UCB concerned may, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank, negotiate such LCs, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary of the LC. However, the prohibition regarding negotiation of unrestricted LCs for borrowers who have not been sanctioned regular credit facilities will continue to be in force.

11) UCBs negotiating bills as above, under restricted LCs, would have to adhere to the instructions of the Reserve Bank / RCS or CRCS regarding share linking to borrowing and provisions of Co-operative Societies Act on membership

C.4 Payment under LCs - Immediate Settlement of Claims

19.(1) There have been a few instances where LCs were opened by officials of banks in an unauthorised manner. In certain cases, the LCs transactions were not recorded in the books of the branch by officials issuing them, while in some other cases the amounts of LCs were much in excess of the powers vested in them for the purpose. Subsequently when the banks come to know about the fraudulent issue of LCs, they disclaim liability on the ground that these are transactions involving a conspiracy / collusion between the beneficiary and the constituent.

(2) It may be appreciated that if the bills drawn under LCs are not honoured, it will adversely affect the character of LCs and the relative bills as an accepted means of payment. This could also affect the credibility of the entire payment mechanism through banks and affect the image of the banks. It is, therefore, necessary that all the banks shall honour their commitments under LCs and make payments promptly leaving no opportunity for any complaints in this regard. Banks shall take suitable action against the concerned officials as well as the constituents on whose behalf the LCs are opened and the beneficiaries of LCs, if a criminal conspiracy is involved.

C.5 Other Common Guidelines

20. Credit Exposure Norms and Statutory / Other Restrictions on Non- fund Based Limits

(i) UCBs are required to strictly observe exposure norms and statutory / other restrictions prescribed for non-fund based limits (e.g. LCs, Guarantees, Co-acceptances, etc.) as detailed in the Master Direction on Concentration Norms and Master Direction on Credit Risk Management and other norms issued by RBI from time to time.

(ii) The exposure ceilings and other restrictions particularly prescribed for

- a) total credit exposure including non-fund based limits,
- b) unsecured guarantees,
- c) advances to bank's Directors,
- d) loans and advances to relatives of Directors,

e) advances to nominal members, must be strictly observed.

21. Banks shall ensure that the systems evolved for recording the details of off-balance sheet transactions are properly followed by all branches. These records shall be periodically balanced and internal inspectors should verify the same and offer critical comments.

22. Banks shall ensure that unauthorised LCs are not issued.

23. Banks must lay down clear instructions for their branch staff in respect of loan accounts where such non-funded facilities become funded on account of devolvement of bills covered under the bank's LCs or due to invocation of guarantees issued by the bank. The banks must evolve proper guidelines to ensure that, accounts where non-funded limits become "funded" are closely monitored and goods covered under devolved bills remain under bank's control / hypothecation, particularly where malafides are suspected. In cases of goods covered under import LCs, banks must also ensure immediate submission of custom's copy of the Bill of Entry and take measures as prescribed in the guidelines issued by Foreign Exchange Department.

24. A number of banks adopt the practice of parking the dues of the borrower in respect of devolved LCs and invoked guarantees in a separate account which is not a regular sanctioned facility. As a result, these are not reflected in the principal operating account of the borrower. This renders application of the prudential norms for identification of NPAs difficult. It is, therefore, advised that if the debts arising out of devolvement of LCs or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

25. Banks may strengthen their information back up about the borrowers enjoying credit facilities from multiple banks by obtaining declaration from the borrowers about the credit facilities already enjoyed by them from other banks. In the case of existing lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of ₹5.00 crore and above or wherever, it is in their knowledge that their borrowers are availing credit facilities from other banks and introduce a system of exchange of information with other banks. Subsequently banks shall exchange information about the conduct of the borrowers' accounts with other banks at least at

quarterly intervals. Banks should also make use of CRILC or credit reports available from Credit Information Companies. The banks should incorporate suitable clauses in the loan agreements regarding exchange of credit information so as to address confidentiality issues. Banks should also obtain regular certification by a professional, preferably a Company Secretary, Chartered Accountant or Cost Accountant regarding compliance of various statutory prescriptions that are in vogue. The formats for collecting information from the borrowers, exchange of information among banks and certification by a professional are furnished in Reserve Bank of India (Urban Co-operative Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

26. Banks are exposed to various risks in every financial transaction including commitments in the form of Guarantees, Co-acceptances, LCs etc. The managements of UCBs have to base their business decisions on sound risk management systems with the ultimate objective of protecting the interest of depositors and stakeholders. It is, therefore, important that UCBs adopt effective Asset-Liability Management (ALM) systems to address the issues related to liquidity, interest rate and currency risks. Banks shall invariably follow the ALM guidelines issued by Reserve Bank in this regard.

27. UCBs categorized as Category - I Authorised Dealer Banks shall also ensure compliance with A.P. (DIR Series) Circular No. 18 dated October 04, 2024 regarding 'Due diligence in relation to non-resident guarantees availed by persons resident in India'.

**Form of an undertaking to be obtained by banks
from the clients who are extended credit for
doing any business relating to diamonds**

"I hereby undertake not to knowingly do any business in the conflict diamonds as have been banned vide UN Security Councils Resolution Nos.1173, 1176 and 1343(2001) or the conflict diamonds which come from any area in Africa including Liberia controlled by forces rebelling against the legitimate and internationally recognised government of the relevant country and further undertake not to do direct or indirect import of all rough diamonds from Sierra Leone and/or Liberia whether or not such diamonds originated in Liberia in terms of UN Security Council Resolution No. 1306 (2000) which prohibits the direct or indirect import of all rough diamonds from Sierra Leone and 1343(2001) which prevents such import from Liberia.

I am also giving my consent to the withdrawal of all my credit entitlements at any time, I am found guilty of knowingly having conducted business in such diamonds."

