Master Circular
On

MANAGEMENT OF ADVANCES

(Updated upto 30 June, 2008)

(Also available at RBI website **www.rbi.org.in**)

RESERVE BANK OF INDIA

Urban Banks Department,
Central Office,
Mumbai.

RBI/2008/50
UBD.BPD (PCB) MC. No.5 /13.05.000/2008-09

July 1, 2008

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Master Circular on Management of Advances- UCBs

Please refer to our Master Circular UBD.BPD (PCB) MC. No.9 /13.05.000/2007-08 dated July 4, 2007 on the captioned subject. The enclosed Master Circular consolidates and updates all the instructions/guidelines on the subject issued upto June 30, 2008.

Yours faithfully,

(A.K Khound)
Chief General Manager-in-Charge

Management of Advances

Contents

MANAGEMENT OF LOANS AND ADVANCES

1. BACKGROUND

1.1 In the context of rapid growth of primary (urban) co-op. banks (PCBs), qualitative aspects of lending, such as adequacy of lending to meet credit requirements of their borrowers and effective supervision and monitoring of advances have assumed considerable importance. Previously working capital finance provided by the banks to trade and industry was regulated by the Reserve Bank of India through a series of guidelines/instructions issued. There were various quantitative and qualitative restrictions on bank's lending. The banks were also expected to ensure conformity with the basic financial disciplines prescribed by the RBI from time to time under Credit Authorisation Scheme (CAS).

1.2 However, consistent with the policy of liberalisation and financial sector reforms, several indirect measures to regulate bank credit such as exposure norms for lending to individual/group borrowers, prudential norms for income recognition, asset classification and provisioning for advances, capital adequacy ratios, etc. were introduced by RBI and greater operational freedom has been provided to banks in dispensation of credit.

1.3 Banks are now expected to lay down, through their boards, transparent policies and guidelines for credit dispensation, in respect of each broad category of economic activity, keeping in view the credit exposure norms and various other guidelines issued by the Reserve Bank of India from time to time. Some of the currently applicable guidelines are detailed in the following paragraphs.

2. WORKING CAPITAL REQUIREMENTS UPTO RS. 1 CRORE

2.1 The assessment of working capital requirement of borrowers, other than SSI units, requiring fund based working capital limits upto Rs.1.00 crore and SSI units requiring fund based working capital limits upto to Rs.5.00 crore from the banking system may be made on the basis of their projected annual.

2.2 In accordance with these guidelines, the working capital requirement is to be assessed at 25% of the projected turnover to be shared between the borrower and the bank, viz. borrower contributing 5% of the turnover as net working capital (NWC) and bank providing finance at a minimum of 20% of the turnover.

2.3 The banks may, at their discretion, carry out the assessment based on projected turnover basis or the traditional method. If the credit requirement based on traditional production/processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned, as borrower must be financed upto the extent of minimum 20 per cent of their projected annual turnover.

2.4 The banks may satisfy themselves about the reasonableness of the projected annual turnover of the applicants, both for new as well as existing units, on the basis of annual statements of accounts or any other documents such as returns filed with sales-tax/revenue authorities and also ensure that the estimated growth during the year is realistic.

2.5 The borrowers would be required to bring in 5 per cent of their annual turnover as margin money. In other words, 25 per cent of the output value should be computed as working capital requirement, of which at least four-fifth should be provided by the banking sector, the balance one-fifth representing the borrower's contribution towards margin for the working capital. In cases, where output exceeds the projections or where the initial assessment of working capital is found inadequate, suitable enhancement in the working capital limits should be considered by the competent authority as and when deemed necessary. For example, in case, annual turnover of a borrower is projected at Rs. 60.00 lakh, the working capital requirement will be computed at Rs. 15.00 lakh (i.e. 25%) of which Rs. 12 lakh (i.e. 20%) may be provided by the banking system, while Rs. 3.00 lakh (i.e. 5 %) should be borrower's contribution towards margin money.

2.6 Drawals against the limits should, however, be allowed against the usual safeguards so as to ensure that the same are used for the purpose intended. Banks will have to ensure regular and timely submission of monthly statements of stocks, receivables, etc., by the borrowers and also periodical verification of such statements vis-à-vis physical stocks by their officials.

2.7 In regard to the above, few clarifications to some of the issues raised by banks are given in *Annex* I.

3. WORKING CAPITAL REQUIREMENTS ABOVE RS. 1 CRORE

3.1 Method of Assessment

3.1.1 The revised guidelines in respect of borrowers other than SSI units, requiring working capital limits above Rs.1 crore and for SSI units requiring fund based working capital limits above Rs.5 crore, from the banking system bestow greater level of flexibility to the primary (urban) co-operative banks in their day-to-day operations without diluting the prudential norms for lending as prescribed by Reserve Bank of India.

3.1.2 The earlier prescription regarding Maximum Permissible Bank Finance (MPBF), based on a minimum current ratio of 1.33:1, recommended by Tandon Working Group has been withdrawn. Banks are now free to decide on the minimum current ratio and determine the working capital requirements according to their perception of the borrowers and their credit needs.

3.1.3 Banks may evolve an appropriate system for assessing the working capital credit needs of borrowers whose requirement are above Rs.1 crore. Banks may adopt any of the under-noted methods for arriving at the working capital requirement of such borrowers.

a) The turnover method, as prevalent for small borrowers may be used as a tool of assessment for this segment as well,

b) Since major corporates have adopted cash budgeting as a tool of funds management, banks may follow cash budget system for assessing the working capital finance in respect of large borrowers.

c) The banks may even retain the concept of the MPBF with necessary modifications.

3.2 Norms for Inventory/Receivables

3.2.1 In order to provide flexibility in the assessment of credit requirements of borrowers based on a total study of borrowers' business operations, i.e., taking into account the production/processing cycle of the industry as well as the financial and other relevant parameters of the borrower, the banks have also been permitted to decide the levels of holding of each item of inventory as also of receivables, which in their view would represent a reasonable build-up of current assets for being supported by bank finance.

3.2.2 Reserve Bank of India no longer prescribes detailed norms for each item of inventory as also of receivables.

3.3 Classification of Current Assets and Current Liabilities

3.3.1 With the withdrawal of MPBF, inventory norms and minimum current ratio, the classification of current assets and current liabilities ceases to be mandatory. The banks may decide on their own as to which items should be included for consideration as current assets or current liabilities.

3.3.2 Banks may also consider evolving suitable internal guidelines for accepting the projections made by their borrowers relating to the item "Sundry Creditors (Goods)" appearing as an item under "Other Current Liabilities" in the balance sheet.

3.4 Bills Discipline

In respect of borrowers enjoying fund-based working capital credit limits of Rs. 5 crore and more from the banking system, the banks are required to ensure that the book-debt finance does not exceed 75 per cent of the limits sanctioned to borrowers for financing inland credit sales. The remaining 25 per cent of the credit sales may be financed through bills to ensure greater use of bills for financing sales.

3.5 Grant of Ad hoc Limits

To meet the contingencies, banks may decide on the quantum and period for granting ad hoc limits to the borrowers based on their commercial judgement and merits of individual cases. While granting the ad hoc limits the banks must ensure that the aggregate credit limits (inclusive of ad hoc limits) do not exceed the prescribed exposure ceiling.

3.6 Commitment Charge

The levy of commitment charge is not mandatory and it is left to the discretion of the financing banks/ consortium/syndicate. Accordingly, banks are free to evolve their own guidelines in regard to commitment charge for ensuring credit discipline.

3.7 Consortium Arrangement

The mandatory requirement of formation of consortium for extending working capital finance under multiple banking arrangements has been withdrawn.

3.8 Syndication of Credit

The syndication of loans is an internationally practised model for financing credit requirements. The banks are free to adopt syndication route, irrespective of the quantum of credit involved, if the arrangement suits the borrower and the financing banks.

3.9 Loan System for Delivery of Bank Credit

3.9.1 Background

In order to bring about an element of discipline in the utilisation of bank credit by large borrowers, instill efficiency in funds management, loan system for delivery of bank credit was been introduced for borrowers enjoying working capital credit limits of Rs.10 crore and above from the banking system and the minimum level of loan component for such borrowers was fixed at 80 per cent. These guidelines have been revised by RBI, in the light of current environment of short-term investment opportunities available to both the corporates and the banks. In case any primary (urban) co-operative bank is having borrowers with MPBF of Rs. 10 crore and above where it has participated under consortium/syndication, it should ensure strict compliance with the under-noted guidelines.

3.9.2 Loan Component and Cash Credit Component

(i) Banks may change the composition of working capital by increasing the cash credit component beyond 20 per cent or to increase the loan component beyond 80 per cent, as the case may be, if they so desire.

(ii) Banks are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.

(iii) If a borrower so desires, higher loan component can be granted by the bank; this would entail corresponding pro-rata reduction in the cash credit component of the limit.

(iv) In the case of borrowers with working capital (fund based) credit limit of less than Rs. 10 crore, banks may persuade them to go in for the Loan System by offering an incentive in the form of lower rate of interest on the 'loan component' as compared to the 'cash credit component' The actual percentage of 'loan component' in these cases may be settled by the bank with its borrower clients.

(v) In respect of certain business activities which are cyclical and seasonal in nature or have inherent volatility, the strict application of loan system may create difficulties for the borrowers. Banks, may with the approval of their respective Boards, identify such business activities which may be exempt from the loan system of credit delivery.

3.9.3 **Ad hoc Credit Limit**

The release of ad hoc/additional credit for meeting temporary requirements may be considered by the financing bank only after the borrower has fully utilised/exhausted the existing limit.

3.9.4 **Sharing of Working Capital Finance**

(i) The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to the stipulations contained in Para. 3.9.2 above.

(ii) The level of individual bank's share shall be governed by the norm for single / group borrowers credit exposure.

3.9.5 **Rate of Interest**

Banks are allowed to fix separate lending rates for 'loan component' and 'cash credit component'.

3.9.6 **Period of Loan**

The minimum period of the loan for working capital purposes may be fixed by banks in consultation with borrowers. Banks may decide to split the loan component according to the need of the borrower with different maturity bases for each segment and allow roll over.

3.9.7 **Security**

In regard to security, sharing of charge, documentation, etc., banks may themselves decide on the requirements, if necessary, in consultation with the other participant banks.

3.9.8 **Export Credit**

Export credit limit would be allowed in the form hitherto granted. The bifurcation of the working capital limit into loan and cash credit components, as stated in paragraph 3.9.2 (i) above, would be effected after excluding the export credit limits (pre-shipment and post-shipment).

3.9.9 **Bills Limit**

Bills limit for inland sales may be fully carved out of the 'loan component'. Bills limit also includes limits for purchase of third party (outstation) cheques/bank drafts. Banks must satisfy themselves that the bills limit is not mis-utilised.

3.9.10 **Renewal/Roll-over of Loan Component**

The loan component , may be renewed/rolled over at the request of the borrower. However, banks may lay down policy guidelines for periodical review of the working capital limit and the same may be scrupulously adhered to.

3.9.11 **Provision for Investing Short Term Surplus Funds of Borrowers**

The banks, at their discretion, may permit the borrowers to invest their short term/temporary surpluses in short-term money market instruments like Commercial Paper (CP), Certificates of Deposit (CDs) and in Term Deposit with banks, etc.

3.9.12 **Applicability**

The loan system would be applicable to borrowal accounts classified as 'standard' or 'sub-standard'.

4. CREDIT ADMINISTRATION

4.1 Rate of interest

4.1.1UCBs are permitted to determine their lending rates taking into account their cost of funds, transaction costs etc with the approval of their Board. However, banks are advised to ensure that the interest rates charged by them are transparent and known to all customers. Banks are also required to publish the minimum and maximum interest rates charged on advances and display the information in every branch.

4.1.2. It may however be appreciated that though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious and can neither be sustainable nor be conforming to normal banking practice.

4.1.3. Boards of banks are, therefore, advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks may take into account, *inter-alia*, the following broad guidelines:

(i) An appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower.

(ii) Interest rates charged by banks, *inter-alia,* should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower. Further, in considering the question of risk, the presence or absence of security and the value thereof should be taken into account.

(iii) The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction.

(iv) In the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to Rs.25,000. Penal interest may be levied for reasons such as default in repayment, non-submission of financial statements, etc. However, the policy on penal interest should be governed by well-accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers.

(v) Banks should ensure that the total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers. The small and marginal farmers for the purpose shall include those with land holding of 5 acres and less.

(vi) An appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

4.2 No Objection Certificate

The primary (urban) co-operative banks should not finance a borrower already availing credit facility from another bank without obtaining a 'No Objection Certificate' from the existing financing bank.

4.3 Opening of Current Accounts

4.3.1 Keeping in view the importance of credit discipline for reduction in NPA levels at the time of opening of current accounts banks should:

(i) insist on a declaration from the account holder to the effect that he is not enjoying any credit facility with any other commercial bank or obtain a declaration giving particulars of credit facilities enjoyed by him with any other commercial bank/s.

(ii) ascertain whether he/she is a member of any other co-operative society/bank; if so, the full details thereof such as name of the society/bank, number of shares held, details of credit facilities, such as nature, quantum, outstanding, due dates etc should be obtained.

4.3.2 Further, in case he/she is already enjoying any credit facility from any other commercial/co-operative bank, the bank opening a current account should duly inform the concerned lending bank(s) and also specifically insist on obtaining a "No Objection Certificate" from them. In case of a prospective customer who is a corporate or large borrower enjoying credit facilities from more than one bank, the banks may inform the consortium leader, if under consortium, and the concerned banks, if under multiple banking arrangement.

In case a facility has been availed from a co-operative bank/society, it is essential for the bank to comply with the requirements of the Co-operative Societies Act/Rules of the state concerned in regard to membership and borrowings.

4.3.3 Banks may open current accounts of prospective customers in case no response is received from the existing bankers after a minimum waiting period of a fortnight. If a responses is received within a fortnight, banks should assess the situation with reference to information provided on the prospective customer by the bank concerned and are not required to solicit a formal no objection, consistent with true freedom to the customer of banks as well as needed due diligence on the customer by the bank.

4.4 Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants

As per the Income Tax Act, 1961, filing of audited balance sheet and profit & loss account is mandatory for certain types of non-corporate entities. Therefore, the banks must insist on the audited financial statements from the borrowers enjoying large limits; since such borrowers would, in any case, be submitting audit certificate to the income-tax authorities, based on audit of their books of accounts by a Chartered Accountant.

4.5 Defaults in Payment of Statutory Dues by Borrowers

4.5.1 It has been observed that many of the borrowers enjoying credit facilities from primary (urban) co-operative banks default in payment of Provident Fund, Employees State Insurance and other statutory dues. Despite this, such borrowers continue to carry on operations with the assistance of bank finance without meeting their statutory obligations.

4.5.2 In the case of insolvency/winding up of a borrowing employer, under the law, there are certain priorities in regard to the recovery of statutory dues e.g., employees contribution towards provident fund deducted from wages of the employee members for a period of more than six months and not paid to the Commissioner, are a first charge on the assets of borrowers.

4.5.3 In the circumstances, the banks should safeguard their interest vis-à-vis such statutory dues and, therefore, it would be desirable for the banks to ensure that provident funds and similar other dues are paid by the borrowers promptly. For the purpose, the banks should incorporate an appropriate declaration in their application forms for grant/renewal/ enhancement of credit facilities so as to ensure that the position regarding the statutory dues is disclosed therein.

4.5.4 Where warranted, banks should satisfy themselves about genuineness of the party's declaration in this regard. Thus, the sanction/renewal/ enhancement of credit facilities can be utilised by banks as a leverage for enforcing necessary discipline on the part of their borrowers.

4.5.5 In respect of the corporate borrowers and non-corporate borrowers, the amount of statutory dues should normally be reflected in their annual accounts which should be duly certified by the auditors, and hence, the banks should have no difficulty in ascertaining the position of their statutory dues. Nonetheless, in addition to duly audited annual accounts, banks should also obtain a specific certificate from the Chartered Accountant as regards the position of statutory dues, if the audited accounts do not clearly indicate the position.

4.5.6 After ascertaining the quantum of statutory dues, the banks should ensure that these are cleared by the borrowers within a reasonable period and that too through internal generation of funds. The non-payment of statutory dues is one of the symptoms of incipient sickness of an industrial unit. Therefore, it is in the interest of both the lender and borrower to give high priority to the clearance of these dues. Apart from insisting on the borrowers to indicate a definite programme for clearance of arrears, banks may consider suitable restrictions on the outflow of funds by way of dividends, repayment of loans from promoters or their friends, relatives or inter-corporate borrowings etc., till the overdue statutory liabilities are cleared.

4.6 Sanction of Advances

4.6.1 Irregularities/ Deficiencies in Credit Sanction

Banks should, take suitable precautions to avoid irregular practices such as sanctioning of advances beyond discretionary powers and/or without proper credit appraisal in order to minimise chances of frauds.

4.6.2 Delegation of Powers

(i) The Board of Directors should delegate specific powers to the Branch Managers and other functionaries at the Head Office level as also to the Chairman in the matter of sanction of advances and expenditure. A system should also be introduced to ensure that powers are exercised within the limits prescribed and any transgressions are immediately reported to Head Office.

(ii) The internal inspectors should examine during the course of inspection of branches whether powers have been exercised properly and any unauthorised exercise of powers should immediately be brought to the notice of Head Office. Similarly, sanctions beyond discretionary powers by the Chairman, Chief Executive Officer and other executives at the Head Office should also be reported to the Board of Directors.

4.6.3 Oral Sanction

The higher authorities at various levels should desist from the unhealthy practice of conveying sanction of advances orally or on telephone.

4.6.4 Proper Record of Deviations

(i) Only in exigencies, where sanctions are made on telephone/oral instructions of higher functionaries or sanctions beyond discretionary powers have to be resorted to, the following steps should be taken:

   (a) Record of such instructions/sanctions should be maintained by the sanctioning/disbursing authorities explaining the circumstances under which sanctions were made.

(b) Written confirmation of the competent sanctioning authority should be obtained by the disbursing authority / official within a week/fortnight.

(c) Sanctions within discretionary powers should also be reported to Head Office within a stipulated time and Head Office should meticulously follow up receipt of such returns.

(d) Head Office should diligently scrutinise the statements/ returns and should initiate stringent action against erring functionary(ies) if he/they is/are found to have indulged in unauthorised sanctioning.

(ii) Officials should exercise powers delegated to them judiciously and should not exceed their discretionary powers for granting loans and advances. Violations, if any, in this regard should be viewed seriously and the guilty should be punished suitably.

4.7 **Monitoring Operations in Loan Accounts**

4.7.1 Diversion of Funds

4.7.1.1 At times credit facilities extended by banks have been utilized for purposes other than those for which they were sanctioned and payments have been made from borrowal accounts to parties unconnected with the business of the borrower. Such diversion of funds also results in depletion of working capital leading to the account turning into NPA. Banks are advised to ensure that loan facilities are utilized by borrowers for the purpose for which such facilities are sanctioned. Banks should therefore have a mechanism for proper monitoring of the end use of funds. Wherever diversion is observed, they should take appropriate action against the borrowers concerned and the steps needed to protect the bank's interest.

4.7.1.2 An illustrative list pertaining to instances where diversion of funds would be construed and measures that could be taken by the lenders for monitoring and ensuring end-use of funds is given at para 6.3 and 6.5 respectively.The list is only illustrative and not exhaustive.

4.7.1.3 In case a borrower is found to have diverted finance for the purposes, other than those for which it was granted, banks must recall the amounts so diverted. In addition, banks may charge penal interest on the amount diverted.

4.7.1.4 Where borrowers fail to repay the amounts diverted from cash credit accounts for uses other than for which the limit was sanctioned, banks should reduce the limits to the extent of amount diverted. The above aspects relating to safe guards are only illustrative in nature and not exhaustive.

4.7.1.5 Whenever stocks under hypothecation to cash credit and other loan accounts are found to have been sold but the proceeds thereof not credited to the loan account, such action should normally be treated as a fraud. In such cases, banks may take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security as also other action as warranted.

4.7.1.5 Some of the bank clients are known to be making large cash withdrawals. It is quite possible that such cash withdrawals may be used by the account holders for undesirable or illegal activities. While cash withdrawals cannot be refused, banks should keep a proper vigil over requests of their clients for cash withdrawals from their accounts for large amounts.

4.7.2 Post-Sanction Monitoring

(i) It is the primary responsibility of banks to be vigilant and ensure proper end use of bank funds /monitor the funds flow. It is, therefore, necessary for banks to evolve such arrangements as may be considered necessary to ensure that drawals from cash credit/overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/subsidiaries, and acquisition of shares, debentures, units of Unit Trust of India and other mutual funds, and other investments in the capital market. This has to be so, even if there is sufficient drawing power/undrawn limit for the purpose of effecting drawals from the cash credit account.

(ii) Post sanction follow-up of loans and advances should be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge, etc. are not tampered with in any manner and are adequate.

(iii) **Accounts showing sign of turning into NPAs**: Banks may put in place more stringent safeguards, especially where accounts shows sign of turning into NPAs. In such cases banks may strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds are routed through the borrower's accounts maintained with the bank and insisting on pledge of the stock in place of hypothecation.

(iv) Drawals against clearing cheques should be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need therefor should be subjected to thorough scrutiny and periodical review. Banks should not issue banker’s cheques/pay orders/demand drafts against instruments presented for clearing, unless the proceeds thereof are collected and credited to the account of the party. Further, banker’s cheques /pay orders/ demand drafts, should not be issued by debit to cash credit /over draft accounts which are already overdrawn or likely to be overdrawn with the issue of such instruments.

(v) Drawals against clearing instruments should be normally confined to bank drafts and government cheques and only to a limited extent against third party cheques.

(v) Cheques against which drawals are allowed should represent genuine trade transactions and strict vigilance should be observed against assisting kite-flying operations.

(vi) Drawals against cheques of allied /sister concerns should not be permitted and the facility of drawal against clearing cheques should normally be of temporary nature and should not be allowed on a regular basis without proper scrutiny and appraisal.

(vii) Bills of accommodation nature should never be purchased and the officials responsible for purchase of such bills should be punished suitably.

4.7.3 Responsibility

(i) The primary responsibility for preventing misuse of funds rests with the management of banks. For the purpose, highest standards of integrity and efficiency are imperative in urban banks which are the trustees of public money. The banks should, therefore, take appropriate steps to review and tighten their internal administration and control measures so as to eliminate the scope for misuse/diversion of funds and malpractices.

(ii) Banks should take serious view of instances of misuse of power, corruption and other malpractices indulged by the members of staff and erring staff members should be given punishments befitting the seriousness of the irregularity. Light punishments such as issue of warning, stoppage of increments, transfer, etc. may not prove a deterrent in all cases. Quick disposal of enquiries by the banks and award of deterrent punishment would be necessary in all such cases, The Board should take more active interest in these matters.

4.8 **Annual Review of Advances**

For an effective monitoring of the advances, it is imperative for the banks to undertake an exercise for review of the advances on a regular basis. Apart from the usual objective of such a review of assessing the quality of operation, safety of funds, etc. the review should specifically attempt to make an assessment of the working capital requirements of the borrower based on the latest data available, whether limits continue to be within the need-based requirements and according to the bank's prescribed lending norms.

4.9 **Valuation of properties-empanelment of valuers:**

It has been observed that different banks follow different policies for valuation of properties and appointment of valuers for the purpose. The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of banks. Banks are therefore advised to put in place a system/procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose as per the guidelines given at Annex II.

5 OTHER GUIDELINES

5.1 Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities--

5.1.1 The primary (urban) co-operative banks are expected to provide relief and rehabilitation assistance, in their area of operation to people affected by natural calamities such as droughts, floods, cyclones, etc. Reserve Bank of India has from time to time issued guidelines/instructions to banks in regard to relief measures to be provided in areas affected by natural calamities. These guidelines have been consolidated and are given in Annex III

5.1.2 In order to avoid delay in taking relief measures on the occurrence of natural calamity, banks should evolve a suitable policy framework with the approval of the Board of Directors. An element of flexibility may be provided in the measures so as to synchronise the same with the measures which could be appropriate in a given situation in a particular State or District and parameters, in this regard, may be decided in consultation with SLBC/DCC, as the case may be.

5.1.3 Banks should get the documentation settled as per revised guidelines in consultation with their legal departments, taking into account the relevant provisions of the Contract Act and the Limitations Act and may issue appropriate instructions to their offices in respect of documentation in relation to cases covered by these guidelines.

5.1.4 Whenever required, RBI advises the banks to follow these guidelines in respect of persons affected by riots and disturbances.

5.2 Disclosure of Information on Defaulting Borrowers of Banks and Financial Institutions

5.2.1 The Reserve Bank of India has been collecting information regarding defaulting borrowers and suit filed accounts of scheduled commercial banks and financial institutions for circulation among banks and financial institutions to put them on guard against such defaulters.

5.2.2 Similar information has also to be collected from scheduled primary (urban) co-operative banks. These banks are, therefore, required to submit to the Reserve Bank of India as at the end of September and March every year, the details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under funded and non-funded limits) aggregating Rs. 1 crore and above as per the format given in *Annex* IV.

5.2.3 The Reserve Bank of India is circulating to the banks and financial institutions the information on the defaulters (i.e., advances classified as doubtful and loss). The banks and financial institutions may make use of the information while considering the merits of the requests for new or additional credit limits by existing and new constituents.

5.2.4 The data on borrowal accounts against which suits have been filed for recovery of advances (outstanding aggregating Rs.1.00 crore and above) and suit filed accounts of wilful defaulters with outstanding balance of Rs 25 lakh and above , based on information furnished by scheduled commercial banks and financial institutions is available at www.cibil.com

5.2.5 It is likely that some of the borrowers named in the list of suit filed accounts may approach the scheduled primary (urban) co-operative banks for their credit requirements. The information available will be of immense use to scheduled primary (urban) co-operative banks, while considering requests for fresh/additional credit limits. The banks can verify the list to ensure that the defaulting borrowing units as also their proprietors/partners/ directors etc. named in the list of suit-filed accounts, either in their own names or in the names of other units with which they are associated, are not extended further credit facilities.

5.2.6 The banks may make enquiry, if any, about the defaulters from the reporting bank/ financial institution.

6 MONITORING OF WILFUL DEFAULTERS

6.1 Collection and dissemination of information on cases of wilful default of Rs. 25.00 lakh and above

6.1.1 Pursuant to the instructions of the Central Vigilance Commission for collection of information on wilful defaulters by RBI and dissemination to the reporting banks and financial institutions, a scheme has been framed under which the banks and financial institutions will be required to submit the details of the wilful defaulters. The scheduled primary (urban) co-operative banks have also been brought within the ambit of the scheme.

6.1.2 The details of the scheme are given below:

(i) The scheme has come into force with effect from 1st April 1999. Accordingly, scheduled primary (urban) co-operative banks are required to report on a quarterly basis, all cases of wilful defaults which occurred, or are detected after 31st March 1999 in the proforma given in Annex V.

(ii) The scheme covers all non-performing borrowal accounts with outstanding (funded facilities and such non-funded facilities which are converted into funded facilities) aggregating to Rs. 25.00 lakh and above.

6.2 Wilful Default

A wilful default would be deemed to have occurred if any of the following events noted:

a. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligation.

b. The unit has defaulted in meeting its payment / repayment obligation to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
c. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the fund so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
d. The unit has defaulted in meeting its payment / repayment obligation to the lender and has also disposed of or removed the movable fixed assets or immovable property given by it for the purpose of securing a term loan, without the knowledge of the bank / lender.

6.3 Diversion and siphoning of funds

6.3.1 Diversion of funds would be construed to include any one of the under-noted occurrences:

(a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanctions;

(b) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;

(c) transferring funds to the subsidiaries / group companies or other corporates by whatever modalities;

(d) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;

(e) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;

(f) short fall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

6.3.2 Siphoning of funds should be construed to have occured if any funds borrowed are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgement of the lenders based on objective facts and circumstances of the case.

6.4 Cut-off limits

While the penal measures would normally be attracted by all the borrowers identified as wilful defaulters or the promoters involved in diversion / siphoning of funds, keeping in view the present limit of Rs.25 lakh fixed by the Central Vigilance Commission for reporting of cases of wilful default by scheduled banks to RBI, any wilful defaulter with an outstanding balance of Rs.25 lakh or more would attract the penal measures stipulated at para 6.6 below.

The limit of Rs.25 lakh may also be applied for the purpose of taking cognisance of the instances of `siphoning '/ `diversion' of funds.

6.5 End-use of Funds

In cases of project financing, banks should seek to ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate / clean loans, such an approach ought to be supplemented by `due diligence' on the part of lenders themselves, and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability were above board. UCBs therefore, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio. Needless to say, ensuring end-use of funds by banks should form a part of their loan policy document for which appropriate measures should be put in place.

6.5.1 The following are the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds :

(a) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers ;
(b) Regular inspection of borrowers' assets charged to the lenders as security;
(c) Periodical scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;
(d) Periodical visits to the assisted units;
(e) System of periodical stock audit, in case of working capital finance;
(f) Periodical comprehensive management audit of the `Credit' function of the lenders, so as to identify the systemic weaknesses in the credit-administration.

6.6 Penal measures

In order to prevent access to the capital markets by the wilful defaulters, a copy of the list of wilful defaulters is forwarded by RBI to SEBI as well. It has also been decided that the following measures should be initiated by scheduled PCBs against the wilful defaulters

(a) No additional facilities be granted to the listed wilful defaulters. In addition, the entrepreneurs / promoters of companies where banks have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the RBI.

(b) The legal process, where warranted, against the borrowers/guarantors and foreclosure of loans should be initiated expeditiously.

The lenders may also initiate criminal proceedings against wilful defaulters, wherever necessary.

(c) Wherever possible, the banks should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit. It would be imperative on the part of the banks to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers is kept to the barest minimum. It should be ensured that a solitary or isolated instance is not made the basis for imposing penal measures.

6.7 Treatment of Group

While dealing with wilful default of a single borrowing company in a group, the banks should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where a letter of comfort and/or the guarantees furnished by the companies within the group on behalf of the wilfully defaulting units are not honoured when invoked by scheduled banks, such group companies should also be reckoned as wilful defaulters.

6.8 Role of Auditors

6.8.1 In case any falsification of accounts on the part of the borrowers is observed by banks, they should lodge a formal complaint against the auditors of the borrowers, with Institute of Chartered Accountant of India (ICAI) if it is observed that the auditors were negligent or deficient in conducting the audit to enable the ICAI to examine and fix accountability of the auditors.

6.8.2 With a view to monitoring the end-use of funds, if the lenders desire a specific certification from borrowers' auditors regarding diversion / siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors scheduled pcbs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers / auditors.

6.9 Filing of Suits to Recover Dues from Wilful Defaulters

6.9.1 There are few cases where the amount outstanding is substantial but the banks have not initiated any legal action against the defaulting borrowers. It may be noted that the cases of wilful defaults have an element of fraud and cheating and therefore, should be viewed differently.

6.9.2 Scheduled pcbs should examine all cases of wilful defaults of Rs. 1.00 crore and above and file suits in such cases, if not already done. Banks should also examine whether in such cases of wilful defaults, there are instances of cheating/fraud by the defaulting borrowers and if so, they should also file criminal cases against those borrowers. In other cases involving amounts below Rs. 1.00 crore, banks should take appropriate action, including legal action, against the defaulting borrowers.

7. **Small and Medium Enterprises (SMEs) and its restructuring-**

As part of announcement made by the Government of India for improving flow of credit to small and medium enterprises, certain guidelines have been issued to UCBs for restructuring of debt of all eligible small and medium enterprises (SMEs). Details are furnished in Annex VI. Consequent to the enactment and notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 on June 16, 2006 and October 2, 2006, respectively, the definition of micro, small and medium enterprises engaged in manufacturing or production and in providing or rendering of services has been modified and is required to be implemented by the banks with immediate effect. (Details in Annex VII)

8. SPECIFIC LENDING ACTIVITIES

8.1 Bridge Loans/Interim Finance

8.1.1 The grant of bridge loan/interim finance by pcbs to any company (including finance companies) is totally prohibited.

8.1.2 The ban on sanction of bridge loans/interim finance is also applicable in respect of Euro issues.

8.1.3 The banks 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).

8.1.4 If any bank has sanctioned and disbursed any bridge loan/interim finance, it should report the same to the concerned Regional Office of the Urban Banks Department with full particulars and certifying that the loans are utilised strictly for the purpose for which the public issue and/or market borrowing was intended. Thereafter, the concerned banks should immediately take steps to ensure timely repayment of such bridge loans/interim finance already sanctioned and disbursed and under no circumstances, should the banks allow extension of time for repayment of existing bridge loans/interim finance.

8.1.5 These instructions are issued by the Reserve Bank of India in exercise of powers conferred by the Sections 21 and 35A read with section 56 of the Banking Regulation Act, 1949.

8.2 Advances to Builders/Contractors

8.2.1 The builders/contractors, who 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 banks may result in dual financing. The banks should, therefore, normally refrain from sanctioning loans and advances to this category of borrowers.

8.2.2 However, where contractors undertake comparatively small construction work on their own, (i.e. when no advance payments are received by them for the purpose), the banks may consider extending financial assistance to them against the hypothecation of construction materials, provided such loans and advances are in accordance with the by-laws of the bank.

8.2.3 The banks should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/aggregate exposure limit for such loans, margins, security, repayment schedule and availability of supplementary finance taking into account guidelines issued by RBI and the policy should be approved by the bank's Board.

8.2.4 Exposure to builders and contractors for commercial real estate will include fund based and non-fund based exposures secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels etc). Further while framing the policy the banks may also consider for inclusion the National Building Code framed by Bureau of Indian Standards (BIS). For detailed information the website of Bureau of Indian Standards (www.bis.org.in) can be accessed.

8.2.5 Banks should 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, his repayment capacity, etc. and also observe the usual safeguards, such as, obtaining periodical stock statements, carrying out periodical 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 should 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.

8.2.6 The banks may also take collateral security, wherever available. As the construction work progresses the contractors will get paid and such payments should be applied to reduce the balance in the borrowal accounts. If possible, the banks could perhaps enter into a tripartite agreement with the borrower and his clients, particularly when no collateral securities are available for such advances. Thus, the banks should ensure that bank credit is used for productive construction activity and not for activity connected with speculation in real estate

8.2.7 UCBs should not extend fund based / nonfund 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.

8.3 Financing of Leasing/Hire Purchase Companies

8.3.1 Enrolment of Financial Companies as Members

(i) Primary (urban) co-operative banks are normally not expected to enroll non-banking financial institutions like investment and financial companies as their members since it would be in contravention of the State Co-operative Societies Act concerned and will also not be in conformity with the provisions of model by-law No.9 recommended for adoption, by all banks.

(ii) Therefore, the primary (urban) co-operative banks are not permitted to finance such type of non-banking financial companies (NBFCs).

8.3.2 Norms for financing Leasing/Hire Purchases Companies

(i) As in the case of finance and investment companies, admission of non-banking financial companies which are not engaged exclusively in leasing/hire purchase business as members may be contrary to the provisions contained in the state co-operative societies act concerned and model bye-law No.9 referred to above. It will, therefore, be necessary for banks to obtain prior approval of the concerned Registrar of Co-operative Societies before admitting them as members.

(ii) Even financing the leasing/hire purchase companies by primary (urban) co-operative banks on a large scale is not favoured by the Reserve Bank of India, since the banks are basically required to cater to the credit needs of the people of small means.

(iii) Presently banks with working capital funds aggregating to Rs. 25 crore and above only are permitted to take up the financing of leasing/hire purchase companies, that too, only in consortium with other scheduled commercial banks. The banks should observe the following norms, while financing such companies :

(a) The level of finance to leasing/hire purchase companies depends on the net owned funds of the companies, subject to the overall ceiling on their borrowings upto ten times of their owned funds.

(b) Bank credit to companies exclusively engaged in equipment leasing and hire purchases and such leasing/hire purchase companies which are predominantly engaged in equipment leasing/hire purchase business (i.e., at least 75 per cent of assets are in equipment leasing/hire purchase and 75 per cent of their gross income is derived from these two types of activities as per their last audited balance sheet) may be extended within the ceiling of three times of the net owned funds within the overall ceiling of their borrowings upto ten times of net owned funds.

(c) In the case of other equipment leasing/hire purchases companies (i.e. companies whose assets in equipment leasing/hire purchase business are less than 75 per cent and whose gross income derived from these two types of activities as per the last audited balance sheet is less than 75 per cent of its gross income), the credit limit has to be within two times of their net owned funds from the present level of four times.

8.4 Working Capital Finance to Information Technology (IT) and Software Industry

8.4.1 Banks are permitted to decide on their own the loan policy and the manner of estimating the working capital finance based on MPBF method or any other method to be approved by their Board of Directors. The stance of Reserve Bank policy towards operational freedom to banks remains unchanged. At the same time, Reserve Bank recognises the fact that the banks are not comfortable with extending aggressive credit support to a relatively new area of software industry unlike other traditional industries, due to several factors which make the assessment of credit needs and follow up thereof difficult, if not insurmountable.

8.4.2 In order to bring about uniformity in approach, the Reserve Bank has formulated guidelines for information of banks, on various aspects of lending to information technology and software industry to facilitate free flow of credit. The same were enclosed to our circular DS.SUB.No.4/13.05.00/98-99 dated 5 October 1998, addressed to scheduled PCBs. Banks are, however, free to modify the guidelines based on their own experience without reference to Reserve Bank to achieve the purpose of the guidelines in letter and spirit.

8.4.3 These guidelines have been framed based on the recommendations made by the study group appointed by Reserve Bank to study the modalities of credit extension to software industry as also taking into account the suggestions made by the industry associations.

8.4.4 This being a relatively new area of credit deployment, primary (urban) co-operative banks may take adequate steps to develop expertise in this area. Besides other measures which banks might take, the need for training staff for developing them in acquiring skills of project appraisal in this new area of activity need not be over-emphasised. It has to be ensured that the concerned staff is well aware of the requirements of the industry and remain in tune with the latest developments so that the higher standards of project appraisal can be maintained before extending the working capital finance to Information Technology and software industries.

8.5 Advances against Gold:

8.5.1 **Bullet Repayment**: UCBs with the approval of their Board may permit bullet repayment of gold loans up to Rs 1.00 lakh as an additional option subject to the following guidelines :

(i) The amount of gold loan sanctioned should not exceed Rs 1.00 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) The bank should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold / gold ornaments), expected price fluctuations, interest that will accrue during the tenure of the loan etc.

(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.

(vi) The account would also be classified as NPA (sub standard category) even before the due date of repayment, if the prescribed margin is not maintained.

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

8.5.2 Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Banks 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, banks 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.

8.6 Grant of loans for acquisition of of/investing in small savings instruments including Kisan Vikas Patras:

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. Banks may therefore ensure that no loans are sanctioned for acquisition of/investing in small savings instruments including Kisan Vikas Patras.

9. DISCOUNTING / REDISCOUNTING OF BILLS BY BANKS

Banks may adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills**:**

i. Since banks have already been given freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers, they may sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors.

ii. Banks should clearly lay down a bills discounting policy approved by their Board of Directors, which should be consistent with their policy of sanctioning of working capital limits. In this case, the procedure for Board approval should include banks' core operating process from the time the bills are tendered till these are realised. Banks may review their core operating processes and simplify the procedure in respect of bills financing.

In order to address the oft-cited problem of delay in realisation of bills, banks may 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.

iii. Banks should 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. Banks should 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.

iv. 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 should be treated as on the borrower and risk weight assigned accordingly.

v. While purchasing / discounting / negotiating bills under LCs or otherwise, banks should establish genuineness of underlying transactions / documents.

vi. Banks should 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 should be issued to customers under joint signatures of the bank's authorised officials.

vii. The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' should be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. Banks should not, therefore, open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause.

viii. Accommodation bills should not be purchased / discounted / negotiated by banks. The underlying trade transactions should be clearly identified and a proper record thereof maintained at the branches conducting the bills business.

ix. Banks should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.

x. Bills rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by non-bank financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

xi. Banks may exercise their commercial judgment in discounting of bills of services sector. However, while discounting such bills, banks should 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 UBD for sanction of unsecured advances.

xii. 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.

xiii. Banks should not enter into Repo transactions using bills discounted / rediscounted as collateral.

Any violation of these instructions will be viewed seriously and invite penal action from RBI.

Annex I

Master Circular

Management of Advances

Clarifications in regard to Assessment of Working Capital Limits

[Ref. para 2.7]

	Issues raised by banks	**Clarifications**
	(1)	(2)
(i)	Whether banks should sanction working capital limits computed on the basis of a minimum of 20 per cent of the projected annual turnover/output value or whether it is intended that banks should also arrive at the requirement based on the traditional approach of production/processing cycle and thereafter decide the quantum of need-based finance. If the traditional approach is followed the working capital finance arrived at could be either more than or less than 20 per cent. In case it is less than 20 per cent, whether banks should still give 20 per cent ?	The assessment of working capital credit limits should be done both as per projected turnover basis and traditional method. If the credit requirement based on production/ processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned as RBI guidelines stipulate bank finance at minimum of 20 per cent of the projected turnover. On the other hand if the assessed credit requirement is lower than the one assessed on projected turnover basis, while the credit limit can be sanctioned at 20 per cent of the projected turnover, actual drawals may be allowed on the basis of drawing power to be determined by banks after excluding unpaid stocks. In the case of Selective Credit Control commodities the drawing power should be determined as indicated in the RBI directive.
(ii)	Whether projected turn over/output value basis 'gross sales'	The projected turnover/output value may be interpreted as projected 'Gross Sales' which will include excise duty also.

	Issues raised by banks	Clarifications
	(1)	(2)
(iii)	Whether the 5 per cent promoter's stake (Net Working Capital) should be reckoned with reference to the projected turnover or with reference to the working capital arrived at based on production/ processing cycle.	In terms of extant guidelines the working capital requirement is to be assessed at 25 per cent of the projected turnover to be shared between the borrower and bank viz. borrower contributing 5% of the turnover as NWC and bank providing finance at a minimum of 20 per cent of the turnover. The above guidelines were framed assuming an average production/processing cycle of 3 months (i.e. working capital would be turned over four times in a year). It is possible that certain industries may have a production cycle shorter/longer 3 months. While in the case of a shorter cycle, the same principle could be applied as it is the intention to make available at least 20 per cent of turnover by way of bank finance. In case the cycle is longer, it is expected that the borrower should bring in proportionately higher stake in relation to his requirement of bank finance. Going by the above principle, at least 1/5th of working capital requirement should be brought in by way of NWC.
(iv)	Whether 5 per cent NWC should be reckoned with reference to turnover or with reference to available long term sources; in other words is the prescribed NWC the minimum amount?	Since the bank finance is only intended to support need-based requirement of a borrower if the available NWC (net long term surplus funds) is more than 5 per cent of the turnover the former should be reckoned for assessing the extent of the bank finance
(v)	Whether drawing power should continue to be regulated through stocks and whether unpaid stocks deducted for arriving at drawing power ?	It is left to the discretion of banks. However, in arriving at drawing power, unpaid stocks are not financed as it would result in double financing. The drawing power should conform to Reserve Bank of India directives in the case of Selective Credit Control commodities
(vi)	Since the present instructions cover traders as well, and most trade is done at market credit, whether the credit limits should be assessed as 20 per cent of the turnover per se and actual drawing regulated through stocks ?	In the case of traders, while bank finance could be assessed at 20 per cent of the projected turnover, the actual drawals should be allowed on the basis of drawing powers to be determined by banks after ensuring that unpaid stocks are excluded. In the case of SCC commodities the RBI directive should be scrupulously followed.

Annex II

Guidelines on valuation of properties-empanelment of valuers –

(Vide para no 4.8)

Banks may be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

(a) Policy for valuation of properties

i) Banks should have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.

ii) The valuation should be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest.

iii) The banks should obtain minimum two Independent Valuation Reports for properties valued at Rs.50 crore or above.

(b) Revaluation of bank's own properties

In addition to the above, the banks may keep the following aspects in view while formulating policy for revaluation of their own properties.

i) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55% as a part of Tier II Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy should *inter alia* cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc.The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.

ii) As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks should adhere to these principles meticulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

(c) Policy for Empanelment of Independent valuers

i) Banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.

ii) Banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, banks may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

2. Banks may also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India

Annex III

Master Circular

Management of Advances

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

[Vide para 5.1.1]

1. Periodical but frequent occurrence of droughts, floods, cyclones, tidal waves and other natural calamities cause heavy toll of human life and wide spread damage to economic pursuits of human beings in one area or the other of the country. The devastation caused by such natural calamities call for massive rehabilitation efforts by all agencies. The State and local authorities draw programmes for economic rehabilitation of the affected people. The developmental role assigned to the commercial banks and co-operative banks, warrants their active support in revival of the economic activities.

2. Since the area and time of occurrence and intensity of natural calamities cannot be anticipated, it is imperative that the banks have a blue-print of action in such eventualities so that the required relief and assistance is provided with the utmost speed and without any loss of time. This presupposes that all the branches of commercial banks and their Regional and Zonal Officers will have a set of standing instructions spelling out the action that the branches will have to initiate in the calamity affected areas immediately after the requisite declaration by the district/State authorities. It is necessary that these instructions should also be available with the State Government authorities and all the District Collectors so that all concerned are clear as to the action that would be taken by the banks' branches in the affected areas.

3. The precise details in regard to the provision of credit assistance by the commercial banks, will depend on the requirements of the situation, their own operational capabilities and the actual needs of the borrowers. This can be decided by them in consultation with the district authorities.

4. Nevertheless, to enable banks to take uniform and concerted action expeditiously, particularly to provide the financial assistance to agriculturist, small scale industrial units, artisan, small business and trading establishments affected by natural calamities, the following guidelines are commended.

5. To facilitate co-ordination and expeditious action by the financing institutions, the convenors of the concerned District Consultative Committee (DCC) of the affected districts should convene a meeting immediately after the occurrence of natural calamities. In the event of the calamity covering a larger part of the State, the convenors of the State Level Bankers' Committee (SLBC) will also convene a meeting immediately to evolve a co-ordinated programme of action for implementation of the programme in collaboration with the State/district

authorities while determining the quantum of assistance required by a person affected by the natural calamity, the banks may take into consideration the assistance/subsidy received by him from the State Government and/or other agencies.

6. Divisional/Zonal Managers of commercial banks should be vested with certain discretionary powers so that they do not have to seek fresh approvals from their Central Offices to the line of action agreed to by the District/State Level Bankers' Committees. *For example*, such discretionary power would be necessary in respect of adoption of scale of finance, extension of loan periods, sanction of new loans, keeping in view the total liability of the borrower (i.e. arising out of the old loan where the assets financed are damaged or lost on account of natural calamity as well as the new loan for creation/repair of such assets, margin, security, etc.).

7. **Identification of the Beneficiaries**

The bank branches should obtain from the concerned Govt. authorities list of affected villages within their area of operation. From among the identified persons, assessment of loss sustained by the existing constituents of the banks would be easier. In the case of fresh borrowers, however, discreet enquiries should be made in this regard and assistance of the Govt. authorities should be sought wherever available for ascertaining genuineness of their requirements. For providing conversion facilities in respect of crop loans, procedure for identification of areas where such facilities have to be provided has been indicated under crop loans in paragraph 12 below.

8. **Coverage**

(i) Each branch will provide credit assistance not only to its existing borrowers but also to other eligible persons within its command area provided they are not covered by any other financial agency.

(ii) Credit requirements of the borrowing members of the co-operatives will be met by the Primary Agricultural Co-operative Societies (PACs)/LAMPS/FSS etc. Branches of commercial banks may, however, finance the non-borrowing members of the co-operative societies, for which the latter will issue the usual 'No objection' certificates speedily.

9. **Priorities**

Immediate assistance including finances would be needed for protecting and rejuvenating standing crops/orchards/plantations etc. Equally important will be repair and protection of livestock sheds, grains and fodder storage/structures, drainage, pumping, and other measures and operations to repair pump-sets, motors, engines and other necessary implements. Subject to seasonal requirements, next crop financing would be taken up.

10. **Agricultural Loans**

(i) The bank assistance in relation to agriculture would be needed in the form of short-term loans for the purpose of raising crops and term loans for purchase of milch/draught animals, repairs of existing tube-wells and pump-sets, digging of new tube-wells and installation of new pump-sets, land reclamation, silt/sand removal, protection and rejuvenation of standing crops/orchard/plantations, etc., repairs and protection of livestock sheds, grain and fodder storage structures, etc.

ii) Crop Loans**: i**n the case of natural calamities, such as droughts, floods etc., Government authorities would have declared annewari to indicate the extent to which the crops are damaged. However, where such declaration has not been made banks should not delay in providing conversion facilities, and the District Collector's certificate that crop yield is below 50 percent of the normal yield supported by the views of the DCC in the matter (for which a special meeting may have to be convened) should be sufficient for invoking quick relief arrangements. The certificate of the Collector should be issued crop -wise covering all crops, including food-grains. Issuing of such certificates in respect of cash crops, may, however, be left to the discretion of the Collector.

(iii) To be effective, the assistance to farmers will have to be disbursed with utmost speed. For this purpose the lead bank and the district authorities concerned should evolve a procedure whereby identification of borrowers, issuance of certificates regarding Government/co-operative/bank dues, title of the applicant to land etc. is secured simultaneously.

(iv) Possibilities of organising credit camps, where Block Development and Revenue officials, Co-operative Inspectors, Panchayat Pradhans etc. could help finalise the applications on the spot, could be explored in consultation with the district authorities where such credit camps are being organised. The State Government will also arrange with the Collectors to issue an executive order for the following officers or their authorised representatives to assume respective duties and responsibilities as envisaged under implementation of credit camps programme:

- Block Development Officer
- Co-operative Inspector
- Revenue Authority/Village Revenue Assistant
- Bank official operating in the area
- PACS/LAMPS/FSS
- Gram Panchayat Pradhan

In order to avoid delay, the forms in which the State Government Officers have to give certificates at the Credit Camps may be got printed in sufficient numbers by the respective District Magistrates.

(v) In considering loan applications for the ensuing crop season the current dues of the applicants to the State Government may be ignored, provided the State Government declare a moratorium for a sufficiently long period on all amounts due to the government as on the date of occurrence of the natural calamity.

11*.* ***Consumption Loans***

As per extant instructions, loans up to Rs. 250/- could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000/- in the States where the State Governments have constituted risk funds for such lending. The present limit may be enhanced to Rs. 5,000/- without any collateral and such loans may be provided even if no risk fund has been constituted.

12. ***Fresh Loans***

Timely fresh financial assistance to resume productive activities may be provided not only to the existing borrowers, but also to other eligible borrowers. Notwithstanding the status of the existing account, fresh loans granted to the borrowers will be treated as current dues.

13. ***Restructuring of existing loans***

As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required. The principal amount outstanding in the crop loans and agriculture term loans as well as accrued interest thereon may be converted into term loans.

The repayment period of restructured term loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. Generally, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans. The asset classification status of the restructured term loan and other dues will be as under:

a) The restructured crop loans may be treated as current dues and need not be classified as NPA. The asset classification of the restructured term loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and / or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. Depending upon the duration of crops raised by an agriculturist, the above norms would also be made applicable to the restructured agricultural term loans.

b) The above norms will be applicable to all direct agricultural advances as listed at Annex I of Master Circular No. UBD.PCB.MC.No.10/ 09.14.000/2007-08 dated July 4,2007 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances.

c) Additional finance, if any, may be treated as “standard asset” and its future asset classification will be governed by the terms and conditions of its sanction.

d) The asset classification as on the date of natural calamity will continue, if the restructuring is completed within a period of three months from the date of natural calamity. The restructured accounts would, otherwise, be governed by provisions of circular UBD.BPD.No. 30 /09.09.001/05-06 dated March 9, 2006. Further, the guidelines applicable to sub-standard accounts, will apply, mutatis mutandis to doubtful accounts.

e) In retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis.

14. Scale of Finance

Scale of finance in respect of different crops will be uniform in a district. The scales will be fixed taking into account the prevailing conditions and norms presently adopted by different lending agencies. In fixing the scales, minimum consumption needs of borrowers will be taken into account. The concerned District Magistrate and Managers of branches of banks operating in the district would be advised to adopt the scales so laid down.

15. Development Loans - Investment Costs

(i) The existing term loan instalments will have to be rescheduled/postponed keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz.,

(a) Droughts, floods or cyclones etc. where only crop for that year is damaged and productive assets are not damaged.

(b) Floods or cyclones where the productive assets are partially or totally damaged and borrowers are in need of a new loan.

(ii) In regard to natural calamity under category (a), the banks may postpone the payment of instalment during the year of natural calamity and extend the loan period by one year except (subject to the following exceptions) -

(a) Those cultivators who had not effected the development or investment for which the loan was obtained or had disposed of the equipment or machinery purchased out of the loan.

(b) Those who are income tax payers.

(c) In the case of drought, those who are having perennial sources of irrigation except where water supply was not released from canals or irrigation facility was not available from other perennial sources.

(d) Tractor owners, except in genuine case where there is loss of income and consequential impairment of their repaying capacity.

(iii) Under this arrangement the instalments defaulted wilfully in earlier years will not be eligible for rescheduling. The banks may have to postpone payment of interest by borrowers. While fixing extension of period the commitment towards interest may also be taken into account.

(iv) In regard to category (i)(b) above, i.e., where the borrower's assets are totally damaged, the rescheduling by way of extension of loan period may be determined on the basis of overall repaying capacity of the borrower including his repayment commitment on the old term loans and towards the conversion loan (medium term loan) on account of postponing of repayment of short-term loans and the fresh crop loan. In such cases, the repayment period of total loan (including interest liability) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. may be fixed having regard to the repaying capacity of the borrower subject to a maximum of 15 years, depending upon the type of investment as well as the economic (useful) life of the new asset financed, except in cases where loans relate to land shaping, silt removal, soil conservation etc. Thus in the case of loans for agricultural machineries, viz. pump-sets and tractors, it should be ensured that the total loan period does not generally exceed 9 years from the date of advance.

16. Apart from rescheduling existing term loans, banks will provide to affected farmers diverse type of term loans for developmental purposes, such as:

(i) Minor Irrigation

Term loans for repairs to wells, pump-sets, etc. which are to be quantified after assessing the extent of damage and estimated cost of repairs.

(ii) Bullocks

Where the drought animals have been washed away, requests for fresh loans for a new pair of bullocks/he-buffaloes may be considered. Where loans are given for purchase of new cattle or where farmers have bought milch cattle, reasonable credit may be given for purchase of fodder or feed.

(iii) Milch Cattle

Term loan for milch cattle will be considered depending upon breed, milk yield, etc., the loan amount will include repairs to shelters, purchase of equipment and feed.

(iv) Insurance

Considering the proneness of areas to cyclones and other natural calamities, the cattle should be insured instead of Risk-cum-Mortality Fund established for similar purpose in other safe areas. Milch animals/draught cattle should be branded for identification as also to serve as safeguard against their re-sale by the beneficiaries.

(v) Poultry and Piggery

For poultry piggery and goatery, loans will be considered as per norms of different banks.

(vi) Fisheries

In the case of borrowers who have lost their boats, nets and other equipment, re-phasing of payment of existing dues may be allowed on merits. Fresh loans may be granted to them with loan maturity of 3/4 years. Loans for repairs to boats of the existing borrowers may also be considered. In cases where subsidy is available, the quantum of loan should be reduced to that extent. In States where substantial subsidy towards the cost of boats, nets. etc., is likely to be available, proper co-ordination with the concerned State Government Department in this regard must be ensured. Apart from complying with other norms and conditions for grant of advances, assistance may be sought from the Department of Fisheries, which may be expected to take measures which would enable banks to proceed with financing for this purpose. The boats should be comprehensively insured against all risks including natural calamities as far as possible.

17. Land Reclamation

(i) It is likely that financial assistance will be required for reclamation of lands covered by sand casting. Normally, sand/silt deposits upto 3 inches will either be ploughed back into the soil or removed by the farmers without any need for financial assistance. Loan applications will, however, be considered in cases where immediate cultivation is possible and reclamation (removal of sand) is necessary. Wherever reclamation finance for saline lands is warranted, the cost of reclamation not exceeding 25 percent of the scale allowed for crop loan may be advanced along with the crop loan.

(ii) For other activates like Sericulture, Horticulture, Floriculture, Betelvine growing etc., banks will advance loans for investment and working capital under their existing schemes and follow usual procedures laid down by them. The working capital finance may be provided until such period the income from the plantation is adequate to take care of such expenditure.

(iii) However, additional need based crop loans, if necessary, would be given for revitalisation/rejuvenation of standing crop/orchards based on individual assessment.

(iv) The question relating to procurement and proper arrangement for supply of adequate quantity of seeds and various types of fertilisers will have to be discussed with the State Government and District Administration in each district. Similarly, for the purpose of ensuring adequate irrigation facilities, the State Government will undertake repairs to Government owned shallow and deep tube-wells and River Lift Irrigation System damaged by floods and other natural calamities. As for fisheries, the fisheries department of the State Government will make arrangement to obtain fingerlings/and supply them to those who wish to revive tank fishing with bank finance.

(v) The State Government will have to consider preparation of schemes which would enable commercial banks to obtain refinance at NABARD rates for amounts advanced by banks for the said purpose.

18. **Artisans and Self-Employed**

(i) For all categories of rural artisans and self employed persons including handloom weavers, loans will be needed for repairs of sheds, replacement of implements and purchase of raw materials and stores. In sanctioning the loan, due allowance will be made for subsidy/assistance available from the concerned State Government.

(ii) There may be many artisans, traders and self-employed who may not have any banking arrangement or facility with any bank, but will now need financial assistance for rehabilitation. Such categories will be eligible for assistance from banks' branches in whose command areas they reside or carry on their profession/business. Where such a person/party falls under the command area of more than one bank, the banks concerned will meet together and sort out his problem.

19. **Small Scale and Tiny Units**

(i) Rehabilitation of units under village and cottage industry sector, small scale industrial units as also smaller of the medium industrial sector damaged, will also need attention. Term loans for repairs to and renovation of factory buildings/sheds and machinery as also for replacement of damaged parts and working capital for purchase of raw materials and stores will need to be provided urgently.

(ii) Where the raw materials or finished goods have been washed away or ruined or damaged, banks security for working capital will naturally be eroded and the working capital account (Cash Credit or Loan) will be out of order. In such cases, banks will convert drawings in excess of the value of security into a term loan and also provide further working capital to the borrower.

(iii) Depending on the damage suffered and time needed for rehabilitation and restarting production and sales, term loan instalments will have to be suitably rescheduled keeping in view the income generating capacity of the unit. Short-fall in margins will have to be condoned or even waived and borrower should be allowed time to build up margin gradually from his future cash generation. Wherever State Government or any agency has formulated special scheme for providing grants/subsidy/seed money, suitable margin may be stipulated to the extent of such grants/subsidy/seed money.

(iv) The primary consideration before the banks in extending credit to a small/tiny unit for its rehabilitation should be the viability of the venture after the rehabilitation programme is implemented.

20. **Terms and Conditions**

The terms and conditions governing relief loans will be flexible as to security, margin, etc. In the case of small loans covered by guarantee of Deposit Insurance and Credit Guarantee Corporation, personal guarantees will not be insisted upon. In any case, credit should not be denied for want of personal guarantees.

21. **Security**

Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan may be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans sympathetic view will have to be taken:

(a) Where the crop loan (which has been converted into term loan) was earlier given against personal security/hypothecation of crop which would be the case for crop loans upto Rs. 5,000/- and the borrower is not able to offer charge/mortgage of land as security for the converted loan, he should not be denied conversion facility merely on the ground of his inability to furnish land as security.

(b) If the borrower has already taken a term loan against mortgage/charge on land, the bank should be content with a second charge for the converted term loan.

(c) Banks should not insist on third party guarantees for providing conversion facilities.

(d) In the case of term loans for replacement of equipment, repairs, etc. and for working capital finance to artisans and self-employed persons or for crop loans, usual security may be obtained. Where land is taken as security in the absence of original Title Records, a Certificate issued by the Revenue Department Officials may be accepted for financing farmers who have lost proof of their titles i.e. in the form of deeds, as also the registration certificates issued to registered share-croppers.

(e) As per the recommendations of the RBI report on customer service, banks will finance the borrowers who require loans upto Rs. 500/- without insisting either on collateral security or guarantee for any type of economic activity.

22. **Margin**

Margin requirements be waived or the grants/subsidy given by the concerned State Government may be considered as margin.

23. **Interest**

The rates of interest will be in accordance with the directives of the RBI. Within the areas of their discretion, however, banks are expected to take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people.

(i) Those meeting the eligibility criteria under the scheme of Differential Rate of Interest should be provided credit in accordance with the provision of the scheme.

(ii) In respect of current dues in default, no penal interest will be charged. The banks should also suitably defer the compounding of interest charges.

24. Other Issues:

(i) Business Continuity Planning

In the backdrop of increased leveraging of technology in banking system, Business Continuity Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. As a Business Continuity Planning (BCP) strategy, banks may identify alternate branches for branches located in areas prone to natural calamities. Banks may therefore formulate full-fledged comprehensive BCP along with Disaster-Recovery (DR) arrangements. The banks may also focus on keeping the DR site current, to test them comprehensively and synchronize the data between the primary and secondary sites.

(ii) Access to customers to their bank accounts:

a. In areas where the bank branches are affected by natural calamity and are unable to function normally, banks may operate from temporary premises, under advice to RBI. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of RBI. Banks may also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to RO of RBI.

b. To satisfy customer’s immediate cash requirements, banks could consider waiving the penalties related to accessing accounts such as fixed deposits.

c. Restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Banks may consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

(iii) Currency Management :

Banks/ branches affected by natural calamity, if required, may contact other banks maintaining its current accounts or the currency chest branch to which it is linked in order to ensure that supply of currency is maintained to its customers.

(iv) KYC Norms

To facilitate opening of new accounts by persons affected by natural calamities especially for availing various relief's given by Government/other agencies, banks may open accounts with –

a. introduction from another account holder who has undergone full KYC procedure, or
b. documents of identity such as Voter's Identity Card or a driving license, identity card issued by an office, company, school, college, etc. along with a document indicating the address such as Electricity Bill, Ration Card etc. or
c. introduction by two neighbours who have the documents as indicated in para (b) above or
d. in the absence of the above, any other evidence to the satisfaction of the bank.

The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs. 1, 00,000/- or the amount of relief granted, (if higher) in a year.

(v) Clearing and Settlement Systems

To ensure continuity in clearing service, RBI has advised the banks for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solution for the remaining cities. The banks in a clearing area could meet with a view to providing flexible clearing services where normal clearing services are disrupted. However, notwithstanding these arrangements, banks may also consider discounting cheques for higher amounts to meet customers' requirement of funds. Banks could also consider waiver fees for EFT, ECS or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity

25. **Applicability of the guidelines in the case of trade and industry**

Instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance will be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture

26. **Applicability of the Guidelines in the case of Riots and Disturbances**

Whenever, RBI advises the banks to extend rehabilitation assistance to the riot/disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the State Government agencies as having been affected by the riots, etc., are extended rehabilitation/assistance.

(i) With a view to ensuring quick relief to the affected persons, the District Collector, on occurrence of the riot/disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary, and submit a report to the DCC on the extent of damage caused to the life and property in the area affected by riots/disturbances. If the DCC is satisfied that there has been extensive loss to life and property, the relief, as per aforesaid guidelines, may be extended to the people affected by riots/disturbances. In certain centres where there are no DCCs, the District Collector may request the Convenor SLBC of the State to convene a meeting of the bankers to consider extension of relief to the affected persons.

The report submitted by the Collector and the decision thereon of DCC/SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the RBI.

(ii) It should be ensured that only genuine persons duly identified by the State Administration, as having been affected by the riots/disturbances are provided the assistance.

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Annex IV

Master Circular

<u>Management of Advances</u>

Details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under <u>funded and non-funded) aggregating Rs. 1.00 crore and above</u>

[Vide para 5.2.2]

Name of the Bank :

1. Name of the Company/firm

2. Registered address of the company/firm

3. Names of the directors/partners of defaulting company/firm

4. Name of the branch

5. Type of facilities and limits sanctioned under each facility

6. Amount outstanding

7. Nature and value of securities held in each category

8. Asset classification of the defaulting account
   (specify doubtful, loss or suit filed)

9. Date of classifying the account as doubtful / loss / suit filed

Annex V

Master Circular

Management of Advances

Format for Reporting of Data on Wilful Default

[Vide para 6.1.2 (i)]

Information should be furnished to the Reserve Bank of India in floppy diskette in format specified as below :

a)	Input media	:	3.5" floppy disk file
b)	File Characteristics	:	ASCII or dbf file

The field - wise description of various items is as follows :

1)	Serial Number	:	9 (4) Unique number to be given to each of the records
2)	Bank-branch name	:	x (14) As in the case of Basic Statistical return
3)	Party 's name	:	x (45) The legal name
4)	Registered address	:	x (96) Registered Office address
5)	Amount outstanding	:	9(6) Total amount outstanding in Rs. Lakhs
6)	Name of directors	:	x(336) To be divided into 14 sub-fields of 24 bytes each
7)	Status	:	Suit filed or non-suit filed

ANNEX - VI

Guidelines on debt restructuring mechanism for Small and Medium Enterprises (SMEs) (Vide para 7)

As part of announcement made by the Hon'ble Finance Minister for improving flow of credit to small and medium enterprises, the following guidelines are issued for restructuring of debt of all eligible small and medium enterprises (SMEs).

2. Definition of SMEs-

> " At present, a small scale industrial unit is an undertaking in which investment in plant and machinery, does not exceed Rs.1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs 5 crore. Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crore may be treated as Medium Enterprises (ME). "

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 which was notified on October 2, 2006. The definition of the small and medium enterprises as provided in the Act (Annex VII) will have immediate effect.

3. Eligibility criteria

(i) These guidelines would be applicable to the following entities, which are viable or potentially viable :

a) All non-corporate SMEs irrespective of the level of dues to banks.
b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.

(ii) Accounts involving willful default, fraud and malfeasance will <u>not</u> be eligible for restructuring under these guidelines.

(iii) Accounts classified by banks as "Loss Assets" will <u>not</u> be eligible for restructuring.

(iv) In respect of BIFR cases banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

4. Viability criteria

Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

5. Prudential norms for restructured accounts

i) Treatment of ‘standard’ accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would not cause a standard asset to be classified in the sub-standard category, provided the borrower’s outstanding is fully covered by tangible security.

b) A rescheduling of interest element would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

ii) Treatment of ‘sub-standard’ / ‘doubtful’ accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would render a ‘sub-standard’ / ‘doubtful’ asset eligible to continue in the ‘sub-standard’ / ‘doubtful’ category for the specified period (as defined in paragraph 7 below), provided the borrower’s outstanding is fully covered by tangible security.

b) A rescheduling of interest element would render a sub-standard / ‘doubtful’ asset eligible to be continued to be classified in sub-standard /‘doubtful’ category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard / ‘doubtful’.

iii) Treatment of Provision

a) Provision made towards interest sacrifice should be created by debit to Profit & Loss account and held in a distinct account. For this purpose, the future interest due as per the current BPLR in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate term premium and credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

b) Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

c) The amount of provision made for NPA, may be reversed when the account is re-classified as a ‘standard asset’.

6. Additional finance

Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for upgradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.

7. Upgradation of restructured accounts

The sub-standard / doubtful accounts at para 5 (ii) (a) & (b) above, which have been subjected to restructuring, whether in respect of principal instalment or interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

8. Asset classification status

During the specified one-year period, the asset classification status of rescheduled accounts will not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

9. Repeated restructuring

The special dispensation for asset classification as available in terms of paragraphs 5, 6 and 7 above, shall be available only when the account is restructured for the first time.

10. Procedure

(i) Based on these guidelines, banks registered under the State Acts may formulate, with the approval of the concerned Registrar of the Co-operative Societies, a debt restructuring scheme for SMEs. However, in the case of Multi State Co-operative banks, the above guidelines may be formulated with the approval of the Board of Directors.

(ii) The restructuring would follow a receipt of a request to that effect from the borrowing units.

(iii) In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

11. Time frame

Banks should work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

12. Review

Banks may review the progress in rehabilitation and restructuring of SME accounts on a quarterly basis and keep the Board and the concerned RCS informed.

13. Disclosure:

It may be ensured that the scheme formulated in this regard as enumerated in para 10 above is brought to the notice of all beneficiaries. The bank may place the scheme on its website and give adequate publicity through other means. A copy may also be forwarded to SIDBI and the concerned Regional Offices of Reserve Bank of India

Banks should also disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of restructuring undertaken during the year for SME accounts:

(a) Total amount of assets of SMEs subjected to restructuring.

[(a) = (b)+(c)+(d)].

(b) The amount of standard assets of SMEs subjected to restructuring.
(c) The amount of sub-standard assets of SMEs subjected to restructuring.
(d) The amount of doubtful assets of SMEs subjected to restructuring.

Annex VII.

Definition of Micro, Small and Medium Enterprises

(Vide para 7)

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

i) A micro enterprise is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006 does not exceed Rs. 25 lakh;

ii) A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

iii) A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than Rs.5 crore but does not exceed Rs.10 crore.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore

Appendix

Master Circular

Management of Advances

A. List of Circulars consolidated in the Master Circular

No	Circular No.	Date	Subject
1	UBD.PCB.Cir.No.57/16.74.00/2008-09	24-06-2008	Wilful Defaulters and action thereagainst
2	UBD.CO.BPD.PCB.No.33/13.05.000/07-08	29.02.2008	Advances to builders/contractors.
3	UBD.PCB.Cir.No.22/13.05.000/ 07-08	26.11.2007	Gold Loan Repayment
4	UBD.PCB.Cir.No.13/13.05.000/07-08	13.09.2007	Monitoring of Advances- Safeguards to be observed
5	UBD.PCB.Cir.No.44/13.04.000/06-07	18.05.2007	Complaints about Excessive Interest Charged by Banks
6	UBD. PCB.Cir.No 35 /09.09.001/06-07	18.04.2007	Credit flow to Micro, Small and Medium Enterprises Sector
7	UBD.PCB.BPD.33/13.05.000/06-07	16.03.207	Grant of loans for acquisition of Kisan Vikas Patras (KVPs)
8	UBD. PCB. Cir.No.26/13.05.000/06-07.	09.01.2007	Valuation of Properties- Empanelment of Valuers
9	UBD.PCB.Cir.No.10 /13.05.000/2006-07	04.09.2006	Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities
10	UBD.PCB.Cir.No.8/13.05.000/06-07	21.08.2006	Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities
11	UBD.PCB.Cir.No.58/09.09.01/05-06	19.06.2006	Adherence to National Building Code(NBC)-specifications necessary for lending institutions
12	UBD.PCB.Cir.No. 46/13.05.000/05-06	19.04.2006	Bills discounted under LC-Risk weight and exposure norms.
13	UBD.BPD.Cir.No.36/09.09.001/05-06	09.03.2006	Debt restructuring mechanism for Small and Medium Enterprises (SMEs) - Announcement made by the Union Finance Minister
14	UBD.PCB.Cir.No.34/13.05.000/05-06	02.03.2006	Advances against Gold Ornaments and Jewellery

15.	UBD.PCB.Cir.No. 8/09.116.00/05-06	09.08.2005	Prudential norms on capital adequacy-risk weight on housing finance/commercial real estate exposures
16.	UBD.PCB.Cir.No.14/09.11.01/2004-05	24.08.2004	Opening of Current Accounts by banks-need for discipline.
17.	UBD.PCB.Cir.No.7/09.11.01/2004-05	29.07.2004	Opening of Current Accounts by banks-need for discipline.
18.	UBD.BPD.PCB.CIR.37/13.05.00/2003-04	16-03-2004	Discounting/Rediscounting of Bills By Banks
19	UBD.No.DS.PCB.Cir.34/13.05.00/2001-02	28.03.2002	Loan System for Delivery of Bank Credit
20	UBD.BSD.1.No.8/12.05.00/200-1-02	31-08-2001	Issue of banker's cheques/pay orders/demand drafts
21	UBD.NO.POT.No.33/09.17.03/2000-2001	20-02-2001	Relief measures for the persons/business affected by the earthquake in Gujarat
22.	UBD.DS.32/13.04.00/2000-01	12-02-2001	Reliefs/Concessions for Exporters Affected by the Earthquake
23.	UBD.No.POT.CIR.30/09.20.00/2000-01	01-02-2001	Branch Advisory Committees
24	UBD No.BR.11/16.74.00/98-99	30-06-1999	Collection and Dissemination of Information on Cases of Wilful Default of Rs. 25.00 lakh and above
25	UBD.No.DS.SUB.Cir.4/13.05.00/98-99	05-10-1998	Guidelines for Sanction of Working Capital Finance to Information Technology (IT) and Software Industry
26	UBD.No.DS.PCB.8/13.04.00/98-99	30-09-1998	Reliefs/Concessions for Exporters Affected by Cyclone in Gujarat
27	UBD No.BR.3/16.74.00/98-99	29-07-1998	Disclosure of information regarding defaulting borrowers of banks at-id financial institutions
28.	UBD.No.DS.SUB.19/13.05.00/97-98	12-02-1998	Reporting of Credit Sanctions
29	UBD.No.DS.PCB.Cir.28/13.05.00/97-98	16-12-1997	Guidelines for lending by banks-Assessment of working capital
30.	UBD.No.DS.PCB.Cir.25/13.05.00/97-98	04-12-1997	'Bill' finance for settlement of dues of SSI suppliers
31	UBD.No.DS.PCB.Cir15/13.05.00/97-98	21-10-1997	Loan system for delivery of bank credit
32	UBD.No.DS.PCB.Cir.47/13.05.00/96-97	23-04-1997	Guidelines for lending by banks-Assessment of working capital-Concept of maximum permissible bank Finance - Review of policy
33	UBD.No.DS.PCBcir.31/13.05.00/96-97	23-04-1997	Loan system for delivery of bank credit

34	UBD.No.DS.PCB.CIR.31/13.05.00/96-97	29-11-1996	Loan system for Delivery of Bank Credit
35	UBD.No.Plan.PCB.5/09.08.00/96-97	16-07-1996	Management of advances portfolio and control over advances
36	UBD.No.DS.PCB.Cir.64/13.05.00/95/96	31-05-1996	Loan System for Delivery of Bank credit
37.	UBD.No.DS.PCB.Cir.63/13.05.00/95-96	24-05-1996	Lending to non-banking financial companies
38	UBD.No.BR.6/16.74.00/95-96	06-05-1996	Disclosure of information regarding defaulting borrowers of banks and financial institutions
39	UBD.No.Plan.PCB.60/09.78.00/95-96	08-04-1996	Equipment leasing and hire purchase financing activities
40	UBD.DS.PCB.CIR.54/13.05.00-95/96	23-03-1996	Realistic assessment of credit requirement Measures to prevent diversion of funds
41	UBD.No.DC.23/13.05.00/95-96	19-10-1995	Credit Monitoring System-Introducing of Health Code for borrowal accounts in banks
42	UBD.No.DS.PCB.CIR.22/13.05.00/95-96	13-10-1995	Loan System for Delivery of Bank Credit
43	UBD.No.DS.PCB.CIR.14/13.05.00/95-96	28-09-1995	Introduction of a loan system for delivery of bank credits.
44	UBD No.DS.CIR.PCB.62/13.05.00/94-95	12-06-1995	Assessment of Working Capital limits of less than Rs. 1 crore-Clarifications
45.	UBD No.DS.PCB.CIR.59/13.06.00/94-95	31-05-1995	Norms for bank lending for working capital purposes-Revised guidelines
46.	UBD.No.DS.PCB.CIR.60/13.05.00/94-95	30-05-1995	Lending to Non-Banking Financial Companies
47	UBD.No.DS.(PCB)CIR.58/13.05.00/94-95	17-05-1995	Bridge Loans/Interim Finance
48.	UBD.No.DS.PCB.CIR.41/13.05.00/ 94-95	04-02-1995	Compliance with lending discipline-(a) Charging of uniform rates of interest for lending under consortium arrangement and (b) penal interest for non-compliance with the discipline
49	UBD No.DS.CIR.PCB.43/13.05.00/94-95	10-02-1995	Guidelines on lending under consortium arrangements
50	UBD No.DS.CIR.PCB.39/13.05.00/94-95	14-01-1995	Levy of commitment charge on unutilised portion of credit limit
51	UBD.No.DS.CIR.25/13.05.00/94-95	21-10-1994	Leading to non-Banking financial companies
52.	UBD.No.DS.CIR.PCB.19/13.04.00/94-95	05-10-1994	Inventory/Receivables norms for various industries

53	UBD.No.DS.CIR.PCB18/13.05.00/94-95	19-09-1994	Report of the in-House Group setup to review the role of Reserve Bank of India in laying down norms for bank lending for working capital purposes - Revised guidelines.
54	UBD.No.DS.CIR.PCB-3/13.05.00/94-95	06-07-1994	Guidelines on lending under consortium arrangements
55	UBD.No.(PCB).CIR.80/13.05.00/93-94	01-06-1994	Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tending term loans
56	UBD.No.(PCB)50/13.05.00-93/94	14-01-1994	Restrictions on credit to certain sectors – Real Estate Loans
57.	UBD.No.POT.47/09.51.00/93-94	06-01-1994	Incidence of guarantee premium payable to Deposit Insurance and Credit Guarantee Corporation
58.	UBD.No.(PCB)DC.40/13.05.00/93-94	13-12-1993	Credit Authorisation Scheme - Treatment of term loan instalments for assessment of working capital requirements
59.	UBD.No.Plan.22/09.11.00/93-94	28-09-1993	Monitoring of flow of funds
60	UBD(PCB)5/13.06.00/93-94	14-08-1993	Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tending term loans.
61	UBD.No.(PCB)1/13.06.00/93-94	12-07-1993	Review of inventory/receivable norms for financing vegetable and hydrogenated oil industry
62	UBD.No.DC(PCB)99/13.06.00/92-93	30-06-1993	Review of inventory/receivables norms for financing biscuits and bakery products industry
63	UBD.No.(SUC)DC.124/13.06.00/92-93	30-06-1993	Inventory and Receivables Norms Basmati Rice
64	UBD.No.(PCB)54/DC(R.1)-92/93	07-04-1993	Restriction on Credit to Certain Sectors
65	UBD.No.(PCB).DC45/R.1/92-93	25-02-1993	Credit Authorisation Scheme Treatment of term loan instalments for assessment of working capital requirements
66.	UBD.No.41-UB.17(c)-92/93	10-02-1993	Guidelines for relief measures by urban banks in areas affected by recent riots
67.	UBD.No.I&L.40J.1.-92 /93	09-02-1993	Diversion of working capital funds
68.	UBD.No.(PCB)29/1)C.(R.1)-92/93	26-12-1992	Bridge Loans/Interim Finance

69	UBD.(PCB)5/DC.R.1A/92-93	24-07-1992	Inventory and Receivables norms for power Generation/Distribution Industry
70.	UBD.(PCB)3/DC.R.1A.92/93	14-07-1992	Inventory and Receivables norms for certain segments of Chemical Industry Essential Oil based chemicals
71	UBD(PCB)38/DC.(R.1)-91/92	13-11-1991	Restriction on Credit to Certain Sectors
72.	UBD.(SUC)36 /DC.R.1(A)-90/91	31-05-1991	Restrictions of Drawals Under Large Cash Credit Limits
73.	UBD(PCB)42/DC.HC.(Policy).90/91	11-02-1991	Credit Monitoring System Health Code for Borrowal Accounts in Urban Co-operative Banks
74.	UBD.PCB.2/DC.(R-1)-90/91	20-07-1990	Financing of Leasing/Hire Purchase Companies
75.	UBD.(SUC)22/DC.R-1-90/91	07-07-1990	Credit Monitoring Arrangement Lending Discipline - Quarterly Information System (QIS)
76	UBD.No.DC.113/R.1A-89/89	24-04-1989	Assessment of Working Capital Requirements - Inventory/Receivable Norms for Paper Industry and for Consumable Spares
77.	UBD.No.DC.27/R.1.A-88/89	23-08-1988	Inventory/Receivables Norms for Engineering Industry
78	UBD.No(DC)2/R.1-A-88/89	08-07-1988	Inventory/Receivable norms for Certain Segments of Chemical Industry
79	UBD.No.(DC)123/R.1-87/88	31-05-1988	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks
80	UBD.No.(DC)101/R.1-A-87/88	15-02-1988	Inventory/Receivable Norms for Various Industries
81	UBD.NO.I&L.67/J.1-87/88	21-11-1987	Advances to Builders/Contractors
82	UBD(DC)104/R.1-86/87	25-06-1987	Guidelines for Assessment of Working Capital Requirements, Opening of Letters of Credit and Issue of Guarantees
83.	UBD.DC.84/R.1-86/87	03-06-1987	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks
84	UBD.(DC)57/R.1-86/87	19-02-1987	Defaults In Payment of Statutory Dues by Borrowers
85	UBD.No.DC.41/R.1-86/87	07-11-1986	Withholding of Credit Facilities to Borrowers to Ensure Financial Discipline

86	UBD(DC)83/R.1-85/86	24-03-1986	Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants
87.	UBD.NO.I&L.38 /J.1-85/86	11-10-1985	Advances Granted by Urban Co-operative Banks - Diversion of Funds
88.	UBD.P&O.1383/UB.17(C)-84/85	22-05-1985	Guidelines for relief measures by urban banks in areas affected by natural calamities
89.	UBD.POT.654/UB.17(C)-84/85	23-11-1984	Banks assistance to persons affected by recent disturbances
90	ACD.OPR.1569/A.35-79/80	02-10-1979	Measures to restrict further credit expansion
91	ACD.OPR.2697/A.75/74-5	24-12-1974	Credit authorisation scheme for co-operative banks
92	ACD.OPR.1222/A.75/74-5	07-09-1974	Credit authorisation scheme for co-operative banks
93	ACD.Plan.3109/PR.414(9)/68-9	18-06-1969	Working group on industrial financing through co-operative banks - recommendations pertaining to the urban co-operative banks - action required

B. List of Other Circulars from which instructions relating to Management of Advances have also been consolidated in the Master Circular

No.	Circular No.	Date	Subject
1.	UBD.No.I&L/69/12.05.00/93-94	13-05-1994	Committee to enquire into various aspects relating to frauds and malpractices in banks (Ghosh Committee)
2.	UBD.21/12:15:00/93-94	21-09-1993	Committee to enquire into various aspects relating to frauds and malpractices in banks primary (urban) co-operative banks
3.	UBD.No.2420-J.20-83/84	02-04-1984	Frauds, Mis-Appropriation, Embezzlements And Defalcation Of Funds In Primary (Urban) Co-operative Banks

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2014-15/ 64
DBOD.No.Dir.BC. 16/13.03.00/2014-15 **July 1, 2014**
Ashadha 10, 1936 (Saka)

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir / Madam

Master Circular- Loans and Advances – Statutory and Other Restrictions

Please refer to the Master Circular DBOD. No. Dir. BC. 14/13.03.00/2013-14 dated July 1, 2013 consolidating the instructions/guidelines issued to banks till June 30, 2013 relating to statutory and other restrictions on Loans and Advances. The Master Circular has been suitably updated by incorporating the instructions issued up to June 30, 2014 and has been placed on the RBI website (http://www.rbi.org.in). A copy of the Master Circular is enclosed.

Yours faithfully

(Lily Vadera)
Chief General Manager

Encl: as above

बैंकिंग परिचालन और विकास विभाग, केन्द्रीय कार्यालय, 13 माला,शहीद भगतसिंह मार्ग, फोर्ट,मुम्बई 400001
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CONTENTS

Master Circular on Loans and Advances -
Statutory and Other Restrictions

A. Purpose

This Master Circular consolidates the instructions issued by the Reserve Bank of India to banks on statutory and other restrictions on loans and advances.

B. Classification

A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.

C. Previous instructions

This Master Circular consolidates and updates the instructions on the above subject contained in the circulars listed in **APPENDIX.**

D. Application

To all Scheduled Commercial Banks, excluding Regional Rural Banks.

Structure

1. INTRODUCTION

This Master Circular provides a framework of the rules/regulations/instructions issued to Scheduled Commercial Banks on statutory and other restrictions on loans and advances.

Banks should implement these instructions and adopt adequate safeguards in order to ensure that the banking activities undertaken by them are run on sound, prudent and profitable lines.

2. GUIDELINES

2.1 Statutory Restrictions

2.1.1 Advances against bank's own shares

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

2.1.2 Advances to bank's Directors

2.1.2.1 Section 20(1) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest.

2.1.2.2 Banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company [not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956 (as amended in Companies Act, 2013), or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

2.1.2.3 There are certain exemptions in this regard. In terms of the explanation to the Section, ‘loans or advances’ shall not include any transaction which the Reserve Bank may specify by general or special order as not being a loan or advance for the purpose of this Section. While doing so the RBI shall, keep in view the nature of the transaction, the period within which, and the manner and circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations.

2.1.2.4 If any question arises whether any transaction is a loan or advance for the purpose of this Section, it shall be referred to RBI, whose decision thereon shall be final. FAQs regarding applicability of Section 20 of BR Act, 1949 is given in **Annex 5.**

2.1.2.5 For the above purpose, the term 'loans and advances' shall not include the following:

(a) loans or advances against Government securities, life insurance policies or fixed deposit;

(b) loans or advances to the Agricultural Finance Corporation Ltd;

(c) such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on the same terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. The banking company includes every bank to which the provisions of Section 20 of the Banking Regulation Act, 1949 apply;

(d) such loans or advances as are granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior to his appointment as Chairman/ Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and festival advance, with the prior approval of the RBI and on such terms and conditions as may be stipulated by it;

(e) such loans or advances as are granted by a banking company to its whole-time director for the purpose of purchasing furniture, car, Personal Computer or constructing/acquiring house for personal use, festival advance with the prior approval of RBI and on such terms & conditions as may be stipulated by it;

(f) call loans made by banking companies to one another;

(g) facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;

(h) line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd.(NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and

(i) a credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

Note: For obtaining the prior approval of the Reserve Bank as stipulated in clauses (d) and (e) on pre-page, the bank should make an application to the Department of Banking Operations and Development, Central Office, Mumbai.

2.1.2.6 Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949.

2.1.2.7 As regards giving guarantees and opening of L/Cs on behalf of the bank's directors, it is pertinent to note that in the event of the principal debtor committing default in discharging his liability and the bank being called upon to honour its obligations under the guarantee or L/C, the relationship between the bank and the director could become one of the creditor and debtor. Further, it is possible for the directors to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. Such transactions may defeat the very purpose of restrictions imposed under Section 20, if the bank does not take appropriate steps to ensure that the liabilities there under do not devolve on them.

2.1.2.8 In view of the above, while extending non-fund based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies/firms in which the directors are interested; it should be ensured that:

(a) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of L/Cs, or acceptors, or guarantors out of their own resources,

(b) the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and

(c) no liability would devolve on the bank on account of L/Cs/ acceptances.

2.1.2.9 In case, such contingencies arise as at (b) & (c) above, the bank will be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

2.1.2.10 Restrictions on Power to Remit Debts

Section 20A of the Banking Regulation Act, 1949 stipulates that notwithstanding anything to the contrary contained in Section 293 of the Companies Act, 1956 (as amended in Companies Act, 2013), a banking company shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

(a) any of its directors, or

(b) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or

(c) any individual, if any of its directors is his partner or guarantor.

Any remission made in contravention of the provisions stated above shall be void and have no effect.

2.1.3 Restrictions on Holding Shares in Companies

2.1.3.1 In terms of Section 19(2) of the Banking Regulation Act, 1949, banks should not hold shares in any company except as provided in sub-section (1) whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less.

2.1.3.2 Further, in terms of Section 19(3) of the Banking Regulation Act, 1949, the banks should not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the bank is in any manner concerned or interested.

2.1.3.3 Accordingly, while granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) should be strictly observed.

2.1.4 Restrictions on Credit to Companies for Buy-back of their Securities

In terms of Section 77A (1) of the Companies Act, 1956 (as amended in Companies Act, 2013), companies are permitted to purchase their own shares or other specified securities out of their

- free reserves, or
- securities premium account, or

- the proceeds of any shares or other specified securities,

subject to compliance of various conditions specified in the Companies (Amendment) Act, 1999 (as amended in Companies Act, 2013). Therefore, banks should not provide loans to companies for buy-back of shares/securities.

2.2 Regulatory Restrictions

2.2.1 Granting loans and advances to relatives of Directors

Without prior approval of the Board or without the knowledge of the Board, no loans and advances should be granted to relatives of the bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks, as per details given below.

2.2.1.1 Lending to directors and their relatives on reciprocal basis

There have been instances where certain banks have developed an informal understanding or mutual/reciprocal arrangement among themselves for extending credit facilities to each other’s directors, their relatives, etc. By and large, they did not follow the usual procedures and norms in sanctioning credit limits to the borrowers, particularly those belonging to certain groups or directors, their relatives, etc. Facilities far in excess of the sanctioned limits and concessions were allowed in the course of operation of individual accounts of the parties. Although, there is no legal prohibition on a bank from giving credit facilities to a director of some other banks or his relatives, serious concern was expressed in Parliament that such *quid pro quo* arrangements are not considered to be ethical. The banks should, therefore, follow the guidelines indicated below in regard to grant of loans and advances and award of contracts to the relatives of their directors and directors of other banks and their relatives:

2.2.1.2 Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rupees twenty five lakhs and above to -

(a) directors (including the Chairman/Managing Director) of other banks *;

(b) any firm in which any of the directors of other banks * is interested as a partner or guarantor; and

(c) any company in which any of the directors of other banks * holds substantial interest or is interested as a director or as a guarantor.

2.2.1.3 The restrictions as contained in Section 20 of the Banking Regulation Act, 1949 would apply to grant of loans and advances to spouse and minor / dependent children of the Directors of banks. However, banks may grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his / her own independent source of income arising out of his / her employment or profession and the facility so granted is based on standard procedures and norms for assessing the creditworthiness of the borrower. Such facility should be extended on commercial terms. All credit proposals for Rupees twenty five lakhs and above should be sanctioned by the bank's Board of Directors / Management Committee of the Board. The proposals for less than Rupees twenty five lakhs may be sanctioned by the appropriate authority in banks in terms of the powers delegated to them.

2.2.1.4 Unless sanctioned by the Board of Directors/Management Committee, banks should also not grant loans and advances aggregating Rupees twenty five lakhs and above to -

(a) any relative other than spouse (spouse as specified in para 2.2.1.3 above) and minor / dependent children of their own Chairmen/Managing Directors or other Directors;

(b) any relative other than spouse (spouse as specified in para 2.2.1.3 above) and minor / dependent children of the Chairman/Managing Director or other directors of other banks *;

(c) any firm in which any of the relatives other than spouse (spouse as specified in para 2.2.1.3 above) and minor / dependent children as mentioned in (a) & (b) above is interested as a partner or guarantor; and

(d) any company in which any of the relatives other than spouse (spouse as specified in para 2.2.1.3 above) and minor / dependent children as mentioned in (a) & (b) above hold substantial interest or is interested as a director or as a guarantor.

* including directors of Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds.

2.2.1.5 The proposals for credit facilities of an amount less than Rupees twenty five lakh to these borrowers may be sanctioned by the appropriate authority in the financing bank under powers vested in such authority, but the matter should be reported to the Board.

2.2.1.6 The Chairman/Managing Director or other director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his/her interest to the Board when any such proposal is discussed. He/she should not be present in the meeting unless his/her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

2.2.1.7 The above norms relating to grant of loans and advances will equally apply to awarding of contracts.

2.2.1.8 The scope of the term ‘relative’ will be as under:

- Spouse
- Father
- Mother (including step-mother)
- Son (including step-son)
- Son's Wife
- Daughter (including step-daughter)
- Daughter's Husband
- Brother (including step-brother)
- Brother’s wife
- Sister (including step-sister)
- Sister’s husband
- Brother (including step-brother) of the spouse
- Sister (including step-sister) of the spouse

2.2.1.9 The term ‘loans and advances’ will not include loans or advances against -

- Government securities
- Life insurance policies
- Fixed or other deposits
- Stocks and shares

- Temporary overdrafts for small amounts, i.e. upto Rupees twenty five thousand -
- Casual purchase of cheques up to Rupees five thousand at a time
- Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

2.2.1.10 The term ‘substantial interest’ shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

2.2.1.11 Banks should evolve, inter alia, the following procedure for ascertaining the interest of a director of a financing bank or of another bank, or his relatives, in credit proposals/award of contracts placed before the Board/Committee or other appropriate authority of the financing banks:

(i) Every borrower should furnish a declaration to the bank to the effect that -

(a) (where the borrower is an individual) he is not a director or specified near relation of a director of a banking company;

(b) (where the borrower is a partnership firm) none of the partners is a director or specified near relation of a director of a banking company; and

(c) (where the borrower is a joint stock company) none of its directors, is a director or specified near relation of a director of a banking company.

(ii) The declaration should also give details of the relationship of the borrower to the director of the bank.

2.2.1.12 In order to ensure compliance with the instructions, banks should forthwith recall the loan when it transpires that the borrower has given a false declaration.

2.2.1.13 The above guidelines should also be followed while granting loans/ advances or awarding contracts to directors of scheduled co-operative banks or their relatives.

2.2.1.14 These guidelines should also be followed by banks when granting loans and advances and awarding of contracts to directors of subsidiaries/trustees of mutual funds/venture capital funds set up by them as also other banks.

2.2.1.15 These guidelines should be duly brought to the notice of all directors and also placed before the bank's Board of Directors.

2.2.2 Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers of Banks

2.2.2.1 The statutory regulations and/or the rules and conditions of service applicable to officers or employees of public sector banks indicate, to a certain extent, the precautions to be observed while sanctioning credit facilities to such officers and employees and their relatives. In addition, the following guidelines should be followed by all the banks with reference to the extension of credit facilities to officers and the relatives of senior officers:

(i) Loans & advances to officers of the bank

No officer or any Committee comprising, inter alia, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board.

(ii) Loans and advances and award of contracts to relatives of senior officers of the bank

Proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority should be reported to the Board. Further, when a credit facility is sanctioned by an authority, other than the Board to -

- any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor; or
- any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor,

such transaction should also be reported to the Board.

2.2.2.2 The above norms relating to grant of credit facility will equally apply to the awarding of contracts.

2.2.2.3 Application of the Guidelines in case of Consortium Arrangements

In the case of consortium arrangements, the above norms relating to grant of credit facilities to relatives of senior officers of the bank will apply to the relatives of senior officers of all the participating banks.

2.2.2.4 Scope of certain expressions

(i) The scope of the term ‘relative’ is the same as mentioned at paragraph 2.2.1.8.

(ii) The term ‘Senior Officer’ will refer to -

a) any officer in senior management level in Grade IV and above in a nationalised bank, and

b) any officer in equivalent scale

- in the State Bank of India and associate banks, and
- in any banking company incorporated in India.

(iii) The term ‘credit facility’ will not include loans or advances against -

a. Government securities
b. Life Insurance policies Fixed or other deposits
c. Temporary overdrafts for small amount i.e. upto Rupees twenty five thousand , and
d. Casual purchase of cheques up to Rupees five thousand at a time.
e. Credit facility will also not include loans and advances such as housing loans, car advances, consumption loans, etc. granted to an officer of the bank under any scheme applicable generally to officers.
f. The term ‘substantial interest’ shall have the same meaning assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

2.2.2.5 In this context, banks may, inter alia,

(i) evolve a procedure to ascertain the interest of the relatives of a senior officer of the bank in any credit proposal/award of contract placed before the Board Committee or other appropriate authority of the financing bank;

(ii) obtain a declaration from every borrower to the effect that -

(a) if he is an individual, that he is not a specified, near relation to any senior officer of the bank,

(b) if it is a partnership or HUF firm, that none of the partners, or none of the members of the HUF, is a near, specified relation of any senior officer of the bank, and

(c) if it is a joint stock company, that none of its directors, is a relative of any senior officer of the bank.

(iii) ensure that the declaration gives details of the relationship, if any, of the borrower to any senior officer of the financing bank.

(iv) make a condition for the grant of any credit facility that if the declaration made by a borrower with reference to the above is found to be false, then the bank will be entitled to revoke and/or recall the credit facility.

(v) consider in consultation with their legal advisers, amendments, if any, required to any applicable regulations or rules, *inter alia*, dealing with the service conditions of officers of the bank to give effect to these guidelines.

2.2.3 Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)

2.2.3.1 Government of India has advised that as per the Montreal Protocol, to which India is a party, Ozone Depleting Substances (ODS) are required to be phased out as per schedule prescribed therein. The list of chemicals given in **Annex 1 & 2** to the Montreal Protocol is annexed for ready reference. The Protocol has identified the main ODS and set a time limit on phasing out their production/consumption in future, leading to a complete phase out eventually. Projects for phasing out ODS in India are eligible for grants from the Multilateral Fund. The sectors covered in the phase out programme are given below.

Sector	**Type of substance**
Foam products	Chlorofluorocarbon - 11 (CFC - 11)
Refrigerators and Air-conditioners	CFC – 12
Aerosol products	Mixtures of CFC - 11 and CFC – 12
Solvents in cleaning applications	CFC - 113 Carbon Tetrachloride, Methyl Chloroform
Fire extinguishers	Halons - 1211, 1301, 2402

2.2.3.2 Banks should not extend finance for setting up of new units consuming/producing the above ODS. In terms of circular No. FI/12/96-97 dated February 16, 1996 issued by the erstwhile Industrial Development Bank of India no financial assistance should be extended to small/medium scale units engaged in the manufacture of the aerosol units using CFC and no refinance would be extended to any project assisted in this sector.

2.2.4 Restrictions on Advances against Sensitive Commodities under Selective Credit Control (SCC)

2.2.4.1 Issue of Directives

(i) With a view to preventing speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Section 21 & 35A of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities.

(ii) The commodities, generally treated as sensitive commodities are the following:

(a) food grains i.e. cereals and pulses,

(b) selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castorseed, oils thereof, vanaspati and all imported oils and vegetable oils,

(c) raw cotton and kapas,

(d) sugar/gur/khandsari,

(e) cotton textiles which include cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres and partly out of cotton yarn and partly out of man-made fibres.

2.2.4.2 Commodities currently exempted from Selective Credit Control

(i) Presently the following commodities are exempted from all the stipulations of Selective Credit Controls:

Sr. No.	Commodity	Exemption with effect from
1.	Pulses	21.10.1996

Sr. No.	Commodity	Exemption with effect from
2.	Other food grains (viz. coarse grains)	21.10.1996
3.	Oilseeds (viz. groundnut, rapeseed/mustard, cotton seed, linseed, castorseed)	21.10.1996
4.	Oils (viz. groundnut oil, rapeseed oil, mustard oil, cottonseed oil, linseed oil, castor oil) including vanaspati	21.10.1996
5.	All imported oil seeds and oils	21.10.1996
6.	Sugar, including imported sugar, excepting buffer stocks and unreleased stock of sugar with Sugar Mills	21.10.1996
7.	Gur and Khandsari	21.10.1996
8.	Cotton and Kapas	21.10.1996
9.	Paddy/Rice	18.10.1994
10.	Wheat *	12.10.1993
* Temporarily covered under SCC with effect from 8.4.97 to 7.7.97.		

Banks are free to fix prudential margins on advances against these sensitive commodities.

2.2.4.3 Commodities covered under Selective Credit Control

(i) Presently, the following commodities are covered under stipulations of Selective Credit Control:

a) Buffer stock of sugar with Sugar Mills

b) Unreleased stocks of sugar with Sugar Mills representing

- levy sugar, and
- free sale sugar

2.2.4.4 Stipulations of Selective Credit Control

(i) Margin on sugar

Commodity	Minimum Margin	With effect from

Commodity	Minimum Margin	With effect from
(a) Buffer stocks of sugar	0%	01.04.1987
(b) Unreleased stocks of sugar with Sugar Mills representing - • levy sugar • free sale sugar	10% @	22.10.1997 10.10.2000

@ Margins on credit for free sale sugar will be decided by banks including RRBs and LABs based on their commercial judgement.

(ii) Valuation of sugar stocks

(a) The unreleased stocks of the levy sugar charged to banks as security by the sugar mills shall be valued at levy price fixed by Government.

(b) The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

(iii) Interest rates

Banks have the freedom to fix lending rates for the commodities coming within the purview of Selective Credit Control, at or above Base Rate.

(iv) Other operational stipulations

(a) The other operational stipulations vary with the commodities. These stipulations are advised whenever Selective Credit Controls are reintroduced for any specific sensitive commodities.

(b) Although, none of the earlier stipulations are currently applicable to the only sensitive commodity covered under Selective Credit Control viz. buffer stocks and unreleased stocks of levy/free sale sugar with Sugar Mills, yet these are reproduced in **Annex 3** for understanding there from the underlying objectives of Selective Credit Control so that banks do not allow the customers dealing in Selective Credit Control commodities any credit facilities which would directly or indirectly defeat the purpose of the directives.

(v) Delegation of powers

(a) The matter relating to delegation of powers with regard to approval of credit proposals relating to sensitive commodities coming under Selective Credit Control was reviewed and it was decided that the practice of banks' submitting credit proposals above Rupees one crore to Reserve Bank of India for its prior approval under Selective Credit Control shall be discontinued and banks will have the freedom to sanction such credit proposals in terms of their individual loan policies. Accordingly, banks need not forward the credit proposals above Rupees one crore in respect of borrowers dealing in sensitive commodities to Reserve Bank of India for its prior approval.

(b) Banks are also advised to circulate these instructions among their controlling offices/branches and take all necessary steps to ensure that the powers delegated at various levels are exercised with utmost caution without sacrificing the broad objectives of the Selective Credit Control concept.

2.2.5 Restriction on payment of commission to staff members including officers

Section 10(1)(b)(ii) of Banking Regulation Act, 1949, stipulates that a banking company shall not employ or continue the employment of any person whose remuneration or part of whose remuneration takes the form of commission or a share in the profits of the company. Further, clause (b) of Section 10(1)(b)(ii) permits payment of commission to any person who is employed only otherwise than as a regular staff. Therefore, banks should not pay commission to staff members and officers for recovery of loans.

2.2.6 Restrictions on offering incentives on any banking products

Banks should not offer any banking products, including online remittance schemes etc., with prizes /lottery/free trips (in India and/or abroad), etc. or any other incentives having an element of chance, except inexpensive gifts costing not more than Rupees two hundred fifty, as such products involve non-transparency in the pricing mechanism and therefore go against the spirit of the guidelines. Such products, if offered, by banks would be considered as violation of the extant guidelines and the banks concerned would be liable for penal action.

2.3 Restrictions on other loans and advances

2.3.1 Loans and Advances against Shares, Debentures and Bonds

Banks are required to strictly observe regulatory restrictions on grant of loans and advances against shares, debentures and bonds detailed below read with the Master Circular dated July 1, 2014 on 'Exposure Norms.'

2.3.1.1 **Advances to individuals**

Banks may grant advances against the security of shares, debentures or bonds to individuals subject to the following conditions :

(i) **Purpose of the Loan :** Loan against shares, debentures and bonds may be granted to individuals to meet contingencies and personal needs or for subscribing to new or rights issues of shares / debentures / bonds or for purchase in the secondary market, against the security of shares / debentures / bonds held by the individual.

(ii) **Amount of advance :** Loans against the security of shares, debentures and bonds should not exceed the limit of Rupees ten lakhs per individual if the securities are held in physical form and Rupees twenty lakhs per individual if the securities are held in dematerialised form.

(iii) **Margin :** Banks should maintain a minimum margin of 50 percent of the market value of equity shares / convertible debentures held in physical form. In the case of shares / convertible debentures held in dematerialised form, a minimum margin of 25 percent should be maintained. These are minimum margin stipulations and banks may stipulate higher margins for shares whether held in physical form or dematerialised form. The margin requirements for advances against preference shares / non-convertible debentures and bonds may be determined by the banks themselves.

(iv) **Lending policy :** Each bank should formulate with the approval of their Board of Directors a Loan Policy for grant of advances to individuals against shares / debentures / bonds keeping in view the RBI guidelines. Banks should obtain a declaration from the borrower indicating the extent of loans availed of by him from other banks as input for credit evaluation. It would also be necessary to ensure that such accommodation from different banks is not obtained against shares of a single company or a group of companies. As a prudential measure, each bank may also consider laying down appropriate aggregate sub-limits of such advances.

2.3.1.2 **Advances to Share and Stock Brokers/ Commodity Brokers**

(i) Banks and their subsidiaries should not undertake financing of 'Badla' transactions.

(ii) Share and stock brokers/commodity brokers may be provided need based overdraft facilities / line of credit against shares and debentures held by them as stock-in-trade. A careful assessment of need based requirements for such finance should be made taking into account the financial position of the borrower, operations on his own account and on behalf of clients, income earned, the average turnover period of stocks and shares and the extent to which the broker's funds are required to be involved in his business operations. Large scale investment in shares and debentures on own account by stock and share brokers with bank finance, should not be encouraged. The securities lodged as collateral should be easily marketable.

(iii) The ceiling of Rupees ten lakhs / Rupees twenty lakhs for advances against shares/debentures to individuals will not be applicable in the case of share and stock brokers / commodity brokers and the advances would be need based.

(iv) Banks may grant working capital facilities to stock brokers registered with SEBI and who have complied with capital adequacy norms prescribed by SEBI / Stock exchanges to meet the cash flow gap between delivery and payment for DVP transactions undertaken on behalf of institutional clients viz. FIs, FIIs, mutual funds and banks, the duration of such a facility will be short and would be based on an assessment of the financing requirements keeping in view the cash flow gaps, the broker's funds required to be deployed for the transaction and the overall financial position of the broker. The utilisation will be monitored on the basis of individual transactions. Banks may institute adequate safeguards and monitoring mechanisms.

(v) A uniform margin of 50 per cent shall be applied on all advances / financing of IPOs / issue of guarantees on behalf of share and stockbrokers. A minimum cash margin of 25 per cent (within the margin of 50%) shall be maintained in respect of guarantees issued by banks for capital market operations. The above minimum margin will also apply to guarantees issued by banks on behalf of commodity brokers in favour of commodity exchanges viz. National Commodity & Derivatives Exchange (NCDEX), Multi Commodity Exchange of India Ltd. (MCX) and National Multi Commodity Exchange of India Ltd. (NMCEIL), in lieu of margin requirements as per the commodity exchange regulations. These margin requirements will also be applicable in respect of bank finance to stock brokers by way of temporary overdrafts for DVP transactions.

(vi) Banks may issue guarantees on behalf of share and stock brokers/commodity brokers in favour of stock exchanges in lieu of security deposit to the extent it is acceptable in the form of bank guarantee as laid down by stock exchanges. Banks may also issue guarantees in lieu of margin requirements as per stock exchange regulations. The bank should assess the requirement of each applicant borrower, observe usual and necessary safeguards including the exposure ceilings.

(vii) The requirement relating to transfer of shares in bank's name in respect of shares held in physical form mentioned at Sl. No. (ix) of paragraph 2.3.1.8 shall not apply in respect of advances granted to share and stock brokers provided such shares are held as security for a period not exceeding nine months. In the case of dematerialised shares, the depository system provides a facility for pledging and banks may avail themselves of this facility and in such cases there will not be need to transfer the shares in the name of the bank irrespective of the period of holding. The share and stock brokers are free to substitute the shares pledged by them as and when necessary. In case of a default in the account, the bank should exercise the option to get the shares transferred in its name.

(viii) Banks shall grant advances only to share and stock brokers registered with SEBI and who comply with capital adequacy norms prescribed by SEBI / Stock Exchanges.

2.3.1.3 **Bank Finance for Market Makers**

Banks may provide need based finance to meet the genuine credit requirements of approved Market Makers. For this purpose, they should lay down appropriate norms for financing them including exposure limits, method of valuation, etc. They should also follow the guidelines given below:

a) Market Makers approved by stock exchange would be eligible for grant of advances by scheduled commercial banks.

b) Market Making may not only be for equity but also for debt securities including State and Central Government securities.

c) Banks should exercise their commercial judgement in determining the need based working capital requirements of Market Markers by taking into account the Market Making operations.

d) A uniform margin of 50 per cent shall be applied on all advances / financing of IPOs / issue of guarantees on behalf of market makers. A minimum cash margin of 25 per cent (within the margin of 50%) shall be maintained in respect of guarantees issued by banks for capital market operations.

e) Banks may accept, as collateral for the advances to the Market Makers, scrips other than the scrips in which the market making operations are undertaken.

f) Banks should ensure that advances provided for Market Making are not diverted for investment in shares other than the scrip earmarked for Market

Making purpose. For this purpose, a suitable follow-up and monitoring mechanism must be evolved.

g) The ceiling of Rupees ten lakhs / Rupees twenty lakhs for advances against shares/debentures to individuals will not be applicable in the case of Market Makers.

2.3.1.4 Each bank should lay down a detailed loan policy for granting advances to Stock Brokers and Market Makers and also a policy for grant of guarantees on behalf of brokers which should keep in view the general guidelines given in para 2.3.1. 8 and include, inter alia, the following:

- Purpose and use of such advances / guarantees
- Pricing of such advances
- Control features that specifically recognise the unique characteristics and risks of such financing
- Method of valuation of collateral
- Frequency of valuation of shares and other securities taken as collateral. Frequency of valuation of shares may at least be once in a quarter.
- Guidelines for transfer of shares in bank's name
- Maximum exposure for individual credits (within the RBI prescribed prudential Single Borrower Limit). The Board may also consider laying down a limit on the aggregate exposure of the bank to this sector.
- The aggregate portfolio, its quality and performance should be reviewed and put up at least on a half-yearly basis to the Board.

2.3.1.5 **Advances to other borrowers against shares / debentures / bonds**

Banks may refer to para 2.4.7 of the Master Circular on Exposure Norms dated July 1, 2014.

2.3.1.6 **Bank Loans for Financing Promoters Contribution**

The promoters' contribution towards the equity capital of a company should come from their own resources and the bank should not normally grant advances to take up shares of other companies. However, banks are permitted to extend loans to corporates against the security of shares (as far as possible in dematerialised form) held by them to meet the promoters' contribution to the equity of new companies in anticipation of raising resources subject to the following terms and conditions, in addition to the general guidelines given in para 2.3.1.8:

i. The margin and period of repayment of the loans may be determined by the banks.
ii. Loans sanctioned to corporates against the security of shares (as far as possible, demat shares) for meeting promoters' contribution to the equity of new companies in anticipation of raising resources, should be treated as a bank's investments in shares which would thus come under the ceiling of 40 percent of the bank's net worth as on March 31 of the previous year prescribed for the bank's total exposure including both fund based and non-fund based to capital market in all forms. These loans will also be subject to individual/group of borrowers exposure norms as well as the statutory limit on shareholding in companies, as detailed in the Master Circular on Exposure Norms dated July 1, 2014.
iii. Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the loan policy of the banks. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. While the Board may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

iv. Under the refinance scheme of Export-Import Bank of India, the banks may sanction term loans on merits to eligible Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries, provided the term loans have been approved by the EXIM Bank for refinance.

v. The restriction on grant of bank advances for financing promoters' contribution towards equity capital would also extend to bank finance to activities related to such acquisitions like payment of non compete fee, etc. Further, these restrictions would also be applicable to bank finance to such activities by overseas branches / subsidiaries of Indian banks.

vi. With the approval of the Board of Directors, the banks should formulate internal guidelines with appropriate safeguards for this purpose.

2.3.1.7 **Advances against Units of Mutual Funds**

Banks may refer to para 2.4.6 of the Master Circular on Exposure Norms dated July 1, 2014

2.3.1.8 **General guidelines applicable to advances against shares / debentures / bonds**

(i) Statutory provisions regarding the grant of advances against shares contained in Sections 19(2) and (3) and 20(1) (a) of the Banking Regulation Act 1949 should be strictly observed. Shares held in dematerialised form should also be included for the purpose of determining the limits under Section 19(2) and 19(3) ibid.

(ii) Banks should be concerned with what the advances are for, rather than what the advances are against. While considering grant of advances against shares / debentures banks must follow the normal procedures for the sanction, appraisal and post sanction follow-up.

(iii) Advances against the primary security of shares / debentures / bonds should be kept distinct and separate and not combined with any other advance.

(iv) Banks should satisfy themselves about the marketability of the shares / debentures and the networth and working of the company whose shares / debentures / bonds are offered as security.

(v) Shares / debentures / bonds should be valued at prevailing market prices when they are lodged as security for advances.

(vi) Banks should exercise particular care when advances are sought against large blocks of shares by a borrower or a group of borrowers. It should be ensured that advances against shares are not used to enable the borrower to acquire or retain a controlling interest in the company / companies or to facilitate or retain inter-corporate investments.

(vii) No advance against partly paid shares shall be granted.

(viii) No loans to be granted to partnership / proprietorship concerns against the primary security of shares and debentures.

(ix) Whenever the limit/limits of advances granted to a borrower exceeds Rupees ten lakhs, it should be ensured that the said shares / debentures / bonds are transferred in the bank's name and that the bank has exclusive and unconditional voting rights in respect of such shares. For this purpose the aggregate of limits against shares / debentures / bonds granted by a bank at all its offices to a single borrower should be taken into account. Where securities are held in dematerialised form, the requirement relating to transfer of shares in bank's name will not apply and banks may take their own decision in this regard. Banks should, however, avail of the facility provided in the depository system for pledging securities held in dematerialised form under which the securities pledged by the borrower get blocked in favour of the lending bank. In case of default by the borrower and on the bank exercising the option of invocation of pledge, the shares and debentures get transferred in the bank's name immediately.

(x) Banks may take their own decision in regard to exercise of voting rights and may prescribe procedures for this purpose.

(xi) Banks should ensure that the scrips lodged with them as security are not stolen / duplicate / fake / benami. Any irregularities coming to their notice should be immediately reported to RBI.

(xii) The Boards of Directors may decide the appropriate level of authority for sanction of advances against shares / debentures. They may also frame internal guidelines and safeguards for grant of such advances.

(xiii) Banks operating in India should not be a party to transactions such as making advances or issuing back-up guarantees favouring other banks for extending credit to clients of Indian nationality / origin by some of their overseas branches, to enable the borrowers to make investments in shares and debentures / bonds of Indian companies.

2.3.2 Money Market Mutual Funds

All the guidelines issued by the Reserve Bank of India on Money Market Mutual Funds (MMMF) have been withdrawn and the banks are to be guided by the SEBI Regulations in this regard. However the banks/ FIs which are desirous of setting up MMMFs would have to take necessary clearance from the RBI for undertaking this additional activity before approaching SEBI for registration.

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

2.3.3.1 There have been instances where fake term deposit receipts, purported to have been issued by some banks, were used for obtaining advances from other banks. In the light of these happenings, the banks should desist from sanctioning advances against FDRs, or other term deposits of other banks.

2.3.3.2 **Restrictions on advances against NR(E)RA and FCNR (B) Deposits - Quantum of loans**

With effect from April 28, 2009, banks were prohibited from granting fresh loans or renew existing loans in excess of Rs. 100 lakh against security of funds held in NR(E)RA and FCNR(B) deposits either to the depositors or third parties.

With effect from October 12, 2012, banks may grant loans against NR(E)RA and FCNR(B) deposits either to the depositors or the third parties as under:-

	Existing provision	Revised provision
Rupee loans* in India		
Loans against NRE/FCNR(B) Fixed Deposits	Rs. 100 lakhs ceiling applicable	Rupee loans to be allowed to depositor/third party without any ceiling subject to usual margin requirements**
Foreign Currency loan* in India/ outside India		
Loans against NRE/FCNR(B) Fixed Deposits	Rs. 100 lakhs ceiling applicable	Foreign Currency loans to be allowed to depositor/third party without any ceiling subject to usual margin requirements **

* The term 'loan' shall include all types of fund based/non-fund based facilities.

** In case of FCNR (B) deposits the margin requirement shall be notionally calculated on the rupee equivalent of the deposits in accordance with para 9(2) of Schedule-2 of Foreign Exchange Management (Deposit) Regulations, 2000.

Further, the facility of premature withdrawal of NRE/FCNR deposits shall not be available where loans against such deposits are to be availed of. This requirement may specifically be brought to the notice of the deposit holder at the time of sanction of the loan. The existing loans which are not in conformity with the above instructions shall continue for their existing term and shall not be rolled over/renewed. Other conditions as regards grant of loan against NRE/FCNR deposits shall remain unchanged.

2.3.4 Advances to Agents/Intermediaries based on Consideration of Deposit Mobilisation

Banks should desist from being party to unethical practices of raising of resources through agents/intermediaries to meet the credit needs of the existing/prospective borrowers or from granting loans to intermediaries, based on the consideration of deposit mobilisation, who may not require the funds for their genuine business requirements.

2.3.5 Loans against Certificate of Deposits (CDs)

Banks cannot grant loans against CDs. Furthermore, they are also not permitted to buy-back their own CDs before maturity. On a review it has been decided to relax these restrictions on lending and buy back, until further notice, only in respect of CDs held by mutual funds. While granting such loans to the mutual funds, banks should keep in view the provisions of paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996. Further, such finance if extended to equity-oriented mutual funds, will form part of banks' capital market exposure, as hitherto.

2.3.6 Finance for and Loans/Advances against Indian Depository Receipts (IDRs)

No bank should grant any loan / advance for subscription to Indian Depository Receipts (IDRs). Further, no bank should grant any loan / advance against security / collateral of IDRs issued in India.

2.3.7 Bank Finance to Non-Banking Financial Companies (NBFCs)

Banks may be guided by the Master Circular on Bank Finance to Non-Banking Financial Companies (NBFCs) dated July 1, 2014 in this regard.

2.3.8 Financing Infrastructure/ Housing Projects

2.3.8.1 Housing Finance

Banks may refer to the Master Circular on Housing Finance dated July 1, 2014 in this regard.

2.3.8.2 **Guidelines for Financing Infrastructure Projects**

In order to harmonise the definition of 'infrastructure lending for the purpose of financing of infrastructure by the banks and Financial Institutions' with that of the Master List of Infrastructure sub-sectors' notified by the Government of India on March 27, 2012, the definition of 'infrastructure lending' has been revised as below: (As amended from time to time)

A credit facility extended by lenders (i.e. banks and select All India Term-Lending and Refinancing Institutions) to a borrower for exposure in the following infrastructure sub-sectors will qualify as 'infrastructure lending' :

Category	Infrastructure sub-sectors	
Transport	i	Roads and bridges
	ii	Ports[1]
	iii	Inland Waterways
	iv	Airport
	v	Railway Track, tunnels, viaducts, bridges[2]
	vi	Urban Public Transport (except rolling stock in case of urban road transport)
Energy	i	Electricity Generation
	ii	Electricity Transmission
	iii	Electricity Distribution
	iv	Oil pipelines
	v	Oil / Gas / Liquefied Natural Gas (LNG) storage facility[3]
	vi	Gas pipelines[4]
Water & Sanitation	i	Solid Waste Management
	ii	Water supply pipelines
	iii	Water treatment plants
	iv	Sewage collection, treatment and disposal system
	v	Irrigation (dams, channels, embankments etc)
	vi	Storm Water Drainage System
	vii	Slurry Pipelines
Communication	i	Telecommunication (Fixed network)[5]
	ii	Telecommunication towers
	iii	Telecommunication & Telecom Services
Social and Commercial Infrastructure	i	Education Institutions (capital stock)
	ii	Hospitals (capital stock)[6]
	iii	Three-star or higher category classified hotels located outside cities with population of more than 1 million
	iv	Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets
	v	Fertilizer (Capital investment)
	vi	Post harvest storage infrastructure for

		agriculture and horticultural produce including cold storage
	vii	Terminal markets
	viii	Soil-testing laboratories
	ix	Cold Chain[7]
	x	Hotels with project cost[8] of more than Rs.200 crores each in any place in India and of any star rating;
	xi	Convention Centres with project cost[8] of more than Rs.300 crore each.

1. Includes Capital Dredging
2. Includes supporting terminal infrastructure such as loading / unloading terminals, stations and buildings
3. Includes strategic storage of crude oil
4. Includes city gas distribution network
5. Includes optic fibre / cable networks which provide broadband / internet
6. Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres
7. Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.
8. Applicable with prospective effect from November 25, 2013 i.e. the date of issue of circular by RBI in this regard and available for eligible projects for a period of three years; Eligible costs exclude cost of land and lease charges but include interest during construction.

The revised definition of ‘infrastructure lending’ are in effect from November 20, 2012. The exposure of banks to projects under sub-sectors which were included under our previous definition of infrastructure, vide our Master Circular DBOD. No. Dir. BC. 13/ 13.03.00/ 2013-14 dated July 1, 2013 on ‘Exposure Norms’ but not included under the revised definition, will continue to get the benefits under 'infrastructure lending' for such exposures till the completion of the projects. However, any fresh lending to those sub-sectors from the date of this circular will not qualify as 'infrastructure lending'.

The definition of infrastructure lending and the list of items included under infrastructure sector is revised vide circular DBOD.BP.BC.No.58/08.12.014/2012-13 dated November 20, 2012. Vide circular DBOD.BP.BC.No.106/08.12.014/2012-13 dated June 28, 2013 three more sectors were added to the list. Further, vide circular DBOD.BP.BC.No.66/08.12.014/2013-14 dated November 25, 2013, two more sectors were added to the list.

2.3.8.3 Criteria for Financing

Banks/FIs are free to finance technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings subject to the following conditions:

(i) The amount sanctioned should be within the overall ceiling of the prudential exposure norms prescribed by RBI for infrastructure financing.

(ii) Banks/ FIs should have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to the risk analysis and sensitivity analysis.

(iii) In respect of projects undertaken by public sector units, term loans may be sanctioned only for corporate entities (i.e. public sector undertakings registered under Companies Act or a Corporation established under the relevant statute). Further, such term loans should not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources if such supplementing was contemplated in the project design. While such public sector units may include Special Purpose Vehicles (SPVs) registered under the Companies Act set up for financing infrastructure projects, it should be ensured by banks and financial institutions that these loans/investments are not used for financing the budget of the State Governments. Whether such financing is done by way of extending loans or investing in bonds, banks and financial institutions should undertake due diligence on the viability and bankability of such projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations and that the repayment/servicing of debt is not out of budgetary resources. Further, in the case of financing SPVs, banks and financial institutions should ensure that the funding proposals are for specific monitorable projects. It has been observed that some banks have extended financial assistance to State PSUs which is not in accordance with the above norms. Banks/FIs are, therefore, advised to follow the above instructions scrupulously, even while making investment in bonds of sick State PSUs as part of the rehabilitation effort.

(iv) Banks may also lend to SPVs in the private sector, registered under the Companies Act for directly undertaking infrastructure projects which are financially viable and not for acting as mere financial intermediaries. Banks may ensure that the bankruptcy or financial difficulties of the parent/ sponsor should not affect the financial health of the SPV.

2.3.8.4 Types of Financing by Banks

(i) In order to meet financial requirements of infrastructure projects, banks may extend credit facility by way of working capital finance, term loan, project loan, subscription to bonds and debentures/ preference shares/ equity shares acquired as a part of the project finance package which is treated as "deemed advance” and any other form of funded or non-funded facility.

(ii) Take-out Financing

Banks may enter into take-out financing arrangement with IDFC/ other financial institutions or avail of liquidity support from IDFC/ other FIs. A brief write-up on some of the important features of the arrangement is given in paragraph 2.3.8.7(i). Banks may also be guided by the instructions regarding take-out finance contained in Circular No. DBOD. BP. BC. 144/ 21.04.048/ 2000 dated February 29, 2000.

(iii) Inter-institutional Guarantees

Banks are permitted to issue guarantees favouring other lending institutions in respect of infrastructure projects, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow-up of the project. For detailed instructions on inter-institutional guarantee, please see paragraph 2.3.9.

(iv) Financing promoter's equity

In terms of Circular No. DBOD. Dir. BC. 90/ 13.07.05/ 98 dated August 28, 1998, banks were advised that the promoters’ contribution towards the equity capital of a company should come from their own resources and the bank should not normally grant advances to take up shares of other companies. In view of the importance attached to the infrastructure sector, it has been decided that, under certain circumstances, an exception may be made to this policy for financing the acquisition of the promoters’ shares in an existing company, which is engaged in implementing or operating an infrastructure project in India. The conditions, subject to which an exception may be made, are as follows:

(i) The bank finance would be only for acquisition of shares of existing companies providing infrastructure facilities. Further, acquisition of such shares should be in respect of companies where the existing foreign promoters (and/ or domestic joint promoters) voluntarily propose to disinvest their majority shares in compliance with SEBI guidelines, where applicable.

(ii) The companies to which loans are extended should, inter alia, have a satisfactory net worth.

(iii) The company financed and the promoters/ directors of such companies should not be a defaulter to banks/ FIs.

(iv) In order to ensure that the borrower has a substantial stake in the infrastructure company, bank finance should be restricted to 50% of the finance required for acquiring the promoter's stake in the company being acquired.

(v) Finance extended should be against the security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired. The shares of the borrower company / company being acquired may be accepted as additional security and not as primary security. The security charged to the banks should be marketable.

(vi) Banks should ensure maintenance of stipulated margins at all times.

(vii) The tenor of the bank loans may not be longer than seven years. However, the Boards of banks can make an exception in specific cases, where necessary, for financial viability of the project.

(viii) This financing would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

(ix) The banks financing acquisition of equity shares by promoters should be within the regulatory ceiling of 40 per cent of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (both fund based and non-fund based).

(x) The proposal for bank finance should have the approval of the Board.

2.3.8.5 **Appraisal**

(i) In respect of financing of infrastructure projects undertaken by Government owned entities, banks/Financial Institutions should undertake due diligence on the viability of the projects. Banks should ensure that the individual components of financing and returns on the project are well defined and assessed. State Government guarantees may not be taken as a substitute for satisfactory credit appraisal and such appraisal requirements should not be diluted on the basis of any reported arrangement with the Reserve Bank of India or any bank for regular standing instructions/periodic payment instructions for servicing the loans/bonds.

(ii) Infrastructure projects are often financed through Special Purpose Vehicles. Financing of these projects would, therefore, call for special appraisal skills on the part of lending agencies. Identification of various project risks, evaluation of risk mitigation through appraisal of project contracts and evaluation of creditworthiness of the contracting entities and their abilities to fulfill contractual obligations will be an integral part of the appraisal exercise. In this connection, banks/FIs may consider constituting appropriate screening committees/special cells for appraisal of credit proposals and monitoring the progress/performance of the projects. Often, the size of the funding requirement would necessitate joint financing by banks/FIs or financing by more than one bank under consortium or syndication arrangements. In such cases, participating banks/ FIs may, for the purpose of their own assessment, refer to the appraisal report prepared by the lead bank/FI or have the project appraised jointly.

2.3.8.6 **Prudential requirements**

(i) Prudential credit exposure limits

Banks may be guided by DBOD Master Circular on Exposure Norms dated July 1, 2014.

(ii) Assignment of risk weight for capital adequacy purposes

Banks are required to be guided by the Guidelines on 'Basel III Capital Regulations' as amended from time to time in the matter of capital adequacy.

(iii) Asset-Liability Management

The long-term financing of infrastructure projects may lead to asset – liability mismatches, particularly when such financing is not in conformity with the maturity profile of a bank's liabilities. Banks would, therefore, need to exercise due vigil on their asset-liability position to ensure that they do not run into liquidity mismatches on account of lending to such projects.

(iv) Administrative arrangements

Timely and adequate availability of credit is the pre-requisite for successful implementation of infrastructure projects. Banks/ FIs should, therefore, clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Multiplicity of appraisals by every institution involved in financing, leading to delays, has to be avoided and banks should be prepared to broadly accept technical parameters laid down by leading public financial institutions. Also, setting up a mechanism for an ongoing monitoring of the project implementation will ensure that the credit disbursed is utilised for the purpose for which it was sanctioned.

2.3.8.7 **Take-out financing/liquidity support**

(i) Take-out financing arrangement

Take-out financing structure is essentially a mechanism designed to enable banks to avoid asset-liability maturity mismatches that may arise out of extending long tenor loans to infrastructure projects. Under the arrangements, banks financing the infrastructure projects will have an arrangement with IDFC or any other financial institution for transferring to the latter the outstandings in their books on a pre-determined basis. IDFC and SBI have devised different take-out financing structures to suit the requirements of various banks, addressing issues such as liquidity, asset-liability mismatches, limited availability of project appraisal skills, etc. They have also developed a Model Agreement that can be considered for use as a document for specific projects in conjunction with other project loan documents. The agreement between SBI and IDFC could provide a reference point for other banks to enter into somewhat similar arrangements with IDFC or other financial institutions.

(ii) Liquidity support from IDFC

As an alternative to take-out financing structure, IDFC and SBI have devised a product, providing liquidity support to banks. Under the scheme, IDFC would commit, at the point of sanction, to refinance the entire outstanding loan (principal+ unrecovered interest) or part of the loan, to the bank after an agreed period, say, five years. The credit risk on the project will be taken by the bank concerned and not by IDFC. The bank would repay the amount to IDFC with interest as per the terms agreed upon. Since IDFC would be taking a credit risk on the bank, the interest rate to be charged by it on the amount refinanced would depend on the IDFC's risk perception of the bank (in most of the cases, it may be close to IDFC's PLR). The refinance support from IDFC would particularly benefit the banks which have the requisite appraisal skills and the initial liquidity to fund the project.

2.3.9 Issue of Bank Guarantees in favour of Financial Institutions

2.3.9.1 Banks may issue guarantees favouring other banks/FIs/other lending agencies for the loans extended by the latter, subject to strict compliance with the following conditions.

(i) The Board of Directors should reckon the integrity/robustness of the bank's risk management systems and, accordingly, put in place a well-laid out policy in this regard.

The Board approved policy should, among others, address the following issues:

a) Prudential limits, linked to bank's Tier I capital, up to which guarantees favouring other banks/FIs/other lending agencies may be issued.

b) Nature and extent of security and margins

c) Delegation of powers

d) Reporting system

e) Periodical reviews

(ii) The guarantee shall be extended only in respect of borrower constituents and to enable them to avail of additional credit facility from other banks/FIs/lending agencies

(iii) The guaranteeing bank shall assume a funded exposure of at least 10% of the exposure guaranteed.

(iv) Banks should not extend guarantees or letters of comfort in favour of overseas lenders including those assignable to overseas lenders, except for the relaxations permitted under FEMA.

(v) The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight as per the extant guidelines.

(vi) Banks should ensure compliance with the recommendations of the Ghosh Committee and other internal requirements relating to issue of guarantees to obviate the possibility of frauds in this area.

2.3.9.2 **Lending banks**

A. Banks extending credit facilities against the guarantees issued by other banks/FIs should ensure strict compliance with the following conditions:

(i) The exposure assumed by the bank against the guarantee of another bank/FI will be deemed as an exposure on the guaranteeing bank/FI and will attract appropriate risk weight as per the extant guidelines.

(ii) Exposures assumed by way of credit facilities extended against the guarantees issued by other banks should be reckoned within the inter bank exposure limits prescribed by the Board of Directors. Since the exposure assumed by the bank against the guarantee of another bank/FI will be for a fairly longer term than those assumed on account of inter bank dealings in the money market, foreign exchange market and securities market, the Board of Directors should fix an appropriate sub-limit for the longer term exposures since these exposures attract greater risk.

(iii) Banks should monitor the exposure assumed on the guaranteeing bank/FI, on a continuous basis and ensure strict compliance with the prudential limits/sub limits prescribed by the Boards for banks and the prudential single borrower limits prescribed by RBI for FIs.

(iv) Banks should comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

B. However, the above conditions will not be applicable in the following cases:

(a) In respect of infrastructure projects, banks may issue guarantees favouring other lending institutions, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 percent of the project cost and undertakes normal credit appraisal, monitoring and follow up of the project.

(b) Issuance of guarantees in favour of various Development Agencies/Boards, like Indian Renewable Energy Development Agency, National Horticulture Board, etc. for obtaining soft loans and/or other forms of development assistance from such Agencies/Boards with the objective of improving efficiency, productivity, etc., subject to the following conditions:

- Banks should satisfy themselves, on the basis of credit appraisal, regarding the technical feasibility, financial viability and bankability of individual projects and/or loan proposals i.e. the standard of such appraisal should be the same, as is done in the case of a loan proposal seeking sanction of term finance/loan.
- Banks should conform to the prudential exposure norms prescribed from time to time for an individual borrower/group of borrowers.
- Banks should suitably secure themselves before extending such guarantees.

(c) Issue of guarantees favouring HUDCO/State Housing Boards and similar bodies for loans granted by them to private borrowers who are unable to offer clean or marketable title to property, provided banks are otherwise satisfied about the capacity of borrowers to adequately service such loans.

d) Issuance of guarantees by consortium member banks unable to participate in rehabilitation packages on account of temporary liquidity constraints, in favour of the banks which take up their share of the limit.

C. Banks should not grant co-acceptance/guarantee facilities under Buyers Lines of Credit Schemes introduced by IDBI, SIDBI, Exim Bank, Power Finance Corporation (PFC) or any other financial institution, unless specifically permitted by the RBI.

2.3.10 Discounting/Rediscounting of Bills by Banks

Banks may adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills:

(i) Since banks have already been given freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers, they may sanction working capital limits as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors.

(ii) Banks should clearly lay down a bills discounting policy approved by their Board of Directors, which should be consistent with their policy of sanctioning of working capital limits. In this case, the procedure for Board approval should include banks' core operating process from the time the bills are tendered till these are realised. Banks may review their core operating processes and simplify the procedure in respect of bills financing. In order to address the often-cited problem of delay in realisation of bills, banks may take advantage of improved computer / communication networks like the Structured Financial Messaging system (SFMS) and adopt the system of 'value dating' of their clients' accounts.

(iii) Banks should 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. Banks should 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. However, in cases where negotiation of bills drawn under LC is restricted to a particular bank, and the beneficiary of the LC is not a constituent of that bank, the bank concerned may negotiate such an LC, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary. The prohibition regarding negotiation of unrestricted LCs of non-constituents will continue to be in force. Bank Guarantee (BG) / LC may be issued by scheduled commercial banks to clients of co-operative banks against counter guarantee of the co-operative bank. In such cases, banks may be guided by the provisions of paragraph 2.3.9.2 of the Master Circular. Further, banks must satisfy themselves that the concerned co-operative banks have sound credit appraisal and monitoring systems as well as robust Know Your Customer (KYC) regime. Before issuing BG / LCs to specific constituents of co-operative banks, they must satisfy themselves that KYC has been done properly in these cases.

(iv) Sometimes, a beneficiary of the LC may want to discount the bills with the LC issuing bank itself. In such cases, banks may discount bills drawn by beneficiary only if the bank has sanctioned regular fund-based credit facilities to the beneficiary. With a view to ensuring that the beneficiary's bank is not deprived of cash flows into its account, the beneficiary should get the bills discounted / negotiated through the bank with whom he is enjoying sanctioned credit facilities.

(v) 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 should be treated as on the borrower and risk weight assigned accordingly. However, in cases where the bills discounting/ purchasing/ negotiating bank and LC issuing bank are part of the same bank, i.e. where LC is issued by the Head Office or branch of the same bank, then the exposure should be taken on the third party/ borrower and not on the LC issuing bank.

(vi) While purchasing / discounting / negotiating bills under LCs or otherwise, banks should establish genuineness of underlying transactions / documents.

(vii) Banks should 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 should be issued to customers under joint signatures of the bank's authorised officials.

(viii) The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' should be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. Banks should not, therefore, open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause. On a review it has been decided that banks may negotiate bills drawn under LCs, on 'with recourse 'or 'without recourse 'basis, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank. However, the restriction on purchase/discount of other bills (the bills drawn otherwise than under LC) on 'without recourse 'basis will continue to be in force.

(ix) Accommodation bills should not be purchased / discounted / negotiated by banks. The underlying trade transactions should be clearly identified and a proper record thereof maintained at the branches conducting the bills business.

(x) Banks should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.

(xi) Bills rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by non-bank financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

(xii) Banks may exercise their commercial judgment in discounting of bills of the services sector. However, while discounting such bills, banks should 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 norm prescribed by the Board of the bank for unsecured exposure limit.

(xiii) In order to promote payment discipline which would, to a certain extent, encourage acceptance of bills, all corporates 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.

(xiv) Banks should not enter into Repo transactions using bills discounted / rediscounted as collateral.

2.3.11 Advances for purchase of Gold and lending against Gold Bullion/Coins/ Primary gold

(a) The significant rise in imports of gold in recent years is a cause for concern as direct bank financing for purchase of gold in any form viz. Bullion/ primary gold/ jewellery/ gold coin etc. could lead to fuelling of demand for gold. Accordingly, it is advised that with effect from November 19, 2012 no advances should be granted by banks 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. However, banks can provide finance for genuine working capital requirements of jewellers. The scheme of Gold (Metal) Loan detailed vide our circular DBOD. No. IBS.BC. 1519/ 23.67.001/ 1998-99 dated December 31, 1998 as amended from time to time, will continue to be in force.

(b) Banks should not grant any advance against bullion/ Primary gold. However, as specially minted gold coins sold by banks may not be in the nature of "bullion" or "primary gold", it was indicated in the mailbox clarification dated April 5, 2011 that there would be no objection to the bank granting loans against these coins. However, as pointed out in the monetary policy statement 2013-14, there is a risk that some of these coins would be weighing much more, thereby circumventing the Reserve Bank's guidelines regarding restriction on grant of advance against gold bullion. Accordingly, it is advised that while granting advance against the security of specially minted gold coins sold by them, banks should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within the Board approved limit. Such loans to be granted by the bank, may be covered under the policy framed by the bank's Board, in terms of our circular DBOD.No.BC.138/21.01.023/94 dated November 22, 1994. Further, while granting advances against the gold coins, they may ensure, without fail that the end use of the funds is for approved, non-speculative purposes.

(c) Further, as units of gold Exchange Traded Funds (ETF) and gold Mutual Funds are backed by bullion/ primary gold, it is clarified that the restriction on grant of loan against 'gold bullion' stipulated as per extant instructions will also be applicable to grant of advance against units of gold ETFs and units of gold Mutual Funds.

(d) Banks should desist from granting advances to the silver bullion dealers which are likely to be utilised for speculative purposes.

2.3.12 Advances against Gold Ornaments & Jewellery

a) Loan to Value Ratio

Loans (including bullet repayment loans) sanctioned by banks against pledge of gold ornaments and jewellery for non-agricultural purposes should not exceed 75 per cent of the value of gold ornaments and jewellery.

In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and 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)]. If the gold is of purity less than 22 carats, the bank 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.

b) Bullet repayment of loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes should be subject to the following guidelines :

(i) The amount of loan sanctioned should not exceed Rs.1.00 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 maturity.

(iv) Banks should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold ornaments), expected price fluctuations, interest that will accrue during the tenure of the loan etc.

(v) The account would be classified as Non-Performing Asset (sub-standard category) even before the due date of repayment, if the prescribed margin is not maintained.

(vi) Banks shall recognise interest income on such loans in their profit and loss account only on collection.

(vii) Such loans shall also be governed by other extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

c) Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Therefore, banks 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 consumer, lenders and the industry. Therefore, banks 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.

2.3.13 Gold (Metal) Loans

2.3.13.1 Banks nominated to import gold (list of banks as per **Annex-4**) as per extant instructions may extend Gold (Metal) Loans (GML) to domestic jewellery manufacturers out of the eligible domestic import quota of 80%, to the extent of GML outstanding in their books as on March 31, 2013.

Any gold loan borrowing or other non-funded commitments taken by them for the purpose of providing gold loans to domestic jewellery manufacturers will be taken into account for the purpose of the overall ceiling (presently 50% of Tier I capital) (c.f. FED Master Circular No.5/2012-13 dated July 1, 2013) in respect of aggregate borrowing for non-export purposes. The Gold Loans extended to exporters of jewellery would continue to be out of the 50% ceiling.

The Gold (Metal) Loans provided by banks will be subject to the following conditions:

(i) The tenor of the Gold (Metal) Loans, which nominated banks are permitted to extend to domestic jewellery manufacturers who are not exporters of jewellery, may be decided by the nominated banks themselves provided the tenor does not exceed 180 days and the banks' policy with regard to tenor and monitoring of end use of gold loan is documented in the banks' loan policy and strictly adhered to by the banks. The above guidelines will be reviewed in the light of experience gained, and the performance of the banks in regard to monitoring the end-use of gold loans will be an important factor in deciding upon their future requests for annual renewal of authorization to import gold / silver.

(ii) Interest charged to the borrowers should be linked to the international gold interest rate.

(iii) The gold borrowings will be subject to normal reserve requirements.

(iv) The loan will be subject to capital adequacy and other prudential requirements.

(v) Banks should ensure end-use of gold loans to jewellery manufacturers and adhere to KYC guidelines.

(vi) Any mismatch arising out of the gold borrowings and lendings should be within the prudential risk limits approved by the nominated bank's Board.

(vii) The banks should carefully assess the overall risks on granting gold loans and lay down a detailed lending policy with the approval of the Board.

2.3.13.2 Presently, nominated banks can extend Gold (Metal) Loans to exporters of jewellery who are customers of other scheduled commercial banks, by accepting stand-by letter of credit or bank guarantee issued by their bankers in favour of the nominated banks subject to authorised banks' own norms for lending and other conditions stipulated by RBI. Banks may also extend the facility to domestic jewellery manufacturers, subject to the following conditions:

(i) The stand-by LC / BG shall be extended only on behalf of domestic jewellery manufacturers and shall cover at all times the full value of the quantity of gold borrowed by these entities. The stand-by LC / BG shall be issued by scheduled commercial banks in favour of a nominated bank (list appended) only and not to any other entity which may otherwise be having permission to import gold.

(ii) The bank issuing the stand-by LC / BG (only inland letter of credit / bank guarantee) should do so only after carrying out proper credit appraisal. The bank should ensure that adequate margin is available to it at all times consistent with the volatility of the gold prices.

(iii) The stand-by LC / BG facilities will be denominated in Indian Rupees and not in foreign currency.

(iv) Stand-by LC / BG issued by the non-nominated banks will be subject to extant capital adequacy and prudential norms.

(v) The banks issuing stand-by LC / BG should also carefully assess the overall risks on granting these facilities and lay down a detailed lending policy with the approval of their Board.

(vi) Stand-by LC/BG issuing bank should carry out rigorous credit appraisal exercise and treat stand-by LC/BG limit (Non-fund based limit) at par with the fund based limit. Similarly, bank disbursing GML should carry out independent credit appraisal of the borrower. It should not rely solely on stand-by LC/BG issued by other banks.

(vii) Stand-by LC/BG issuing bank and bank disbursing GML while assessing the credit requirement of the borrower may, among others, take into account the following aspects:

a. Track record of the borrower,

b. Trade cycle of the manufacturing activity,

c. Credit worthiness of the borrower,

d. Collateral security offered by the borrower, etc.

(viii)The manufacturer of the gold jewellery availing GML, irrespective of whether through stand-by LC/BG issued by another bank or directly from a nominated bank, should have good credentials and standing in the market. This should be established by inputs from the market as well as from other sources including from the Credit Information Companies.

(ix) In the case of GML against revolving stand-by LC/BG, i.e., where the original loan limit is restored after repayment of previous loan without any further reference to the stand-by LC/BG issuing bank, both the banks, i.e., GML providing bank and the stand-by LC/BG issuing bank may evolve a mechanism to carefully monitor the borrowing arrangement. In such cases GML providing bank may seek confirmation of stand-by LC/BG issuing bank before restoring the loan limit. Existing guidelines in respect of verifying the genuineness of the guarantee with the issuing bank as provided in the Master Circular on Guarantees and Co-acceptances (DBOD. No. Dir. BC.12/13.03.00/ 2013-14 dated July 1, 2013) may be followed by the banks in this regard.

(x) Bank disbursing GML should open current account of the borrower with the consent of stand-by LC/BG issuing bank so that funds can be arranged by the borrower in the account for monthly servicing of interest and repayment of loan on due date.

(xi) The GML providing bank may obtain all relevant information from the borrower viz., daily sales/stock position, deposit of sales proceeds etc., at stipulated intervals and there should be proper sharing of the above information between GML providing bank and stand-by LC/BG issuing bank.

(xii) Inspection of stocks, quality check of the gold stock, verification of insurance cover, etc, may be undertaken jointly or on rotation basis by the GML providing bank and stand-by LC/BG issuing bank.

(xiii) In case GML is given by the nominated bank to its own existing customers, gold metal loans under the scheme may be carved out within the credit limit sanctioned by the bank. In case of new borrowers, the gold metal loan limit may be fixed after carrying out a detailed credit appraisal and due diligence.

(xiv) GML can be availed of only by gold jewellers who are themselves manufacturers of gold jewellery. The jewellers cannot sell the gold borrowed under GML scheme to any other party for manufacture of jewellery.

2.3.13.3 The nominated banks may continue to extend Gold (Metal) Loans to jewellery exporters subject to the following conditions:

- The exposure assumed by the nominated bank extending the Gold (Metal) Loan against the stand-by LC / BG of another bank will be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per the extant guidelines.

- The transaction should be purely on back-to-back basis i.e. the nominated banks should extend Gold (Metal) Loan directly to the customer of a non-nominated bank, against the stand-by LC / BG issued by the latter.
- Gold (Metal) Loans should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.
- The banks may calculate their exposure and compliance with prudential norms daily by converting into Rupee the gold quantity by crossing London AM fixing for Gold / US Dollar rate with the rupee-dollar reference rate announced by RBI.

2.3.13.4 There will be no change in the existing policy on lending against bullion. Banks should recognise the overall risks in extending Gold (Metal) Loans as also in extending SBLC / BG. Banks should lay down an appropriate risk management / lending policy in this regard and comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

2.3.13.5 Nominated banks are not permitted to enter into any tie up arrangements for retailing of gold / gold coins with any other entity including non-banking financial companies / co-operative banks / non-nominated banks.

2.3.14 Loans and advances to Real Estate Sector

While appraising loan proposals involving real estate, banks should ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

2.3.15 Loans and advances to Micro and Small Enterprises (MSEs)

MSE units having working capital limits of up to Rupees five crore from the banking system are to be provided working capital finance computed on the basis of 20 percent of their projected annual turnover. The banks should adopt the simplified procedure in respect of all MSE units (new as well as existing).

2.3.16 Loan system for delivery of bank credit

(a) In the case of borrowers enjoying working capital credit limits of Rupees ten crore and above from the banking system, the loan component should normally be 80 percent. Banks, however, have the freedom to change the composition of working capital by increasing the cash credit component beyond 20 percent or to increase the 'Loan Component' beyond 80 percent, as the case may be, if they so desire. Banks are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.

(b) In the case of borrowers enjoying working capital credit limit of less than Rupees ten crore, banks may persuade them to go in for the 'Loan System' by offering an incentive in the form of lower rate of interest on the loan component, as compared to the cash credit component. The actual percentage of 'loan component' in these cases may be settled by the bank with its borrower clients.

(c) In respect of certain business activities, which are cyclical and seasonal in nature or have inherent volatility, the strict application of loan system may create difficulties for the borrowers. Banks may, with the approval of their respective Boards, identify such business activities, which may be exempted from the loan system of delivery.

2.3.17 Lending under Consortium Arrangement/Multiple Banking Arrangement

(a) Various regulatory prescriptions regarding conduct of consortium / multiple banking / syndicate arrangements were withdrawn by Reserve Bank of India in October 1996 with a view to introducing flexibility in the credit delivery system and to facilitate smooth flow of credit. However, Central Vigilance Commission, Government of India, in the light of frauds involving consortium / multiple banking arrangements which have taken place recently, has expressed concerns on the working of Consortium Lending and Multiple Banking Arrangements in the banking system. The Commission has attributed the incidence of frauds mainly to the lack of effective sharing of information about the credit history and the conduct of the account of the borrowers among various banks.

The matter has been examined in consultation with the Indian Banks Association who is of the opinion that there is need for improving the sharing / dissemination of information among the banks about the status of the borrowers enjoying credit facilities from more than one bank. Accordingly, in terms of circular DBOD.No.BP.BC.94/08.12.001/2008-09 dated December 8, 2008 the banks are encouraged to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks as under:

(i) At the time of granting fresh facilities, banks may obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks in the format prescribed in **Annex 6**. In the case of existing lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of Rupees five 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 as indicated above.

(ii) Subsequently, banks should exchange information about the conduct of the borrowers' accounts with other banks in the format given in **Annex 6** at least at quarterly intervals.

(iii) 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, as per specimen given in **Annex 6.**

(iv) Make greater use of credit reports available from a credit information company which has obtained Certificate or Registration from RBI and of which the bank is a member.

(v) The banks should incorporate suitable clauses in the loan agreements in future (at the time of next renewal in the case of existing facilities) regarding exchange of credit information so as to address confidentiality issues.

(b) In terms of our extant instructions on 'Lending under Consortium Arrangement / Multiple Banking Arrangements' banks were advised to 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. Banks were also advised to exchange information about the conduct of borrowers' accounts with other banks in the specified format at least at quarterly intervals. The format specified in the circular was finalised in consultation with Indian Banks' Association. Banks were further advised on 'Lending under Consortium Arrangement / Multiple Banking Arrangements', that the information exchange should also, inter alia, cover information relating to borrowers' derivative transactions and unhedged foreign currency exposures. In terms of circular DBOD.BP.BC.No.62/ 21.04.103/ 2012-13 dated November 21, 2012, banks are advised to strictly adhere to the instructions regarding sharing of information relating to credit, derivatives and unhedged foreign currency exposures among themselves and put in place an effective mechanism for information sharing by end-December 2012. Any sanction of fresh loans / ad hoc loans / renewal of loans to new / existing borrowers with effect from January 1, 2013 should be done only after obtaining / sharing necessary information. Non-adherence to the above instructions by banks would be viewed seriously by the Reserve Bank and they would be liable to action, including imposition of penalty, wherever considered appropriate.

2.3.18 Working Capital Finance to Information Technology and Software Industry

Following the recommendations of the “National Task Force on Information Technology and Software development“, Reserve Bank has framed guidelines for extending working capital to the said industry. Banks are however free to modify the guidelines based on their own experience without reference to the Reserve Bank of India to achieve the purpose of the guidelines in letter and spirit. The salient features of these guidelines are set forth below:

(i) Banks may consider sanction of working capital limits based on the track record of the promoters group affiliation, composition of the management team and their work experience as well as the infrastructure.

(ii) In the case of the borrowers with working capital limits of up to Rs 2 crore, assessment may be made at 20 percent of the projected turnover. However, in other cases, the banks may consider assessment of MPBF on the basis of the monthly cash budget system. For the borrowers enjoying working capital limits of Rs 10 crore and above from the banking system the guidelines regarding the loan system would be applicable.

(iii) Banks can stipulate reasonable amount as promoters' contribution towards margin.

(iv) Banks may obtain collateral security wherever available. First/ second charge on current assets, if available, may be obtained.

(v) The rate of interest as prescribed for general category of borrowers may be levied. Concessional rate of interest as applicable to pre-shipment/post-shipment credit may be levied.

(vi) Banks may evolve tailor-made follow up system for such advances. The banks could obtain quarterly statements of cash flows to monitor the operations. In case the sanction was not made on the basis of the cash budgets, they can devise a reporting system, as they deem fit.

2.3.19 Guidelines for bank finance for PSU disinvestments of Government of India

2.3.19.1 In terms of RBI circular DBOD No. Dir. BC .90/13.07.05/98 dated August 28, 1998, banks have been advised that the promoters' contribution towards the equity capital of a company should come from their own resources and the bank should not normally grant advances to take up shares of other companies. Banks were also advised to ensure that advances against shares were not used to enable the borrower to acquire or retain a controlling interest in the company/companies or to facilitate or retain inter-corporate investment. It is clarified that the aforesaid instructions of the 1998 circular would not apply in the case of bank finance to the successful bidders under the PSU disinvestment programme of the Government, subject to the following:

- Banks' proposals for financing the successful bidders in the PSU disinvestment programme should be approved by their Board of Directors.
- Bank finance should be for acquisition of shares of PSU under a disinvestment programme approved by Government of India, including the secondary stage mandatory open offer, wherever applicable and not for subsequent acquisition of the PSU shares. Bank finance should be made available only for prospective disinvestments by Government of India.

- The companies, including the promoters, to which bank finance is to be extended should have adequate net worth and an excellent track record of servicing loans availed from the banking system.
- The amount of bank finance thus provided should be reasonable with reference to the banks' size, its net worth and business and risk profile.

2.3.19.2 In case the advances against the PSU disinvestment is secured by the shares of the disinvested PSUs or any other shares, banks should follow RBI's extant guidelines on capital market exposures on margin, ceiling on overall exposure to the capital market, risk management and internal control systems, surveillance and monitoring by the Audit Committee of the Board, valuation and disclosure, etc. In this regard, banks may be guided by the Master Circular on Exposure Norms dated July 1, 2014.

2.3.19.3 Stipulation of lock-in period for shares

i) Banks should, while deciding to extend finance to the borrowers who participate in the PSU disinvestment programme, advise such borrowers to execute an agreement whereby they undertake to:

(a) Produce the letter of waiver by the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period, or

(b) Include a specific provision in the documentation with the Government permitting the pledgee to liquidate the shares during the lock-in period, in case of shortfall in margin requirement or default by the borrower.

(ii) Banks may extend finance to the successful bidders even though the shares of the disinvested company acquired/ to be acquired by the successful bidder are subjected to a lock-in period/ other such restrictions which affect their liquidity, subject to fulfillment of following conditions:

(a) The documentation between the Government of India and the successful bidder should contain a specific provision permitting the pledgee to liquidate the shares even during lock-in period that may be prescribed in respect of such disinvestments, in case of shortfall in margin requirements or default by the borrower.

(b) If the documentation does not contain such a specific provision, the borrower (successful bidder) should obtain waiver from the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period.

2.3.19.4 As per the terms and conditions of the PSU disinvestments by the Government of India, the pledgee bank will not be allowed to invoke the pledge during the first year of the lock-in period. During the second and third year of the lock-in period, in case of inability of the borrower to restore the margin prescribed for the purpose by way of additional security or non-performance of the payment obligations as per the repayment schedule agreed upon between the bank and the borrower, the bank would have the right to invoke the pledge. The pledgee bank's right to invoke the pledge during the second and third years of the lock-in period, would be subject to the terms and conditions of the documentation between Government and the successful bidder, which might also cast certain responsibilities on the pledgee banks.

2.3.19.5 It is clarified that the concerned bank must make a proper appraisal and exercise due caution about creditworthiness of the borrower and the financial viability of the proposal. The bank must also satisfy itself that the proposed documentation, relating to the disposal of shares pledged with the bank, are fully acceptable to the bank and do not involve unacceptable risks on the part of the bank.

2.3.19.6 In terms of IECD Circular No. 10/ 08.12.01/ 2000- 2001 dated 8 January 2001, banks are precluded from financing investments of NBFCs in other companies and inter-corporate loans / deposits to/ in other companies. The position has been reviewed and banks are advised that SPVs which comply with the following conditions would not be treated as investment companies and therefore would not be considered as NBFCs:

a. They function as holding companies, special purpose vehicles, etc. with not less than 90 per cent of their total assets as investment in securities held for the purpose of holding ownership stake,

b. They do not trade in these securities except for block sale,

c. They do not undertake any other financial activities, and

d. They do not hold/accept public deposits

2.3.19.7 SPVs, which satisfy the above conditions, would be eligible for bank finance for PSU disinvestments of Government of India.

2.3.19.8 In this context, it may be mentioned that Government of India, Ministry of Finance (DEA), Investment Division, vide its Press Note dated July 8, 2002, on guidelines for Euro issues, has permitted an Indian company utilizing ADR/GDR/ECB proceeds for financing disinvestment programme of the Government of India, including the subsequent open offer. Banks may, therefore, take into account proceeds from such ADR/GDR/ECB issues, for extending bank finance to successful bidders of the PSU disinvestment programme.

2.3.20 Grant of Loans for acquisition of Kisan Vikas Patras (KVPs)

(i) Certain instances have come to notice where banks have sanctioned loans to individuals (mostly High Networth Individuals-HNIs) for acquisition of Kisan Vikas Patras (KVPs). The HNIs were first required to bring in 10% of the total face value of the proposed investment in the KVPs as margin and the remaining 90% of the investment was treated as loan and funded by the bank for acquisition of the KVPs. Once the KVPs were acquired in the borrower's name, the same were pledged thereafter to the bank.

(ii) The sanction of loans as described above is not in conformity with the objectives of small savings schemes. The basic objective of small savings schemes is to provide a secure avenue of savings for small savers and promote savings, as well as to inculcate the habit of thrift among the people. The grant of loans for acquiring/investing in KVPs does not promote fresh savings and, rather, channelises the existing savings in the form of bank deposits to small savings instruments and thereby defeats the very purpose of such schemes. Banks should, therefore, ensure that no loans are sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.

2.3.21 7% Savings Bonds 2002, 6.5% Savings Bonds 2003 (Non-taxable) & 8% Savings (Taxable) Bonds 2003-Collateral facility

It has been decided by the Government of India to allow pledge or hypothecation or lien of the bonds issued under the captioned schemes as collateral for obtaining loans from scheduled banks. Accordingly, the holders of the said bonds will be entitled to create pledge or hypothecation or lien in favour of scheduled banks in accordance with section 28 of the Government Securities Act, 2006 (the G S Act) and regulations 21 and 22 of the Government Securities Regulations, 2007 (the G S Regulations). A copy each of the amending notification numbers No. F.4(13)-W & M/2002 dated August 19, 2008 for 7% Savings Bonds, 2002, No. F.4(9)-W & M/2003 dated August 19, 2008 for 6.5% Savings Bonds, 2003 (Non-taxable), and No. F.4(10)-W & M/2003 dated August 19, 2008 for 8% Savings (Taxable) Bonds, 2003 issued by the Government of India is enclosed with RBI circular DBOD. No. Dir.BC.66/13.03.00/2008-09 dated October 24, 2008. In view of the above amendments, banks are advised to facilitate extension of collateral facility through pledge or hypothecation or lien as per the procedure laid down in Section 28 of the GS Act and Regulations 21 and 22 of the GS Regulations. Relevant extracts of the Act / Regulations along with the forms and the relative press release issued by the Government of India are also enclosed in the above circular for ready reference. It may be noted that collateral facility is available only for the loans extended to the holders of the bonds and, as such, the facility is not available in respect of the loans extended to third parties.

2.3.22 Guidelines on Settlement of Non Performing Assets- Obtaining Consent Decree from Court

The Debt Recovery Tribunal, Ernakulam has observed in a case that although the bank and the defendant borrowers had reached a settlement under the compromise Settlement Scheme, the bank had not only failed to obtain the consent decree from the DRT, but had also suppressed from the DRT the fact of settlement for more than two and half years thereby violating the aforesaid RBI guidelines and causing the Tribunal to unnecessarily waste its valuable time. Banks are, therefore, advised to invariably ensure that once a case is filed before a Court / DRT / BIFR, any settlement arrived at with the borrower is subject to obtaining a consent decree from the Court / DRT / BIFR concerned.

2.3.23 Project Finance Portfolio of Banks

2.3.23.1 At the time of financing projects banks generally adopt one of the following methodologies for determining the level of promoters' equity:

1) Promoters bring their entire contribution upfront before the bank starts disbursing its commitment.
2) Promoters bring certain percentage of their equity (40% – 50%) upfront and balance is brought in stages.
3) Promoters agree, ab initio, that they will bring in equity funds proportionately as the banks finance the debt portion.

2.3.23.2 While it is appreciated that such decisions are to be taken by the boards of the respective banks, it has been observed that the last method has greater equity funding risk. In order to contain this risk, banks are advised in their own interest to have a clear policy regarding the Debt Equity Ratio (DER) and to ensure that the infusion of equity/fund by promoters should be such that the stipulated level of DER is maintained at all times. Further they may adopt funding sequences so that possibility of equity funding by banks is obviated.

2.3.24 Bridge Loans against receivables from Government

Banks should not extend bridge loans against amounts receivable from Central/State Governments by way of subsidies, refunds, reimbursements, capital contributions, etc. The following exemptions are, however, made:

a) Banks may continue to finance subsidy receivable under the normal Retention Price Scheme (RPS) for periods upto 60 days in case of fertilizer industry. It is clarified that the facility is being allowed as a purely temporary measure and the fertilizer companies should strengthen their financial position gradually so that they do not depend on the banks for finance against subsidy. No other subsidy receivables such as, those in respect of claims raised by units on the basis of expected revision in retention price because of escalation in costs of inputs and in respect of freight, etc. , should be financed by the banks.
b) Banks may continue to grant finance against receivables from Government by exporters (viz. Duty Draw Back and IPRS) to the extent covered by the existing instructions.

2.3.25 Repayment of Rupee Loans with External Commercial Borrowings (ECBs)

In terms of our Foreign Exchange Department circular A.P.(DIR Series) Circular No 134 dated June 25, 2012, Indian companies in the manufacturing and infrastructure sector were allowed to avail of external commercial borrowings (ECBs) for repayment of Rupee loans availed of from domestic banking system and / or for fresh Rupee capital expenditure, under the approval route, subject to satisfying certain conditions. However, if the ECB is availed from overseas branches / subsidiaries of Indian banks, the risk remains within the Indian banking system. It has, therefore, been decided that repayment of Rupee loans availed of from domestic banking system through ECBs extended by overseas branches / subsidiaries of Indian banks will not be permitted with effect from April 22, 2014.

2.4 Transfer of borrowal accounts from one bank to another

Of late RBI has been receiving references / complaints that critical information on the health of the borrowal accounts being taken over is not being shared by the transferor bank with the transferee bank, resulting in inadequate due diligence at the time of taking over of accounts. Therefore, banks are advised that:

a) Banks should put in place a Board approved policy with regard to take-over of accounts from another bank. The policy may include norms relating to the nature of the accounts that may be taken over, authority levels for sanction of takeover, reporting of takeover to higher authorities, monitoring mechanism of taken over accounts, credit audit of taken over accounts, examination of staff accountability especially in case of quick mortality of such cases after takeover, periodic review of taken over accounts at Board / Board Committee level, Top Management level, etc.

b) In addition, before taking over an account, the transferee bank should obtain necessary credit information from the transferor bank as per the format prescribed in Annex II of RBI circular DBOD.No.BP.BC.94/ 08.12.001/2008-09 dated December 8, 2008 on "Lending under Consortium Arrangement / Multiple Banking Arrangements". This would enable the transferee bank to be fully aware of the irregularities, if any, existing in the borrower's account(s) with the transferor bank. The transferor bank, on receipt of a request from the transferee bank, should share necessary credit information as per the prescribed format at the earliest.

2.5 Guidelines on Fair Practices Code for Lenders

2.5.1. On the basis of the recommendations of the Working Group on Lenders' Liability Laws constituted by the Government of India, the feasibility of introducing the Fair Practices Code for Lenders was examined in consultation with Government, select banks and financial institutions. The guidelines have since been finalised and banks/ all India Financial Institutions are advised to adopt the following broad guidelines and frame the Fair Practices Code duly approved by their Board of Directors.

2.5.2 Guidelines

(i) Applications for loans and their processing

(a) Loan application forms in respect of all categories of loans irrespective of the amount of loan sought by the borrower should be comprehensive. With a view to bringing in fairness and transparency, banks are advised that they must transparently disclose to the borrower all information about fees / charges payable for processing the loan application, the amount of fees refundable if loan amount is not sanctioned / disbursed, pre-payment options and charges, if any, penalty for delayed repayments if any, conversion charges for switching loan from fixed to floating rates or vice versa, existence of any interest reset clause and any other matter which affects the interest of the borrower. Such information should also be displayed on the website of the banks for all categories of loan products.

It has come to our notice that some banks levy, in addition to a processing fee, certain charges which are not initially disclosed to the borrower. It may be mentioned that levying such charges subsequently without disclosing the same to the borrower is an unfair practice.

Banks/FIs should ensure that all information relating to charges/fees for processing are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charges with other sources of finance. It should also be ensured that such charges / fees are non-discriminatory.

(b) Banks and financial institutions should devise a system of giving acknowledgement for receipt of all loan applications. Time frame within which loan applications up to Rupees two lakhs will be disposed of should also be indicated in acknowledgement of such applications.

(c) Banks / financial institutions should verify the loan applications within a reasonable period of time. If additional details / documents are required, they should intimate the borrowers immediately.

(d) In case of all categories of loans irrespective of any threshold limits, including credit card applications, the lenders should convey in writing, the main reason/reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications within stipulated time.

(ii) Loan appraisal and terms/conditions

a) Lenders should ensure that there is proper assessment of credit application by borrowers. They should not use margin and security stipulation as a substitute for due diligence on credit worthiness of the borrower.

b) The lender should convey to the borrower the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.

c) Terms and conditions and other caveats governing credit facilities given by banks/ financial institutions arrived at after negotiation by lending institution and the borrower should be reduced in writing and duly certified by the authorised official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower. It is reiterated that banks should invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

d) As far as possible, the loan agreement should clearly stipulate credit facilities that are solely at the discretion of lenders. These may include approval or disallowance of facilities, such as, drawings beyond the sanctioned limits, honouring cheques issued for the purpose other than specifically agreed to in the credit sanction, and disallowing drawing on a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. It may also be specifically stated that the lender does not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.

e) In the case of lending under consortium arrangement, the participating lenders should evolve procedures to complete appraisal of proposals in the time bound manner to the extent feasible, and communicate their decisions on financing or otherwise within a reasonable time.

(iii) Disbursement of loans including changes in terms and conditions

Lenders should ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction. Lenders should give notice of any change in the terms and conditions including interest rates, service charges etc. Lenders should also ensure that changes in interest rates and charges are effected only prospectively**.**

(iv) Post disbursement supervision

a) Post disbursement supervision by lenders, particularly in respect of loans up to Rupees two lakh, should be constructive with a view to taking care of any" lender-related" genuine difficulty that the borrower may face.

b) Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, lenders should give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exits in the loan agreement.

c) Lenders should release all securities on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim lenders may have against borrowers. If such right of set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the documents under which lenders are entitled to retain the securities till the relevant claim is settled/ paid.

(v) General

a) Lenders should restrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).

b) Lenders must not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude lenders from participating in credit-linked schemes framed for weaker sections of the society.

c) In the matter of recovery of loans, the lenders should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

d) In case of receipt of request for transfer of borrowal account, either from the borrower or from a bank/financial institution, which proposes to take- over the account, the consent or otherwise i.e, objection of the lender, if any, should be conveyed within 21 days from the date of receipt of request.

2.5.3. Fair Practices Code based on the guidelines outlined in the paragraph 2.5.2 above should be put in place in respect of all lending. Banks and financial institutions will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. For this purpose, the Boards of banks and financial institutions should lay down a clear policy.

2.5.4 The Board of Directors should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of controlling offices. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

2.5.5 The adoption of the Code, printing of necessary loan application forms and circulation thereof among the branches and controlling offices should also be duly completed. The Fair Practices Code, which may be adopted by banks and financial institutions, should also be put on their website and given wide publicity. A copy may also be forwarded to the Reserve Bank of India.

2.6 Guidelines on Recovery Agents engaged by banks

2.6.1 In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity would result in serious reputational risk for the banking sector as a whole. A need has therefore arisen to review the policy, practice, and procedure involved in the engagement of recovery agents by banks in India. In this backdrop, Reserve Bank issued draft guidelines which were placed on the web-site for comments of all concerned. Based on the feedback received from a wide spectrum of banks / individuals / organizations, the draft guidelines have been suitably revised and the final guidelines are issued vide our circular DBOD.No.Leg.BC.75/09.07.005/2007-08 dated April 24, 2008.

2.6.2 Banks are advised to take into account the following specific considerations while engaging recovery agents:

(i) ‘Agent’ in these guidelines would include agencies engaged by the bank and the agents/ employees of the concerned agencies.

(ii) Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process. The due diligence process should generally conform to the guidelines issued by RBI on outsourcing of financial services vide circular DBOD.No.BP.40/ 21.04.158/ 2006-07 dated

November 3, 2006. Further, banks should ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include pre-employment police verification, as a matter of abundant caution. Banks may decide the periodicity at which re-verification of antecedents should be resorted to.

(iii) To ensure due notice and appropriate authorization, banks should inform the borrower the details of recovery agency firms / companies while forwarding default cases to the recovery agency. Further, since in some of the cases, the borrower might not have received the details about the recovery agency due to refusal / non-availability / avoidance and to ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the bank along with the identity card issued to him by the bank or the agency firm / company. Further, where the recovery agency is changed by the bank during the recovery process, in addition to the bank notifying the borrower of the change, the new agent should carry the notice and the authorization letter along with his identity card.

(iv) The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. Banks should ensure that there is a tape recording of the content / text of the calls made by recovery agents to the customers, and vice-versa. Banks may take reasonable precaution such as intimating the customer that the conversation is being recorded, etc.

(v) The up to date details of the recovery agency firms / companies engaged by banks may also be posted on the bank's website.

(vi) Where a grievance/ complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance / complaint lodged by the concerned borrower. However, where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous / vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance / complaint is pending with them. In cases where the subject matter of the borrower's dues might be *sub judice*, banks should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.

(vii) Each bank should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at item (iii) above.

Incentives to Recovery Agents

(viii) It is understood that some banks set very stiff recovery targets or offer high incentives to recovery agents. These have, in turn, induced the recovery agents to use intimidatory and questionable methods for recovery of dues. Banks are, therefore, advised to ensure that the contracts with the recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process.

Methods followed by Recovery Agents

(ix) A reference is invited to (a) Circular DBOD.Leg.No.BC.104/ 09.07.007 /2002-03 dated May 5, 2003 regarding Guidelines on Fair Practices Code for Lenders (b) Circular DBOD.No.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006 regarding outsourcing of financial services and (c) Master Circular DBOD.FSD.BC.17/ 24.01.011/2007-08 dated July 2, 2007 on Credit Card Operations. Further, a reference is also invited to paragraph 6 of the "Code of Bank's Commitment to Customers" (BCSBI Code) pertaining to collection of dues. Banks are advised to strictly adhere to the guidelines / code mentioned above during the loan recovery process.

Training for Recovery Agents

(x) In terms of Para 5.7.1 of our Circular DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006 on guidelines on managing risks and code of conduct in outsourcing of financial services by banks, banks were advised that they should ensure that, among others, the recovery agents are properly trained to handle with care and sensitivity, their responsibilities, in particular aspects like hours of calling, privacy of customer information etc.

(xi) Reserve Bank has requested the Indian Banks' Association to formulate, in consultation with Indian Institute of Banking and Finance (IIBF), a certificate course for Direct Recovery Agents with minimum 100 hours of training. Once the above course is introduced by IIBF, banks should ensure that over a period of one year all their Recovery Agents undergo the above training and obtain the certificate from the above institute. Further, the service providers engaged by banks should also employ only such personnel who have undergone the above training and obtained the certificate from the IIBF. Keeping in view the fact that a large number of agents throughout the country may have to be trained, other institutes/ bank's own training colleges may provide the training to the recovery agents by having a tie-up arrangement with Indian Institute of Banking and Finance so that there is uniformity in the standards of training. However, every agent will have to pass the examination conducted by IIBF all over India.

Taking possession of property mortgaged / hypothecated to banks

(xii) In a recent case which came up before the Honourable Supreme Court, the Honourable Court observed that we are governed by rule of law in the country and the recovery of loans or seizure of vehicles could be done only through legal means. In this connection it may be mentioned that the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Security Interest (Enforcement) Rules, 2002 framed thereunder have laid down well defined procedures not only for enforcing security interest but also for auctioning the movable and immovable property after enforcing the security interest. It is, therefore, desirable that banks rely only on legal remedies available under the relevant statutes while enforcing security interest without intervention of the Courts.

(xiii) Where banks have incorporated a re-possession clause in the contract with the borrower and rely on such re-possession clause for enforcing their rights, they should ensure that the re-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such repossession clause is clearly brought to the notice of the borrower at the time of execution of the contract. The terms and conditions of the contract should be strictly in terms of the Recovery Policy and should contain provisions regarding (a) notice period before taking possession (b) circumstances under which the notice period can be waived (c) the procedure for taking possession of the security (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property (e) the procedure for giving repossession to the borrower and (f) the procedure for sale / auction of the property.

Use of forum of Lok Adalats

(xiv) The Honourable Supreme Court also observed that loans, personal loans, credit card loans and housing loans with less than Rupees ten lakh can be referred to Lok Adalats. In this connection, banks' attention is invited to Circular DBOD.No.Leg.BC.21/09.06.002/ 2004-05 dated August 3, 2004 wherein they were advised to use the forum of Lok Adalats organized by Civil Courts for recovery of loans. Banks are encouraged to use the forum of Lok Adalats for recovery of personal loans, credit card loans or housing loans with less than Rupees ten lakh as suggested by the Honourable Supreme Court.

Utilisation of credit counsellors

(xv) Banks are encouraged to have in place an appropriate mechanism to utilise the services of the credit counsellors for providing suitable counselling to the borrowers where it becomes aware that the case of a particular borrower deserves sympathetic consideration.

2.6.3 **Complaints against the bank / its recovery agents**

Banks, as principals, are responsible for the actions of their agents. Hence, they should ensure that their agents engaged for recovery of their dues should strictly adhere to the above guidelines and instructions, including the BCSBI Code, while engaged in the process of recovery of dues.

2.6.4 Complaints received by Reserve Bank regarding violation of the above guidelines and adoption of abusive practices followed by banks' recovery agents would be viewed seriously. Reserve Bank may consider imposing a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period. In case of persistent breach of above guidelines, Reserve Bank may consider extending the period of ban or the area of ban. Similar supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any bank or its Directors/ Officers/ agents with regard to policy, practice and procedure related to the recovery process.

2.6.5 It is expected that banks would, in the normal course ensure that their employees also adhere to the above guidelines during the loan recovery process.

2.6.6 **Periodical Review**

Banks engaging recovery agents are advised to undertake a periodical review of the mechanism to learn from experience, to effect improvements, and to bring to the notice of the Reserve Bank of India suggestions for improvement in the guidelines.

ANNEX 1

List of Controlled Substances
(paragraph 2.2.3.1)

Group	Substance	Ozone Depleting Potential *
Group I		
$CFCl_3$	(CFC-11)	1.0
CF_2Cl_2	(CFC-12)	1.0
$C_2F_3Cl_3$	(CFC-113)	0.8
$C_2F_4Cl_2$	(CFC-114)	1.0
Cl	(CFC-115)	0.6
Group II		
CF_2BrCl	(halon-1211)	3.0
CF_3Br	(halon-1301)	10.0
$C_2F_4Br_2$	(halon-2402)	6.0
* These ozone depleting potentials are estimated based on existing knowledge and will be reviewed and revised periodically.		

ANNEX 2

List of Controlled Substances (paragraph 2.2.3.1)

Group	Substance	Ozone Depleting Potential
Group I		
CF_3Cl	(CFC-13)	1.0
CF_2Cl_5	(CFC-111)	1.0
$C_2F_2Cl_4$	(CFC-112)	1.0
C_2FCl_7	(CFC-211)	1.0
C_2F_2Cl6	(CFC-212)	1.0
$C_3F_3Cl_5$	(CFC-213)	1.0
$C_3F_4Cl_4$	(CFC-214)	1.0
$C_3F_5Cl_3$	(CFC-215)	1.0
$C_3F_6Cl_2$	(CFC-216)	1.0
C_3F_7Cl	(CFC-217)	1.0
Group II		
CCl_4	Carbon Tetrachloride	1.1
Group III		
$C_2H_3Cl_3$ *	1,1,1 - trichloroethane (methyl chloroform)	0.1
* This formula does not refer to 1,1,2 - trichloroethane.		

ANNEX 3

Selective Credit Control
Other Operational Stipulations

[paragraph 2.2.4.4 (iv)]

1. Banks should not allow the customers dealing in Selective Credit Control commodities any credit facilities which would directly or indirectly defeat the purpose of the directive. Advances against book debts/receivables and collateral securities like LIC policies, shares and stocks and real estate should not be considered in favour of such borrowers.
2. Although advances against security of or by way of purchase of demand documentary bills drawn in connection with the movement of the Selective Credit Control commodities are exempted, the bank should ensure that the bills offered have arisen out of actual movement of goods by verifying the relative invoices as also the receipts issued by transport operators, etc.
3. Usance bills arising out of sale of Selective Credit Control commodities should not be discounted except to the extent specifically permitted in the directives issued.
4. Clean Telegraphic Transfer Purchase facility may be allowed to a reasonable extent on certain conditions specified in the directives.
5. Priority sector advances are also covered by/under Selective Credit Control directives.
6. Where credit limits have been sanctioned against the security of more than one commodity and/or any other type of security, the credit limits against each commodity should be segregated and the restrictions contained in the directives made applicable to each of such segregated limit.
7. Banks are free to determine the rate of interest in respect of advances covered under Selective Credit Control directives.
8. Banks could grant loans to borrowers dealing in Selective Credit Control commodities, provided the term loans are used for the purpose of acquiring block assets like plant & machinery and normal appraisal and other criteria are followed by the banks.
9. Reserve Bank of India authorises limits to the Food Corporation of India and State Governments for procurement of foodgrains; at prices fixed by the Government of India, for the Central Pool and for the distribution of the same under the Public Distribution System (PDS). As the limits are authorised without margin, credit cannot be drawn against credit sales, book debts, Government subsidies, etc.
10. Banks should refer to the directives on Selective Credit Control measures issued by RBI from time to time.

ANNEX 4

List of banks nominated to import Gold
(paragraph 2.3.13.1)

Sl. No.	Name of the Bank
1	Allahabad Bank
2	Axis Bank Ltd.
3	Bank of India
4	Bank of Baroda
5	Bank of Nova Scotia
6	Corporation Bank
7	Federal Bank Ltd.
8	HDFC Bank Ltd.
9	ICICI Bank Ltd.
10	Indian Overseas Bank
11	IndusInd Bank Ltd
12	ING Vysya Bank Ltd.
13	Karur Vysya Bank Ltd.
14	Kotak Mahindra Bank Ltd.
15	Oriental Bank of Commerce
16	Punjab National Bank
17	South Indian Bank Ltd.
18	State Bank of Hyderabad
19	State Bank of India
20	Union Bank of India
21	Yes Bank Ltd.

ANNEX 5

FAQs

Issues and Clarifications with regard to Applicability of Section 20 of Banking Regulation Act, 1949

(paragraph 2.1.2.4)

Query

Can a foreign bank sanction loan or advance to firms and companies in India when one of the Directors, whether a foreign or an Indian national, on the foreign bank's Board of Directors abroad has an interest in said firms or companies in India or are on the Board of such companies ?

Response

It is clarified that the sanction or grant of credit facilities to Companies in India by foreign banks having branches in India should be in compliance with the spirit of Section 20 of the Banking Regulation Act, 1949. Accordingly, a foreign bank branch in India should not lend to a firm / company in India, if a director in the foreign bank's Board abroad has (i) an interest in the firm / company or (ii) if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

It may be noted that as per Section 20 of the Banking Regulation Act, 1949, a director would be considered to have interest in a company if he is a director / managing agent / manager / employee or guarantor in the concerned company and would be considered to have interest in a firm if he is a partner / manager / employee or guarantor in the concerned firm.

Query

To whom Sec 20 (1) (b) of the B. R. Act, 1949 will not apply.

Response

Section 20 (1) (b) of the B. R. Act, 1949 will not apply to

a) subsidiary of the banking company, or

b) a company registered under Section 25 of the Companies Act, 1956, (as amended in Companies Act, 2013) or

c) a Government company.

Query

Whether the provisions of Section 20 is applicable to Subsidiary Companies / Holding Companies ?

Response

In case a banking company is granting any loan or advance to a subsidiary of the holding company, the provisions of Section 20 would be attracted if any of the directors of the banking company is a director of the holding company, irrespective of whether any of the directors of the banking company is a director of the subsidiary or not.

Query

Whether the provisions of Section 20 would apply to advances granted / Commitments made prior to appointment of the common director ?

Response

The provisions of Section 20(1)(b)(iii) of the B R Act, 1949 are not attracted in case of advances granted or commitment made by the bank to a company prior to appointment of the Director of the company on the Board of the bank.

Query

Whether the provisions of the Section 20 would apply if the loan is renewed / loan limits have been enhanced after the Director of the Company is taken on the Board of the bank ?

Response

The bank is precluded from renewing the loan / limit after its expiry or enhancing the limit that may have been sanctioned prior to the date of company's Director becoming a Director of the bank as renewal / enhancement / change in terms would mean entering into fresh commitment by the bank. Alternatively, the director has to relinquish the directorship of either the bank or the company.

Query

Whether Section 20 would apply to Nominee Director ?

Response

Section 20 does not make any distinction between the directors on the basis of the interest they represent. Therefore, the prohibitions stipulated under Section 20 are applicable to nominee directors also.

Query

Whether Withdrawal against uncleared effects would attract Section 20 ?

Response

Purchase of cheques is specifically exempted from prohibitory provisions of section 20. However, withdrawal against uncleared effects (cheques presented for clearing) amounts to grant of advance and therefore will attract provisions of Section 20.

Query

Whether Section 20 applies to derivative transactions ?

Response

Derivative transactions are off balance sheet items and are treated on similar lines with non-fund based transactions and are out of purview of Section 20 provided it is ensured by banks that the transactions are genuine hedge transactions arising out of normal business requirements (not speculative ones) and no liability devolves on banks. The bank has to satisfy about the genuineness of the underlying exposure of the concerns. Banks also have to adhere to the instructions contained in Paragraph 1.2.7 of Master Circular DBOD.Dir.BC.20/13.03.00/2002-03 dated 30th July, 2004 and guidelines on 'Measurement of credit exposure of Derivative products contained in Circular DBOD.BP.BC.48/21.03.054/2002-03 dated 13th December, 2002.

Query

Whether Section 20 will apply to priority sector lending ?

Response

The priority Sector lending by itself is not given any exemption under Section 20. As such, provisions of Section 20 will also apply to priority Sector lending.

Query

Whether the provisions of Section 20 will be attracted if a trustee of a borrowing trust is on the Board of the lending bank ?

Response

In case the trust is a public trust, the provisions of Section 20 are not attracted.

Annex 6

Minimum Information to be Declared by Borrowing Entities to Banks while Approaching for Finance under Multiple Banking Arrangement (paragraph 2.3.17)

A. Details of Borrowing Arrangements from Other Banks (Institution-wise and Facility-wise)

I.	**Name and address of bank / institution**		
II.	**Facilities availed**		
	A.	**Fund-based credit facilities** (Indicate the nature of facilities e.g. working capital / demand loan / term loan / short term loan) / foreign currency loan, corporate loan / line of credit / Channel financing, bill discounting etc. amount and the purpose)	
	B.	**Non-fund-based facilities other than derivatives** (Indicate the nature of facilities e.g. L/C, BG, DPG (I & F) etc. amount and the purpose)	
	C.	**Derivatives contracts entered into with the bank** (Indicate the nature of the contract, maturity, amount and the purpose)	
III.	**Date of sanction**		
IV.	**Present outstanding** (In the case of derivatives contracts, negative MTM i.e which is not due for settlement may be indicated)		
V.	**Overdues position, if any** (In the case of derivatives contracts, the negative MTM i.e. amount payable to the bank under the contract but not yet		

	paid may be indicated)	
VI.	**Repayment terms** (for demand loans, term loans, corporate loans, project - wise finance)	
VII.	**Security offered** (complete details of security both primary and collateral including specific cash flows assigned to project wise finance / loan raised & personal / corporate guarantee, to be furnished)	
VIII.	**Requests for facilities which are under process**	
[The information to be given for domestic and overseas borrowings from commercial banks, Financial Institutions and NBFCs]		

B. Miscellaneous Details

(Rs. in crore)				
I.	CPs raised during the year and current outstanding			
II.	Details of financing outside banking system e.g. L/C Bills discounting			
III.	Amount of un-hedged foreign currency exposures (please give currency-wise position in the format given below)			
	(i)	Short term exposures (less than one year)		
		(a)	Long positions	
		(b)	Short positions	
		(c)	Net Short term Exposure (a-b)	
	(ii)	Long term exposures (one year and beyond)		
		(a)	Long positions	
		(b)	Short positions	
		(c)	Net Long term exposure (a-b)	
	(iii)	Overall Net Position (i-ii) for each currency		

	(iv)	Overall Net Position across all currencies	
IV.*	Main and allied activities with locations		
V.	Territory of sales and market share		
VI.	Details of financial aspects incl. DSCR Projections wherever applicable as per requirement of bank - Imp. Financial covenants, if any, agreed to / accepted with other lenders.		
VII.	CID A/Cs, within / outside financing Banks, being operated, if any		
VIII.	Demands by statutory authorities / current status thereof		
IX.	Pending litigations		
X.	A declaration authorizing the bank to share information with other financing banks		

Format under Multiple Banking Arrangement - Credit Information Exchange

Part - I

Bio Data of the Company

I.	Borrowing party's name and address		
II.	Constitution		
III.	Names of Directors / Partners		
IV.	Business activity		
	*	Main	
	*	Allied	
V.	Names of other financing Banks		
VI.	Net worth of Directors / Partners		
VII.	Group affiliation, if any		
VIII.	Date on associate concerns, if banking with the same bank		
IX.	Changes in shareholding and management from the previous report, if any		

Part - II

Major Credit Quality Indicators

I.	IRAC Classification	
II.	Internal Credit rating with narration	
III.	External Credit rating, if any	
IV.	Latest available Annual Report of the borrower	As on ---------------

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Part - III

Exposure Details other than Derivatives

(Rs. in crore)			
I.	Type of credit facilities, e.g. working capital loan / demand loan / term loan / short term loan / foreign currency loan, corporate loan / line of credit / Channel financing, contingent facilities like LC, BG & DPG (I & F) etc. Also, state L/C bills discounting / project wise finance availed).		
II.	Purpose of loan		
III.	Date of loan facilities (including temporary facilities)		
IV.	Amount sanctioned (facility wise)		
V.	Balance outstanding (facility wise)		
VI.	Repayment terms		
VII.	Security offered		
	*	Primary	
	*	Collateral	
	*	Personal / Corporate Guarantees	
	*	Extent of control over cash flow	
VIII.	Defaults in term commitments / lease rentals / others		
IX.	Any other special information like court cases, statutory dues,		

	major defaults, adverse internal / external audit observations	

Part – IV

Exposure Details - Derivatives Transactions

(Rs. in crore)

Sr. No.	Nature of the Derivatives Transactions		Notional Amount of Contracts	Weighted - Average Maturity of Contracts	Amount of Positive MTM for the Bank (Not due for settle-ment)	Amount of Contracts classified as NPA	Notional Amount of Out-standing Contracts which have been restru-ctured	Major Reasons for restru-cturing (in brief)
A.	**Plain Vanilla Contracts**							
	1.	Forex Forward contracts						
	2.	Interest rate Swaps						
	3.	Foreign Currency Options						
	4.	Any other contracts (Please specify)						
B.	**Complex derivatives including various types of option combinations designed as cost reduction / zero cost structures**							
	1.	Contracts involving						

		only interest rate derivatives						
	2.	Other contracts including those involving foreign currency derivatives						
	3.	Any other contracts (Please specify)						

Part - V

Un-hedged Foreign Currency Exposures of the Borrower with Currency-wise Details

(Rs. in crore)			
I	**Short term exposures (less than one year)**		
	(a)	Long positions	
	(b)	Short positions	
	(c)	Net short- term exposure (a-b)	
II	**Long term exposures (one year and beyond)**		
	(a)	Long positions	
	(b)	Short positions	
	(c)	Net long-term exposure (a-b)	
III	**Overall Net Position (I -II) for each currency** (Please give Overall Net Position in this format for each currency)		
IV	**Overall Net Position across all currencies**		

Part - VI

Experience with the Borrower

I.	Conduct of funded facilities (based on cash management / tendency to overdraw)	
II.	Conduct of contingent facilities (based on payment history)	
III.	Compliance with financial covenants	
IV.	Company's internal systems & procedures	
V.	Quality of management	
VI.	Overall Assessment	
(The above to be rated as good, satisfactory or below par only)		
(*) Broad guidelines for incorporating comments under this head is furnished in the next page		

Broad Guidelines for Incorporating Comments under Part – VI (Experience) of the Credit Information Report

			Good	**Satisfactory**	**Below Par**
I.	**Conduct of funded facilities**				
	*	Over-drawings (No. of times)	Upto 4 times	5 to 6 times	Above 6 times
	*	Average period of adjustment	Within 1 month	Within 2 months	Beyond 2 months
	*	Extent of overdrawings (% of limit)	Upto 10%	10 to 20%	Above 20%
II.	**Conduct of contingent facilities (Other than Derivatives)**				
	*	No. of Defaults	Upto 2 times	3 to 4 times	Above 4 times
	*	Average period of adjustment	Within 1 week	Within 2 weeks	Beyond 2 weeks
III.	**Conduct of Derivatives Transactions**				
	*	No. of contracts where the positive MTM value due to the bank remained overdue for more than 30 days	<25% of total number of contracts	25-50% of total number of contracts	> 50% of total number of contracts
	*	No. of contracts where the positive MTM value due to the bank remained overdue for more than 90 days and the account had to be	<1% of total number of contracts	1-5% of total number of contracts	> 5% of total number of contracts

		classified as NPA (but later on regularized and is not NPA as on the date of exchange of information) Note : All cases where any of the contracts has been classified as NPA and continues to be NPA as on the date of the exchange of information should be shown as Below Par)			
	*	No. of contracts restructured during the relevant period	<25% of total number of contracts	25-50% of total number of contracts	> 50% of total number of contracts
IV.	**Compliance with financial covenants**				
	*	Stock statement / Financial data	Timely	Delay upto 15 days	Delay over 15 days
	*	Creation of charge	Prompt	Delay upto 2 months	Delay over 2 months
V.	**Company's internal systems and procedures**				
	*	Inventory Management	Adequate systems are in place	Adequate systems are in place but not adhered	Adequate systems are not in place
	*	Receivables Management	- do -	- do -	- do -
	*	Resource Allocation	- do -	- do -	- do -
	*	Control over Information	- do -	- do -	- do -
VI.	**Quality of management**				
	*	Integrity	Reliable	Nothing adverse	Cannot be categorized in previous columns
	*	Expertise Competence / Commitments	Professional & visionary	Have necessary experience	-do-
	*	Tract Record	Timely	Executions /	-do-

Part I

Diligence Report

To,
The Manager,
____________________ (Name of the Bank)

I / We have examined the registers, records, books and papers of ____________ Limited having its registered office at ……………………………………… as required to be maintained under the Companies Act and the rules made thereunder , the provisions contained in the Memorandum and Articles of Association of the Company, the provisions of various statutes, wherever applicable, as well as the provisions contained in the Listing Agreement/s, if any, entered into by the Company with the recognized stock exchange/s for the half year ended on…………… . In my / our opinion and to the best of my / our information and according to the examination carried out by me / us and explanations furnished to me / us by the Company, its officers and agents. I / We report that in respect of the aforesaid period :

1. The management of the Company is carried out by the Board of Directors comprising of as listed in Annexure …., and the Board was duly constituted. During the period under review the following changes that took place in the Board of Directors of the Company are listed in the Annexure …., and such changes were carried out in due compliance with the provisions of the Companies Act.

2. The shareholding pattern of the company as on ------- was as detailed in Annexure …………: During the period under review the changes that took place in the shareholding pattern of the Company are detailed in Annexure…….:

3. The company has altered the following provisions of

   (i) The Memorandum of Association during the period under review and has complied with the provisions of the Companies Act for this purpose.

   (ii) The Articles of Association during the period under review and has complied with the provisions of the Companies Act for this purpose.

4. The company has entered into transactions with business entities in which directors of the company were interested as detailed in Annexure….. .

5. The company has advanced loans, given guarantees and provided securities amounting to Rs. ____________ to its directors and / or persons or firms or companies in which directors were interested, and has complied with Section - 295 of the Companies Act , 1956 (as amended in Companies Act, 2013).

6. The Company has made loans and investments; or given guarantees or provided securities to other business entities as detailed in Annexure ….and has complied with the provisions of the Companies Act.

7. The amount borrowed by the Company from its directors, members, financial institutions, banks and others were within the borrowing limits of the Company. Such borrowings were made by the Company in compliance with applicable laws. The break up of the Company's domestic borrowings were as detailed in Annexure ….. :

8. The Company has not defaulted in the repayment of public deposits, unsecured loans, debentures, facilities granted by banks, financial institutions and nonbanking financial companies.

9. The Company has created, modified or satisfied charges on the assets of the company as detailed in Annexure…. Investments in wholly owned Subsidiaries and / or Joint Ventures abroad made by the company are as detailed in Annexure ……

10. Principal value of the forex exposure and Overseas Borrowings of the company as on ………… are as detailed in the Annexure under"

11. The Company has issued and allotted the securities to the persons-entitled thereto and has also issued letters, coupons, warrants and certificates thereof as applicable to the concerned persons and also redeemed its preference shares / debentures and bought back its shares within the stipulated time in compliance with the provisions of the Companies Act and other relevant statutes.

12. The Company has insured all its secured assets.

13. The Company has complied with the terms and conditions, set forth by the lending bank / financial institution at the time of availing any facility and also during the currency of the facility

14. The Company has declared and paid dividends to its shareholders as per the provisions of the Companies Act.

15. The Company has insured fully all its assets.

16. The name of the Company and or any of its Directors does not appear in the defaulters' list of Reserve Bank of India.

17. The name of the Company and or any of its Directors does not appear in the Specific Approval List of Export Credit Guarantee Corporation.

18. The Company has paid all its Statutory dues and satisfactory arrangements had been made for arrears of any such dues.

19. The funds borrowed from banks / financial institutions have been used by the company for the purpose for which they were borrowed.

20. The Company has complied with the provisions stipulated in Section 372A of the Companies Act, 1956 (as amended in Companies Act, 2013) in respect of its Inter Corporate loans and investments.

21. It has been observed from the Reports of the Directors and the Auditors that the Company has complied with the applicable Accounting Standards issued by the Institute of Chartered Accountants in India.

22. The Company has credited and paid to the Investor Education and Protection Fund within the stipulated time, all the unpaid dividends and other amounts required to be so credited.

23. Prosecutions initiated against or show cause notices received by the Company for alleged defaults / offences under various statutory provisions and also fines and penalties imposed on the Company and or any other action initiated against the Company and / or its directors in such cases are detailed in Annexure….. .

24. The Company has (being a listed entity) complied with the provisions of the Listing Agreement.

25. The Company has deposited within the stipulated time both Employees' and Employer's contribution to Provident Fund with the prescribed authorities.

Note : The qualification, reservation or adverse remarks, if any, are explicitly stated may be stated at the relevant paragraphs above place(s).

Place :	Signature :
Date :	Name of Company Secretary / Firm :
	C.P. No.:

Part II

Certifications of Borrowal Companies by Chartered Accountants / Company Secretaries / Cost Accountants

i. Terms of reference for stock audit are to be spelt out clearly by the Banks, so that the Chartered Accountants can give focused attention to such areas.

ii. End-use verification of funds lent, if certified by Statutory Auditors, will be a good comfort to the Banks.

iii. As Banks quite often deal with unlisted companies, disclosure requirements for such companies above a specific turnover may be made akin to those for listed companies, viz. consolidated balance sheet, segmental reporting etc. Information on large shareholding also will be useful.

iv. Further, the following additional certification either from Chartered Accountant or Company Secretary or Cost Accountants may also be thought of :-

(a) Company Directors not figuring in defaulters list (RBI / ECGC) / willful defaulters list etc.)

(b) Details of litigation above a specified cut off limit.

(c) A specific certificate, probably from the Company Secretary, regarding compliance with Sec. 372A of the Companies Act, 1956 (as amended in Companies Act, 2013).

(d) Details of creation / modification / satisfaction of charges on the assets of the company, position regarding insurance, show cause notices received, finds and penalties awarded.

v. As regards rotation of Auditors, for the sake of operational convenience, it is suggested they may be changed once every 5 years instead of every 3 years.

vi. In order to avoid concentration, group companies may have different Statutory / Internal Auditors in case group turnover exceeds Rupees hundred crores.

Appendix

List of Circulars consolidated in the Master Circular on Loans and Advances – Statutory and Other Restrictions

Part A

Sl. No.	Circular No.	Date	Subject
1.	AP (DIR Series) Circular No. 133	21.05.2014	Import of Gold by Nominated Banks/ Agencies/ Entities
2.	DBOD. No. BP.BC.107/ 21.04.048/2013-14	22.04.2014	Fund/ Non-fund Bansed Credit Facilities to Overseas Joint Ventures/ Wholly Owned Subsidiaries/ Wholly owned Step-down Subsidiaries of Indian Companies
3.	DBOD. No. IBD. BC. 104/ 23.67.001/ 2013-14	02.04.2014	Gold (Metal) Loans (GMLs)
4.	DBOD.BP.BC. No. 86/ 21.01.023/ 2013-14	20.01.2014	Lending against Gold Jewellery
5.	DBOD. No. BP.79/ 21.04.048/ 2013-14	30.12.2013	Non-Agriculture Loans against Gold Ornaments and Jewellery
6.	DBOD. BP. BC. No. 66/ 08.12.014/2013-14	25.11.2013	Financing of Infrastructure- Definition of 'Infrastructure Lending'
7.	DBOD.BP.BC.No.106/ 08.12.014/2012-13	28.06.2013	Financing of Infrastructure- Definition of Infrastructure Lending
8.	DBOD.No.Dir.Bc.96/13.03.00/2012-13	27.05.2013	Lending against Gold
9.	DBOD.BP.BC.No.62/21.04.103/2012-13	21.11.2012	Second Quarter Review of Monetary Policy 2012-13 Non-Performing Assets (NPAs) and Restructuring of Advances
10.	DBOD.BP.No.58/08.12.014/2012-13	20.11.2012	Second Quarter Review of Monetary Policy 2012-13- Definition of 'Infrastructure Lending'
11.	DBOD.No.Dir.BC.57/13.03.00/2012-13	19.11.2012	Bank Finance for Purchase of Gold

Sl. No.	Circular No.	Date	Subject
12.	A.P. (DIR Series) Circular No. 44	22.10.2012	Loans to Non Residents/ third parties against security of NR(E)RA/ FCNR(B) deposits
13.	DBOD.No.BP.BC.104/ 21.4.48/2011-12	10.05.2012	Transfer of Borrowal Accounts from one Bank to Another.
14.	DBOD.No.CID.BC.84/20.16.042/2011-12	05.03.2012	Grant of CoR for carrying on the business of credit information- Credit Information Bureau (India) Ltd.
15.	DBOD.No.BP.BC.79/21.01.001/2011-12	03.02.2012	Grant of Loans and Advances and award of Contracts to Directors of Banks and their Relatives.
16.	Mail-Box Clarification	21.12.2011	Bills Discounted under Letter of Credit (LC)-Exposure Norms.
17.	DBOD.Dir.BC.96/13.03.00/2010-11	25.05.2011	Finance for and Loans / Advances against Indian Depository Receipts (IDRs)
18.	Mail-Box Clarification	19.05.2011	Issue of Bank Guarantee (BG) /Letter of Credit(LC) by commercial banks to constituents of Co-operative banks
19.	Mail-Box Clarification	05.04.2011	Advance against specially minted gold coins
20.	DBOD.No.CID.BC.64/20.16.042/2011-12	01.12.2010	Grant of CoR for commencing business of credit information-High Mark Credit Information Services Pvt. Ltd.
21.	DBOD.Leg.BC.61/09.07.005/2010-11	12.11.2010	Guidelines on Fair Practices Code for Lenders- Disclosing all Information relating to Processing Fees / Charges
22.	DBOD.No.BP.BC.42/21.04.141/2010-11	27.09.2010	Bank Loans for Financing Promoters Contribution

Sl. No.	Circular No.	Date	Subject
23.	FED's Master Circular No.14/2010-11	01.07.2010	Master Circular on Risk Management and Inter-Bank Dealings
24.	DBOD.DIR.BC.88/13.3.00/2009-10	09.04.2010	Guidelines on the Base Rate
25.	Mail-Box Clarification	09.04.2010	Definition of Infrastructure Lending
26.	DBOD.No.DL.BC.83/20.16.042/2009-10	31.03.2010	Grant of CoR for commencing business of credit information- Equifax Credit Information Services Pvt. Ltd.
27.	DBOD.No.DL.BC.15214/20.16.042/2009-10	04.03.2010	Grant of CoR for commencing business of credit information- Experian Credit Information Company of India Pvt. Ltd.
28.	Mail-Box Clarification	20.08.2009	Restrictions on offering incentives on banking products
29.	DBOD.BP.BC.110/08.12.001/2008-09	10.02.2009	Lending under Consortium Arrangement / Multiple Banking Arrangements
30.	DBOD.BP.BC.94/08.12.001/2008-09	08.12.2008	Lending under Consortium Arrangement / Multiple Banking Arrangements
31.	DBOD.Leg.No.BC.86/09.07.005/2008-09	25.11.2008	Guidelines on Fair Practices Code for Lenders - Disclosing all Information relating to Processing Fees / Charges
32.	DBOD.Dir.BC.66/13.03.00/2008-09	24.10.2008	7% Savings Bonds 2002, 6.5% Savings Bonds 2003 (Non-Taxable) & 8% Savings (Taxable) Bonds 2003 - Collateral Facility
33.	DBOD.BP.BC.65/21.06.001/2008-09	20.10.2008	Loans to Mutual Funds against and Buy-back of

Sl. No.	Circular No.	Date	Subject
			Certificates of Deposits (CDs)
34.	DBOD.BP.BC.59/21.03.009/2008-09	14.10.2008	Loans to Mutual Funds against and Buy Back of Certificates of Deposits (CDs)
35.	DBOD.BP.BC.46/08.12.001/2008-09	19.09.2008	Lending under Consortium Arrangement / Multiple Banking Arrangements
36.	DBOD.BP.BC.30/08.12.14/2008-09	06.08.2008	Infrastructure - Criteria for Financing
37.	DBOD.No.Leg.BC.75/09.07.05/2007-08	24.04.2008	Mid-Term Review of the Annual Policy for the Year 2007-08 - Recovery Agents Engaged by Banks
38.	DBOD.BP.BC.55/21.04.117/2007-08	30.11.2007	Guidelines on Settlement of Non Performing Assets - Obtaining Consent Decree from Court
39.	DBOD.BP.48/21.04.048/2007-08	06.11.2007	Project Finance Portfolio of Banks
40.	DBOD.No.Leg.BC.28.09.07.005/2007-08	22.08.2007	Guidelines on Fair Practices Code for Lenders - Furnishing Copy of Loan Agreement
41.	DBOD. IBD. BC.95/23.67.002/2006-07	08.05.2007	Authorisation for Import of Gold Coin - Tie-up Arrangements
42.	DBOD. IBD. BC.71/23.67.001/2006-07	03.04.2007	Gold (Metal) Loan - Tenor of
43.	DBOD. Dir BC.69/13.03.00/2006-07	14.03.2007	Grant of Loans for Acquisition of Kisan Vikas Patras (KVPs)
44.	DBOD.No.Leg.BC.65/09.07.005/2006-07	06.03.2007	Guidelines on Fair Practices Code for Lenders
45.	DBOD.No.BP.40/21.04.158/2006-07	03.11.2006	Outsourcing of financial services
46.	DBOD. No.Leg.	20.04.2006	Exemption from

Sl. No.	Circular No.	Date	Subject
	BC.81/09.11.013/2005-06		Applicability of Section 20 of the Banking Regulation Act, 1949 - Issue of Credit Cards to Directors of Banks
47.	DBOD. No.BP. BC.73/21.03.054/2005-06	24.03.2006	Bills Discounted under LC - Risk Weight and Exposure Norms
48.	DBOD. No.BP. BC.65/08.12.01/2005-06	01.03.2006	Banks' Exposure to Real Estate Sector
49.	DBOD. No.IBD.BC.663/23.67.001/2005-06	02.11.2005	Advances against Gold Ornaments and Jewellery
50.	DBOD. No.IBD. BC.33/23.67.001/2005-06	05.09.2005	Gold (Metal) Loan
51.	DBOD No.Leg.BC.30/09.11.013/2005-06	31.08.2005	Section 20 of the Banking Regulation Act, 1949 - Line of Credit / Overdraft Facility to Clearing Corporation of India Ltd. (CCIL)
52.	DBOD.No.Leg. BC.98/09.11.013/2004-05	24.06.2005	Section 20 of the Banking Regulation Act, 1949 - Line of Credit / Overdraft Facility to National Securities Clearing Corporation Ltd. (NSCCL)
53.	DBOD.Dir.No.BC.93/13.07.05/2004-05	07.06.2005	Financing of Acquisition of Equity in Overseas Companies
54.	Mail –Box Clarification	18.10.2004	Issues and Clarifications with regard to Applicability of Section 20 of Banking Regulation Act, 1949
55.	DBOD BP. BC.100/21.03. 054/2003-04	21.6.2004	Annual Policy Statement for the year 2004-05 - Prudential Credit Exposure Limits by Banks
56.	DBOD BP.BC.97/21.04.141/03-04	17.6.2004	Annual Policy Statement for the year 2004-05 - Prudential Guidelines on Unsecured Exposures

Sl. No.	Circular No.	Date	Subject
57.	DBOD BP.BC.92/21.04.048/03-04	16.6.2004	Annual Policy Statement for the year 2004-05 : Guidelines on Infrastructure Financing
58.	IECD No.9/08/12.01/2003-04	11.3.2004	Master Circular - Lending to Non-Banking Financial Companies (NBFCs)
59.	DBOD BP.BC.34/21.04.0137/03-04	15.10.2003	Guidelines for Bank Finance for PSU Disinvestments
60.	DBOD.Leg.No.BC.104/09.07.007/2002-03	05.05.2003	Guidelines on Fair Practices Code for Lenders
61.	IECD.No.17/08.12.01/2002-03	05.04.2003	Guarantees and Co-acceptances
62.	DBOD.BP.BC.83/21.04.137/02-03	21.03.2003	Guidelines for Bank Finance for PSU Disinvestments - Stipulation of Lock-in period for Shares
63.	DBOD.BP.BC.67/21.04.048/02-03	04.02.2003	Guidelines on Infrastructure Financing
64.	DBOD.No.Dir.BC.62/13.07.09/2002-03	24.01.2003	Discounting/Rediscounting of Bills by Banks
65.	DBOD.BP.BC.17/21.04.137/02-03	16.08.2002	Guidelines for Bank Finance for PSU Disinvestments of Government of India
66.	IECD No.16/08.12.01/2001-02	20.02.2002	Financing of Infrastructure Projects
67.	DBOD.No.DIR.BC.72/13.03.00/2000-2001	17.01.2001	Master Circular-Guarantees and Co-acceptances
68.	IECD No.10/08.12.01/2000-2001	08.01.2001	Master Circular - Lending to Non-Banking Financial Companies (NBFCs)
69.	DBOD/FSC/BC.145/24.01.013-2000	07.03.2000	Guidelines relating to Money Market Mutual

Sl. No.	Circular No.	Date	Subject
			Funds (MMMF)
70.	DBOD.BP.BC.144/21.04.048/2000	29.02.2000	Take-out Financing
71.	DBOD.No.Dir.CS.BC.2/13.07.05/ 99-2000	16.08.99	Restriction on Credit to Companies for Buy-back of its Securities
72.	IECD.No.29/08.12.01/98-99	25.05.99	Lending to Non-Banking Financial Companies (NBFCs)
73.	IECD.No.26/08.12.01/98-99	23.04.99	Financing of Infrastructure Projects
74.	DBOD.No.26/08.95.005/99	01.04.99	Section 20 of the Banking Regulation Act, 1949 - General Order
75.	RPCD PLNFS BC.73/06.02.31/97-98	01.03.99	Loans and Advances to Small Scale Industries SSI
76.	DBOD.No.BC.11/08.95.005/98-99	15.02.99	Section 20 of the Banking Regulation Act, 1949 - Special Order/General Order
77.	DBOD.No.938/08.95.005/99	08.02.99	General Order
78.	DBOD.No.Dir.BC.107/13.07.05/98-99	11.11.98	Rediscounting of Bills by Banks
79.	DBOD.No.415/08.95.005/98	29.09.98	General Order
80.	DBOD.No.Dir.BC.90/13.07.05/98	28.08.98	Bank Finance Against Shares and Debentures - Master Circular
81.	IECD/6/08.12.01/96-97	08.08.98	Working capital finance to Information Technology and Software Industry
82.	RPCD PLNFS.BC.127/06.02.31/97-98	08.06.98	Loans and Advances to Small Scale Industries SSI
83.	IECD/12/08.12.01/96-97	21.10.97	Loan system for delivery

Sl. No.	Circular No.	Date	Subject
			of bank credit
84.	DBOD.No.BP.BC.102/21.01.001/ 97	05.09.97	Financial Assistance to Industries Producing/ Consuming Ozone Depleting Substances (ODS)
85.	IECD/22/08.12.01/96-97	15.04.97	Loan system for delivery of bank credit
86.	IECD.No.21/08.12.01/96-97	21.02.97	Bills Discounting / Rediscounting Schemes Operated by Power Finance Corporation Ltd. (PFC)
87.	DBOD.No.733/09.11.013/97	14.02.97	Special Order
88.	IECD.No.17/03.27.026/96-97	06.12.96	Bank Finance for Purchase/ Lease of Existing Assets
89.	DBOD.No.Dir.BC.45/13.01.04/96	08.04.96	Deposit Linked Advances
90.	DBOD.No.BP.BC.23/21.01.001/96	01.03.96	Grant of Loans & Advances and Award of Contracts to Directors of Other Banks
91.	IECD.No.8/03.27.25/95-96	27.09.95	Sanction of Term Loans for Housing Projects Involving Budgetary Support from Government - Non-permissibility of
92.	IECD.No.37/08.12.01/94-95	23.02.95	Issue of Bank Guarantees in Favour of Financial Institutions
93.	DBOD.No.Dir.BC.139/13.07.05/94	26.11.94	Advances Against Shares and Debentures
94.	IECD.No.21/08.12.01/94-95	01.11.94	Bill Discounting Schemes Operated by Small Industrial Development Bank of India (SIDBI)
95.	DBOD.No.BC.110/21.01.001/ 94	10.10.94	Grant of Loans &

Sl. No.	Circular No.	Date	Subject
			Advances and Award of Contracts to Directors of Other Banks
96.	IECD.No.15/08.12.01/94-95	06.10.94	Financing of Projects Involving Creation/ Expansion/Modernisation of Infrastructural Facilities
97.	DBOD.No.FSC.BC.28/24.01.001/ 94	09.03.94	Directors/Trustees of Subsidiaries/Mutual Funds of Banks - Borrowing Arrangements with Sponsor Banks
98.	DBOD.No.BC.8/16.13.100/92-93	27.07.92	Discounting/Rediscounting of Bills by Banks
99.	IECD.No.PMD.BC.12/C.446 (C&P)-90/91	21.09.90	Co-acceptance/Issuance of Guarantees Favouring Financial Institutions - Buyers' Line of Credit Scheme (BLCS)
100	IECD.No.IRD.26/IR-A/89-90	09.04.90	Rehabilitation of Sick/Weak Industrial Units
101	DBOD.No.GC.BC.25/C.408C(59) S-86	03.03.86	Grant of Loans & Advances and Award of Contracts to Directors of Banks and their Relatives
102	DBOD.No.Leg.BC.77/C.235C-85	05.07.85	Section 20 of the Banking Regulation Act, 1949
103	DBOD.No.GC.BC.21/C.408C(59) S-85	28.02.85	Advance to Officers and the Relatives of Senior Officers of Banks
104	DBOD.No.GC.BC.34/C.408C(59) S-84	12.04.84	Guidelines in regard to Grant of Loans & Advances and Award of Contracts to Directors of Banks and their Relatives
105	DBOD.No.App.BC.22/318(B)-84	16.03.84	Guidelines on the Role and Functions of Non-official Directors on the Boards of Private Sector Banks
106	ICD.No.CAD(PMS).48//C.446	14.01.83	Construction of

Sl. No.	Circular No.	Date	Subject
	(PMS) -83		Infrastructural Facilities
107	DBOD.No.Dir.BC.13/C.96-80	22.01.80	Advances Against Gold/Silver Bullion - Curbing of Speculative Tendencies
108	DBOD.No.Leg.BC.96/C.235C-78	25.07.78	Section 20 of the Banking Regulation Act, 1949 - General Order
109	DBOD.No.Leg.320/C.235C-78	25.07.78	General Order
110	DBOD.No.Leg.BC.95/C.124(P)-78	22.07.78	Advances Against Gold and Gold Ornaments
111	DBOD.No.Leg.BC.35/C.235-75	30.04.75	Section 20 of the Banking Regulation Act, 1949 - General Order
112	DBOD.No.Leg.195/C.235-75	29.04.75	General Order
113	DBOD.No.Leg.BC.108/C.235C-74	24.10.74	Section 20 of the Banking Regulation Act, 1949 - General Order
114	DBOD.No.Leg.417/C.235C-74	24.10.74	General Order
115	DBOD.No.Sch.1140/C.96-69	12.07.69	Advances Against Silver
116	DBOD.No.Leg.39/C.233-69	01.02.69	The Banking Regulation Act, 1949, as amended by the Banking Laws (Amended) Act, 1968
117	DBOD.No.Leg.33/C.233-69	01.02.69	General Order

Part B

List of Circulars on Selective Credit Controls consolidated by the Master Circular-

No.	Circular No.	Date	Subject
1.	DBOD No.Dir.BC.52/13.08.01/00-01	23.11.00	Selective Credit Controls on Granting of fresh/additional limits to borrowers dealing in sensitive commodities – Delegation of Powers
2.	DBOD No. Dir. 53/13.08.01/2000-01	27.11.00	Selective Credit Controls on minimum margins on levy/ free sale/buffer stock of sugar – (Applicable to RRBs/LABs)
3.	DBOD.No.Dir.BC.126/13.08.01/97	21.10.97	Selective Credit Controls on Advances against Sugar - Minimum Margins
4.	DBOD.No.Dir.BC.125/13.08.01/97	21.10.97	Selective Credit Controls on Advances against Sugar - Minimum Margins
5.	DBOD.No.Dir.BC.27/13.08.01/97	07.04.97	Selective Credit Controls - Reintroduction of Controls on Advances against Wheat
6.	DBOD.No.Dir.BC.26/13.08.01/97	07.04.97	Selective Credit Controls - Reintroduction of Controls on Advances against Wheat
7.	IECD.No.11/03.27.04/96-97	22.10.96	Bank Credit to Sugar Industry - Valuation of Stocks
8.	DBOD.No.Dir.BC.138/13.08.01/96-97	19.10.96	Selective Credit Control - Advances against Sensitive Commodities
9.	DBOD.No.Dir.BC.137/13.08.01/96-97	19.10.96	Selective Credit Control - Advances against Sensitive Commodities
10.	DBOD.No.Dir.BC.94/13.08.01/96	01.07.96	Selective Credit Control - Advances against Sensitive Commodities - Changes in Margin/Levels of Credit
11.	DBOD.No.Dir.BC.93/13.08.01/96	01.07.96	Selective Credit Control - Advances against Sensitive Commodities
12.	DBOD.No.Dir.BC.37/13.08.01/96	03.04.96	Selective Credit Control - Advances against Sensitive Commodities
13.	DBOD.No.Dir.BC.36/13.08.01/96	03.04.96	Selective Credit Control -

			Advances against Sensitive Commodities
14.	DBOD.No.Dir.BC.50/13.08.01/95	17.04.95	Selective Credit Control - Advances against Sensitive Commodities
15.	DBOD.No.Dir.BC.49/13.08.01/95	17.04.95	Selective Credit Control - Advances against Sensitive Commodities
16.	DBOD.No.Dir.BC.32/13.08.01/95	24.03.95	Selective Credit Control - Granting of Fresh/Additional Limits to Borrowers Dealing in Sensitive Commodities - Delegation of Powers
17.	DBOD.No.Dir.BC.150/13:08:01/ 94	26.12.94	Selective Credit Control - Advances against Sensitive Commodities
18.	DBOD.No.Dir.BC.149/13:08:01/ 94	26.12.94	Selective Credit Control - Advances against Sensitive Commodities
	DBOD.No.Dir.BC.139/13.07.05/94	26.11.94	Advances Against Shares and Debentures
19.	DBOD.No.Dir.BC.115/13:07:01/ 94	17.10.94	Interest Rates on Advances
20.	DBOD.No.Dir.BC.114/13:07:01/ 94	17.10.94	Interest Rates on Advances
21.	DBOD.No.Dir.BC.113/13:08:01/ 94	17.10.94	Selective Credit Control - Advances against Sensitive Commodities
22.	DBOD.No.Dir.BC.112/13:08:01/ 94	17.10.94	Selective Credit Control - Advances against Sensitive Commodities
23.	DBOD.No.Dir.BC.108/13:08:01/ 94	01.10.94	Selective Credit Control - Advances against Edible Oilseeds and Oils
24.	DBOD.No.Dir.BC.101/13.08.01/ 94	02.09.94	Selective Credit Controls - Imported Sugar
25.	DBOD.No.Dir.BC.71/13.08.01/94	26.05.94	Selective Credit Controls - Imported Sugar
26.	DBOD.No.Dir.BC.57/13.08.01-94	16.05.94	Selective Credit Control - Advances against Sensitive Commodities - Imported Sugar
27.	DBOD.No.Dir.BC.56/13.08.01-94	14.05.94	Selective Credit Control - Advances against Sensitive Commodities

28.	DBOD.No.Dir.BC.55/13.08.01-94	14.05.94	Selective Credit Control - Advances against Sensitive Commodities
29.	DBOD.No.Dir.BC.42/13:08:01/94	12.04.94	Selective Credit Control - Advances against Sensitive Commodities - Cotton and Kapas
30.	DBOD.No.Dir.BC.17/13.08.01/94	18.02.94	Selective Credit Control - Advances against Sensitive Commodities
31.	DBOD.No.Dir.BC.16/13:08:01:94	18.02.94	Selective Credit Control - Advances against Sensitive Commodities - Cotton and Kapas
32.	DBOD.No.Dir.BC.175/13.08.01/93	11.10.93	Selective Credit Control - Advances against Sensitive Commodities
33.	DBOD.No.Dir.BC.174/13.08.01/93	11.10.93	Selective Credit Control - Advances against Sensitive Commodities
34.	DBOD.No.Dir.BC.169/13.08.01-93	21.09.93	Selective Credit Control - Granting of Fresh/Additional Limits to Borrowers Dealing in Sensitive Commodities - Delegation of Powers
35.	DBOD.No.BC.151/13.08.01/93	20.08.93	Selective Credit Control - Prior Approval of Reserve Bank of India for Granting Advances against Sensitive Commodities and Other Requirements
36.	DBOD.No.Dir.BC.135/13.08.01/93	23.06.93	Selective Credit Control - Advances against Sensitive Commodities
37.	DBOD.No.Dir.BC.134/13.08.01/93	23.06.93	Selective Credit Control - Advances against Sensitive Commodities
38.	DBOD.No.BC.108/12.01.001/93	07.04.93	Notification
39.	DBOD.No.BC.102/13.08.01-93	07.04.93	Selective Credit Control - Advances against Sensitive Commodities
40.	DBOD.No.BC.101/13.08.01-93	07.04.93	Selective Credit Control - Advances against Sensitive Commodities
41.	DBOD.No.BC.67/13.08.01-93	19.01.93	Selective Credit Control - Advances against Sensitive

			Commodities
42.	DBOD.No.BC.66/13.08.01-93	19.01.93	Selective Credit Control - Advances against Sensitive Commodities
43.	DBOD.No.BC.61/13.08.01-92	30.12.92	Selective Credit Control - Granting of Fresh/Additional Limits to Borrowers Dealing in Sensitive Commodities - Delegation of Powers
44.	DBOD.No.BC.58/13.08.01-92	10.12.92	Selective Credit Controls on Cotton & Kapas
45.	DBOD.No.BC.57/13.08.01-92	10.12.92	Selective Credit Control - Advances against Sensitive Commodities - Cotton and Kapas
46.	DBOD.No.BC.110/13.08.01/92	21.04.92	Selective Credit Control - Advances against Sensitive Commodities
47.	DBOD.No.BC.109/13.08.01/92	21.04.92	Selective Credit Control - Advances against Sensitive Commodities
48.	DBOD.No.Dir.BC.98/13-08-01/92	11.03.92	Selective Credit Control - Advances against Sensitive Commodities
49.	DBOD.No.BC.97/13.08.01/92	11.03.92	Selective Credit Control - Advances against Sensitive Commodities
50.	DBOD.No.Dir.BC.81/13-08-01/92	10.02.92	Selective Credit Control - Advances against Sensitive Commodities - Wheat, Cotton and Kapas
51.	DBOD.No.Dir.BC.80/13.08.01/92	10.02.92	Selective Credit Control - Advances against Sensitive Commodities
52.	DBOD.No.Dir.BC.36/C.218-91	08.10.91	Selective Credit Control - Advances against Sensitive Commodities
53.	DBOD.No.Dir.BC.35/C.218-91	08.10.91	Selective Credit Control - Advances against Sensitive Commodities
54.	DBOD.No.Dir.BC.22/C.218-91	03.09.91	Selective Credit Control - Advances against Paddy/Rice Wheat, Pulses and Other Foodgrains
55.	DBOD.No.Dir.BC.21/C.218-91	03.09.91	Selective Credit Control -

			Advances against Paddy/Rice Wheat, Pulses and Other Foodgrains
56.	DBOD.No.Dir.BC.124/C.218-91	08.05.91	Selective Credit Control - Advances against Sensitive Commodities - Sugar
57.	DBOD.No.Dir.BC.123/C.218-91	08.05.91	Selective Credit Control - Advances against Sensitive Commodities
58.	DBOD.No.Dir.BC.107/C.218-91	12.04.91	Selective Credit Control - Advances against Sensitive Commodities
59.	DBOD.No.Dir.BC.106/C.218-91	12.04.91	Selective Credit Control - Advances against Sensitive Commodities
60.	DBOD.No.Dir.BC.75/C.218-91	01.02.91	Selective Credit Control - Advances against Sensitive Commodities
61.	DBOD.No.Dir.BC.64/C.218-91	07.01.91	Selective Credit Control - Advances against Sensitive Commodities
62.	DBOD.No.Dir.BC.63/C.218-91	07.01.91	Selective Credit Control - Advances against Sensitive Commodities
63.	DBOD.No.Dir.BC.59/C.218-90	06.12.90	Selective Credit Control - Advances against Sensitive Commodities
64.	DBOD.No.Dir.BC.30/C.218-90	09.10.90	Selective Credit Control - Advances against Sensitive Commodities
65.	DBOD.No.Dir.BC.29/C.218-90	09.10.90	Selective Credit Control - Advances against Sensitive Commodities
66.	DBOD.No.Dir.BC.125/C.218-90	02.07.90	Selective Credit Control - Advances against Sensitive Commodities
67.	DBOD.No.Dir.BC.124/C.218-90	02.07.90	Selective Credit Control - Advances against Wheat, Oilseeds and Vegetable Oils (including Vanaspati)
68.	DBOD.No.Dir.BC.108/C.218-90	03.05.90	Selective Credit Control - Advances against Sensitive Commodities
69.	DBOD.No.Dir.BC.107/C.218-90	03.05.90	Selective Credit Control
70.	DBOD.No.Dir.BC.98/C.218-90	18.04.90	Selective Credit Control -

			Delegation of Powers to Regional Offices of Department of Banking Operations & Development (DBOD)
71.	DBOD.No.Dir.BC.92/C.218-90	12.04.90	Selective Credit Control - Advances against Sensitive Commodities
72.	DBOD.No.Dir.BC.91/C.218-90	12.04.90	Selective Credit Control - Advances against Wheat, Cotton & Kapas
73.	DBOD.No.Dir.BC.73/C.218-90	06.02.90	Selective Credit Control - Granting of Fresh/ Additional Limits to Borrowers Dealing in Sensitive Commodities
74.	DBOD.No.Dir.BC.62/C.218-89	29.12.89	Selective Credit Control - Advances against Sensitive Commodities
75.	DBOD.No.Dir.BC.61/C.218-89	29.12.89	Selective Credit Control
76.	DBOD.No.Dir.BC.47/C.218-89	21.11.89	Selective Credit Control - Granting of Fresh/ Additional Limits to Borrowers Dealing in Sensitive Commodities
77.	DBOD.No.Dir.BC.3/C.218-89	19.07.89	Selective Credit Control - Advances against Sensitive Commodities
78.	DBOD.No.Dir.BC.2/C.218-89	19.07.89	Selective Credit Control
79.	DBOD.No.Dir.BC.114/C.218-89	21.04.89	Selective Credit Control - Advances against Sensitive Commodities
80.	DBOD.No.Dir.BC.113/C.218-89	21.04.89	Selective Credit Control - Advances against Paddy/Rice Wheat, Pulses and Other Foodgrains
81.	DBOD.No.Dir.BC.104/C.218-89	03.04.89	Selective Credit Control - Advances against Sensitive Commodities
82.	DBOD.No.Dir.BC.98/C.218-89	27.03.89	Selective Credit Control - Advances against Sensitive Commodities
83.	DBOD.No.Dir.BC.97/C.218-89	27.03.89	Selective Credit Control
84.	DBOD.No.Dir.BC.71/C.218-89	09.02.89	Selective Credit Control - Advances against Oilseeds/Vegetable Oils
85.	DBOD.No.Dir.BC.72/C.218-89	09.02.89	Selective Credit Control -

			Advances against Oilseeds/Vegetable Oils
86.	DBOD.No.Dir.BC.35/C.218-88	08.10.88	Selective Credit Control - Advances against Sensitive Commodities - Rate of Interest
87.	DBOD.No.Dir.BC.34/C.218-88	08.10.88	Selective Credit Control - Rate of Interest
88.	DBOD.No.Dir.BC.28/C.218-88	19.09.88	Selective Credit Control - Advances against Sensitive Commodities
89.	DBOD.No.Dir.BC.27/C.218-88	19.09.88	Selective Credit Control
90.	DBOD.No.Dir.BC.149/C.218-88	08.06.88	Selective Credit Control - Advances against Wheat - Increase in Margin
91.	DBOD.No.Dir.BC.148/C.218-88	08.06.88	Selective Credit Control - Advances against Wheat - Increase in Margin
92.	DBOD.No.Dir.BC.141/C.218-88	27.05.88	Selective Credit Control
93.	DBOD.No.Dir.BC.140/C.218-88	27.05.88	Selective Credit Control
94.	DBOD.No.Dir.BC.125/C.218-88	09.04.88	Selective Credit Controls - Inclusion of Wheat under the Control
95.	DBOD.No.Dir.BC.124/C.218-88	09.04.88	Selective Credit Control - Advances against Paddy/Rice Wheat, Pulses and Other Foodgrains
96.	DBOD.No.Dir.BC.117/C.218-88	02.04.88	Selective Credit Control - Advances against Sensitive Commodities
97.	DBOD.No.Dir.BC.116/C.218-88	02.04.88	Selective Credit Control - Advances against Paddy/Rice, Pulses, Other Foodgrains, Cotton & Kapas, Oilseeds and Vegetable Oils including Vanaspati
98.	DBOD.No.Dir.BC.69/C.218-87	03.12.87	Selective Credit Control - Advances against Sensitive Commodities to Newly Established Processing/Manufacturing Units
99.	DBOD.No.Dir.BC.53/C.218-87	17.10.87	Selective Credit Control
100.	DBOD.No.Dir.BC.52/C.218-87	17.10.87	Selective Credit Control
101.	DBOD.No.Dir.BC.34/C.218-87	17.09.87	Selective Credit Control

102.	DBOD.No.Dir.BC.23/C.218-87	14.08.87	Selective Credit Control - Advances against Sensitive Commodities
103.	DBOD.No.Dir.BC.22/C.218-87	14.08.87	Selective Credit Control - Advances against Pulses, Paddy/Rice, Other Foodgrains, Oilseeds, Oils, Cotton & Kapas, Sugar, Gur and Khandsari
104.	DBOD.No.Dir.BC.8/C.218-87	14.07.87	Selective Credit Control - Advances against Sensitive Commodities
105.	DBOD.No.Dir.BC.7/C.218-87	14.07.87	Selective Credit Control - Advances against Pulses, Other Foodgrains, Oilseeds, Oils, Sugar, Gur and Khandsari
106.	DBOD.No.Dir.BC.39/C.218-87	31.03.87	Selective Credit Control - Advances against Sensitive Commodities
107.	DBOD.No.Dir.BC.38/C.218-87	31.03.87	Selective Credit Control - Advances against Pulses, Other Foodgrains, Oilseeds, Oils, Sugar, Gur and Khandsari