

All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

Limits on exposure to single and group borrowers/parties and large exposures and Revision in the target for priority sector lending – UCBs

Please refer to our [circular UBD.DS. Cir.No.44/13.05.00/2004-05 dated April 15, 2005](#), in terms of which primary (urban) co-operative banks (UCBs) were permitted to have exposures up to 15% and 40% of their capital funds to a single borrower and a group of borrowers, respectively.

2. Large exposure of banks to single borrowers/parties or groups of connected borrowers/parties leads to credit concentration risk. When large exposures to a few single parties/groups become non-performing, it affects the capital/net worth of the concerned bank significantly and, at times, leads to liquidity and/or solvency risk for the bank. Keeping in view the above aspects, the extant single/group exposure limits of UCBs have been reviewed and it has been decided to rationalize the single/group exposure limits for UCBs with a view to containing the concentration risk.

3. Further, credit exposure in many urban co-operative banks (UCBs), particularly scheduled/large UCBs, predominantly comprises large ticket loans. Such predominance of large ticket loans in the bank's portfolio reduces diversification of credit risk and also reduces the scope for greater financial inclusion which is one of the main roles of UCBs. Enhancement of priority sector lending targets is also considered necessary for the purpose of meeting the larger objectives of UCBs.

4. Keeping in view the above, it has been decided as under:

4.1 The prudential exposure limits for UCBs for a single borrower/party and a group of connected borrowers/parties shall henceforth be 10 per cent and 25 per cent, respectively, of their Tier-I capital. The revised exposure limits shall apply to all types of fresh exposures taken by UCBs. UCBs shall bring down their existing exposures which are in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. However, where the existing exposure comprises only term loans and non-fund based facilities, while no further exposure shall be taken on such borrowers, these facilities may be allowed to continue as per their respective repayment schedule / till maturity.

4.2 UCBs shall have at least 50 per cent of their loan portfolio comprising loans of not more than ₹25 lakh per borrower/party. Notwithstanding this, UCBs shall adhere to the exposure limits stipulated at para 4.1 above. UCBs which do not, at present, comply with the aforesaid limits shall take necessary steps to align their loan portfolio in the above manner by March 31, 2023. It is clarified that 'loans' for the purpose shall include all types of funded and non-funded exposures in the nature of credit.

4.3 The overall priority sector lending (PSL) target for UCBs stands increased from the present level of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBSE), whichever is higher, to 75 per cent of ANBC or CEOBSE, whichever is higher. All UCBs shall comply with the above target by March 31, 2023, subject to achievement of the following milestones:

PSL Target to be achieved by		
March 31, 2021	March 31, 2022	March 31, 2023
50% of ANBC or CEOBSE, whichever is higher	60% of ANBC or CEOBSE, whichever is higher	75% of ANBC or CEOBSE, whichever is higher

The extant sub-targets under the priority sector shall remain unchanged.

5. UCBs shall prepare, with the approval of their Board, an Action Plan for compliance with the revised exposure norms/limits and priority sector lending targets. They are also advised to establish an appropriate mechanism to regularly monitor the progress made under the Action Plan for compliance with the above instructions.