Credit Information Review

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Branch Banking

Interest Rates on Export Credit

The Reserve Bank of India has issued the following clarifications relating to interest rates on advances in respect of export credit not otherwise specified (ECNOS) at post-shipment stage.

(a) It is mandatory to apply the revised rate of interest with effect from October 29, 1999 not only to fresh advances but also to the existing advances for the remaining period in respect of ECNOS outstanding as on that date,
(b) The banks are free to determine rates of interest subject to prime lending rates and spread guidelines;
(c) Banks should not charge penal interest in respect of post-shipment credit under ECNOS;
(d) Being export credit, advances included under ECNOS would not attract interest rate tax.

The Reserve Bank of India has advised commercial banks to specifically instruct their branches to refund excess amounts charged to exporters on any of the above counts.

Payment of Balance to Survivors of Deceased Customers

The Reserve Bank of India has asked banks to totally withdraw the requirement of obtaining succession certificate from the legal heirs irrespective of the amount involved in the account of a deceased customer. Banks should, however, adopt such safeguards in settling claims as they consider appropriate including taking of an indemnity bond. As per the earlier guidelines of the Reserve Bank, banks were advised not to insist upon succession certificate from legal heirs where the amount to the credit of the deceased depositor did not exceed Rs.25,000. The guidelines were reviewed in the light of a suggestion received through the Regulations Review Authority set up by the Reserve Bank last year.

Delay in Collection of Outstation Instruments

The Reserve Bank of India has decided that the banks should pay interest at the rate as applicable for appropriate tenor of fixed deposit for the period of delay beyond 10/14 days in collection of outstation instruments. Further, banks should also pay penal interest at the rate of 2 per cent above the fixed deposit rate applicable for abnormal delay caused by the branch in collection of outstation instruments. The penal interest should be paid without the customer having to claim it.

Linking of Self-Help Groups with Banks

The Reserve Bank of India has advised all scheduled commercial banks (excluding regional rural banks) to issue appropriate instructions/guidelines to their controlling offices/branches to assess the potential for Self-Help Group-Bank linkages in their respective service areas and forge linkages with Self-Help Groups either on their own initiative as many banks are doing or after enlisting the support of non-government organisations (NGOs) which are in the field.

In his budget speech on February 29, 2000, the Finance Minister had stated that National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) will cover an additional one lakh Self-Help Groups during 2000-01. The budget for 1999-2000 had asked NABARD and SIDBI to cover 50,000 Self-Help Groups to develop micro enterprises. NABARD by itself is likely to link 50,000 such Groups to banks during the current year.

Prime Minister's Rojgar Yojana

Targets

The Reserve Bank of India has reiterated its advice to banks to achieve the targets set for them under the Prime Minister's Rojgar Yojana more effectively. Banks should achieve the target set for them in the current year and also reduce the gap between sanctions and disbursements of loans under the scheme.

Lease Period Rented Premises

The Reserve Bank of India has advised all scheduled commercial banks (except regional rural banks) that in case beneficiaries of Prime Minister's Rojgar Yojana (PMRY) carry on their activities in rented premises, the lease period as available may be taken. Renewal of the lease should be taken as in the case of non-PMRY loans. That is, if the lease period ends during the currency of the loan, it is for the banks to ensure that lease agreements are renewed. As per the Reserve Bank's earlier instructions, rented premises might form part of the project cost. It was, however, represented that lease agreements are generally for only 11 months and may not be coterminus with the loan period. The matter was referred to the Government of India which has now clarified it as above.

GoI's Rural Housing Scheme

The Reserve Bank of India has advised all commercial banks to extend housing finance under the credit-cum-subsidy scheme of the Government of India for rural housing in the event of their being selected as implementing agencies by concerned State Governments. The Government of India, effective from April 1,1999, introduced a credit-cum-subsidy scheme for rural housing for families having annual income up to Rs.32,000 as also those who do not have repayment capacity to take benefit of fully loan-based programmes.

Bank Finance to Co-operative Societies

It has been decided that commercial banks/regional rural banks should accord priority to the credit needs of the co-operative societies which are entirely controlled by user members, prudently managed by them and are registered under the new State Co-operative Societies Act enacted by certain states. The states which have enacted the new State Co-operative Societies Act are: Andhra Pradesh, Bihar, Jammu and Kashmir, and Karnataka.

Swarnajayanti Gram Swarojgar Yojana

The Reserve Bank of India has advised banks that operational issues which may arise during the course of implementation of the Swarnajayanti gram swarojgar yojana (SGSY) may be resolved locally in the block/district level committees in consultation with officials of line departments keeping the overall contents of the scheme in view.

Kisan Credit Cards Scheme

The Reserve Bank of India has advised the regional offices of banks to use consultative fora such as, state level bankers' committees, district consultative committees, etc., to ensure that the Kisan Card Scheme gears up fast. As announced by the Government of India, during 1998-99 the National Bank for Agricultural and Rural Development (NABARD) formulated a model scheme for issue of 'Kisan Credit Card (KCCs)' to farmers enabling them to readily purchase agricultural inputs and draw cash for their production needs. The model KCC Scheme prepared by NABARD containing the procedure for issue of KCCs to farmers was circulated among all scheduled commercial banks.

Amalgamation of TimesBank with HDFC Bank

All the branches of the TimesBank Ltd. would from February 26,2000, function as branches of HDFC Bank Ltd. The Reserve Bank of India has issued a notification to exclude the name of the TimesBank Ltd. from the Second Schedule to the Reserve Bank of India Act,1934. The TimesBank

Ltd. merged with HDFC Bank Ltd. from February 26, 2000. The TimesBank Ltd., also ceased to be an authorised dealer from this date.

Banking Policy

Defining Infrastructure

It has been decided to widen the coverage under the term 'infrastructure' in alignment with the definition contained in the Income Tax Act, 1961. For the sake of clarity and brevity, it has now been decided to modify coverage under infrastructure in alignment with the definition contained in the Income Tax Act, 1961, for the purpose of financing.

As per this definition, infrastructure would include sectors, such as, power, roads, highways, bridges, ports, airports, rail system, water supply, irrigation, sanitation and sewerage system, telecommunication, housing, industrial park or any other public facility of a similar nature as may be notified by CBDT in the Gazette from time to time.

Earlier, in regard to coverage under "infrastructure", banks were advised that infrastructure in a broad sense would include sectors such as power, telecommunications, roads, ports, airports, water supply, waterways, urban transport system and sectors with similar characteristics. For the purpose of tax reliefs, however, Section 10 (23G) of the Income Tax Act, 1961 defines the term 'infrastructure' more exhaustively.

The Reserve Bank has further clarified that while the instructions relating to 'Financing of Infrastructure Projects - Coverage' would be applicable to all the categories of infrastructure sectors stated above, the relaxation in "group exposure" norm would be available only in respect of four sectors, viz., roads, power, telecommunication and ports.

Prudential Norms for Takeout Finance

The Reserve Bank of India has prescribed certain prudential norms to be followed by both, the lending and taking over financial institutions, in the case of takeout finance. In a circular issued to all commercial banks, the Reserve Bank has stated that it has examined the issue pertaining to the criteria for assigning risk weight for calculation of Capital Adequacy Ratio and applying other prudential norms in respect of takeout finance by banks. It has advised the banks to assign risk weights and apply income recognition and provision norms in the case of takeout finance as under:

Risk Weight

Unconditional takeover			Credit conversion factor	Risk Weight
(i)	Lending Institution			
	(a)	Where the full credit risk is assumed by the taking over institution	Not applicable since it is not an off balance sheet item	20 per cent
	(b)	Where only partial credit risk is assumed by taking over institution	-do-	20 per cent on the amount to be taken over
(ii)		Taking over Institution	100 per cent	100 per cent on

		the amount to be taken over

Conditional takeover	Credit conversion factor	Risk Weight
(i) Lending Institution	Not applicable since it will not be off balance sheet item	100 per cent
(ii) Taking over institution	50 per cent	100 per cent

NOTE :

1) For 20 per cent risk weight, the taking over institution should be a bank or an AIFI listed with RBI.
2) In the above cases where the counter party risk is guaranteed by Government, the risk weight will be zero.

Income Recognition and Provisioning

Where the credit facility becomes a non-performing asset before take over by the taking over institution:

Lending institution			**Taking over institution**
(i)	Should be classified as NPA	(i)	No obligations would arise till the assets actually taken over.
(ii)	Income not to be recognised on accrual basis	(ii)	On taking over such assets should make provisions treating the account as NPA from the actual date of it becoming NPA even though the account was not in its books on that date
(iii)	Provision to be made appropriate to the asset classification.		
(iv)	As and when the asset is taken over by the taking over institution, the corresponding provision could be reversed.		.

In its circular, the Reserve Bank has stated that prescribing of prudential norms for financial institutions entering into takeout finance arrangements had become necessary as in order to meet the financing requirements of infrastructure projects, financial institutions/banks have been increasingly taking recourse to the new product of takeout finance. Under a takeout finance arrangement, the financial institution/bank financing an infrastructure project (lending institution) transfers the outstanding of such financing to the books of another financial institution (taking over institution) on a pre-determined basis. Takeout finance helps the banks in asset-liabilities management since they finance infrastructure which requires long term funds out of their resources which are short-term. There are several variants of takeout finance but basically they are either in the nature of unconditional takeout finance or conditional takeout finance, though it may involve taking over institutions assuming full credit risk or a part of it. Takeout finance involves three parties, viz., project company, lending bank/financial institution and the taking over institution. The company recognises the takeout finance arrangement by way of an inter-creditor agreement. (*For guidelines on takeout finance for financial institutions please refer to Credit Information Review, January 2000*)

Rules for Ready Forwards in G-Secs

In accordance with the powers delegated by the Government of India in early March, the Reserve Bank of India has issued a notification on March 7, 2000 permitting ready forward contracts in Government securities (G-secs) entered into by eligible banks/institutions/non-banks in accordance with the terms and conditions laid down by it. The terms and conditions include:

a) Ready forward contracts should be undertaken only in treasury bills and dated securities of all maturities issued by the Government of India and State Governments.
b) Ready forward contracts as above may be entered into by banking companies, cooperative banks or any person maintaining subsidiary general ledger (SGL) account and current account with the Reserve Bank of India Mumbai, only among themselves. Presently there are 64 entities, i.e., other than banking companies and cooperative banks having SGL and current accounts with the Reserve Bank Mumbai. The list of 64 eligible entities is available on the RBI website at www.rbi.org.in.
c) Such ready forward contracts should be settled through the SGL account of the participants with the Reserve Bank at Mumbai only, and
d) No sale transaction should be put through without actually holding the securities in the portfolio.

Forward trading in securities was so far prohibited in terms of a notification dated June 27, 1969 issued under Section 16 of the Securities Contracts (Regulation) Act, 1956 by the Government of India. Ready forward contracts in Government securities by specified entities were being permitted by the Government of India by way of exemption from the 1969 notification from time to time, on the recommendations of the Reserve Bank. The Government of India on March 1, 2000 rescinded the 1969 notification prohibiting forward trading in securities and delegated powers to the Reserve Bank under Section 16 of the Securities Contracts (Regulation) Act for regulating contracts in Government securities, money market securities, gold related securities and derivatives based on these securities as also the ready forward contracts in all debt securities.

Valuation of Investments in Approved Securities

The procedure for valuation of investments based on the revised classification of the securities as recommended by the Informal Group on Valuation of Banks' Investment Portfolio set up by the Reserve Bank, will be made effective for the balance sheet as at March 31, 2001. The Reserve Bank will shortly be issuing detailed guidelines in this regard. For the current financial year ending March 31, 2000, the Reserve Bank would announce the year-end yield-to-maturity (YTM) rates as in the past.

It may be recalled that in the Statement on "Mid-Term Review of Monetary and Credit Policy for the Year 1999 - 2000" announced by the Governor, Reserve Bank of India in October

1999, a reference was made to the recommendations of an Informal Group on Valuation of Banks' Investment Portfolio set up by the Reserve Bank, relating to valuation of investments in the light of international practices. The Group had recommended that banks may classify their investments in government and other approved securities into three categories, viz., `held for trading', `available for sale', and `permanent' in place of the existing practice of classifying them into `current' and `permanent' categories in the proportion advised by the Reserve Bank from time to time. The Group had also recommended, inter alia, discontinuance of the Reserve Bank's practice of prescribing year-end YTMs for valuation purposes.

The summary of the recommendations of the Group was circulated among banks for comments for taking a final decision on the procedure for valuation of investments to be adopted by banks with effect from April 1, 2000. The recommendations of the Informal Group were discussed with the chief executives of banks in a meeting held on February 17, 2000. All the chief executives conveyed the view that the Group's recommendations were in line with international best practices and could be accepted. They, however, requested that since the institutional framework for valuation of banks' investment portfolio will take some time, the Reserve Bank may announce YTMs for government and approved securities for the year 1999-2000. (For the full report of the informal Group please see RBI website at http://www.rbi.org.in)

Prudential Norms for RRBs

The Reserve Bank of India has advised the regional rural banks to make a general provision at a minimum rate of 0.25 per cent on standard assets from the year ending March 31,2000. However, regional rural banks should classify an asset as doubtful if it has remained in the sub-standard category for 18 months instead of 24 months as at present by March 31, 2001. In case of accounts with potential threat of recovery on account of erosion in the value of security, etc. such accounts should be straightaway classified as doubtful or loss assets, as the case may be, irrespective of the period for which these have remained as non performing assets. Provisioning norms have also been introduced for regional rural banks in respect of advances guaranteed by state governments and where guarantee has been invoked and has remained in default for more than two quarters. Investments made by regional rural banks in bonds and debentures of corporates which are guaranteed by financial institutions would henceforth be treated as exposure by the regional rural bank on the financial institution and not on the corporate.

Guidelines relating to MMMFs

The Reserve Bank of India has withdrawn all the guidelines issued by it relating to money market mutual funds. Money market mutual funds would now come under the purview of Securities and Exchange Board of India (SEBI) regulations. Banks and financial institutions desirous of setting up MMMFs would, however, have to seek the necessary clearance from the Reserve Bank of India for undertaking this additional activity before approaching SEBI for registration.

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