

# CREDIT INFORMATION REVIEW



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## **BANKING**

**Strengthening of Credit Delivery to Women** All public sector banks have been advised to take immediate action:

- (i) to earmark 5 per cent of their net bank credit (NBC) for lending to women within three years instead of the earlier 5 years. The period for this target is March 31, 2004
- (ii) to form consultative groups comprising 4-5 women representing entrepreneurs, social workers, prominent local women, etc., at the branch level. These groups will interact with the bank branch and will serve as a link between the branch and the women of the area
- (iii) to form similar groups at regional / head office level for better and more effective interaction
- (iv) to further simplify procedural formalities for loans to women
- (v) to furnish data regarding lending to women in the prescribed format on a quarterly basis from the quarter ended September 30, 2001
- (vi) to submit in the prescribed format the position relating to non-performing assets

These instructions have been issued apropos announcements made by the Finance Minister in a seminar on credit flow to women. The seminar to review the action points by banks was held in June this year under the aegis of Banking Division, Ministry of Finance.

**Housing Finance Allocation** It has been decided that for the current financial year i.e. April 2001 to March 2002 each bank should continue to compute its share of the housing finance allocation at 3 per cent of its incremental deposits as on the last reporting Friday of March 2001 over the corresponding figure of the last reporting Friday of March 2000. It is also clarified that this would be the minimum housing finance allocation and there is no objection to banks exceeding this level keeping in view their resources position.

Banks should deploy their funds under the housing finance allocation in any of the three categories, i.e., direct finance, indirect finance or investment in bonds of National Housing Bank / Housing and Urban Development Corporation or combination of these two. The other instructions issued on housing finance in June 21, 2001 by the Reserve Bank remain unchanged. (Comprehensive instructions on housing finance are available on [www.mastercirculars.rbi.org.in](http://www.mastercirculars.rbi.org.in)).

For the purpose of monitoring the macro level performance of the commercial banks in disbursement of housing finance vis-a-vis their housing finance allocation, banks should continue to submit to the Reserve Bank details of disbursements made by them towards housing finance. The details of the disbursement of

housing finance, as per the prescribed format, should be submitted within 20 days on a quarterly basis from the close of the respective quarter, commencing from the quarter ended June 30, 2001.

**Implementation of DRI Scheme** The Reserve Bank has advised all scheduled commercial banks to initiate immediate steps to improve their performance in disbursement of loans under differential rate of interest (DRI) scheme and make all out efforts to ensure achievement of prescribed target. These instructions have been issued in view of the observation that the level of advances granted under this scheme continues to be far below the prescribed target of one per cent of aggregate advances of the previous year. The Standing Committee on Finance on Demand for Grants (2001-02) of the Ministry of Finance has expressed serious concern over the unsatisfactory implementation of DRI scheme by banks.

**Closure of Bank Branches due to VRS** The Reserve Bank has advised all public sector banks that they should ensure that no public sector bank branch should be closed in general, due to introduction of Voluntary Retirement Scheme. (VRS). It has also advised that in a rural area in particular no branch should be closed due to non-availability of staff on account of introduction of VRS. Banks have also been asked to ensure that lending under various schemes in rural areas is not adversely affected due to VRS.

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## EXCHANGE CONTROL

**Remittance for Lottery** The Reserve Bank has advised all authorised dealers in foreign exchange to suitably inform the members of public that remittance in any form towards participation in lottery schemes is prohibited under the Foreign Exchange Management Act, 1999. These restrictions are also applicable to remittances for participation in lottery like schemes functioning under different names, such as, money circulation scheme or remittances for the purpose of securing prize money / awards, etc.

This advice was issued in view of the observation that certain overseas organisations have been advising individuals in India that they have won prizes in lotteries etc. and that they should arrange to remit some amount in US dollars, as fees.

**Immovable Property for NRIs** Section 6 (3) (i) of the Foreign Exchange Management Act, (FEMA) 1999 empowers the Reserve Bank to frame regulations to prohibit, restrict or regulate the acquisition or transfer of immovable property in India by certain persons mainly residents outside India. These restrictions are not applicable to a lease of immovable property for a period not exceeding five years. A synopsis of the RBI regulations is presented below:

- An Indian citizen resident outside India does not require any permission to:
  - (i) acquire any immovable property in India other than agricultural / plantation property or a farmhouse.
  - (ii) transfer any immovable property to a citizen of India who is resident in India.
  - (iii) transfer any immovable property other than agricultural or plantation property or farm house to an Indian citizen resident outside India or a person of Indian origin resident outside India.
- A person resident outside India, who has been permitted by the Reserve Bank to establish a branch, or office, or place of business in India (excluding a Liaison Office), has general permission of the Reserve Bank to acquire immovable property in India, which is necessary for, or incidental to, the activity. However, in such cases a declaration, in prescribed form (IPI), should be filed with the Reserve Bank, within 90 days of the acquisition of immovable property.
- All persons, whether resident in India or outside India, who are citizens of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal or Bhutan, require prior permission of the Reserve Bank for acquiring or transferring any immovable property in India.
- A person of Indian origin resident outside India does not require any permission to:
  - (i) acquire any immovable property other than agricultural land / farmhouse / plantation property in India by purchase from out of funds received in India by way of inward remittance through banking channel from any place outside India or
  - (ii) held in any non-resident account maintained in accordance with the provisions of the Act and the regulations made by the Reserve Bank under the Act
  - (iii) acquire any immovable property in India other than agricultural land / farm house / plantation property by way of gift from a person resident in India or from a person resident outside India who is a citizen of India or from a person of Indian origin resident outside India
  - (iv) acquire any immovable property in India by way of

inheritance from a person resident outside India who had acquired such property in accordance with the provisions of the foreign exchange law in force at the time of acquisition by him or the provisions of these regulations or from a person resident in India.

- (v) transfer any immovable property in India other than agricultural land / farmhouse / plantation property by way of sale to a person resident in India.
  - (vi) transfer agricultural land / farm house / plantation property in India by way of gift or sale to a person resident in India who is a citizen of India.
  - (vii) transfer residential or commercial property in India by way of gift to a person resident in India or to a person resident outside India who is a citizen of India or to a person of Indian origin resident outside India.
- Repatriation outside India, including credit to RFC, NRE or FCNR account, of sale proceeds of any immovable property situated in India, requires prior permission of the Reserve Bank except in circumstances stated below.
  - In the event of sale of immovable property other than agricultural land / farm house / plantation property in India by a person resident outside India, who is a citizen of India or a person of Indian origin, the authorised dealer may allow repatriation of the sale proceeds outside India, subject to the following conditions:
    - (i) the immovable property was acquired by the seller in accordance with the provisions of the Exchange Control Rules / Regulations / Law in force at the time of acquisition or the provisions of the regulations framed under the Foreign Exchange Management Act, 1999
    - (ii) the sale takes place after three years from the date of acquisition of such immovable property or from the date of payment of final instalment of consideration for its acquisition, whichever is later;
    - (iii) the amount to be repatriated does not exceed (a) the amount paid for acquisition of the immovable property in foreign exchange received through normal banking channels or out of funds held in foreign currency non-resident account or (b) the foreign currency equivalent, as on the date of payment, of the amount paid where such payment was made from the funds held in non-resident external account for acquisition of the property; and
    - (iv) in the case of residential property, the repatriation of sale proceeds is restricted to not more than two such properties.
  - All requests for acquisition of agricultural land / plantation property / farm house by any person resident outside India or foreign nationals may be made to the Reserve Bank of India, Exchange Control Department, Foreign Investment Division (III), Mumbai 400 001.
  - The NRIs / PIOs can freely rent out their immovable property in India without seeking any permission from the Reserve Bank. The rental income being a current account transaction is freely repatriable outside India.
  - For the purposes of transactions, i.e., transfer, sale, purchase, etc., dealing with immovable property in India, a person of Indian origin is defined as:
 

“an individual (not being a citizen of Pakistan or Bangladesh or Sri Lanka or Afghanistan or China or Iran or Nepal or Bhutan), who:

    - (i) at any time, held Indian passport;
 

or
    - (ii) who or either of whose father or whose grandfather was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955).”

**Line of Credit to Myanmar** The Reserve Bank of India has advised all authorised dealers in foreign exchange to inform their constituents engaged in exports to Myanmar on the extension of a line of credit of US \$ 15 million to the Government of the Union of Myanmar. The credit will be available to the Government of the Union of Myanmar for import from India capital goods of Indian manufacture, consultancy services and consumer durables, as specified in the agreement. The credit will not cover any third country imports. The export of goods from India and their import into Myanmar should take place through normal commercial channels and should be subject to the laws and regulations in force in both the countries.

The contracts to be financed under the credit agreement for the specified items should be signed and relative letters of credit to be issued by November 30, 2001. The terminal date for drawal of the full amount under the credit is fixed as November 30, 2002. If the full amount of the loan is not drawn by the specified date, the balance should be cancelled and the final instalment of the repayment to be made by the Government of the Union of Myanmar should be reduced accordingly, if not advised otherwise.

**Line of Credit to Sri Lanka** The Reserve Bank has advised all the authorised dealers in foreign exchange that the Government of India have extended a line of credit of US \$ 100 million to the Government of the Republic of Sri Lanka under a credit agreement entered into between the two Governments on January 29, 2001. The credit of US \$ 100 million will be disbursed over a period of three years. The credit of US \$ 45 million disbursed in the first year will be available to the Government of the Republic of Sri Lanka for importing from India capital goods of Indian manufacture including original spare parts and accessories purchased together with the capital goods and included in the original contract as also consultancy services, consumer durables and food items – sugar, wheat flour, rice, red split lentils and wheat grains. The credit will not cover third country imports. The export of goods and services from India and their import into Sri Lanka under the line of credit shall take place through normal commercial channels and will be subject to the laws and regulations in force in both the countries.

## POLICY

**Inter-bank Liabilities** The Reserve Bank of India has clarified that only inter-bank term deposits / term borrowing liabilities of original maturity of 15 days and above and up to one year are eligible for exemption from prescription of minimum statutory cash reserve ratio (CRR) requirement of 3 per cent from August 11, 2001.

It may be recalled that to develop a term money market, the monetary and credit policy announced in April this year exempted inter-bank liabilities of maturity of 15 days and above from the minimum statutory cash reserve ratio requirement of 3 per cent from this date. The announcement prescribed no upper limit for the maturity of such liabilities.

Accordingly, banks should not include inter-bank liabilities of original maturity of 15 days and above and up to one year, in Liabilities to the Banking System in India (Item No. I of Form 'A'). Similarly they should exclude their inter-bank assets of term deposits and term lending of the original maturity of 15 days and above and up to one year in Assets to the Banking System (Item III of Form 'A'), for obtaining netting benefits and computation of total demand and time liabilities.

Scheduled commercial banks are required to report such inter-bank liabilities/ assets of original maturity of 15 days and above and up to one year as memo items in Annexure 'A' to Form 'A' under section 42(2) Return.

This policy prescription is only for CRR purpose effective from the fortnight beginning August 11, 2001. There is no change in the computation of demand and time liabilities for the purpose of statutory liquidity ratio (SLR).

**Non-SLR Investments of Banks** The Reserve Bank of India has advised all commercial banks that a recent review of the non-SLR investment portfolio of banks had revealed that some banks have made significant investment in privately placed unrated bonds and, in certain cases, in bonds issued by corporates who are not their borrowers. While assessing such investment proposals on private placement basis, in the absence of standardised and mandated disclosures, including credit rating, banks may not be in a position to conduct proper due diligence to take an investment decision. Thus, there could be deficiencies in the appraisal of privately placed issues. While it is not the intention to prohibit banks from subscribing to unrated instruments on private placement basis, however, as such investments could cause some concern, banks should put in place appropriate systems to ensure that investments in privately placed unrated instruments is made in accordance with the systems and procedures prescribed under the respective bank's investment policy approved by the board. Further, the risk arising from inadequate disclosure in offer documents should be recognised and banks should prescribe minimum disclosure standards as a policy with board approval.

The Reserve Bank of India had constituted a Technical Group comprising officials drawn from treasury departments of a few banks and experts on corporate finance to study, *inter-alia*, the methods of acquiring, by banks, of non-SLR investments in general and private placement route, in particular and to suggest measures for regulating these investments. The Group had designed a format containing the minimum disclosure requirements as well as certain conditionalities regarding documentation and creation of charge for private placement issues, which may serve as a 'best practice model' for the banks. The Reserve Bank has advised that banks would introduce with immediate effect suitable format of disclosure requirements on the lines of the recommendations of this Technical Group (Please see next page) with the approval of their board.

To ensure that the investments by banks in unrated issues through private placement, both of the borrower customers and non-borrower customers, do not give rise to systemic concerns, it is necessary that banks should ensure that their investment policies duly approved by the board of directors are formulated after taking into account the following aspects:

- (a) The boards of banks should lay down policy and prudential limits on investments in bonds and debentures including cap on unrated issues and on private placement basis, sub limits for PSU bonds, corporate bonds, guaranteed bonds, issuer ceiling, etc.
- (b) Investment proposals should be subjected to the same degree of credit risk analysis as any loan proposal. Banks should make their own internal credit analysis and rating even in respect of rated issues and should not entirely rely on the ratings of external agencies. The appraisal should be more stringent in respect of investments in instruments issued by non-borrower customers.
- (c) In case of unrated issues or issues of companies who are not their borrowers, banks should have an internal system of rating. For this purpose, banks should insist on obtaining adequate information from the issuers in a suitable manner as indicated in paragraph 3 above.
- (d) As a matter of prudence, banks should stipulate entry level minimum ratings/ quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise etc. limits to mitigate the adverse impacts of concentration and the risk of illiquidity. The investments in unrated privately placed bonds and debentures should be well diversified.
- (e) The banks should put in place proper risk management systems for capturing and analysing the risk in respect of these investments and taking remedial measures in time. The 'rating' migration of the issuers and the consequent diminution in the portfolio quality should also be tracked at periodic intervals.

The Reserve Bank has advised all commercial banks to place these instructions before the Investment Committee / Board of Directors of the bank for their information.

### Recommendations of the Group on Non-SLR Investment of Banks

All issuers must issue an offer document with terms of issue, authorised by Board Resolution not older than 6 months from the date of issue. The offer document should specifically mention the Board Resolution authorising the issue and designations of the officials who are authorised to issue the offer document. The offer document may be printed or typed "For Private Circulation Only". The Offer Document should be signed by the authorised signatory. The offer document should contain the following minimum information:

#### General

- Name and address of registered office of the company
- Full names (expanded initials), addresses of Directors and the names of companies where they are Directors.
- Listing of the issue (If listed, name of the Exchange)
- Date of opening of the issue
- Date of closing of the issue
- Date of earliest closing of the issue.
- Name and addresses of auditors and Lead Managers/arrangers
- Name address of the trustee – consent letter to be produced (in case of debenture issue)
- Rating from any Rating Agency and / or copy of the rationale of latest rating.

#### Particulars

- Objects
- Project cost and means of financing (including contribution of promoters) in case of new projects.

The model offer document should also contain the following information :

- (i) Interest rate payable on application money till the date of allotment.
- (ii) Security: If it is a secured issue, the issue is to be secured, the offer documents should mention description of security, type of security, type of charge, trustees, private charge-holders, if any, and likely date of creation of security, minimum security cover, revaluation, if any.
- (iii) If the security is collateralised by a guarantee, a copy of the guarantee or principal terms of the guarantee are to be included in the offer document.
- (iv) Interim accounts, if any.
- (v) Summary of last audited balance sheet and profit and loss account with qualifications by auditors, if any.
- (vi) Last two published balance sheet may be enclosed.
- (vii) Any conditions relating to tax exemption, capital adequacy, etc., are to be brought out fully in the documents.
- (viii) The following details in case of companies undertaking major expansion or new projects:
  - (a) Cost of the project, with sources and uses of funds
  - (b) Date of commencement with projected cash flows
  - (c) Date of financial closure (details of commitments by other institutions to be provided)
  - (d) Profile of the project (technology, market etc)
  - (e) Risk factors
- (ix) If the instrument is of tenor of 5 years or more, projected cash flows. Banks may agree to insist upon the following conditionalities for issues under private placements:
 

All the issuers, in particular private sector corporates, should

be willing to execute a subscription agreement in case of all secured debt issues, pending the execution of trust deed and charge documents. A standardised subscription agreement may be used by the banks, inter-alia, with the following important provisions.

- (a) Letter of allotment should be made within 30 days of allotment. Execution of trust deed and charge documents will be completed and debentures certificates will be despatched within the time limit laid down in the Companies Act but not exceeding in any case, 6 months from the date of the subscription agreement.
- (b) In case of delay in complying with the above, the company will refund the amount of subscription with agreed rate of interest, or, will pay penal interest of 2% over the coupon rate till the above conditions are complied with, at the option of the bank.
- (c) Pending creation of security, during the period of 6 months (or extended period), the principal directors of the company should agree to indemnify the bank for any loss that may be suffered by the bank on account of the subscription to their debt issue. (This condition does not apply to PSUs).
- (d) It will be the company's responsibility to obtain consent of the prior charge-holders for creation of security within the stipulated period. Individual banks may insist upon execution of subscription agreement or a suitable letter to comply with the terms of offer such as appointment of trustee, creation of security, etc., on the above lines.
- (e) Rating : The Group recommends that the extant regulations of SEBI in regard to rating of all debt instruments in public offers would be made applicable to private placement also. This stipulation will also apply to preference shares which are redeemable after 18 months.
- (f) Listing : Currently, there is a lot of flexibility regarding listing required by banks in private placement issues. However, the Group recommends that listing of companies should be insisted upon, ( exceptions, if any, to this rule shall be provided in the Investment Policy of the banks) which would in due course help develop secondary market. The advantage of listing would be that the listed companies would be required to disclose information periodically to the Stock Exchanges which would also help develop the secondary markets by way of investor information. In fact, SEBI has advised all the Stock Exchanges that all listed companies should publish unaudited financial results on a quarterly basis and that they should inform the Stock Exchanges immediately of all events which would have a bearing on the performance/ operations of the company as well as price sensitive information.
- (g) Security / documentation : To ensure that the documentation is completed and security is created in time, the Group has made recommendations which is contained in this model offer document. It may be noted that in case of delay in execution of trust deed and charge documents, the company will refund the subscription with agreed rate of interest or will pay penal interest of 2 per cent over the coupon rate till these conditions are complied with at the option of the bank. Moreover, Principal Directors of the company will have to agree to indemnify the bank for any loss that may be suffered by the bank on account of the subscription to the debt issue during the period of 6 months (or extended period) pending creation of security.