CREDIT INFORMATION REVIEW

RESERVE BANK OF INDIA

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BRANCH BANKING

Charging of Interest at Monthly Rests

The Reserve Bank has consolidated its earlier instructions on charging of interest at monthly rests on loans and advances. Banks are now advised to follow the consolidated instructions, as under :

(i) Banks have the option to compound interest at monthly rests either from April 1, 2002 or July 1, 2002 or April 1, 2003.

(ii) From the quarter beginning July 1, 2002, banks should ensure that the effective rate does not go up merely on account of the switchover to the system of charging/ compounding interest at monthly rests and increase the burden on the borrowers. In case a bank had followed a different system in the quarter ended June 30, 2002, it may now make adjustment for that quarter.

(iii) Application of interest on monthly rests should be restricted to all running accounts, eg., cash credit, overdraft, export packing credit accounts, etc. At the time of changing over to monthly rests, banks may obtain consent letter/supplemental agreement from the borrowers for the purpose of documentation.

(iv) Interest at monthly rests should be applied in case of all new and existing term loans and other loans of longer/fixed tenor.

(v) In the case of existing loans of longer/fixed tenor, banks should move over to application of interest at monthly rests at the time of review of the terms and conditions or renewal of such loan accounts or after obtaining consent from the borrower.

Illustration

If a bank is charging in a borrower's account an interest rate of 12 per cent with quarterly rests, the effective rate is 12.55 per cent. If the bank charges in the same account an interest rate of 12 per cent at monthly rests, the effective rate comes to 12.68 percent. Banks should, therefore, adjust the 12 per cent interest rate charged to the borrower in such a way that the effective interest rate to the borrower does not exceed 12.55 per cent. In other words, banks should in this illustration charge interest at 11.88 per cent (and not 12 per cent). If this is done, the effective rate, even after compounding at monthly rests will be 12.55 per cent.

Agriculture Loan

Instructions on charging interest at monthly rests are not applicable to agricultural advances and banks should continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons. Banks should charge interest on agricultural advances for long duration crops at annual rests as advised by Reserve Bank in June, 1998. As regards other agricultural advances for short duration crop and allied agricultural activities such as dairy, fishery, piggery, poultry, bee-keeping, etc., banks may take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting/ marketing season while charging interest and compounding the same if the loan/instalment becomes overdue.

In March, 2002 the Reserve Bank had advised banks to switchover to charging interest on advances at monthly rests with effect from April 1, 2002 to facilitate adoption of 90 days' norm for recognition of loan impairment from the year ending March 31, 2004. The Reserve Bank, however, reviewed these instructions on the basis of certain suggestions received and discussions with banks on some operational and procedural issues in this regard.

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Relief Measures for Riot affected Gujarat

Pursuant to the Hon'ble Prime Minister's announcement of a package for economic rehabilitation of riot-affected people in Gujarat, the Reserve Bank had, in May this year, formulated a special relief package for immediate implementation by banks. The relief measures are :

- Banks should freeze the loan classification status of borrowers affected by the riots on an 'as-is-where-is' basis till March 31, 2004. No demand for recovery should be made for two years in respect of standard assets. In regard to loans not classified as standard assets, banks should not levy penalties in the event of non-receipt of repayments due during the next two years. Banks should charge simple interest at the rate of 10 per cent per annum till March 31, 2004 and normal rate of interest thereafter.
- Notwithstanding the present status of the account, affected borrowers in the category of small traders, small business, self-employed and small road transporters, etc., should be sanctioned special limits up to Rs.1 lakh for restoration/rehabilitation of their businesses at interest rates not exceeding the prime lending rate (PLR).
- Banks should grant loans up to Rs.2 lakh at interest rate not exceeding PLR for repairs/reconstruction of houses/shops damaged by the riots.
- As regards advances to small scale industries (SSI), business, trade and industry and agriculture sector, banks should consider sanctioning additional limits/rescheduling of existing limits under a need based arrangement depending upon the past performance of the borrower, conduct of account, etc. The interest on rescheduled loans should be charged at the rate of 10 per cent per annum up to March 31, 2004 and thereafter, at PLR. Additional limits up to Rs. 10 lakh would carry interest at PLR and additional limits above Rs. 10 lakh would be charged at bank's discretion.
- Banks should charge interest at PLR for loans up to Rs.10 lakh and for loans above Rs.10 lakh interest should be charged at bank's discretion.
- PLR will be uniform for all banks and will be State Bank of India's PLR.
- Banks should not charge processing fees to the affected beneficiaries.
- Credit extended for repairs/construction of houses/shops and to small traders, small business, self-employed and small road transporters, etc., under the relief package would be reckoned as part of priority sector lending.
- Banks should expeditiously settle claims made by nominee of depositors who have lost their lives in the riots. Payment up to Rs.50,000 in deceased claims may be released against indemnity and affidavit.
- Banks may vest sufficient discretionary powers with their branch managers for granting such facilities. Borrowers' requests for additional facilities should not be rejected at branch level and may be decided at the senior level of regional manager/zonal manager.
- Branch managers may be authorised to extend the period of realisation of bills purchased/discounted by one month, on merits of each case.
- Banks are free to evolve their own guidelines on the stipulations on margin, security and repayment schedule, in respect of direct lending for housing to borrowers, with the approval of their boards.
- In case of agricultural loans, as a special case, banks should not recover either principal or interest from the affected farmers for a period of two years and reschedule the amounts not collected during the two years, for a period up to 7 years. Banks may charge simple interest at the rate of 10 per cent per annum till March 31, 2004 in case of such reschedulement. The total period of reschedulement including the initial moratorium period, however, should not exceed nine years.
- The existing limit of Rs.1000 for grant of consumption loan may be raised up to Rs.2000 per eligible beneficiary. As a measure of further concession, such consumption loans may be granted even though the Gujarat State has not constituted a risk fund.
- Banks may not insist upon asset coverage ratio while sanctioning loans.
- Banks should not insist on any collateral security/third party guarantee for credit limits up to and inclusive of Rs.50,000.
- This relief package is also available to commercial establishments, hotels, restaurants, etc.,affected by riots.
- Banks may stipulate margin for loans, other than housing loans, as follows :

	Amount of Loan *(in Rs. lakh)*	**Margin** *(in per cent)*
(i)	Upto Rs. 1 lakh	Nil
(ii)	Above Rs.1 lakh and up to Rs.2 lakh	Not exceeding 15 per cent
(iii)	Above Rs.2 lakh and up to Rs.5 lakh	Not exceeding 25 per cent
(iv)	Above Rs. 5 lakh	At bank's discretion

CO-OP BANKS

Monitoring of Deposit Accounts

All primary (urban) co-operative banks (PCBs) have been advised to maintain a strict vigil in opening and operations of deposit accounts. PCBs have been further advised to take stringent action against all officials/employees who violate the Reserve Bank's instructions in this regard and/or facilitate suspicious transactions. Such transactions should promptly be reported to the investigating agencies, such as, Enforcement Directorate/Income-Tax authorities.

- Cash deposits and withdrawals of Rs. 5 lakh and above in deposit accounts and also in other accounts, such as, cash credits/overdrafts, etc., should be closely monitored and proper record of such transactions should be maintained.
- Cash deposits or withdrawals of Rs. 5 lakh and above should be reported by the branch manager to the head office on a fortnightly basis along with full particulars, such as, the name of the account holder, account number, date of opening of the account, etc. On receipt of such statements from branches, the head office should immediately scrutinise the details and have the transaction looked into by deputing officials, if the transactions, prima facie, appear to be suspicious.

The Reserve Bank had observed that despite repeated instructions, a few banks had facilitated transfer of large amounts of cash by opening deposit accounts. The remittances received through telegraphic transfers were credited into newly opened accounts and withdrawn in cash on the same day.

Programme for Co-operative Banks

The Reserve Bank has set in motion a Technical Assistance Programme for strengthening the Management Information System (MIS) in co-operative banks.

The programme would focus on strengthening the MIS systems in co-operative banks by studying their needs and systems on-site and proposing appropriate solutions and monitoring their implementation. Initially, the training cum technical assistance would be restricted to the scheduled urban co-operative banks. Participation by co-operative banks in the programme will be on a voluntary basis.

The programme, which is being put into operation at the directions of the Board for Financial Supervision of the Reserve Bank, will be implemented in association with National Institute of Bank Management, Pune, College of Agricultural Banking, Pune and outside experts. The Reserve Bank will largely fund the programme, with the beneficiary institutions making a nominal contribution.

EXCHANGE CONTROL

Prepayment of ECBs

The Reserve Bank has decided to introduce an automatic route for prepayment of external commercial borrowings (ECBs), on an experimental basis. The automatic route for prepayment of ECBs without the Reserve Bank's prior permission, would be available upto March 31, 2003.

The categories for which prepayment of ECBs without any limit would be available are :

(i) Where the amount of prepayment of ECB is fully matched by way of inflow of foreign exchange in the form of foreign investment in the applicant company;

(ii) where the prepayment of ECB is being made out of the balance held in the exchange earners' foreign currency (EEFC) account of the borrower.

The categories for which prepayment of ECBs upto an amount not exceeding USD 50 million would be available are :

(i) Prepayment of ECB to the extent of 10 per cent of the outstanding loan, once during the entire currency of the loan;

(ii) prepayment of loan where the residual maturity of the loan does not exceed one year.

The Reserve Bank would, however, also expeditiously consider applications for prepayment of amounts exceeding USD50 million, particularly in cases where such loans were contracted at interest rates significantly higher than the present rates.

Designated branches of ADs may, accordingly, allow such remittances for prepayment of ECB, after obtaining a certificate from the company secretary/auditors indicating that the applicant (i) is eligible for prepayment under automatic route (ii) has availed of the ECB in accordance with all relevant acts, rules/regulations and guidelines and (iii) has submitted the ECB-2 Returns to the Reserve Bank. ADs have been further advised to report to the Reserve Bank full details of prepayment of ECB in the prescribed form within seven days of the remittance.

Electronic Funds Transfer

Electronic Funds Transfer System known as the RBI-EFT System introduced by the Reserve Bank, facilitates electronic funds transfer between banks (whether inter-bank or intra-bank) among fifteen centres. It is the best substitute for demand draft in terms of cost, speed and security. The EFT system introduced in 1994 on a pilot basis between Mumbai and Chennai was extended to the other two metros viz., Kolkata and New Delhi in 1998. During 2001, the reach of the system was further extended to the other eleven centres where the clearing houses are managed by the Reserve Bank. These centres are Ahmedabad, Bangalore, Bhubaneswar, Chandigarh, Guwahati, Hyderabad, Jaipur, Kanpur, Nagpur, Patna and Thiruvananthapuram.

The EFT system involves two banks, viz., the remitting bank and the receiving bank. In this system, the customer/account holder of a bank submits, for transfer of funds, the EFT request form (either electronically or in a paper format) to the branch in which he/she maintains the account. The customer gives information regarding the name of the beneficiary, his bank and branch name, his account number and the amount to be remitted. The transaction is effected by debiting the customer's account. The remitting bank sends the EFT remittance information to its service branch. The service branch collects all such remittance instructions from various branches of the bank and at the appointed time sends the EFT remittance instructions to the National Clearing Cell (NCC) , Reserve Bank. The service branch of the bank sends the remittance instructions in a secured electronic mode either through leased lines or INFINET. At NCC, the transactions are processed and remittance instructions are sent to the Reserve Bank at the receiving centre through INFINET.

At present, under the EFT system, funds transfer takes place three times a day i.e., at 12.00 noon, 2.00 p.m. and 4.00 p.m. At the receiving end, the NCCs process the inward remittance and advise the Deposit Accounts Department of the Reserve Bank to credit the respective bank's account. NCC also electronically sends credit advice to the service branch of receiving bank for effecting credit to the beneficiary's account and the service branch, in turn, sends advice to the beneficiary's branch for crediting the customer's account without any loss of time.

Under the EFT, funds are credited to the beneficiary's account either on the same day (i.e., on T+0 basis) or on the next working day (i.e., on T+1 basis).

In the traditional mode of funds transfer, the customer has to buy a draft and post it. The recipient of the draft has to deposit the draft in his bank account and it normally takes a week to get the credit. The EFT system eliminates this time delay.

The maximum limit of individual transaction is Rs.2 crore.

The Reserve Bank has plans to extend the EFT system to more centres in the second phase. The Reserve Bank is also working on a project to introduce a national EFT system, through which EFT can be effected from any branch of any bank at any place to any branch of any other bank at any other place using Structured Financial Messaging Solution (SFMS). SFMS is developed by the Institute for Development and Research in Banking Technnology, Hyderabad.

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EEFC Accounts for Professionals

The Reserve Bank has decided to permit individual professionals to keep up to 100 per cent of their foreign exchange earnings from consultancy and other services rendered to persons or bodies outside India, in their exchange earners' foreign currency (EEFC) account. The facility is permitted for the benefit and convenience of individual professionals, such as, scientists, professors of Indian universities/institutions, economists, lawyers, doctors, artists, architects, engineers, consultants, cost/chartered accountants, directors on boards of overseas companies, etc. This would enable the professionals to use the funds from these accounts to meet their foreign exchange requirements without any prior approval of the Reserve Bank.

Currently, residents in India are permitted to maintain EEFC accounts with banks in India, out of a portion of their earnings in foreign exchange. EEFC accounts can be opened and maintained with any branch of a bank dealing in foreign exchange. Cheque facilities are also available for operations in the EEFC accounts.

The Reserve Bank has advised banks to forward applications from professionals for availing this facility, to the regional offices of its exchange control department.

Higher Open Position Limits to ADs

Towards providing better customer service and as a further measure of liberalisation, the Reserve Bank has decided to consider need based requests from ADs for higher overnight open position limits. Banks desirous of availing the facility have been advised to approach the Chief General Manager, Exchange Control Department, Central Office, Forex Markets Division, Mumbai after getting the enhancement approved by their own boards.

This facility will be available until further notice.

It may be recalled that ADs are allowed to maintain foreign exchange open positions which is the AD's foreign exchange exposure representing the mismatch between foreign currency purchase and sales as also balance sheet mismatches. Banks are permitted to maintain overnight, the Open Position Limits fixed by Banks' management and approved by the Reserve Bank.

Remittance towards Settlement of TCs

The Reserve Bank has advised ADs to ensure that remittances in settlement of travellers cheques (TCs) sold in India are made only to the TC issuing organisations or their accredited agents of the TC issuing organisation. It had come to the notice of the Reserve Bank that some ADs had affected remittances in settlement of TCs sold by full fledged money changers (FFMCs) to entities other than the TC issuing organisations.

Opening of Stand-by L/Cs

The Reserve Bank has advised ADs that they may open stand-by letters of credit (L/Cs) on behalf of their clients who are independent power producers, in cases involving assured supply of spare parts. Earlier guidelines permitted conditional opening of stand-by L/Cs only in exceptional cases, such as, for import of crude oil and petroleum products.

SEZ Units allowed Direct Despatch of Documents

It has been decided that ADs may permit units in special economic zones (SEZs) direct despatch of export documents to the consignees outside India subject to the conditions that (a) the export proceeds are repatriated through the AD named in the GR/SDF/PP/SOFTEX form and (b) the duplicate copy of the declaration form is submitted to the AD for monitoring purposes by the exporters within 21 days from the date of shipment.

Exchange Earner's Foreign Currency (EEFC) Account

What is EEFC Account?	An account expressed in foreign currency and maintained with an authorised dealer, that is, a bank dealing in foreign exchange, in India to credit prescribed percentage of earnings in convertible foreign currency.	
Who can open an account?	A person resident in India which includes individuals, firms, companies, professionals, etc.	
What is the limit prescribed?	(i) "Status Holder" export	100 % of earnings
	(ii) Individual professionals	100% of earnings
	(iii) 100% export oriented units/units in export processing zones/software technology parks/electronic hardwaretechnology parks	70% of earnings
	(iv) Others	50% of earnings
Types of Accounts	Non-interest bearing current/savings/term deposit account.	
Permissible Credits	• Earning in foreign exchange as per prescribed limits. • Recredit of unutilised foreign exchange earlier withdrawn from such accounts.	
Permissible Debits	• Payment towards all current account transactions, such as, travel, medical, studies abroad, permissible imports, commission, customs duty, etc. Credit of remittances towards gifts and donations exceeding USD 5000 per remitter/donor per annum is, however, not permissible. • Payments towards permissible capital account transactions. • Payment in India to 100 per cent export oriented units/units in export processing zones/software technology parks/electronic hardware technology parks towards cost of goods and services provided by them. • Payment towards trade related loans and advances. • Payment in foreign exchange to a person resident in India for supply of goods and services including payment for air fare and hotel expenditure.	
Cheque Facility	Available.	
Nomination Facility	Permitted like in case of any other resident accounts.	

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