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Banking

Relief for Drought Affected Farmers

One-time Waiver of Interest

In order to further mitigate the hardship of farmers in drought affected States, the Government of India decided, as a one time measure, to completely waive, the first year's deferred liability of interest on kharif loans. Farmers who have availed of kharif crop loans will be entitled to obtain an endorsement of this waiver directly from the loaning bank.

The Reserve Bank has, therefore, advised all commercial banks to defer the interest due in the current financial year on kharif crop loans. The deferment should be done in such a way that the first instalment of interest repayment is 20 per cent of the deferred interest. This would be applicable in the case of all farmers. The Government of India will reimburse the instalment of deferred interest waived by banks. Banks may, thereafter, recover the balance amount of the deferred interest in reasonable instalments. It is reiterated that no interest should be charged on the deferred interest. Banks would be advised of the modalities of reimbursement in due course in consultation with the Government of India.

Other Relief Measures

Banks were advised in November 2002 -

- (i) not to recover any amount either by way of principal or interest during the current financial year in respect of kharif crop loans;
- (ii) to convert the principal amount of crop loan into term loan to be recovered over a period of minimum five years in case of small and marginal farmers and four years in case of other farmers; and
- (iii) to defer interest due in the current financial year on crop loan and not to charge interest on the deferred interest.

Prudential Norms

The Reserve Bank has also advised banks that in such cases of conversion or rescheduling of crop loans into term loans, the term loans should be treated as current dues and need not be classified as non-performing asset (NPA). The asset classification of these loans would, thereafter, be governed by the revised terms and conditions and would be treated as NPA if interest and/or instalment of principal remain unpaid for two harvest seasons, not exceeding two half years.

Savings Bank Accounts

Minimum Balance

The Reserve Bank has advised all commercial banks that, henceforth, they should inform customers regarding the requirement of minimum balance at the time of opening the account in a transparent manner. Any subsequent changes in this regard should also be intimated to the account holders. Banks may decide the manner in which the information is made available to the customers.

It may be recalled that there are no Reserve Bank guidelines regarding the minimum balance to be maintained in savings bank accounts. Banks have been prescribing the minimum balance to be maintained taking into consideration the cost involved in maintaining and servicing such accounts and also levying specific charges, if minimum balance is not maintained.

Opening of

Banks can now open savings bank accounts in the names of state government departments/bodies/agencies in respect of grants/ subsidies released for implementation of various state sponsored programmes/schemes. The accounts can be opened on production of an authorisation from the respective government departments certifying that the concerned government department or body has been permitted to open the bank account. Banks should keep on their record a copy of the authorisation issued by the respective state government department.

Service Charges for Priority Sector Loans

Scheduled commercial banks (SCBs) have been advised not to levy service charges/inspection charges on priority sector loans up to Rs. 25,000. For loans above this limit, however, SCBs are free to prescribe service charges with the prior approval of their boards.

Limit of Unsecured Guarantees and Advances

The Reserve Bank has advised all foreign banks that unsecured advances granted by their branches in India which are backed by guarantees of their overseas branches may not be taken into account for the purpose of computing the limit on unsecured guarantees and advances.

Policy

Prompt Corrective Action

The Reserve Bank has decided to implement the Scheme of Prompt Corrective Action (PCA) initially for a period of one year and review it thereafter, in December 2003. The Scheme has been finalised with the approval of the Board for Financial Supervision (BFS) and the Government of India and after taking into consideration suggestions from bankers and others.

Banks have been advised to place the scheme before their board of directors and take necessary steps to ensure that they do not come within the PCA framework. The Reserve Bank has clarified that the PCA framework does not preclude it from taking any other action as it deems fit in addition to the corrective actions prescribed in the framework.

The Reserve Bank will initiate certain structured action in respect of banks which have hit the trigger points in terms of capital to risk-weighted assets ratio (CRAR), net non-performing assets (NPA) and return on assets (ROA). The Reserve Bank, at its discretion, may also resort to additional discretionary actions. The trigger points, as well as structured and discretionary actions are indicated on page 4.

Urban Banks

Advances to Directors

The Reserve Bank has advised all urban co-operative banks (UCBs) that the overall ceiling of their loans/advances/other financial accommodation to their directors, their relatives and concerns in which their directors/directors' relatives have interest, all put together, has been

brought down to 5 per cent of their total demand and time liabilities (DTL). The earlier ceiling was 10 per cent of DTL.

Banks whose outstandings of such loans exceed 5 per cent of their DTL, are advised not to sanction any fresh loans/renew the existing facilities to their directors, their relatives and concerns in which they have interest so as to reduce the outstandings and bring these within the prescribed limit of 5 per cent at the earliest but not later than March 31, 2003.

Levy of Service Charges

UCBs can now prescribe various service charges. Accordingly, UCBs have been advised that while fixing service charges for various types of services charges, such as, cheque collection, etc., they should ensure that the charges are reasonable and are not out of line with the average cost of providing these services. UCBs should also take care to ensure that customers with low volume of activities are not penalised. UCBs should work out the charges with the prior approval of their boards of directors.

Report Frauds

The Reserve Bank has advised all UCBs to invariably report to the investigating agencies all cases of frauds on banks, whether committed by outsiders on their own or with the connivance of bank officials. Criminal cases may also be filed with the courts where appropriate, immediately after the bank has concluded that a fraud has been perpetrated.

The Reserve Bank had observed from the periodical reports on frauds, misappropriation, embezzlement, defalcation, etc., of the bank's funds reported by UCBs that often, cases were not promptly reported to the police for initiating criminal action against person/s involved. It was also noticed that some banks reported such cases to the police only after the Reserve Bank took up the matter with them. The Reserve Bank, therefore, emphasized the need to promptly report such offences to the concerned investigating agencies to safeguard against the possibility of suspected persons tampering with or destroying incriminating evidence against them. The Reserve Bank also stressed that banks being custodians of public funds, highest standard of honesty and integrity was expected from the bank employees handling public funds irrespective of the fact that the amount involved was small and had been fully recovered.

CRR

To provide flexibility to urban co-operative banks (UCBs) in choosing an optimum strategy of holding reserves depending upon their intra-period cash flows, the requirement of maintaining a minimum of 80 per cent of cash reserve ratio (CRR) on a daily basis during a fortnight, has been relaxed to 70 per cent with effect from the fortnight beginning December 28, 2002.

Clarifications on Granting Advances against 8% Relief Bonds, 2002

Query	Clarification
a) Whether proprietorship/partnership/corporates, etc., would be eligible for loans against Relief Bonds held by individuals offered as a collateral security?	Banks may make and follow their own policy.
b) Whether all bank branches can give advances against these bonds?	Yes, all bank branches can give advances against the bonds.

c) Whether the name of the bond holder is to be substituted by the name of the lending bank in the certificate of holding in case of advances against these bonds or whether only a book entry in the books of bond issuing bank regarding transfer of bonds in favour of lending bank is sufficient? There is no provision to record a lien of the lending bank against a government security including Bond Ledger Account (BLA). In case the lending bank would like to have the government security as a collateral, it has to be got transferred in its name.

d) If the bond is transferred in favour of the lending bank, how the investments subsequently made by the borrower in the issuing branch would be accounted for? (i) In case of full transfer - BLA would be cancelled and lending bank will be the holder of new BLA. Fresh investment, if any, by the borrower will result in opening a new BLA in his name.
(ii) In case of part transfer - BLA in the name of the borrower with the remaining balance would continue and additional investment, if any, would be accounted for in the same BLA.

e) Whether a bank can sell the bonds transferred to it in the secondary market? A bank cannot sell bonds transferred to it as a collateral in the secondary market. The security should be transferred only in the name of the original holder, in case of repayment of the advance or held till maturity by the bank in case the borrower has not repaid the advance/loan taken against the Relief Bond.

f) Whether a bank can convert Government Promissory (G.P.) Note into BLA form of holding after grant of loan/ advance against the G.P. Note issued to the holder? Conversion from one form of security to another is not permitted.

Note : Loans can be given only against Relief Bonds and not against Saving Bonds, 2002.

Exchange Management

Parking of ECB Funds Abroad

Corporates raising external commercial borrowings (ECBs) may retain the funds abroad in a bank account for their future forex requirements. Such retention is permitted provided :

(a) The debits in the account are only for approved purposes for which the loan has been raised.
(b) The payment to the overseas supplier, if any, is made against usual import documents including bill of lading/airway bill.

Documentary evidence in support of imports made into India should be submitted to the concerned regional office of the Reserve Bank alongwith the ECB2 return, duly certified by a chartered accountant.

(c) The deposit held abroad is not utilised for any fund based or non-fund based facilities in India.

(d) The account is closed as soon as the forex requirements are met and any unspent balance should be immediately repatriated to India.

Details of the account (in soft copy form) should be submitted to the concerned regional office of

the Reserve Bank, through the AD, within 8 days of opening the account as indicated below :

(i) Name of the bank and branch; (ii) date of opening the account and account number; (iii) borrower's name; (iv) lender's name; (v) Government of India/Reserve Bank's approval number and date; (vi) Reserve Bank's registration number; (vii) purpose of loan; (viii) amount of loan; (ix) amount in equivalent USD; and (x) amount parked abroad.

These relaxations, subject to review are effective up to June 30, 2003.

Liberalised Facilities to NRIs/PIOs and Foreign Nationals

ADs have been permitted to allow Non-Resident Indians (NRIs)/ Persons of Indian Origin (PIOs) to repatriate up to USD one million, out of funds held in their NRO accounts/sale proceeds of assets, on production of an undertaking and certificate by the person making the remittance.

Repatriation of assets to a citizen of Pakistan, Bangladesh, Sri Lanka, China, Afghanistan, Iran, Nepal and Bhutan, however, is prohibited.

This relaxation, subject to review, are effective for a period up to June 30, 2003.

Retention of Proceeds of ADRs/GDRs Abroad

Indian companies are now allowed to retain abroad funds raised through American Depository Receipts (ADRs)/Global Depository Receipts (GDRs), for any period to meet their future forex requirements. Further, pending repatriation or utilisation of foreign resources raised, the Indian companies may invest the foreign currency funds in : (a) deposits or CDs or other products offered by banks which have been rated not less than AA(-) by Standard and Poor/Fitch IBCA or Aa3 by Moody's; (b) deposits with branch outside India of an AD in India; and (c) treasury bills and other monetary instruments of one year maturity having minimum rating as indicated above.

Corporates should report (in soft copy form) the details of such funds raised and retained abroad within 30 days from the date of closure of the issue to the Chief General Manager, Exchange Control Department, Foreign Investment Division, Reserve Bank of India, Central Office.

Acquisition of Immovable Property outside India

Indian corporates which have set up overseas offices may now acquire immovable property outside India for their business as also for staff residential purposes with the Reserve Bank's prior permission. Indian corporates may submit their applications to the Reserve Bank through their AD.

The relaxation, subject to review, would be effective up to June 30, 2003.

Overseas Investments

Residents are now permitted to invest in equity of companies registered overseas. Investment norms for different categories of investors are :

Corporates : Listed Indian companies may now invest abroad in companies that are (a) listed on a recognised stock exchange and (b) have the shareholding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India (as on January 1 of the year of investment). Such investments should not, however, exceed 25 per cent of the Indian company's net worth, as on the date of latest audited balance sheet.

Individuals : Resident individuals may invest in such overseas companies indicated above, without any monetary limit.

Mutual Funds : Mutual funds may now also invest in equity of overseas companies as indicated above. The overall cap of mutual funds' investments in overseas companies has been enhanced to USD 1 billion. Accordingly, mutual funds desirous of availing of this facility may approach the Reserve Bank after obtaining the necessary permission from the Securities and Exchange

Board of India. At present, mutual funds are permitted to invest in ADRs/ GDRs of Indian companies and rated debt instruments, within an overall cap of USD 500 million.

These relaxations are subject to the conditions that -

(a) All transactions are routed through a designated AD and rupee payments are received out of the bank account of the investor.

(b) ADs before allowing the remittances should ensure that the companies in which such investments are made are listed on recognised stock exchange abroad and that such companies in turn have at least 10 per cent share holding in an Indian company listed on a recognised stock exchange in India.

(c) ADs should retain with them full particulars of investments, such as, names/addresses of the investors, companies in which the investments are made and details of securities held.

(d) ADs should forward to the Chief General Manager, Exchange Control Department, Reserve Bank of India, Overseas Investment Division, Mumbai a monthly statement on or before the tenth of the succeeding month indicating the amount of remittances allowed/received in respect of purchases/sales and the net investment outstanding in respect of each of the categories.

Earlier, residents were not permitted to make investments in equity of companies registered overseas except by way of setting up joint ventures or wholly owned subsidiaries.

Advance Remittances

The limit for advance remittances for import of services has been raised to USD 100,000 from USD 25,000 or its equivalent. ADs have been advised to allow advance remittance for all admissible current account transactions upto USD 100,000 without prior approval of the Reserve Bank.

Where the advance amount exceeds USD 100,000 or its equivalent, a guarantee from a bank of international repute situated outside India, or a guarantee from an AD in India, if such a guarantee is issued against the counter-guarantee of a bank of international repute situated outside India, should be obtained from the overseas beneficiary.

ADs have been further advised follow-up to ensure that the beneficiary of the advance remittance fulfils his obligation under the contract or agreement with the remitter in India, failing which, the amount is repatriated to India.

Earlier, ADs were required to obtain a bank guarantee from a bank of international repute situated outside India or a guarantee from an AD in India, if such guarantee was issued against the counter guarantee of a bank of international repute situated outside India, for advance remittances for any current account transaction exceeding USD 25,000 or its equivalent.

Prompt Corrective Action

Trigger Points

CRAR :	(i) less than 9 per cent, but equal to or more than 6 per cent (ii) less than 6 per cent, but equal to or more than 3 per cent (iii) less than 3 per cent.
Net NPAs :	(i) over 10 per cent but less than 15 per cent (ii) 15 per cent and above.
ROA :	Below 0.25 per cent.
Actions based on CRAR	
Structured Actions	When the CRAR is less than 9 per cent but equal to or more than 6 per cent, banks should -

	<ul style="list-style-type: none"> ❖ Submit and implement capital restoration. ❖ Restrict expansion of their risk-weighted assets. ❖ Not enter into new lines of business. ❖ Not access/renew costly deposits and certificates of deposit. ❖ Reduce/skip dividend payments. <p>When the CRAR is less than 6 per cent but equal to or more than 3 per cent, banks should -</p> <ul style="list-style-type: none"> ❖ Take all structured actions as in earlier zone. ❖ Discuss with the Reserve Bank on corrective plan of action. ❖ Not increase their stake in subsidiaries. ❖ Revise their credit/investment strategy and controls. ❖ The Reserve Bank would order recapitalisation. <p>When the CRAR is less than 3 per cent -</p> <ul style="list-style-type: none"> ❖ Banks should take all structured actions as in earlier zone. ❖ The Reserve Bank would observe the functioning of the bank more closely. ❖ The Reserve Bank/government will take steps to merge/amalgamate/liquidate the bank or impose moratorium on the bank if its CRAR does not improve beyond 3 per cent within one year or within such extended period as agreed to.
Discretionary Actions	<p>When the CRAR is less than 9 per cent but equal to or more than 6 per cent –</p> <ul style="list-style-type: none"> ❖ The Reserve Bank would order recapitalisation. ❖ Banks should not increase their stake in subsidiaries. ❖ Banks should reduce their exposure to sensitive sectors like capital market, real estate or investment in non-SLR securities. ❖ The Reserve Bank would impose restrictions on the bank's borrowings from inter-bank market. ❖ Bank should revise their credit/investment strategy and controls. <p>When the CRAR is less than 6 per cent but equal to or more than 3 per cent –</p> <ul style="list-style-type: none"> ❖ Banks/government should take steps to bring in new management//board. ❖ Banks should appoint consultants for business/ organisational restructuring. ❖ Banks/government should take steps to change promoters/ownership. ❖ Reserve Bank would take steps to merge the bank if it fails to submit/implement recapitalisation plan or fails to recapitalise pursuant to an order, within such period as the Reserve Bank may stipulate.
Actions based on Net NPAs	
Structured Actions	<p>When their net NPAs are over 10 per cent but less than 15 per cent, banks should -</p> <ul style="list-style-type: none"> ❖ Undertake special drive to reduce the stock of NPAs and contain generation of fresh NPAs. ❖ Review their loan policy. ❖ Take steps to upgrade credit appraisal skills and systems. ❖ Strengthen follow-up of advances including loan review mechanism for large loans. ❖ Follow-up suit filed/decreed debts effectively.

	<ul style="list-style-type: none"> ❖ Put in place proper credit-risk management policies/process/procedures/prudential limits. ❖ Reduce loan concentration - individual, group, sector, industry, etc. <p>When their net NPAs are 15 per cent and above, banks should -</p> <ul style="list-style-type: none"> ❖ Take all structured actions as in earlier zone. ❖ Discuss with the Reserve Bank about corrective plan of action. ❖ Not enter into new lines of business. ❖ Reduce/skip dividend payments. ❖ Not increase their stake in subsidiaries.
Discretionary Actions	<ul style="list-style-type: none"> ❖ Not enter into new lines of business. ❖ Reduce/skip dividend payments. ❖ Not increase their stake in subsidiaries
Actions based on ROA	
Structured Actions	<p>When the ROA is less than 0.25 per cent, banks should -</p> <ul style="list-style-type: none"> ❖ Not access/renew costly deposits and CDs. ❖ Take steps to increase fee-based income. ❖ Take steps to contain administrative expenses. ❖ Launch special drive to reduce the stock of NPAs and contain generation of fresh NPAs. ❖ Not enter into new lines of business. Reduce/skip dividend payments. ❖ The Reserve Bank would impose restrictions on the bank's borrowings from the inter-bank market.
Discretionary Actions	<ul style="list-style-type: none"> ❖ Banks should not incur any capital expenditure other than for technological upgradation and for such emergent replacements within Board approved limits. ❖ Bank should not expand their staff/fill up vacancies.

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