Credit Information Review

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Banking

Partial Waiver of Interest on Kharif Loans

The Reserve Bank has, in consultation with the Government of India, framed guidelines for a scheme for partial waiver of interest on kharif crop loans.

The scheme, which is called "Interest Waiver Scheme on Kharif Crop Loans, Drought, 2002" applies to Kharif 2002 crop loans of all scheduled commercial banks (SCBs) and is effective from December 18, 2002.

Salient Features

(i) SCBs should defer the interest due in the current financial year on kharif crop loans in such a way that the first instalment of interest repayment would be 20 per cent of the deferred interest. This instalment of deferred interest is to be completely waived as a one-time measure. The Government of India would reimburse the deferred interest waived by banks.

(ii) The lending bank branch would have the authority to determine eligible loans and sanction waiver of first instalment of deferred interest. Settlement of any dispute in this regard is left to the discretion of the bank. The lending bank-branch should endorse such waiver of interest in the appropriate loan/pass books of the borrower. Pass books issued under the Kisan Credit Card scheme should also be suitably endorsed.

Definitions

For the purpose of the scheme, certain terms have been defined as under : *Crop loans* : Short-term production/crop loans availed by farmers for raising crops during kharif season of the calendar year 2002. *Drought affected states* : States where the 'Annewari' declared by the competent authorities for kharif crop yield was fifty per cent or less of the normal yield.

Borrower : An individual farmer who had taken loans from one or more banks for raising kharif 2002 crop.

Eligible loans : Short term production/crop loans availed by individual farmers for raising crops during the kharif season of the year 2002.

(iii) Credits should be given in the eligible loan accounts for the first year of deferment to the extent of 20 per cent of the deferred interest, that being the first instalment of the deferred interest to be recovered in the first year. The aggregate amount should be held in an account called "Receivable from Government under Interest Waiver Scheme on Kharif Crop Loans, Drought, 2002" till the amount is received from the Government/Reserve Bank. Head Offices of SCBs should submit a consolidated claim duly certified by the statutory auditors, for the amount of relief, to the Government/Reserve Bank for reimbursement. The Government/ Reserve Bank would make payment of the full amount of interest waived on eligible loans, after scrutiny, to the head offices of SCBs.

The National Bank for Agriculture and Rural Development (NABARD) would frame Interest Waiver Scheme on Kharif 2002, crop loans of co-operative banks and regional rural banks on similar pattern.

KCC Scheme

The Hon'ble Finance Minister had constituted the Geete Committee on issues pertaining to rural credit' under the Chairmanship of Shri Anant Geete, the then Minister of State for Finance. The Committee was expected to look into issues relating to rural agricultural credit with emphasis on credit to small and marginal farmers and working of the Kisan Credit Card (KCC) Scheme. Based on the Committee's recommendations, banks are required to initiate action on the following :

Time period for issuance of KCC - Banks should display the information required to be fulfilled for being eligible for KCC. In cases where applications are complete in all respects, KCC should be issued within 10-15 days of receiving the application.

Savings bank account - Opening of savings bank account is not a precondition for issue of KCC.

Fixation of KCC credit limit - Credit limits may be fixed as per the norms stipulated for sanction of crop loans.

Floor limit - In order to facilitate wider coverage under the Scheme, KCCs should be issued for limits even below Rs. 5,000.

Drawal of cash - Banks may, at their discretion permit operations through other designated branches, taking into account the convenience of the clientele.

Charges for issuing KCCs - Charges for issuing KCCs should be commensurate with the actual expenses and it should not be considered as a source of income. A fee charged, if any, for issue of a laminated photo card should not exceed Rs.50.

Service charges - No service charges or inspection charges should be levied on KCCs with limits up to Rs. 25,000.

Compounding of Interest - Interest on current dues, i.e., crop loans and instalments not fallen due in respect of term loans in respect of direct agricultural advances should not be compounded.

Fixation of maturity periods - For short term and term loans, the repayment schedule should coincide with the time when the cultivator has sold his produce and is in funds. The repayment of principal and payment of interest should be linked with fluidity of the borrower depending on the harvesting/marketing of product. *Security norms* - Banks may use their discretion on matters relating to margin/security requirements for agricultural loans above Rs. 10,000.

Advances to Priority Sector - RRBs

With a view to providing more credit to the segments under priority sector, all regional rural banks (RRBs) have been advised to achieve a target of 60 per cent of their outstanding advances for priority sector lending as against the earlier target of forty per cent. RRBs have been further advised that out of their total priority sector advances, at least 25 per cent (i.e., 15 per cent of the total outstanding advances) should be advanced to weaker sections.

The revised targets would be effective from the year 2003-04.

Guarantees and Co-acceptances

The Reserve Bank has decided that, henceforth, banks may be allowed to issue guarantees favouring other banks/financial institutions (FIs)/lending agencies for the loans extended by them provided the following conditions are complied with :

Conditions for guaranteeing banks

(i) The board of directors should reckon the integrity/robustness of the bank's risk management systems and accordingly put in place a well-laid out policy in this regard. The board's approved policy should, among others, address the following issues :

(a) Prudential limits, linked to the bank's Tier I capital, up to which guarantees favouring other banks/FIs/lending agencies may be issued.

(b) Nature and extent of security and margins.

(c) Delegation of powers.

(d) Reporting system.

(e) Periodical reviews

(ii) The guarantee should be extended only in respect of borrower constituents to enable them to avail of additional credit facility from other banks/FIs/lending agencies.

(iii) A funded exposure of at least 10 per cent of the exposure guaranteed should be assumed.

(iv) Guarantees or letters of comfort should not be extended in favour of overseas lenders including those assignable to overseas lenders, (except for the relaxations permitted under the Foreign Exchange Management Act).

(v) The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight as per the extant guidelines.

(vi)Banks should ensure compliance with the recommendations of the Ghosh Committee and other internal requirements relating to issue of guarantees to obviate the possibility of frauds in this area.

Conditions for lending banks

(i) The exposure assumed by the bank against the guarantee of another bank/FI will be deemed as an exposure on the guaranteeing bank/FI and will attract appropriate risk weight as per the extant guidelines.

(ii) Exposures assumed by way of credit facilities extended against the guarantees issued by other banks should be reckoned within the inter-bank exposure limits prescribed by the board of directors. Since the exposure assumed by the bank against the guarantee of another bank/FI will be for a fairly longer term than those assumed on account of inter-bank dealings in the money market, foreign exchange market and securities market, the board of directors should fix an appropriate sub-limit for the longer term exposures as these exposures attract greater risk. (iii) Banks should monitor the exposure assumed on the guaranteeing bank/FI, on a continuous basis and ensure strict compliance with the prudential limits/sub-limits prescribed by the board for banks and the prudential single borrower limits prescribed by the Reserve Bank for FIs.

(iv)Banks should comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

Inter-branch Accounts - Provisioning

In keeping with the best banking practices, the Reserve Bank has decided that the time period allowed to banks for making provision against the net debit balance in the inter-branch account, should be reduced from one year to six months from the year ending March 31, 2004.

Accordingly, banks should arrive at the category-wise position of unreconciled entries outstanding in the inter-branch accounts for more than six months as on March 31, 2004 and

make provision equivalent to 100 per cent of the aggregate net debit under all the categories. While doing so, banks may ensure that :
(i) The credit balance in the 'Blocked Account' is also taken into account.
(ii) The net debit in one category is not set-off against net credit in another category.

Urban Banks

Closure of Branches

It has been decided to allow primary (urban) co-operative banks (UCBs) to close unremunerative branches/extension counters without the Reserve Bank's prior permission. Such closure would be subject to the following conditions -(a) The bank has not been placed under any directions under section 35A of the Banking Regulation Act, 1949.
(b) The bank's board should take the decision of closing down the extension counter/branch after taking into account all the relevant factors and the decision should be properly minuted in the official record of proceedings of the board meeting.
(c) The bank should -
(i) give proper notice to all existing depositors/clients of the branch through a press release in local leading newspapers as well as in the form of a circular to each constituent of the branch, well in advance of the closure of the branch.
(ii) return the original licence/s issued for the closed branch to the concerned regional office of the Reserve Bank ;
(iii) report to the regional office of the Reserve Bank and the regional co-operative societies, the disposal of the premises occupied by the branch.
(iv) not open an extension counter in the same place after closure of the branch ;
(v) report to the Reserve Bank's concerned regional office within one month from the date of closure, alongwith copies of the Board resolution ; and
(vi) preserve all the relevant records and make them available to the Reserve Bank for scrutiny during the course of inspection.
The Reserve Bank had been receiving requests from some urban banks, particularly weak banks, for closure of extension counters/branches, which have become non-viable and have been making losses.

Audit Committee of Boards

The Reserve Bank has consolidated its earlier instructions to UCBs regarding setting up of audit committee at the Board (ACB) level as well as it's duties/responsibilities. The consolidated instructions are :
(i) The ACB should provide direction and oversee the operations of the total audit function in the bank. The total audit function implies the organisation, operationalisation and quality control of internal audit, inspection within the bank and follow-up on the statutory audit of the bank and the Reserve Bank's inspection.
(ii) The ACB should review the internal inspection/audit function in the bank - the system, its quality and effectiveness in terms of follow up. It should review the follow-up action on the internal inspection reports, particularly of unsatisfactory branches and branches classified as 'extra large branches'. It should also specially focus on the follow-up on –
(a) Inter-branch adjustment accounts,
(b) Unreconciled long outstanding entries in inter-branch accounts and inter-bank accounts,
(c) Arrears in balancing of books at various branches,
(d) Frauds, and

(e) All other major areas of housekeeping.
(iii) The ACB should ensure that the statutory audit reports/ concurrent audit reports/Reserve Bank's inspection reports have been complied with.
(iv) The ACB should view seriously, omission on the part of inspecting officials to detect serious irregularities.
(v) The ACB should periodically review the accounting policies/ systems in the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting controls.
The Joint Parliamentary Committee which enquired into the stock market scam and matters relating to it, had in its report recommended that the Audit Committee of Boards of UCBs should look into implementation of the Reserve Bank's guidelines and inspection reports and should comment on the quality of audit.

Policy

OBUs in SEZs : Clarifications

The Reserve Bank had on November 11, 2002 advised all scheduled commercial banks of a scheme for setting up of offshore banking units (OBUs) in special economic zones (SEZs). The Reserve Bank had received a number of queries from banks seeking clarifications on various issues of the scheme. The Reserve Bank has clarified the issues as under :
(a) An eligible bank can set up one OBU in one SEZ. Banks can, however, set up more than one OBU, but not in the same SEZ.
(b) An OBU in one SEZ may lend to units and SEZ developers in other SEZs.
(c) OBUs may invest their surplus funds outside India under the investment policy framed for this purpose by the board of directors of the bank.
(d) OBUs may accept deposits from individuals subject to observance of "Know Your Customer" guidelines issued by the Reserve Bank.
Further, scheduled commercial banks have been exempted from maintaining average cash reserve ratio (CRR) prescribed under Section 42 of the Reserve Bank of India Act, 1934 on their demand and time liabilities in respect of their OBUs.

Credit Facilities to Indian JVs/WOSs Abroad

The Reserve Bank has now permitted banks to extend credit/ non-credit facilities to Indian joint ventures (JVs)/wholly owned subsidiaries (WOSs) abroad up to 10 per cent of their unimpaired capital funds (Tier I and Tier II capital) as against the earlier ceiling of 5 per cent of their unimpaired Tier - I capital. The conditions for such facilities, stipulated by the Reserve Bank earlier would, however, remain unchanged. The conditions are :
(i) Loan should be granted only to those joint ventures where the holding by the Indian company is more than 51 per cent.
(ii) Proper systems for management of credit and interest rate risks arising out of such cross border lending are in place.
(iii) Section 25 of the Banking Regulation Act, 1949 is complied with.
(iv)The resource base for such lending should be funds held in foreign currency accounts, such as, foreign currency nonresident {FCNR(B)}, exchange earners' foreign currency (EEFC), resident foreign currency (RFC), etc., accounts for banks which have to manage exchange risk.
(v) Maturity mismatches arising out of such transactions are within the overall gap limits approved by the Reserve Bank.
(vi)All existing safeguards/prudential guidelines relating to capital adequacy, exposure norms, etc., applicable to domestic credit/ non-credit exposures are adhered to.

Further, the loan policy for such credit/non-credit facility should be as follows :
(a) Grant of such loans is based on proper appraisal and commercial viability of the projects and not merely on the reputation of the promoters backing the project. Non-fund based facilities should be subjected to the same rigorous scrutiny as fund based limits.
(b) Countries where the joint ventures/wholly owned subsidiaries are located should have no restrictions applicable to these companies regarding obtaining foreign currency loans or for repatriation, etc., and should permit non-resident banks to have legal charge on securities/assets abroad and the right of disposal in case of need.
This facility would be reviewed after one year.

Forex

Temporary Foreign Currency Accounts

The Reserve Bank has delegated to authorised dealers (ADs), the authority of allowing opening of temporary foreign currency accounts for organisers of international seminars, conferences, conventions, etc. Organisers who have already obtained the prior approval of the concerned administrative ministry of the Government of India for the conduct of an event, can now approach ADs with their requests for opening of temporary foreign currency accounts.

Facilities

Credit : Credits to the account would be limited to all inward remittances in foreign currency towards registration fees payable by overseas delegates, grant, sponsorship fees and donations, received from abroad, in connection with the conference, convention, etc. Debits would be allowed for :
(a) Payment to foreign/special invitees attending the conference, etc., on the specific invitation of the organisers, towards travel, hotel charges, etc., and honorarium to foreign guest speakers.
(b) Remittance towards refund of registration fees to foreign delegates and unutilised sponsorship/grant amount, if any.
(c) Bank charges, if any.
(d) Conversion of funds into rupees.
All other credits/debits would require the Reserve Bank's prior approval. The account should be closed immediately after the conference/event is over.
Earlier, the Reserve Bank used to consider requests from organisers of international seminars, conferences, conventions, etc., for opening temporary foreign currency accounts. These accounts are operated for the receipt of delegate fees and payment towards expenses including payment to special invitees from abroad. The Reserve Bank has with a view to facilitating expeditious disposal of such applications, delegated the authority to ADs.

Facilities to SEZ Units

It has been decided to extend the following facilities to units located in SEZs.

Realisation of Export Proceeds

Now there is no time limit for realisation of exports made by units in SEZs. Earlier, units situated in SEZs had to realise and repatriate to India the full value of goods or software within a period of twelve months from the date of export.

Job Work Abroad

To promote international operations, units in SEZs have been permitted to undertake job work abroad and export goods from that country itself subject to fulfilment of the following conditions :

(i) Processing/manufacturing charges are suitably loaded in the export price and are borne by the ultimate buyer.

(ii) The exporter has made satisfactory arrangements for realisation of full export proceeds subject to the usual GR procedure.

Receipt of Payment in Precious Metals

Gem and jewellery units in SEZs and export oriented units (EOUs) can now receive their export payments in the form of precious metals, i.e., gold/silver/platinum equivalent to the value of jewellery exported if, the sale contract provides for it and the approximate value of the precious metal is indicated in the relevant GR/SDF/PP forms.

Export Receivables against Import Payments

SEZs can now 'net off' their export receivables against import payments. Such 'netting off' would, however, be permitted subject to the following conditions :

(i) The 'netting off' of export receivables against import payments is in respect of the same Indian entity and overseas buyer/supplier
(bilateral netting). The netting may be done as on the date of balance sheet of the unit in SEZ.

(ii) The details of export of goods is documented in GR(O) forms/ DTR as the case may be while details of import of goods/ services is recorded through A1/A2 form as the case may be The relative GR/SDF forms will be treated as complete by designated AD only after the entire proceeds are adjusted/ received.

(iii) Both the transactions of sale and purchase in 'R' Returns under FET-ERS are reported separately.

(iv) Export/import transactions with Asian Clearing Union (ACU) countries are kept outside the arrangement.

(v) All the relevant documents are submitted to the concerned who should comply with all the regulatory requirements relating to the transactions.

Capitalisation of Import Payables

Units in SEZs can now issue equity shares to non-residents against import of capital goods, provided :

(a) The valuation is verified by a committee consisting development commissioner and the appropriate customs officials

(b) SEZ units should report the particulars of the shares issued form 'FC-GPR' to the concerned regional office of the Reserve Bank, under whose jurisdiction the SEZ falls, along with a copy of the valuation certificate. A copy of the report should forwarded to the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, Udyog Bhavan, New Delhi-110 001.

Export Credit

Pursuant to the announcement made in the EXIM Policy March 31, 2003, that goods and services going to SEZ from domestic tariff area (DTA) would be treated as exports, the Reserve Bank has advised that supply of goods and services from DTA SEZ would be eligible for export credit facilities.

Rate of Return of RNBC Deposits

The minimum rate of return, which residuary non-banking companies (RNBCs) can pay to their depositors has been revised. The present and the revised minimum rates of return are :

Type of Deposit Scheme	**Present Rate**	**Revised Rate**
Daily deposit schemes	Not less than 4 per cent per annum	Not less than 3.5 per cent per annum
Deposits received in lump sum or at monthly or longer intervals	Not less than 6 per cent per annum	Not less than 5 per cent per annum

Taking into account the market conditions and changes in interest rates in the entire financial system, the rates have been revised. The revised rates are applicable to deposits accepted/ renewed by RNBCs on and from April 1, 2003.

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