Credit Information Review

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POLICY

Take over of Bank Branches

The Reserve Bank has announced the operational guidelines to be followed by banks for transfer of branches in rural and semi urban centres from one commercial bank to another. The detailed guidelines are :

Operational Issues

All issues connected with transfer of assets and liabilities, staff, etc., of the branches proposed to be transferred should be sorted out by the banks themselves on mutually agreed terms and conditions, subject to adherence of the Reserve Bank's guidelines wherever applicable. The consideration arrived at for takeover should provide for additional contingent liabilities, if any, that may have to be taken over by the new bank.

Notice to Constitutents

Due publicity should be given to the constituents of the branch by the existing bank as well as the bank taking over the branch.

Transfer of Borrowal Accounts

All issues relating to transfer of borrowal accounts of the existing branch should be sorted out by the banks themselves on mutually agreed terms and conditions. The existing borrowers should not be put to any disadvantage and they may be given the choice of continuing with the existing bank or the new bank.

Interest Rates

The transfer of a branch from one bank to another would lead to transfer of deposit accounts from one bank to another. Such deposits would continue to be governed by the terms of contract agreed to between the customer and the bank branch that is being taken over. Accordingly, the same rate of interest would be payable till maturity on such transferred deposits as was payable at the time of takeover of the branch.

Premature Withdrawal

Where depositors of the branch being taken over desire premature withdrawal of deposit consequent to the transfer of business to another bank, they should be allowed to do so without imposing any penalty.

Consideration Receivable

The consideration receivable by the bank will be a current business income and treated accordingly.

Surrender of Licence

After a detailed agreement is reached on transfer, the bank taking over the branch may forward the licence to the Reserve Bank's concerned regional office for cancellation and obtain a fresh licence prior to transfer.

Service Area Obligation

Where the rural branch of the bank being taken over is the only branch functioning in the village/town, the bank taking over the branch would not be permitted to merge it with any other of its existing branch in rural/semi-urban area (with service area obligation), as it would render the area unbanked.

Presently, a branch which is the only bank branch functioning in a rural centre is not permitted to be shifted/closed/merged outside the service area as this renders the relative area unbanked.

Wilful Defaulters

With a view to imparting more objectivity in identifying and reporting cases of wilful default, banks/financial institutions have been advised to take the following measures –

(a) Decisions to classify the borrower as wilful defaulter may be entrusted to a committee of functionaries headed by the executive director and consisting of two GMs/DGMs.

(b) The decision taken on classification of wilful defaulters should be well documented and supported by requisite evidence. The decision should clearly spell out the reasons for which the borrower has been declared as wilful defaulter *vis-à-vis* the Reserve Bank's guidelines.

(c) A grievance redressal mechanism may be created for giving a hearing to borrowers who represent that they have been wrongly classified as wilful defaulters. The grievance redressal mechanism should be headed by the chairman and managing director and should include two other senior officials.

Safai Karmacharis

The Reserve Bank has advised all public sector banks to dispose off all pending applications, if any, on a priority basis received under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS).

As lending to the beneficiaries under the scheme has not picked up to the desired extent and a number of applications are pending at branch level, banks have been advised to make specific efforts to educate and reorient the attitude of their bank managers and other staff.

The Reserve Bank has reiterated that all loan applications up to a credit limit of Rs. 25,000 should be disposed off within a fortnight and those for over Rs. 25,000 within 8-9 weeks. Banks may also review the performance of the scheme at different fora under the Lead Bank Scheme, at state level bankers' committee (SLBC) meetings, etc.

UCBs

UCBs - Opening of Extension Counters

The Reserve Bank has issued revised instructions to primary (urban) co-operative banks (UCBs) for opening of extension counters (ECs). The revised guidelines which supercede earlier instructions issued in this regard are :

Places of Opening ECs

ECs may be opened within the premises of only educational institutions, big offices, factories and hospitals of which the concerned UCB is the principal banker. Requests from other bankers to the institution may be considered, only if opening of an EC is not considered feasible by the principal banker or its nearest branch is beyond 10 kms from the concerned institution.

ECs may also be opened in residential colonies provided –

(a) A branch or extension counter of any other bank does not already exist in the colony.

(b) The local development or any other authorities should not have imposed any restrictions for setting up a commercial establishment in the proposed locality/colony.

Revised Norms

With a view to bringing uniformity in the criteria to be satisfied by UCBs desirous of opening ECs, the norms for opening extension counters have been rationalised and consolidated.

Licensed UCBs, which are not classified as Grade III or IV and satisfy the following norms, will be eligible to open ECs :

a) Capital to risk assets ratio (CRAR) should not be less than that prescribed by the Reserve Bank;
b) owned funds should not be less than the minimum required for opening of a new branch at the centre where the proposed EC is to be opened;
c) net non-performing assets (NPAs) should be less than 10 per cent of net loans and advances, with full provisioning, as on March 31 of the latest financial year;
d) having net profit (with no accumulated losses) in each of the two preceding years;
e) achievement of prescribed priority sector target; and
f) track record of compliance with B.R. Act, 1949 (AACS) and the Reserve Bank's instructions, compliance with cash reserve ratio (CRR)/statutory liquidity ratio (SLR) requirements on a continuous basis and timely submission of returns.

Conditions

(i) The base branch of the bank to which the proposed extension counter is linked should be within a distance of 10 kms. to facilitate incorporation of transactions of the EC in the accounts of the base branch on a day-to-day basis.
(ii) Only one EC is permitted within the premises of any institution/office/hospital/residential colony.
(iii) The bank should take into account important factors such as the need, viability and overall merits of opening of the EC before opening an extension counter.
(iv) ECs should not be opened merely for collection of fees, payment of bills for electricity, water, telephones, etc., as these are primarily the responsibility of the concerned institution.

Facilities

The facilities at an extension counter should be restricted to –
(a) acceptance of deposits;
(b) issue and encashment of drafts and mail transfers;
(c) encashment of travellers' cheques; and
(d) collection of bills.

UCBs having net profits for last three years, and net NPAs below 7 per cent may also offer safe deposit locker facility, subject to provision of adequate security arrangements.

Application

Non-scheduled UCBs are required to obtain prior permission of the Reserve Bank before opening an EC. Such UCBs fulfilling the eligibility norms should apply in the prescribed format to the regional office of the Urban Banks Department of the Reserve Bank under whose jurisdiction their registered office is located.

Scheduled UCBs which satisfy all the eligibility criteria, may open ECs without the Reserve Bank's prior permission. They should apply to the concerned regional office of the Reserve Bank for post facto approval within one month from the date of opening the EC, All UCBs including scheduled UCBs are, however, required to obtain the Reserve Bank's prior approval for opening an EC in a residential colony.

UCBs are further informed that ECs opened in contravention of these instructions would not be regularised and would have to be closed down. The concerned UCB would also be liable for penalty under the relative provisions of the Banking Regulation Act 1949 (AACS).

UCBs - Loans/Advances to Directors

The Reserve Bank has reiterated that UCBs should strictly and scrupulously comply with all the Reserve Bank's guidelines while granting loans and advances (both secured and unsecured), if any, to directors, their relatives and the firms/ concerns/companies in which they are interested. Additionally UCBs should observe the Reserve Bank's guidelines on –

(i) Careful assessment of requirement of finance based on proper credit appraisal, documentation and supervision over end-use of funds.
(ii) Observing specific safeguards while providing cheque discounting facilities.
(iii) Exposure ceilings on single borrower and group-borrower not to exceed 20 per cent and 50 per cent of the bank's capital funds.
(iv) Observing proper safeguards regarding account opening procedures, custody of documents, loans against deposits, issue of guarantees/letters of credit, prevention of diversion of funds, sanctioning of loans/other credit facilities, etc.
(v) Such loans not to exceed the prudential ceiling of 5 per cent of the bank's demand and time liabilities.

UCBs have been advised that any deviations from the Reserve Bank's guidelines would be viewed seriously and would invite penalty as per the provisions of the Banking Regulation Act, 1949 (as applicable to co-operative societies).

UCBs have also been advised to submit a fortnightly report beginning from the fortnight ended July 15, 2003 and up to September 30, 2003 to the Chief General Manager-in-Charge, Urban Banks Department, Reserve Bank of India, Central Office, Worli, Mumbai 400 018 giving details of loans and advances granted to the directors/relatives/firms and concerns in which they are interested. A copy of the statement may be endorsed to the concerned regional office of the Reserve Bank. The data should relate to fresh loans and advances (including renewals) granted during the fortnight and not the outstanding as on that day. The Reserve Bank would view non-submission of the fortnightly returns seriously.

Priority Sector Lending

The Reserve Bank has advised all UCBs that the ceiling on certain categories of priority sector advances has been enhanced as follows -

Professionals/Self Employed

The existing ceiling of Rs. 5 lakh on advances to professionals and self employed persons has been raised to Rs. 10 lakh, of which not more than Rs. 2 lakh should be utilized for working capital requirements. A higher ceiling of Rs. 15 lakh, with a sub-ceiling of Rs. 3 lakh for working capital requirements, has been fixed for professionally qualified medical practitioners setting up practice in semi-urban and rural areas.

UCBs have been further advised that an advance granted to a qualified medical practitioner for purchase of one motor vehicle within the revised ceiling of Rs. 15 lakh should be reckoned as priority sector lending. Advances granted for purchase of a motor vehicle to professionals and self-employed persons other than qualified medical practitioners should, however, not be included under priority sector.

Retail Trade

The ceiling on bank advances under priority sector to retail traders has been raised from Rs. 5 lakh to Rs. 10 lakh.

SSIs

With a view to providing better customer service and to ensure that all loan applications relating to small scale industries (SSI)/small borrowers are disposed off expeditiously, banks have been advised to –

(i) Dispose off applications of SSI/small borrowers for loans upto Rs. 25,000 within two weeks of receipt of application.

(ii) Dispose off other cases of loans up to Rs. 5 lakh within a period of four weeks of receipt of loan application.

(iii) Acknowledge receipt of all loan applications.

The time frame indicated for disposal of applications should be adhered to provided the loan application is complete in all respects and is accompanied by a checklist, if prescribed.

Agriclinics/Agribusiness Centres

Finance granted by UCBs under the National Bank for Agriculture and Rural Development (NABARD)'s scheme of financing agriclinics and agribusiness centres would now qualify for inclusion under 'direct finance to farmers for agricultural purposes' under priority sector lending.

UCBs have been advised to report such advances under 'agriculture and allied activities' in the annual priority sector lending statements.

Depreciation on Computers

With a view to enabling UCBs to replace outdated/obsolete computers and related hardware within a period of three years, UCBs have been advised to charge depreciation on computers on a straight-line method at the rate of 33.33 per cent per annum.

It was observed that no uniform method is adopted by banks for charging depreciation in respect of computers as well as the rate of depreciation applied.

Capital, Deposits, Advances and Priority Sector Advances of Public Sector/Private Sector Banks

(Rs. in Crores)

Item	**Public Sector Banks**			**Private Sector Banks**		
	31.03.01	31.03.02	31.03.03	31.03.00	31.03.01	31.03.02
Capital	14547	15178	14176	1797	1878	2719
Deposits	859462	968749	1032280	110039	136635	169439
Loans and Advances	414989	480681	564534	54196	68111	116430
Priority Sector Advances	146546	171185	203095	18019	21550	25709

BRANCH BANKING

ATM - Third Party Funds Transfer

Based on requests received from banks, the Reserve Bank has advised that banks may allow transfer of funds from one customer's account to another customer's account of the same bank within the country, through automated teller machines (ATMs). Banks have been further advised that the mandate and related documentation, which form the basis for effecting payments for such transactions carried out over the ATMs, should be settled bilaterally with the customers. The rights and obligations of each party should be clearly stated in the mandate and should be valid in a court of law. While permitting third party payments through ATMs, banks should take appropriate steps for securing discharge of their liability.

Banks have also been advised to put in place security requirements as advised by the Reserve Bank in the 'Compendium of Best Practices in a Computerised Environment' and guidelines outlined in the Report of 'Working Group on Internet Banking'.

Review of Non-Public Business Working Day

The Reserve Bank has, in consultation with the government and Indian Banks' Association, decided that the scheme of observing one day in a week as non-public business working day (NPBWD) by rural branches of commercial banks, be made optional. Accordingly, it has been left to the individual bank managements to decide, depending on the local conditions, whether NPBWD may be observed.

Earlier, in August 1986 banks were advised to declare one day in a week as non-public business working day for their rural branches. On that day no public transactions are handled and the day is fruitfully utilised for contacting existing and potential clientele, mobilising deposits, monitoring credit utilisation, recovery and providing appropriate guidance to borrowers.

FOREX

Evidence of Import

The Reserve Bank has advised that it is obligatory on the part of authorised dealers (ADs) making import remittance to ensure that the importer submits the documentary evidence of import if the value of foreign exchange remitted/paid for import into India exceeds USD 100,000 or its equivalent. Earlier this limit was USD 25,000.

Consequently, ADs should rigorously follow-up cases of import remittances exceeding USD 100,000 where documentary evidence has not been submitted. Authorised dealers should, henceforth, forward to the Reserve Bank details of only those import transactions which exceed USD 100,000 in Form BEF.

ADs are further advised that now they may accept either Exchange Control copy of bill of entry for home consumption or a certificate from the chief executive officer or auditor of the company that the goods for which remittance was made have actually been imported into India provided the amount of foreign exchange remitted is less than USD 1,000,000 (USD one million) or its equivalent. Earlier this limit was USD 100,000 or its equivalent.

Intimate Change of Address

Subscribers to the Credit Information Review are requested to promptly intimate change of address to the Director, Division of Reports, Reviews and Publications, Department of Economic Analysis and Policy, Reserve Bank of India, City Ice Building, Fort, Mumbai 400 001 for timely updation of the subscriber list.

Bank branches are requested to advise the change of address to the Director, Banking Statistics Division, Department of Statistical Analysis and Computer Services, Reserve Bank of India, C-8/9 Bandra-Kurla Complex, Bandra (East), Mumbai 400 051.

Zonal offices of banks are also requested to promptly advise closure of branches in their jurisdiction for updation of the list of bank branches by the Reserve Bank's Banking Statistics Division.

NBFCs

G-secs in separate Demat Accounts

The Reserve Bank has directed non-banking finance companies (NBFCs) and residiary non-banking companies (RNBCs) to maintain two constituent subsidiary general ledger (CGSL) accounts or two demat accounts or one CSGL account and one demat account, for holding the government securities required for compliance with the Reserve Bank Regulations, in an exclusive CSGL account or demat account, and not trade in them in any manner. For the purpose of trading, the securities held in excess of the Reserve Bank requirement in compliance with Section 45-1B of the Reserve Bank of India Act are required to be kept in the second CSGL account or demat account.

NBFCs have also been directed that they should, under no circumstances, use the CSGL account or demat account maintained for the purpose of compliance with the Reserve Bank's regulatory requirements for any other purpose.

Earlier, in October 2002, NBFCs including RNBCs were directed to dematerialise the government securities held in compliance with the provisions of Section 45-IB of the Reserve Bank of India Act. They were also advised not to undertake any transaction in these securities in physical form with any broker. Further, the Reserve Bank has permitted NBFCs to enter into ready forward contracts in gilts (including reverse ready forward contracts) subject to certain conditions.

Infrastructure Loans by NBFCs

The Reserve Bank has modified the prudential norms applicable to NBFCs in relation to their exposure to infrastructure loans. The norms prescribed for NBFCs are in alignment with the norms prescribed for banks and financial institutions.

Accordingly, for the purpose of encouraging NBFCs to grant infrastructure loans, the Reserve Bank has specified that, henceforth, when infrastructure loans granted by NBFCs are restructured or renegotiated or rescheduled before the assets have been classified as sub-standard, they can continue to be classified as standard assets, subject to certain conditions. Further, NBFCs may, henceforth, exceed the exposure norms by 5 per cent for single party and 10 per cent for single group of parties if the additional exposure is on account of infrastructure related loans and investments. Further, all investments by NBFCs in AAA rated securitised paper pertaining to the infrastructure facility would attract risk weight of 50 per cent instead of the risk weight of 100 per cent assigned earlier.

Reduction in the period of NPA

A non-performing asset (NPA) would now be classified in sub-standard category for a period of only 18 months from the date it is recognised as NPA, instead of the earlier norm of 24 months. Similarly, after an asset has remained in sub-standard category for 18 months, it would be classified as a doubtful asset, as against the present norm of 24 months.

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