

CREDIT INFORMATION REVIEW



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BANKING

Relaxation to Trade and Industry in the State of J & K

With a view to ensure larger flow of credit to trade and industry in the state of Jammu and Kashmir and bring about appropriate changes in the monitoring mechanism, the position regarding relaxations/concessions announced from time to time have since been reviewed by the Reserve Bank and a comprehensive package of concessions/relaxations is recommended for immediate implementation by banks operating in the state of Jammu and Kashmir. The concessions/credit relaxations to borrowers/customers in the state of Jammu and Kashmir which would be operative for a further period of one year, i.e., up to March 31, 2005, are indicated below :

- (i) Banks may sanction increased working capital facilities depending on the merits of each case. For small borrowers in the unorganised sector, relaxation up to a maximum of 50 per cent of the norms accepted for last sanction may be allowed depending on merits. Benefits of relaxed norms may be extended as realistically as possible to such borrowers. Banks may take a realistic approach for all borrowers regarding changes in the level of credit on purchases.
- (ii) Concerned banks may review all borrowal accounts within a period of three months, irrespective of whether ad-hoc facilities were sanctioned in the past or not and need based increased working capital facilities may be sanctioned to borrowers without delay.
- (iii) Finance against accepted hundies (usance bills) should be encouraged.
- (iv) Concessions may be given in service tariffs for remittances. Concessions may also be extended to collection of outstation bills/cheques.
- (v) Banks may honour small fixed deposit receipts, say up to Rs.10,000 of the Kashmiri migrants at the designated branches without verifying details from the branch of origin against indemnity bond, where necessary.
- (vi) Other existing concessions indicated below may continue:
 - (a) For term credits, banks may adopt a flexible and pragmatic approach as regards debt-equity ratio, especially for small projects. Re-schedulement of the repayment programme may also be allowed in deserving cases.

- (b) Banks may review all irregular accounts within a time-frame of three months with a view to exploring the possibilities of regularising them through sanctioning additional working capital facilities.
- (c) Period of realisation of bills purchased and advance bills for collection may be extended up to one month by branch managers.
- (d) Liberal acceptance of credit/letter of credit (L/C) facilities may be extended to facilitate purchases on credit. Margin for bank guarantees and inland letters of credit should not exceed 15 per cent depending on merits of each case.
- (e) The facility for transfer of bank accounts/funds maintained with their branches in the valley to some other designated/specified branch/es outside the valley, at the request of their customers, may be continued with necessary safeguards so that unauthorised withdrawals or transfers are not encouraged. Similarly, banks may arrange to designate specific branches outside the valley to receive instruments drawn on their branches in the valley.

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Banks should ensure that suitable guidelines are issued to their branches operating in the state of Jammu and Kashmir on the revised package outlined above.

Other general measures and actions

- Banks may take special steps to educate and inform the managers and controllers of their branches in the state about the details of the package and corporate strategies for implementing these.
- In each district of the state, the lead bank may convene banker-customer meet, to which top district level state government officials could also be invited.
- Banks in the state should make special endeavours for avoiding delays in all matters of providing banking services. Clearance of instruments, both local and outstation, should be prompt. A review of systems and procedure in vogue may also be undertaken for achieving the above objective. Necessary delegation of authorities may also be made expeditiously in this context.
- The power of rejection of any concession should vest in an authority above the immediate controlling tier of the concerned branch.
- Additional fund requirements for implementing the package may be dovetailed into corporate fund deployment strategy of each bank so that higher flow of credit to the borrowers in the state could be effected within a reasonable period of time.
- Submission of quarterly data by branches of banks on progress made in implementing the package of concessions may be an integral part of the corpus of control returns to facilitate effective monitoring.

Implementation and monitoring arrangements

- Special cells for monitoring implementation of the package may be formed in all banks operating in the state at the zonal office level, if not already formed. The cells would also act as grievance redressal agency for the respective banks. The cells would convene quarterly meetings with credit users, which should be attended by a senior official from the corporate office.
- At the state level, a committee comprising representatives of major banks, state government, trade and industry would sort-out problems/grievances against banks. The state level committee would also review the progress made in implementing the package on the basis of quarterly data. Convener, State Level Bankers' Committee, would provide secretarial support to this Committee. Review reports of the State Level Committee may be forwarded to the Reserve Bank's local office for follow-up action.

Non-Resident Deposit Schemes Rationalised

On a review of the existing non-resident deposit schemes, it has been decided to implement the following measures with immediate effect :

Ceiling on Interest Rate on NRE Term Deposits

It has been decided that, until further notice, the interest rates on non-resident (external) rupee (NRE) deposits for one to three years, contracted effective close of business in India on April 17, 2004, should not exceed the LIBOR/SWAP rates for US dollar of corresponding maturity.

The revised interest rate would also be applicable in case the maturity period of the deposit exceeds three years. The

changes in interest rates would also be applicable to NRE deposits renewed after their present maturity period.

In order to provide consistency in the interest rates offered to non-resident Indians, the interest rates on NRE deposits were linked to LIBOR/SWAP rates for US dollar from July 17, 2003. The interest rates on these deposits were reduced from 250 basis points above LIBOR/SWAP rates of corresponding maturity on July 17, 2003 to 100 basis points above LIBOR/SWAP rates of corresponding maturity on September 15, 2003 and later to 25 basis points above LIBOR/SWAP rates of corresponding maturity on October 18, 2003.

Interest Rate on NRE Savings Deposits

With a view to aligning the interest rates on various categories of NRE deposits, it has been decided to link the interest rate on NRE savings deposits also to LIBOR/SWAP rates with effect from close of business in India on April 17, 2004. The interest rates on NRE savings deposits should not exceed the LIBOR/SWAP rates for six-month maturity on US dollar deposits. The interest rate on NRE savings deposits may be fixed quarterly on the basis of the LIBOR/SWAP rate of the US dollar on the last working day of the preceding quarter. For the quarter April-June 2004, the US dollar LIBOR/SWAP rate as on the last working day of March 2004 would be applicable.

Earlier, the interest rate on NRE savings deposits was linked to domestic savings deposit rate.

Advance against NRE Savings Deposits

It is clarified that since the account holder of NRE savings deposits can withdraw savings deposits at any time, banks should not mark any type of lien, direct or indirect, against these deposits.

CUSTOMER SERVICE

Customer Service

The Reserve Bank has advised all scheduled commercial banks to implement the recommendations of the Committee on Procedures and Performance Audit on Public Services (Chairman : Shri S.S.Tarapore) as indicated below :

Cheque Drop Box Facility

Customers should be given the facility to either drop cheques in a box or tender them at the regular collection counters. Cheques tendered over the counter, should invariably be acknowledged.

Cheque Books

Banks should ensure that when so requested, cheque books are delivered over the counter to depositors or their authorised representative.

The Committee had observed that some banks do not allow depositors to collect their cheque book at the branch and insist on despatching the cheque book by courier to the depositor. Further, the depositor is forced to sign a declaration that despatch of the cheque book through courier is at the depositor's risk and consequence and that he shall not hold the bank liable in any manner whatsoever, for such despatch.

Banks are advised that such a procedure is an unfair practice and they should refrain from obtaining such undertakings from depositors.

Statement of Accounts/Pass Books

With a view to avoiding inconvenience to depositors, banks are advised to avoid inscrutable entries in passbooks/statements

of account, such as, "By Clearing" or "By Cheque". Banks should ensure that brief, intelligible particulars are invariably entered in passbooks/statements of account. Banks should also adhere to the prescription of sending statement of accounts at monthly intervals.

The Committee had noted that in the case of electronic clearing system (ECS) and RBI electronic funds transfer (RBI EFT) banks invariably do not provide any details in passbooks/statements even though brief particulars of the remittance is provided to the receiving bank. In some cases computerised entries use sophisticated codes which cannot be deciphered.

Issue of Receipt to Tenderers of Forged Notes

The Reserve Bank has advised all banks that when a currency note tendered at the counter of a bank branch is found to be forged, and is impounded by branding with a stamp "FORGED NOTE", an acknowledgement receipt should be issued to such tenderers. The receipt book should be printed in duplicate with running serial numbers and each receipt should be authenticated by the cashier at the counter as well as by the tenderer.

Banks have also been advised that their branches should display prominently a notice in the banking hall indicating that a separate receipt would be issued to the tenderers for the forged notes detected in the cash tendered by them.

POLICY

Securitisation Companies and Reconstruction Companies

In April 2003, the Reserve Bank had issued final guidelines and directions to Securitisation Companies and Reconstruction Companies relating to registration, owned fund, permissible business, operational structure for giving effect to the business of securitisation and asset reconstruction, deployment of surplus funds, internal control system, prudential norms, disclosure requirements, etc. In order to ensure that the size of capital should have some relationship to the value of assets acquired by the securitisation company or reconstruction company and securitised, it has been decided that for commencing the business of securitisation or asset reconstruction, the minimum owned fund should be an amount not less than 15 per cent of the total financial assets acquired or to be acquired by the securitisation company or reconstruction company on an aggregate basis or Rs.100 crore, whichever is lower, irrespective of whether the assets are transferred to a trust set up for the purpose of securitisation or not. Further, the securitisation company or reconstruction company should continue to hold this owned fund level until the realisation of the assets and redemption of security receipts issued against such assets. The securitisation company or reconstruction company may utilise this amount towards the security receipts issued by the trust under each scheme. This would ensure the stake of the securitisation company or reconstruction company in the assets acquired.

The provisions of paragraph 9 of the the Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003 relating to maintaining on an ongoing basis, a capital adequacy ratio which should not be less than fifteen per cent of the total risk weighted assets of the Securitisation Company or Reconstruction Company, would continue to be applicable.

PMRY - Targets for 2004-2005

The Reserve Bank has advised all scheduled commercial banks that the Government of India has set a target of 2,89,100 self-employment ventures for the country as a whole under the Prime Minister's Rozgar Yojana (PMRY) for the year 2004-2005. While forwarding the state/union territory-wise physical targets, the Reserve Bank has advised banks to prevent bunching of cases at the end of the year. Banks should, therefore, aim at achieving quarterly progress of sponsoring of applications/sanctioning and disbursement of loans as per prescribed schedule. Sponsoring should be limited to 125 per cent of targets and completed by December end. Thereafter, states/UTs may only replace rejections received from banks.

The Reserve Bank has further advised that :

- The scheme would be implemented in the rural as well as in the urban areas of the country.
- All efforts should be made to achieve the target by the end of the year 2004-2005.
- While processing fresh applications, banks may instruct the district industry centres (DICs) of the states/UTs to take into account already pending applications with them so that people need not apply afresh.
- The scheme envisages 22.5 per cent reservation for scheduled (SC)/scheduled tribe (STs) and 27 per cent reservation for other backward classes (OBCs). A fair and adequate share may be ensured for women and minorities.
- The state should continue to make efforts to improve loan recovery under the scheme.
- Quarterly progress of sponsoring, sanctioning and disbursement should be aimed at to prevent bunching of applications at the end of the year.
- The implementing agencies should try to sponsor/sanction more and more applications under the industry sector in view of higher employment potential in this sector.

Other terms and conditions of the scheme would remain the same as during the year 2003-2004 subject to instructions from time to time.

FOREX

External Commercial Borrowings – Clarifications

Pursuant to revision in the external commercial borrowings (ECB) guidelines in January, 2004, the Reserve Bank has issued some clarifications as below :

End-use - under the revised ECB guidelines, end-uses of ECB for working capital, general corporate purpose and repayment of existing rupee loans are not permitted. Prior to February 1, 2004, eligible borrowers were permitted to raise ECB under the automatic route equivalent to USD 50 million per financial year for general corporate purpose.

Amount of ECB under the Automatic Route - The maximum amount of ECB which can be raised by an eligible borrower under the automatic route is USD 500 million or equivalent during a financial year.

Submission of Return - Borrowers availing ECB from February 1, 2004 are required to submit ECB -2 Return on a monthly basis certified by the designated authorised dealer (AD) so as

to reach the Director, Balance of Payments Statistics Division, Department of Statistical Analysis and Computer Services, Reserve Bank of India, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051 within seven working days from the close of the month to which it relates. All existing borrowers are also required to submit ECB -2 Return on a monthly basis from January 2004 onwards.

Compliance with Guidelines - The primary responsibility to ensure that ECB raised/utilised is in conformity with the Reserve Bank's instructions is that of the concerned borrower. Any contravention of the ECB guidelines would be viewed seriously and may invite penal action. The designated AD is also required to ensure that raising/utilisation of ECB is in compliance with ECB guidelines at the time of certification.

ECB under erstwhile USD 5 Million Scheme - ADs have been delegated general permission to approve elongation of repayment period in cases of borrowers, who had availed ECB under erstwhile USD 5 million scheme with the Reserve Bank's, specific approval. ADs may grant approvals for elongation of repayment period provided there is a consent letter from the overseas lender for such re-schedulement without any additional cost. Such approval with existing and revised repayment schedule along with the loan key/loan registration number should be initially communicated to the Chief General Manager, Foreign Exchange Department, Reserve Bank of India, Central Office, ECB Division, Mumbai within seven days of approval and subsequently in ECB - 2.

Trade Credits for Imports into India

The Reserve Bank has reviewed the existing instructions relating to credits for imports in the light of recent developments. The revised guidelines which come into force with immediate effect, are indicated below :

- Credits up to USD 20 million per import transaction with a maturity period exceeding one year but less than three years would now be permitted only for import of capital goods.
- Credit extended for imports directly by the overseas supplier, bank and financial institution for original maturity of less than three years would now be referred to as 'trade credit' for imports. Depending on the source of finance, such trade credit would include suppliers' credit or buyers' credit. Buyers' credit and suppliers' credit for three years and above come under the category of external commercial borrowings (ECBs) which are governed by ECB guidelines issued in January 2004 and modified from time to time.
- ADs may henceforth approve trade credits for imports into India up to USD 20 million per import transaction for import of all items (permissible under the EXIM Policy) with a maturity period (from the date of shipment) up to one year.
- For import of capital goods, ADs may approve trade credits up to USD 20 million per import transaction with a maturity period of more than one year and less than three years. ADs should not permit roll-over/extension beyond the permissible period.
- ADs should not approve trade credit exceeding USD 20 million per import transaction.

- ADs should not issue guarantee, letter of undertaking or letter of comfort in favour of overseas lender on behalf of their importer constituent, for trade credit, without the Reserve Bank's prior approval.
- The all-in-cost ceilings would continue as under :

Maturity period	All-in-cost ceilings over 6 months LIBOR*
Up to one year	50 basis points
More than one year but less than three years	125 basis points

* for the respective currency of credit or applicable benchmark.

The all-in-cost ceilings which would be reviewed from time to time, include arranger fee, upfront fee, management fee, handling/processing charges, out of pocket and legal expenses, if any.

It is clarified that the extant guidelines covering credits for imports of all items up to USD 20 million per import transaction with a maturity period up to one year remain unchanged.

ADs should furnish details of approvals, drawal, utilisation, and repayment of trade credit granted by all its branches, during the month, in a consolidated statement, in form TC from April 2004 onwards, to the Director, Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office Building, Fort, Mumbai – 400 001 (and in MS-Excel file through email to deapdif@rbi.org.in) so as to reach not later than the 10th of the following month. ADs may give a unique identification number to each trade credit.

OBUs in SEZs

The Reserve Bank has advised all scheduled commercial banks that offshore banking units (OBUs) set up in special economic zones (SEZs) should not be allowed to open foreign currency accounts of residents. Banks may also ensure that OBUs do not accept/solicit deposits or investments from residents or open their accounts.

It may be recalled that in November, 2002 banks were advised, inter alia, that the sources for raising foreign currency funds by an OBU would be only external and that funds may also be raised from resident sources to the extent such residents are permitted under the existing exchange control regulations to invest/maintain foreign currency accounts abroad.

In view of the "Liberalised Remittance Scheme US \$ 25,000 for Resident Individuals", notified in February 2004, the Reserve Bank had been receiving a number of enquiries from banks, as to whether OBUs in India can be allowed to open and maintain foreign currency accounts of resident individuals.

Remittance for Maintenance of Close Relatives abroad by Indian Nationals Employed by Overseas Companies

Authorised Dealers have been permitted to allow remittance of net salary (after deduction of taxes, contribution to provident fund and other deductions) of Indian nationals employed by overseas companies, on deputation to the office or branch or subsidiary or joint venture in India of such overseas company, for the maintenance of close relatives residing abroad.