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CREDIT INFORMATION REVIEW

RESERVE BANK OF INDIA
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POLICY

Gold Card Scheme for Exporters

With a view to further simplifying access to bank credit by exporters especially small and medium exporters and making it borrower friendly in terms of procedure and credit terms, the Ministry for Commerce and Industry had proposed issuance of a Gold Card to creditworthy exporters with good track record (Exim Policy 2003-04). Accordingly, the Reserve Bank has worked out a Gold Card Scheme (Scheme) in consultation with select banks and exporters. The Scheme envisages certain additional benefits based on the performance record of exporters. The Gold Card holder would enjoy simpler and more efficient credit delivery mechanism in recognition of his good track record.

Objectives

- Banks should grant Gold Card holder exporters, depending on their track record and credit worthiness, better terms of credit including rates of interest than those extended to other exporters.
- Applications for credit should be processed at norms simpler and under a process faster than for other exporters.
- The 'in-principle' limits should be sanctioned for a period of three years with a provision for automatic renewal subject to fulfilment of the terms and conditions of sanction.
- Gold Card holders should be given preference for grant of packing credit in foreign currency (PCFC).
- Gold card holders, on the basis of their track record of timely realisation of export bills, should be considered for issuance of foreign currency credit cards for meeting urgent payment obligations, etc.
- The charges schedule and fee-structure in respect of services provided by banks to exporters under the Scheme should be relatively lower than those provided to other exporters.
- Since the bonafides of the Gold Card holder is already established based on credit worthiness and track record, the norms regarding security and collaterals should be relaxed while granting export credit under the Scheme.
- Banks may consider any other facility/benefit to the exporters subject to fulfilment of extant rules and regulations applicable to export finance.

Eligibility

- All credit worthy exporters with good track record in the opinion of the individual financing bank would be eligible.
- Exporters whose accounts have been classified as 'standard' continuously for a period of three years and there are no irregularities/adverse features in the conduct of the accounts should be considered as having good track record.
- The scheme would not be applicable to those exporters who are blacklisted by the Export Credit and Guarantee Corporation (ECGC) or included in the Reserve Bank's defaulter's list/ caution list or making losses for the past three years or having overdue export bills in excess of 10 per cent of the current year's turnover.
- A Gold Card under the Scheme should be issued to all eligible exporters including those in the small and medium sectors who satisfy the conditions laid down.

Credit limit

- Banks should decide the sanction and renewal of limits under the Scheme based on a simplified procedure. Taking into account the anticipated export turnover and track record of the exporter, banks should determine need-based finance with a liberal approach. The 'in-principle' limits should be sanctioned for a period of three years with a provision for automatic renewal subject to fulfilment of the terms and conditions of sanction.

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- Based on a transparent rating mechanism, banks should decide the terms and conditions of credit including the rate of interest, with a softer bias towards Gold Card holders.
- Banks should ensure that the PCFC requirements of Gold Card holders are met by giving them priority over non-export borrowers regarding granting loans against foreign currency non-resident (banks) {FCNR(B)} funds, etc.
- Banks should consider granting term loans in foreign currency in deserving cases out of their FCNR(B), resident foreign currency (RFC) etc., funds. (Banks should not grant such loans from their overseas borrowings under the 25 per cent window or overseas lines of credit.)
- Banks should stipulate the time frame for disposal of applications received for sanction of credit under the Scheme as follows :
  - For disposal of fresh applications - 25 days
  - Renewal of limits - 15 days
  - Sanction of ad hoc limits - 7 days
- A stand-by limit of not less than 20 per cent of the assessed limit should be additionally made available to facilitate urgent credit needs for executing sudden orders. In the case of exporters of seasonal commodities, the peak and off-peak levels should be appropriately specified.
- Banks should suitably rationalise and simplify the format for application for export credit limits to capture only those particulars which are relevant for sanctioning export credit. For export credit under the Scheme, banks should adopt with suitable modifications, the simplified application form for working capital credit facilities devised by the Indian Banks' Association (IBA).
- In case of unanticipated export orders, banks should relax the norms for inventory taking into account the size and nature of the export order.
- The exporter's record of performance should be reviewed periodically with a view to passing on the benefit of better terms and conditions including rate of interest for better performance.

Interest

- The applicable rate of interest to be charged under the Scheme should not be more than the general rate for export credit in the respective bank and within the ceiling prescribed by the Reserve Bank. In keeping with the spirit of the Scheme, banks should endeavour to provide the best rates possible to Gold Card holders on the basis of their rating and past performance.
- For the Gold Card holders, the concessive rate of interest on post-shipment rupee export credit applicable upto 90 days should be extended for a maximum period upto 365 days.

Service charges/ECGC premium

- The charges schedule and fee-structure for services provided by banks to exporters under the Scheme should be relatively lower than those provided to other exporters.
- The credit to Indian exporters should be at rates of interest not exceeding LIBOR + 0.75 per cent. In case sufficient dollars are not available with a bank to lend to the exporters at a particular time, the bank may levy a service charge at a flat rate of 0.1 per cent on the inter-bank foreign currency borrowings for the purpose.
- In deserving cases, banks may consider at their discretion, exempting Gold Card holders from ECGC guarantee under the packing credit guarantee-sectoral scheme of ECGC.

Tenure

The Gold Card should be issued for a period of three years and should be automatically renewed for a further period of three years unless there are adverse features/irregularities in the account. In case of any misuse of the card or observance of any violation of the terms and conditions, banks would have the right to recall the Card any time.

Additional facilities

Issuing banks may decide on the facility of further value addition to their cards through supplementary services like ATM, Internet banking, International debit/credit cards.

Each bank should clearly lay down the benefits it proposes to offer to Gold Card holders and place the same on its website for wider dissemination of the information.

Flow of Credit to Agriculture

The Hon'ble Union Finance Minister has announced certain measures for improving flow of credit to agriculture, which are required to be implemented by all scheduled commercial banks. Accordingly, banks have been advised to take action as under :

Rescheduling loans

Banks may reschedule/restructure the debts of farmers as on March 31, 2004, who have suffered production and income losses on account of successive natural calamities, i.e., drought, flood, or other calamities which might have occurred in the districts for two or more successive years during the past five years. Such rescheduling/restructuring may be done provided the concerned state government has declared such districts as calamity affected. Accordingly, the interest outstanding/accrued in the accounts of such borrowers (crop loans and agriculture term loans) up to March 31, 2004 may be clubbed with the principal outstanding therein as on March 31, 2004, and the amount thus arrived at would be repayable over a period of five years, at current interest rates, including an initial moratorium of two years.

As regards crop loans and agricultural term loans which have already been restructured on account of natural calamities, only the overdue instalments including interest thereon as on March 31, 2004 should be taken into account for the proposed restructuring.

On restructuring as indicated above, the concerned farmers would become eligible for fresh loans. The rescheduled/ restructured loans as also the fresh loans issued to the farmers should be treated as current dues and should not be classified as non-performing assets (NPA). While the fresh loans would be governed by the NPA norms as applicable to agricultural loans, in the case of rescheduled/restructured loans, the NPA norms would be applicable from the third year onwards, i.e., on expiry of the initial moratorium period of two years.

OTS for small and marginal farmers

Banks have been advised to formulate guidelines with the approval of their boards of directors on one-time settlement (OTS) for small and marginal farmers, who have been declared as defaulters as on June 24, 2004 and have become ineligible for fresh credit. Banks should complete the exercise of notifying defaulters of the OTS guidelines by September 30, 2004. All applications for OTS received from defaulters should be processed within one month of their receipt. Banks should ensure that the settlement is done without discrimination and in a transparent manner so that farmers can access fresh credit.

Fresh finance

Banks should review by September 30, 2004, all cases of small and marginal farmers where credit has been denied on the sole ground that a loan account was settled through compromise or write-offs.

Relief for other debt

In order to mitigate the acute distress that farmers might be facing due to the heavy burden of debt from non-institutional lenders (e.g. moneylenders) and to provide them relief from such indebtedness, banks may, subject to the guidelines to be approved by their boards of directors, advance loans to such farmers, against appropriate collateral or group security.

Waiver of margin/security

Banks may waive margin/security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh with immediate effect.

Investment in securitised assets

If securitised loans represent direct advances to agriculture, banks' investment in such securitised assets would be treated as their direct lending to agriculture under the priority sector. Similarly, if the securitised assets represent indirect finance to agriculture, banks' investment in such assets would be treated as indirect finance to agriculture. However, the loans should have been securitised by the originator banks and financial institutions on 'without recourse' basis and taken off their balance sheets.

Loans for storage facilities

Loans to storage units, including cold storage units, which are designed to store agricultural produce/products, irrespective of their location, would be treated as indirect agricultural finance under priority sector.

Prudential Norms for Agricultural Advances

In order to align the repayment dates with the harvesting of crops, the Reserve Bank has decided that with effect from September 30, 2004 the following revised norms would be applicable to all direct agricultural advances :

a) A loan granted for short duration crops would be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.

b) A loan granted for long duration crops would be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops, would be treated as "short duration" crops.

The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the state level bankers' committee (SLBC) in each state.

Depending upon the duration of crops raised by an agriculturist, these NPA norms would also be applicable to agricultural term loans availed of by him. In respect of agricultural loans, other than those specified in the Reserve Bank's master circular of August 2003 and term loans given to non-agriculturists, identification of NPAs should be done on the same basis as non-agricultural advances which, at present, is the 90 days delinquency norm.

Banks are urged to ensure that while granting loans and advances, realistic repayment schedules are fixed on the basis of cash flows/fluidity with the borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in agricultural advances.

NPAs - Additional Provisioning

At present, banks are required to make provisions on NPAs on a graded scale based on the age of the NPA. However, in respect of NPAs included in 'doubtful for more than three years' category, the provisioning requirement on the secured portion remains unchanged at 50 per cent, irrespective of its age, till it is identified as a loss asset. With the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the chances/extent of recovery of an asset reducing over a period of time, it is essential that banks expedite recovery of NPAs.

The Reserve Bank has decided to introduce graded higher provisioning according to the age of NPAs in 'doubtful for more than three years' category, with effect from March 31, 2005. Consequently, the increase in provisioning requirement on the secured portion would be applied in a phased manner over a three year period in respect of the existing stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2004.

However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. Accordingly, the provisioning norm for advances identified as 'doubtful for more than three years' would be as indicated below with effect from March 31, 2005 :

(a) Unsecured portion

The portion of the advance which is not covered by the realisable value of tangible security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis, provision would be to the extent of 100 per cent as hitherto.

(b) Secured portion

Period for which the advance has remained in 'doubtful' category	Provision requirement on secured portion
More than three years	
(i) Outstanding stock of NPAs as on March 31, 2004	(i) 60 per cent as on March 31, 2005 75 per cent as on March 31, 2006 100 per cent as on March 31, 2007
(ii) Advances classified as 'doubtful for more than three years' on or after April 1, 2004	(ii) 100 per cent

Banks have been advised to make suitable provisions during the current year to ensure a smooth transition to the revised norm which would become effective from March 31, 2005.

Withdrawal of Limits on Unsecured Exposures

In order to extend further flexibility to banks on their loan policies, the Reserve Bank has decided that -

(i) The extant limits on unsecured exposures should be withdrawn. Banks' boards should formulate their own policies on unsecured exposures. All exemptions allowed for computation of unsecured exposures also should be withdrawn.

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(ii) Banks should make an additional provision of 10 per cent, i.e., a total provision of 20 per cent of the total outstanding advances in the sub-standard category to cover expected loss on unsecured exposures.

(iii) Provisioning at the level of 100 per cent for unsecured exposures in doubtful and loss categories would continue as hitherto.

Definitions

With a view to ensuring uniformity in approach and implementation, 'unsecured exposure' is defined as an exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio,* of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' means tangible security properly charged to the bank and does not include intangible securities like guarantees, comfort letters, etc.

Definition of Infrastructure Lending

Any credit facility in whatever form extended by lenders (i.e., banks, financial institutions (FIs) or non-banking financial companies (NBFCs) to an infrastructure facility as specified below falls within the definition of "infrastructure lending". In other words, infrastructure lending includes a credit facility provided to a borrower company engaged in developing, or operating and maintaining, or developing, operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature :

(i) a road, including toll road, a bridge or a rail system;

(ii) a highway project including other activities being an integral part of the highway project;

(iii) a port, airport, inland waterway or inland port;

(iv) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;

(v) telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;

(vi) an industrial park or special economic zone;

(vii) generation or generation and distribution of power;

(viii) transmission or distribution of power by laying a network of new transmission or distribution lines;

(ix) construction relating to projects involving agro-processing and supply of inputs to agriculture;

(x) construction for preservation and storage of processed agro-products, perishable goods, such as, fruits, vegetables and flowers including testing facilities for quality;

(xi) construction of educational institutions and hospitals.

Guidelines on Infrastructure Financing

On a review, the Reserve Bank has decided to expand the scope of the definition of 'infrastructure lending' to include the projects/sectors indicated below -

(i) construction relating to projects involving agro-processing and supply of inputs to agriculture;

(ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and

(iii) construction of educational institutions and hospitals.

Prudential Credit Exposure Limits

Presently, banks are allowed to assume single or group borrower credit exposure up to 15 and 40 per cent of capital funds (i.e., tier I and tier II capital) respectively, with an additional allowance of 5 and 10 per cent of capital funds for infrastructure sector exposure. Banks that have difficulty in complying with the prudential credit exposure limits approach the Reserve Bank for approvals, which are considered, on a case-by-case basis.

In the light of the liberalised access of borrowers to external commercial borrowings (ECBs) and their ability to raise resources through capital/debt market, banks have been advised that -

(i) The single/group borrower prudential exposure ceilings i.e., 15 per cent and 40 per cent respectively and the additional limits of 5 per cent and 10 per cent for exposure to infrastructure should be strictly adhered to.

(ii) In exceptional circumstances, they may with the approval of their boards, consider enhancement of the exposure to a borrower up to a maximum of further 5 per cent of capital funds (i.e., 20 per cent of capital funds for single borrower and 45 per cent of capital funds for group borrowers) subject to the borrower consenting to the their making appropriate disclosures in their Annual Reports.

(iii) In respect of exposure to infrastructure, they could consider additional sanctions upto 5 per cent and 10 per cent as indicated at (i) over and above the limits of 20 per cent and 45 per cent respectively.

(iv) While computing the extent of exposures to a borrower/ borrower group for assessing compliance vis-a-vis the single borrower limit/group borrower limit, exposures where principal and interest are fully guaranteed by the Government of India, should be excluded.

(v) They should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where they had exceeded the prudential exposure limits during the year.

(vi) They should phase out by March 31, 2005 exposures in excess of single/group borrower limits not in conformity with the above, either by increasing capital funds or reducing exposures.

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