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MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

Guidelines for Relief Measures to Poultry Industry

In April 2006 the Reserve Bank had issued guidelines to banks for relief measures to the avian flu affected poultry industry. The Reserve Bank has now issued instructions on the scope of interest subvention, its calculation and disbursement to banks. The guidelines in this regard are -

(i) The interest subvention would be calculated at four percentage points on term loans and working capital loans outstanding as on March 31, 2006. This would not include any part of the principal amount that has become overdue before February 18, 2006 i.e., the day the first occurrence of the bird flu was notified.

(ii) All categories of borrowers, viz., individuals, partnerships, private limited companies, public limited companies, self-help groups and co-operatives are eligible for relief by way of interest subvention.

(iii) The interest subvention would cover term loans and working capital loans sanctioned for all activities relating to chicken, turkey, Japanese quail, guinea fowls, ducks, ostrich and emu, such as -

- Commercial layer farming.
- Commercial broiler farming.
- Breeding/farming of parent birds, both layer and broiler.
- Breeding/farming of grand parents, both layer and broiler.
- Pure line breeding.
- Loans advanced to units for farming of low input technology birds, including backyard poultry.
- Loans advanced to poultry hatcheries.
- Feed mixing units, which have been sanctioned loan as part of the composite loan for a poultry unit.
- Poultry processing plants.
- Poultry components of any composite loans, such as, homestead loans sanctioned by banks.

Scheduled commercial banks have been advised to submit their claims to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai. For audit purposes, all claims should be certified by statutory auditors and certificates should be submitted to the Reserve Bank before July 31, 2006.

The Reserve Bank has further advised that for state/district co-operative/regional rural banks, the National Bank for Agriculture and Rural Development (NABARD) will issue instructions on similar lines and the Reserve Bank's Urban Banks Department will issue instructions for urban co-operative banks.

Maintenance of Cash Reserve Ratio

The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and has come into force with its gazette notification. Consequent upon amendment to Section 42(1) of the RBI Act, 1934, the Reserve Bank, having regard to the need of securing monetary stability in the country, can prescribe cash reserve ratio (CRR) for scheduled banks without any floor rate or ceiling rate. Accordingly, some changes in the provisions relating to CRR have been made as indicated below :

Scheduled Banks

CRR Rate

In the light of the enactment of the Reserve Bank of India (Amendment) Bill, 2006, the Reserve Bank has decided to constitute an Internal Technical Group to undertake an overall review of the "system" and draw out a medium term roadmap. Pending the recommendations of the Group, the *status quo* on the existing provisions of CRR maintenance would continue, including the CRR rate and extant exemptions which would be operative till further change. Accordingly, scheduled banks should continue to maintain CRR of 5 per cent of their total demand and time liabilities. Furthermore, pursuant to the amendment, the erstwhile statutory minimum CRR maintenance requirement of 3 per cent no longer exists.

Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks between 3 per cent and 20 per cent of total of their demand and time liabilities. Banks hitherto have been required to maintain minimum CRR balances of 3.0 per cent of their net demand and time liabilities (NDTL) as on the reporting Friday of the second preceding fortnight, on a daily basis, subject to the average maintenance of 5.0 per cent of NDTL during the fortnight. At present, banks have to maintain a minimum of 70 per cent of the average daily CRR balances in a fortnight.

Interest on CRR balances

Consequent upon the amendment to Section 42 (1A) of the RBI Act, the statutory minimum CRR of 3.0 per cent no longer exists. As Section 42 (1B) of the RBI Act has been deleted, the Reserve Bank will not pay interest on any portion of CRR balances of banks with effect from the fortnight beginning June 24, 2006.

The Reserve Bank had been paying interest on scheduled banks' CRR balances above the statutory minimum of 3.0 per cent and up to the prescribed level of 5.0 per cent - known as eligible cash balances - at an interest rate determined by the Reserve Bank which had been set at 3.5 per cent from September 18, 2004. No interest was payable on any amount actually maintained in excess of the balance required to be maintained.

Exempted Liabilities

Scheduled commercial bank have been exempted from maintaining CRR at 5 per cent on the following liabilities with effect from June 22, 2006 :

l Liabilities to the banking system in India as computed under Clause (d) of the Explanation to sub-section (1) of Section 42 of the RBI Act, 1934.

l Credit balances in ACU (US $) accounts.

l Transactions in collateralized borrowing and lending obligation (CBLO) with Clearing Corporation of India Ltd. (CCIL).

l Demand and time liabilities in respect of offshore banking units (OBUs).

Non-scheduled Banks

CRR Rate

The CRR for non-scheduled banks and non-scheduled cooperative banks continue to be governed by the provisions of Section 18 and Section 56, respectively, of the Banking Regulation Act, 1949 which remain unchanged. Accordingly, non-scheduled banks, including non-scheduled co-operative banks should continue to maintain CRR equivalent to 3.0 per cent of their demand and time liabilities as on the last Friday of the second preceding fortnight.

Additional Provisioning for Standard Assets

In order to ensure that asset quality is maintained in the light of high credit growth, the general provisioning requirement on standard advances in specific sectors, *viz.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans has been increased from 0.40 per cent to 1.0 per cent. These provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

It may be recalled that the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) had recommended that, as a prudential measure, a general provision of about one per cent of standard assets of banks would be appropriate and should be implemented in a phased manner. Accordingly, in November 2005, the general provisioning requirement for standard advances, with the exception of banks' direct advances to agricultural and SME sectors, was increased from 0.25 to 0.40 per cent of the funded outstanding on a portfolio basis.

Risk Weight on Commercial Real Estate/VC Funds

Commercial Real Estate

The risk weight on banks' exposure to commercial real estate has been increased to 150 per cent from the earlier level of 125 per cent.

Venture Capital Funds

A bank's total exposure to venture capital (VC) funds will form a part of its capital market exposure and, henceforth, a higher risk weight of 150 per cent will be assigned to these exposures.

Short Term Credit to Farmers at 7% Interest Rate

The Hon'ble Finance Minister had announced in his Budget Speech that it has been decided to ensure that the farmer receives short term credit at 7 per cent, with an upper limit of Rs.3 lakh on the principal amount. Accordingly, the government will provide interest subvention of 2 per cent per annum to public sector banks (PSBs) and regional rural banks (RRBs) for short-term production credit up to Rs.3 lakh provided to farmers. The amount of subvention will be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan becomes overdue i.e., March 31, 2007 for kharif and June 30,

2007 for rabi, respectively, whichever is earlier. The subvention will be available to PSBs and RRBs on the condition that they make available short-term credit at ground level at 7 per cent per annum. In case of RRBs, the subvention will be applicable only to short term production credit disbursed out of their own funds and will exclude such credit supported by NABARD refinance. A separate circular is being issued by NABARD on the rate of interest applicable to RRBs on NABARD refinance.

Banks have been advised to immediately provide their estimates of short-term production credit to farmers up to Rs.3 lakh for kharif and rabi 2006-07 (separately) to enable the Reserve Bank to provide the government an estimate of the likely amount of subvention.

Banks have also been advised to -

i) submit their claims on a quarterly basis as on June 30, 2006, September 30, 2006, December 31, 2006 and March 31, 2007, within one month from the end of the respective quarter;

ii) enclose along with the claim for the quarter ending March 31, 2007, a statutory auditor's certificate certifying that the claims for subvention are true and correct; and

iii) submit the claims to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Shahid Bhagat Singh Road, Fort, Mumbai – 400 001.

Innovative Tier I/Tier II Bonds - Hedging by Banks

The Reserve Bank has advised banks not to enter into swap transactions in respect of their innovative tier I/tier II bonds. Banks which have already entered into such swaps should account gains/losses arising out of such swap transactions in the manner indicated below :

(i) The gains/losses arising out of such swap transactions should be computed separately.

(ii) Losses, if any, should be fully provided for.

(iii) Gains should be taken to a special reserve through profit and loss account;

(iv) Any draw down from such reserve should be made only for meeting future losses arising out of the swap transaction concerned.

Banks have also been advised not to renew swap transactions entered into by them in respect of tier I/tier II bonds, on their expiry .

Banks advised to adhere to National Building Code

The Bureau of Indian Standards (BIS) has formulated a comprehensive building code namely National Building Code (NBC) of India 2005, providing guidelines for regulating building construction activities across the country. The code contains all the important aspects relevant to safe and orderly building development, such as, administrative regulations, development control rules, general building requirements, fire safety requirements, stipulations regarding materials, structural design and construction (including safety) and building and plumbing services.

The Reserve Bank has advised banks' boards to consider incorporating this aspect in their loan policies. Further information regarding the NBC can be accessed from the website of Bureau of Indian Standards (www.bis.org.in).

Repo/Reverse Repo Rates increased

On a review of the current macroeconomic and overall monetary conditions, the reverse repo rate under the liquidity adjustment facility (LAF) has been increased by 25 basis points to 5.75 per cent from 5.50 per cent with immediate effect.

Simultaneously, the repo rate under the LAF, which continues to be linked to the reverse repo rate with a spread of 100 basis points, has been increased by 25 basis points to 6.75 per cent from 6.50 per cent with immediate effect.

Standing Liquidity Facilities for Banks and PDs

The standing liquidity facilities provided to banks (export credit eligible for refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank is available at repo rate i.e., 6.75 per cent with effect from June 9, 2006.

Appointment/posting of Foreign Exchange Dealers

Scheduled commercial banks now need not obtain the Reserve Bank's prior concurrence for appointing/posting head of treasury/international division/chief dealer/dealer. Banks should, however, exercise due care and caution while making appointment to these posts. Banks' boards should fully satisfy themselves about the credentials of the appointees before posting. Banks have also been advised to put in place a rigorous due diligence process to ensure the 'fit and proper' status of the applicants before appointment to these posts.

RRBs

RRBs - Branch Licensing Policy Liberalised

With a view to liberalising and simplifying the branch licensing policy for RRBs, henceforth the Empowered Committees (ECs) for RRBs, constituted by the Reserve Bank at its regional offices, would deliberate and make recommendation on applications received from RRBs for opening, shifting or merging of their branches. The Reserve Bank would take into account the EC's recommendation while disposing such applications. Accordingly, RRBs should henceforth, submit their applications for opening/shifting/merging branches to the respective regional office of NABARD, with advance copies to the Reserve Bank's concerned regional office.

RRBs need not take separate approval of the sponsor bank in this regard. Approval of the sub-group of the district consultative committee (DCC) would also not be required for opening branches. RRBs are, however, required to take the approval of the sub-group of the DCC for shifting/merging of branches.

The Reserve Bank would also consider requests from RRBs for conducting foreign exchange business, as limited authorised dealers for current account transactions, after clearance by the Empowered Committee. RRBs are, therefore, advised to submit such proposals to the Reserve Bank's concerned regional office.

CUSTOMER SERVICE

Nomination Facility

With a view to warding off difficulty and the expenditure incurred by the legal heirs of deceased depositors in claiming the amount in the bank deposit, Sections 45ZA to 45ZF were inserted in the Banking Regulation (BR) Act, 1949 to enable a bank to :

(a) Make payment to the nominee of a deceased depositor, the amount standing to the credit of the depositor.

(b) Return the articles left by a deceased person in its safe custody to his nominee, after making an inventory of the articles.

(c) To release the contents of a safe deposit locker to the nominee of the hirer of such locker, in the event of the death of the hirer after making an inventory of the contents.

RBI’s Instructions to Banks

Nomination should be a rule (rather than an exception) and banks should endeavour to cover all accounts, existing as well as new, under nomination, except in cases where the customer himself would prefer not to nominate; this fact may be recorded rather than being left to conjecture of non-compliance.

Banks have been advised to get the account opening forms amended to incorporate a space to mention the name and address of the nominee. Banks should also obtain from their customers the statutorily prescribed nomination forms and should preserve them with the account opening forms. Availability of nomination facility should be widely publicised by printing compatible messages on cheque books/pass books and any other literature reaching the customers.

Registration in Banks’ Books

Banks are required to register in their books the nomination, cancellation and/or variation of the nomination made by their depositor(s)/hirer(s) of lockers.

Incorporation in Pass Book/Deposit Receipt

Banks should incorporate the legend “Nomination Registered’ on every pass book or deposit receipt so as to enable the relatives to know that the nomination facility was availed of by the deceased depositor.

Articles in Safe CustodySafe Deposit Lockers

In order to ensure that the amount of deposits, articles left in safe custody and contents of safe deposit lockers are returned to the genuine nominee, as also to verify the proof of death, banks should devise their own claim formats or follow the procedure, if any, suggested by the Indian Banks' Association (IBA).

Some features of the nomination facility available to customers are indicated below :

l Nomination facility is available for all types of deposit accounts viz., savings bank accounts, current accounts,

cash certificates, etc., irrespective of the nomenclature used by different banks.

l Nomination facilities are available not only for deposit accounts but also for safe custody articles and safe deposit lockers.

l Nomination can be made in favour of only one individual.

l In respect of a joint deposit account, nomination in favour of only one person is permissible.

l On the death of one of the depositors in case of joint deposits, banks may allow variation/cancellation of a subsisting nomination by all the surviving depositor(s) acting together. This is also applicable to deposits having operating instructions “either or survivor”. In the case of a joint deposit account, the nominee’s right arises only after the death of all the depositors.

l Where the nominee is a minor, the depositor, all the depositors together, may while making the nomination, appoint another individual not being a minor, to receive the amount of the deposit on behalf of the nominee in the event of the death of the depositor, all the depositors during the minority of the nominee.

l In the case of a deposit made in the name of a minor, the nomination should be made by a person lawfully entitled to act on behalf of the minor.

l Nomination can be made by an individual who is a sole hirer of a locker from a banking company.

l Nomination facility is available only in the case of individual depositors and not in respect of persons jointly depositing articles for safe custody.

l Where the locker is hired in the name of a minor, the nomination should be made by a person lawfully entitled to act on behalf of the minor.

l A minor can be appointed as a nominee for delivering contents of a hired locker/receive articles kept in safe custody. In such a case, however, the bank has to ensure that when the contents of the locker are removed on behalf of the minor nominee, the articles are handed over to a person who, in law, is competent to receive the articles on behalf of the minor.

l A nomination, cancellation/variation of nomination can be made at any time during which the locker is under hire.

l Banks are not required to open sealed/closed packets left with them for safe custody or found in locker while releasing them.

l For lockers hired jointly, on the death of any one of the joint hirers, the contents of the locker are only allowed to be removed jointly by the nominees and the survivor(s) after an inventory is taken in the prescribed manner. After such removal, the nominee and surviving hirer(s) may still keep the entire contents with the same bank, if they so desire, by entering into a fresh contract of hiring a locker.

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