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MONETARY AND CREDIT
INFORMATION REVIEW

Important Banking and Financial Developments in 2007

January

- Guidelines issued to banks for formulating policy for valuation of properties, revaluation of their own properties and for empanelment of independent valuers.
- Fixed repo rate under the liquidity adjustment facility (LAF) increased by 25 basis points to 7.50 per cent from January 31, 2007. The reverse repo rate under the LAF remained unchanged at 6.0 per cent.
- Banks advised that the standing liquidity facilities provided to them (export credit finance) would be available at the repo rate, *i.e.*, 7.50 per cent from January 31, 2007.
- Banks permitted to undertake short sale of central government dated securities, subject to the short position being covered within a maximum period of five trading days, including the day of trade.
- Provisioning requirement increased from one per cent to two per cent for standard assets in the real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans (excluding residential housing loans).
- Interest rate ceiling on non-resident (external) rupee (NRE) term deposits reduced from 100 basis points to 50 basis points above LIBOR/SWAP rates for US dollar of corresponding maturity.
- Interest rate ceiling on FCNR (B) deposits reduced from LIBOR/SWAP rates to 25 basis points below LIBOR/SWAP rates for respective currency/maturity.
- Banks restrained from granting fresh loans or renewing existing loans in excess of Rs. 20 lakh against NR (E) RA and FCNR (B) deposits, either to depositors or to third parties. Banks also advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.
- In pursuance of the Clean Note Policy, currency chest holding banks advised to automate the sorting of notes by installing note sorting machines at their currency chests. The tolerance level of reissuable notes in the soiled banknote remittance to the Reserve Bank changed from 10 per cent to 5 per cent of each remittance.
- Exporters permitted to open, maintain and operate one or more foreign currency account/s in a currency/currencies of

their choice with inter-project transferability of funds in any currency or country.

February

- Cash reserve ratio (CRR) increased by one-half of one percentage point of banks' net demand and time liabilities (NDTL). Increase effected in two stages – 5.75 per cent from February 17, 2007 and 6.00 per cent from March 3, 2007.
- Banks advised to lay down general principles and broad parameters to be followed by them while offering "doorstep" services to their customers and to ensure transparency in respect of the rights and obligations of customers, uniformity in approach and to clearly delineate the risks involved.
- FIIs permitted to cancel and rebook forward contracts up to a limit of 2 per cent of the market value of their entire investment in equity and/or debt in India.

March

- As Section 3 of the Reserve Bank of India (Amendment) Act, 2006 was not notified, banks that breached the statutory minimum CRR level of 3 per cent between June 22, 2006 and March 2, 2007 on account of CRR exemptions reckoned for computation of demand and time liabilities for CRR were exempted from payment of penal interest and interest was payable on the eligible CRR balance at the rate of (a) 3.50 per cent per annum for the period from June 24, 2006 to December 8, 2006; (b) 2.0 per cent from December 9, 2006 to February 16, 2007; and (c) 1.0 per cent from February 17, 2007 till further notice.
- Starting March 5, 2007 daily reverse repo absorptions limited to a maximum of Rs.3,000 crore each day, comprising Rs.2,000 crore in the first LAF and Rs.1,000 crore in the second LAF. Allocations to be made proportionately on a *pro-rata* basis in case the tenders exceed these amounts.
- Banks/all India financial institutions (FIs) advised that loan application forms in respect of all categories of loans, irrespective of the amount of loan sought by the borrower, should be comprehensive and should include information about the fees/charges, if any, payable for processing, the

amount of fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower.

- Banks advised that their inter-bank liability should not exceed 200 per cent of their net worth as on March 31 of the previous year.
- Status holder exporters permitted to write-off outstanding export dues to the extent of (i) 5 per cent of their average annual realisation during the preceding 3 financial years or (ii) 10 per cent of the export proceeds due during the financial year, whichever is higher.
- AD Category I banks advised that they need not obtain credit report on overseas supplier from his banker/reputed credit agency before processing import bills received directly from overseas supplier, provided (i) the invoice value does not exceed USD 100,000, and (ii) the bonafides of the transaction and track record of the importer are satisfactory.
- Banks advised to ensure that no loans are sanctioned for acquisition of/investing in small savings instruments including Kisan Vikas Patras.
- AD Category-I banks permitted to extend the period of realisation of export proceeds beyond six months from the date of export, up to a period of six months at a time, irrespective of the invoice value of the export.

April

- Fixed repo rate under the LAF increased by 25 basis points to 7.75 per cent from 7.50 per cent from March 31, 2007. Accordingly, the standing liquidity facilities provided to banks (export credit refinance) (collateralised liquidity support) from the Reserve Bank would be available at the repo rate *i.e.* at 7.75 per cent from March 31, 2007.
- CRR increased by one-half of one percentage point of banks' NDTL. The increase to be effected in two stages – 0.25 per cent from April 14, 2007 and 0.25 per cent from April 28, 2007.
- Ceiling interest rate on NR(E)RA deposits reduced by 50 basis points to LIBOR/SWAP rates.
- Banks advised to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them.
- Banks advised that in case of infrastructure projects financed by them, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production is extended beyond a period of one year after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard.
- Guidelines on know your customer (KYC) norms/anti-money laundering (AML) standards/combatting financing of terrorism – wire transfers issued, whereby banks instructed to obtain accurate and meaningful originator information.
- Pursuant to the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) on easy operation of lockers, the Reserve Bank reviewed all the guidelines issued earlier on safe deposit lockers/safe custody articles and issued fresh guidelines.
- Maximum interest rate payable on public deposits by NBFCs revised from 11.0 per cent to 12.5 per cent per annum from April 24, 2007.

- Pursuant to the Government of India notifying on March 9, 2007 that the provisions of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 shall come into force from April 1, 2007, the statutory requirement of minimum CRR of 3 per cent of total demand and time liabilities is removed. The Reserve Bank having regard to the need of securing monetary stability in the country, could from time to time, prescribe CRR for scheduled banks without any floor and ceiling rate. The Reserve Bank decided to continue the *status quo* on the rate of CRR to be maintained by scheduled banks and the extant exemptions. Consistent with the amendment, the Reserve Bank will not pay any interest on the CRR balances maintained by scheduled banks from the fortnight beginning March 31, 2007.
- Scheduled banks advised that they would be exempted from maintaining average CRR with effect from April 1, 2007 on (i) liabilities to the banking system in India as computed under Clause (d) of the Explanation to Section 42 (1) of the RBI Act, 1934; (ii) credit balances in ACU (US\$) accounts; (iii) transactions in collateralised borrowing and lending obligation (CBLO) with Clearing Corporation of India (CCIL); and (iv) demand and time liabilities in respect of their offshore banking units (OBUs).
- Ceiling interest rate on FCNR (B) deposits reduced by 50 basis points to LIBOR minus 75 basis points.
- Banks advised to ensure that none of their bank branches/staff refuse to accept lower denomination notes and/or coins.
- Banks advised to immediately dispense with the requirement of 'no due' certificate for small loans up to Rs.50,000 to small and marginal farmers, share-croppers etc., and instead, obtain self-declaration from the borrower. Further, banks can accept certificates provided by local administration/panchayati raj institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees.
- Risk weight on loans up to Rs 1 lakh against gold and silver ornaments for all categories of banks reduced to 50 per cent.

May

- Remittance limit under the liberalised remittance scheme for resident individuals enhanced from USD 50,000 to 100,000 per financial year for any permitted current or capital account transactions or a combination of both.
- Interest subvention of 2 per cent per annum provided to public sector banks for short-term production credit up to Rs 3 lakh provided to farmers.
- It was clarified that under the senior citizens savings scheme (SCSS), 2004 where the depositor has expired before the maturity of the deposit and the nominee/legal heir approaches the banker for closure of the deposit account, the nominee/legal heir in such cases is entitled to the benefit of saving bank rate of interest for the period from the date of death of the depositor to the date of closure of the account.
- Risk weight for housing loans up to Rs.20 lakh to individuals against the mortgage of residential housing properties reduced from 75 per cent to 50 per cent. Similarly, the risk weight for banks' investment in mortgage

backed securities, issued by housing finance companies regulated by the National Housing Bank, also reduced from 75 per cent to 50 per cent.

- Banks advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances.
- Urban co-operative banks (UCBs) registered in states that have entered into MOU with the Reserve Bank or are registered under the Multi State Co-operative Societies Act, 2002 permitted to undertake insurance agency business as corporate agents without risk participation provided, they have a minimum net worth of Rs 10 crore or have not been classified as a Grade III or IV bank.
- AD category I banks permitted to make remittances abroad on account of donations by Indian corporates for creation of chairs in reputed educational institutes, to funds (not being an investment fund) promoted by educational institutes or to a technical institution or body of association in the field of activity of the donor company.
- Banks in India permitted to extend funded and/or non-funded credit facilities to wholly owned step-down subsidiaries of Indian companies (where the holding by the Indian company is more than 51 per cent) abroad.

June

- Banks permitted to transact in single-entity credit default swaps.
- Banks advised to deduct tax at source on interest exceeding rupees ten thousand payable during the financial year on 8 per cent Savings (Taxable) Bonds, 2003 from June 1, 2007.
- Loan limit under the differential rate of interest (DRI) scheme raised from Rs. 6,500 to Rs.15,000 and limit of housing loan raised from Rs.5,000 to Rs.20,000 per beneficiary.
- RRBs permitted to participate in consortium lending, within the extant exposure limits, with their sponsor banks as also with other public sector banks and developmental financial institutions (DFIs), subject to the condition that the project to be financed is in the area of operation of the RRB and guidance and appraisal of the project is provided by their sponsor bank.
- RRBs allowed to set up service branches/central processing centres/back offices exclusively to attend to back office functions, such as, data processing, verification and processing of documents, issuance of cheque books, demand drafts, etc., and other functions incidental to their banking business. These offices would have no interface with customers and would not be allowed to be converted into general banking branches. These offices would be treated on par with a branch.
- RRBs permitted to accept FCNR (B) deposits from NRIs/PIOs.
- Guidelines issued to UCBs for issuing ATM-cum-debit cards. Issuance of offline debit cards and tie-up with non-bank entities, however, not permitted.

July

- Interest subvention of 2 percentage points per annum provided to all scheduled commercial banks in respect of rupee export credit to specified categories of exporters.
- Banks permitted to undertake pension funds management through their subsidiaries set up for the purpose.
- Guidelines regarding remuneration payable to statutory central and branch auditors of public sector banks from the year 2006-07 issued.
- UCBs advised that investments made by them on or after April 1, 2007 in bonds issued by NHB/HUDCO would not be eligible for classification under priority sector lending.
- UCBs holding AD category I or II licence allowed to act as agents/sub-agents under the money transfer service scheme subject to certain conditions.
- UCBs registered under the Co-operative Societies Act of the states that have signed MOU with the Reserve Bank or under the Multi State Co-operative Societies Act, 2002 permitted to open new branches/extension counters subject to certain conditions.

August

- Ceiling of Rs. 3,000 crore on daily reverse repo under LAF withdrawn from August 6, 2007. Second LAF withdrawn from August 6, 2007.
- CRR increased by 50 basis points to 7 per cent from the fortnight beginning August 4, 2007.
- RRBs allowed to extend, with the approval of their boards, direct finance to the housing sector up to Rs. 20 lakh, irrespective of the area.
- Banks advised to invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all borrowers at the time of sanction/disbursement of loans.
- Reserve Bank to consider requests of UCBs to shift their branches from one city to another in their area of operation within the same state subject to the conditions that – (i) the new centre is of the same or lower population group as the existing centre; (ii) a branch located in underbanked district can be shifted to another centre in underbanked district only; and (iii) The shifting should be beneficial to the bank in terms of cost and business.
- Banks advised to take necessary steps for strengthening the branch level committees with greater involvement of customers. Further, as senior citizens usually form an important constituency in banks, a senior citizen to be included in the committee.

September

- RRBs allowed to set up extension counters at places of worship and market places.
- RRBs permitted to convert their satellite offices into full-fledged branches after obtaining concurrence from the Empowered Committee on RRBs.
- Commercial banks advised to ensure that all their branches meticulously adhere to the Reserve Bank's instructions while extending home loans.
- The restrictive provisions of Service Area Approach dispensed with.

- Limit for prepayment of external commercial borrowing (ECB) without the Reserve Bank's prior approval enhanced from USD 400 million to USD 500 million.
- Limit for total overseas investment of an Indian party in all its joint ventures/wholly owned subsidiaries abroad has been increased to not exceeding 400 per cent of its net worth.
- RRBs allowed to shift branches in rural centres without obtaining the Reserve Bank's prior approval provided, both the existing and proposed centres are within the same block, and the relocated branch would be able to cater adequately to the banking needs of the villages served by the existing branch.
- RRBs permitted to shift their branches at semi-urban centres within the same locality/municipal ward without the Reserve Bank's prior approval. The locality/ward, however, should not be rendered unbanked due to the shifting of branch/es.
- Where two loss making branches of any RRB are in close proximity to each other (*i.e.*, within a distance of about 5 kms.), they may merge the two branches with a view to rationalising the spatial spread and reducing establishment/operating costs.

October

- The remittance limit for resident individuals under the liberalised remittance scheme enhanced from USD 100,000 to USD 200,000 per financial year for any permitted current or capital account transaction or a combination of both.
- All commercial banks, all-India term lending and refinance institutions and NBFCs (including residuary non-banking companies) advised that while selling non-performing assets the net present value of the estimated cash flows associated with the realisable value of the available securities should be worked out net of the cost of realisation.
- To enable small and medium enterprises (SMEs), having direct and/or indirect exposures to foreign exchange risk to manage their exposures effectively, AD Category – I banks permitted to allow such entities to book/cancel/rebook/roll over forward contracts without production of underlying documents and subject to certain conditions.
- CRR increased by 50 basis points to 7.50 per cent of banks' demand and time liabilities from the fortnight beginning November 10, 2007.
- RRBs fulfilling certain eligibility norms permitted to open currency chests.

November

- Reserve Bank laid down specific 'fit and proper' criteria to be fulfilled by persons being elected as directors on the boards of nationalised banks/associate banks of State Bank of India.
- The limit for direct receipt of import bills/documents enhanced from USD 100,000 to USD 300,000 in the case of import of rough diamonds.
- Reiterating its earlier instructions on interest paid on deposits, the Reserve Bank advised banks not to discriminate between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank.
- Reserve Bank launched a financial education site on November 14, 2007 with the aim of teaching basics of banking, finance and central banking to children in different age groups and providing useful information to other target groups, such as, women, rural and urban poor, defence personnel and senior citizens.
- Banks advised to invariably ensure that once a case is filed before a court/DRT/BIFR, any settlement arrived at with the borrower is subject to obtaining a consent decree from the court/DRT/BIFR.

December

- To encourage banks to increase flow of credit to the infrastructure sector, banks allowed to invest in unrated bonds of companies engaged in infrastructure activities within the ceiling of 10 per cent for unlisted non-SLR securities.

- Banks advised to be judicious in extending finance to mutual funds (MFs) and grant loans and advances to MFs only to meet their temporary liquidity needs for the purpose of repurchase/redemption of units within the ceiling of 20 per cent of the net asset of the scheme and for a period not exceeding 6 months.

- RNBCs advised that if they fail to repay the deposit along with interest on maturity on the claim made by

a depositor, they would be liable to pay interest as follows (i) if the depositor was intimated about the maturity at least two months before the date of maturity but he failed to submit his claim on maturity, then the RNBC should pay interest at the rate as applicable to the deposit from the date of claim till the date of repayment along with the amount due on maturity (ii) If the RNBC did not intimate the depositor two months before the date of maturity, then, as and when the depositor makes a claim, the RNBC should pay interest at the rate as applicable to the deposit from the date of maturity till the date of repayment along with the amount due on maturity.

