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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Agricultural Debt Waiver and Debt Relief Scheme, 2008

The Finance Minister, in his Budget Speech for 2008-2009 had announced a Debt Waiver and Debt Relief Scheme, 2008 for farmers. The Scheme covers direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by scheduled commercial banks, regional rural banks (RRBs), co-operative credit institutions (including urban co-operative banks) and local area banks (LABs). The Scheme shall come into force with immediate effect.

Definitions

Direct Agricultural Loan - short term production loans and investment loans provided directly to farmers for agricultural purposes. They also include loans provided directly to groups of individual farmers (for example self help groups and joint liability groups), provided banks maintain disaggregated data of the loan extended to each farmer belonging to that group.

Short Term Production Loan - a loan given for raising crops which is to be repaid within 18 months. It would include working capital loan, not exceeding Rs. 1 lakh, for traditional and non-traditional plantations and horticulture.

Investment Loan - (a) investment credit for direct agricultural activities extended for meeting outlays relating to the replacement and maintenance of wasting assets and for capital investment designed to increase the output from the land, e.g. deepening of wells, sinking of new wells, installation of pump sets, purchase of tractor/pair of bullocks, land development and term loan for traditional and non-traditional plantations and horticulture; and (b) investment credit for allied activities extended for acquiring assets in respect of activities allied to agriculture e.g. dairy, poultry farming, goatery, sheep rearing, piggery, fisheries, bee-keeping, green houses and biogas.

Co-operative Credit Institution - a co-operative society that i) provides short-term crop loans to farmers and is eligible for interest subvention from the central government; or ii) carries on banking activities regulated or supervised by the Reserve Bank or National Bank for Agriculture and Rural Development (NABARD); or iii) is part of the short-term co-operative credit structure or long-term co-operative credit structure in a state or union territory.

Marginal Farmer - a farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres).

Small Farmer - a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 1 hectare and up to 2 hectares (5 acres).

Other Farmer - a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 2 hectares (more than 5 acres).

Explanation: The classification of eligible farmers as per the above landholding criteria under the Scheme would be based on the total extent of land owned by the farmer either singly or as joint holder (in the case of an owner-farmer) or the total extent of land cultivated by the farmer (as tenant or share cropper), at the time of sanctioning the loan, irrespective of any subsequent changes in ownership or possession.

In the case of borrowing by more than one farmer by pooling landholdings, the size of the largest landholding in the pool should be the basis for classification of all farmers in that pool as 'marginal farmer' or 'small farmer' or 'other farmer'.

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A farmer who has obtained investment credit for allied activities, where the principal loan amount does not exceed Rs.50,000, would be classified as "small and marginal farmer" and, where the principal amount exceeds Rs.50,000, would be classified as 'other farmer', irrespective in both cases, of the size of the land holding, if any.

A short-term production loan and an investment loan taken by a farmer should be counted as two distinct loans and the Scheme would apply to the two loans separately. Likewise, in the case of a farmer who has taken two investment loans for two separate purposes, the two loans should be counted as two distinct loans and the Scheme would apply to the two loans separately.

Eligible Amount

Short-term production loan – if the amount of loan (together with applicable interest) was –

* Disbursed up to March 31, 2007 and was overdue as on December 31, 2007 and remained unpaid until February 29, 2008.
* Restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the central government, whether overdue or not.
* Restructured and rescheduled in the normal course up to March 31, 2007, as per applicable guidelines of the Reserve Bank, on account of natural calamities, whether overdue or not.

Investment loan - the instalments of such loan that are over due (together with applicable interest on such instalments) if the loan was -

* Disbursed up to March 31, 2007 and was overdue as on December 31, 2007 and remained unpaid until February 29, 2008.
* Restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the central government.
* Restructured and rescheduled in the normal course up to March 31, 2007, as per applicable guidelines of the Reserve Bank, on account of natural calamities.

Direct agricultural loan taken under a kisan credit card would also be covered under this Scheme

Explanation: For investment loans disbursed up to March 31, 2007 and classified as non-performing asset or suit filed account, only the instalments that were overdue as on December 31, 2007 would be the eligible amount.

The loans which would not be included in the eligible amount are -

(a) Advances against pledge or hypothecation of agricultural produce other than standing crop.

(b) Agricultural finance to corporates, partnership firms, societies other than co-operative credit institutions and any similar institution.

Nothing contained in this Scheme would apply to any loan disbursed by a lending institution prior to March 31, 1997.

Debt Waiver

In the case of a small or marginal farmer, the entire 'eligible amount' should be waived. He would be eligible for fresh agricultural loans.

Debt Relief

In the case of 'other farmers', there would be a one time settlement (OTS) scheme under which the farmer would be given a rebate of 25 per cent of the 'eligible amount' provided the farmer pays the balance 75 per cent of the 'eligible amount'.

An 'other farmer' eligible for OTS relief shall give an undertaking agreeing to pay his share (i.e. eligible amount minus the amount of OTS relief) in not more than three instalments and the first two instalments should be for an amount not less than one-third of his share.

The amount of OTS relief (i.e. the central government's share) would be credited to the account of the 'other farmer' upon the farmer paying his share in full.

In the case of a short-term production loan, the 'other farmer' would be eligible for fresh short-term production loan upon paying one-third of his share.

In the case of an investment loan (for direct agricultural activities or allied activities), the 'other farmer' would be eligible for fresh investment loan upon paying his share in full.

Implementation

Every branch of a scheduled commercial bank, RRB, co-operative credit institution, UCB and LAB covered under this Scheme should prepare two lists, one consisting of 'small and marginal farmers' who are eligible for debt waiver and the second consisting of 'other farmers' who are eligible for debt relief under the Scheme. The lists should include particulars of the landholding, the eligible amount and the amount of debt waiver or debt relief proposed to be granted in each case. The lists should be displayed on the notice board of the branch of the bank/society on or before June 30, 2008. The implementation of the Debt Waiver and Debt Relief Scheme should be completed by June 30, 2008.

The Reserve Bank would be the nodal agency for the implementation of the Scheme in respect of scheduled commercial banks, UCBs and LABs. NABARD would be the nodal agency in respect of RRBs and co-operative credit institutions.

Interest/Other Charges

The lending institutions should not charge any interest on the 'eligible amount' for any period after February 29, 2008. In the case of an 'other farmer' who defaults in paying his share of the eligible amount on or before June 30, 2009 and becomes ineligible for OTS relief, the bank may, however, charge interest for the period after June 30, 2009.

Instalments of investment credit which fall overdue after December 12, 2007 should be recovered by the lending institutions along with the applicable interest. Lending institutions may, however, in appropriate cases, reschedule these instalments in accordance with their normal policy.

Notwithstanding anything contained in this Scheme, the amount of interest that a lending institution may claim as reimbursement from the central government under this Scheme should not, in any case, exceed the principal amount of the loan.

Publicity

A copy of the Scheme in English and in the official language or languages of the state/union territory should be displayed in each branch of every lending institution covered under this Scheme.

Every lending institution should appoint one or more grievance redressal officer for each state. The name and address of the grievance redressal officer should be displayed in each branch of the lending institution.

Repo Rate Increased

In the light of the current macroeconomic and overall monetary conditions and with a view to containing inflation expectations, the Reserve Bank increased the fixed repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 8.00 per cent from 7.75 per cent from June 12, 2008.

Standing Liquidity Facilities for Banks/PDs

Consequent to the fixed repo rate under the LAF being revised to 8.00 per cent, the standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the repo rate *i.e.* at 8.00 per cent from June 12, 2008.

FEMA

ECB Policy Modified

Based on a review, some aspects of the ECB policy have been modified. The modifications are –

(i) Now borrowers in the infrastructure sector may avail ECB up to USD 100 million for rupee expenditure for permissible end-uses under the approval route.

(ii) In the case of other borrowers, the existing limit of USD 20 million for rupee expenditure for permissible end-uses under the approval route has been enhanced to USD 50 million.

Earlier, borrowers proposing to avail ECB up to USD 20 million for rupee expenditure for permissible end-uses required the Reserve Bank's prior approval under the approval route.

The all-in-cost ceilings in respect of ECB have been modified as follows:

Average Maturity Period	All-in-Cost Ceilings over 6 Months LIBOR*	
	Existing	Revised
3 years and up to 5 years	150 bps	200 bps
More than 5 years	250 bps	350 bps

* *for the respective currency of credit or applicable benchmark*

These changes will apply to ECB both under the automatic route and the approval route.

This amendment to the ECB guidelines would come into force from May 29, 2008. All other aspects of the ECB policy, such as, USD 500 million limit per company per year under the automatic route, eligible borrower, recognised lender, end-use of foreign currency expenditure for import of capital goods and overseas investments, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

Services Sector permitted to avail ECB

It has been decided, in consultation with the Government of India, to allow entities in the service sector viz., hotels, hospitals and software companies to avail ECB up to USD 100 million, per financial year, for importing capital goods under the approval route.

It is further clarified that the existing guidelines on trade credit, allowing companies including those in the services sector, to avail trade credit up to USD 20 million per import transaction, for a period less than 3 years, for import of capital goods, would continue.

This amendment to the ECB guidelines will come into force from June 2, 2008.

Realisation/Repatriation of Export Proceeds

The period of realisation and repatriation to India of the amount representing the full export value of goods or software exported, has been enhanced from six months to twelve months from the date of export, subject to review after one year. The provisions regarding period of realisation and repatriation to India of the full export value of goods or software exported by a unit situated in a special economic zone (SEZ) as well as exports made to warehouses established outside India with the Reserve Bank's permission, remain unchanged.

Writing off Claims Settled by Insurance Companies

AD Category – I banks have now been permitted to write off, in addition to the claims settled by the Export Credit Guarantee Corporation (ECGC), the outstanding export bills settled by other insurance companies which are regulated by the Insurance Regulatory and Development Authority (IRDA).

Accordingly, AD Category – I banks should henceforth, on an application received from the exporter, supported by documentary evidence from ECGC/insurance companies registered with IRDA, confirming that the claim in respect of the outstanding export bills has been settled and that the export incentives, if any, have been surrendered, write-off the relative export bills and delete them from the XOS statement. Such write-off would not be restricted to the limit of 10 per cent indicated in the Reserve Bank's circular of September, 2000.

It is also clarified that claims settled in rupees by ECGC/ insurance companies should not be construed as export realisation in foreign exchange and the claim amount should not be allowed to be credited to the exchange earners' foreign currency account.

Credits to NRE Accounts

As a measure of liberalisation and also to meet the genuine needs of non-resident (external) rupee (NRE) account holders, AD Category – I banks and authorised banks have been allowed to credit proceeds of demand drafts/bankers' cheques issued against encashment of foreign currency to the NRE account of the NRI account holder where the instruments issued to the NRE account holder are supported by encashment certificate issued by AD Category – I/Category – II.

UCBs

Branch Licensing Norms liberalised

It has been decided to liberalise and rationalise the branch licensing norms for well managed and financially sound primary (urban) co-operative banks (UCBs) in the states that have signed memorandum of undertaking with the Reserve Bank and those registered under the Multi-State Co-operative Societies Act, 2002.

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Accordingly, approvals for branch expansion, including off-site ATM, would henceforth be considered based on their annual business plans, subject to:

- Maintenance of a minimum capital to risk - weighted assets ratio (CRAR) of 10 per cent on a continuous basis with minimum owned funds commensurate with entry point capital norms for the centre where the branch is proposed.
- Net NPAs being less than 10 per cent.
- No default in the maintenance of CRR/SLR during the preceding financial year.
- Net profit in the immediate preceding financial year.
- Regulatory comfort based on *inter alia*, track record of compliance with the provisions of Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the instructions/directions issued by the Reserve Bank from time to time.

UCBs satisfying these norms may prepare an annual business plan for opening of branches/extension counters, upgradation of extension counters into full-fledged branches, setting up of new off site ATMS, in their existing area of operation, for the next 12 months, with the approval of their board of directors and submit it in duplicate, to the respective regional office of the Reserve Bank. For the year 2008-09, the annual business plan should be submitted to the Reserve Bank preferably by September 2008. From the year 2009-10 onwards, the plan should be submitted preferably by end of December of the previous financial year.

Installation of On-site ATMs

Liberalising the eligibility norms for opening on-site ATMs, the Reserve Bank has advised that well-managed and financially sound UCBs that are registered in states which have entered into MoU with the Reserve Bank or are registered under the Multi-state Cooperative Societies Act, 2002 and classified in grades other than grade III and IV, may now, set up on-site ATMs without the Reserve Bank's prior approval.

NBFCs

Minimum NOF for all Deposit taking NBFCs

To ensure a measured movement towards strengthening the financials of all deposit taking non-banking finance companies (NBFCs) by increasing their net owned fund (NOF) to a minimum of Rs.200 lakh in a gradual, non-disruptive and non-discriminatory manner, it has been decided that -

(a) NBFCs having a minimum NOF of less than Rs. 200 lakh should freeze their deposits at the level currently held by them.

(b) Asset finance companies (AFCs) having minimum investment grade credit rating and CRAR of 12 per cent should bring down their public deposits to a level that is 1.5 times their NOF while all other companies should bring down their public deposits to a level equal to their NOF by March 31, 2009.

(c) Those companies which are presently eligible to accept public deposits up to a certain level, but have, for any reason, not accepted deposits up to that level would be permitted to accept public deposits up to the revised ceiling prescribed above.

(d) On attaining the NOF of Rs.200 lakh, companies should submit a statutory auditor's certificate certifying their NOF.

(e) NBFCs failing to achieve the prescribed ceiling within the stipulated time period, should apply to the Reserve Bank for appropriate dispensation in this regard which may be considered on case to case basis.

Category of NBFC	Present Ceiling on Public Deposits	Revised Ceiling on Public Deposits
AFCs maintaining CRAR of 15 per cent without credit rating and having NOF more than Rs 25 lakh but less than Rs 200 lakh	1.5 times of NOF or Rs 10 crore, whichever is less	Equal to NOF
AFCs with CRAR of 12 per cent and having minimum investment grade credit rating and having NOF more than Rs 25 lakh but less than Rs 200 lakh	4 times of NOF	1.5 times of NOF
LCs/ICs with CRAR of 15 per cent and having minimum investment grade credit rating and having NOF more than Rs 25 lakh but less than Rs 200 lakh	1.5 times of NOF	Equal to NOF

AFCs – asset finance companies, LCs – loan companies, ICs – investment companies

CUSTOMER SERVICE

Banking Facilities to Visually Challenged

Banks have been advised to ensure that all banking facilities, such as, cheque book, including third party cheques, ATM, net banking, locker, retail loans, credit cards etc., are invariably offered to the visually challenged without any discrimination. Banks should also advise their branches to render all possible assistance to the visually challenged for availing the various banking facilities.

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