R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Monthly Subscription : ₹ 1.

Volume X ◆ Issue 3
September 2013

MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Relaxations in Branch Authorisation Policy

With the objective of further liberalising and rationalising the branch authorisation policy, the general permission given to domestic scheduled commercial banks (other than RRBs) to open branches in Tier 2 to Tier 6 centres and in the rural, semi-urban and urban centres in North-Eastern States and Sikkim without taking the Reserve Bank's permission in each case, is now extended to branches in Tier 1centres also, subject to the following:

(a) At least 25 percent of the total number of branches opened during the financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive), must be opened in unbanked rural (Tier 5 and Tier 6) centres, i.e., centres which do not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

(b) The total number of branches opened in Tier 1 centres during the financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive) cannot exceed the total number of branches opened in Tier 2 to 6 centres and all centres in the North Eastern States and Sikkim.

As there is a continuing need for opening more branches in underbanked districts of underbanked states for ensuring more uniform spatial distribution, banks would be provided incentive for opening such branches. Accordingly, banks may open branches in Tier 1 centres, over and above their eligibility as indicated above, equal to the number of branches opened in Tier 2 to Tier 6 centres of underbanked districts of underbanked states, excluding rural branches opened in unbanked rural centres that may be located in the underbanked districts of underbanked states in compliance with the requirement as indicated in (a) above.

Banks have to ensure that all branches opened during a financial year are in compliance with the norms stipulated above. In case a bank is unable to open all the branches it is eligible for in Tier 1 centres, it may carry-over (open) these branches during subsequent two years.

Banks, which for some reason are unable to meet their obligations of opening branches in Tier 2 to 6 centres in aggregate, or in unbanked rural centres (Tiers 5 to 6 centres) during the financial year, must necessarily rectify the shortfall in the next financial year.

This general permission would be subject to compliance with the parameters stated above as well as regulatory/supervisory comfort in respect of individual banks. The Reserve Bank would have the option to withhold the general permission granted to banks which fail to meet the above mentioned criteria along with imposing penal measures on banks which fail to meet the obligations stated above.

Repo/Reverse Repo/MSF Rates

The following rates have been changed from September 20, 2013:

Repo

The repo rate under the liquidity adjustment facility (LAF) has been increased by 25 basis points from 7.25 per cent to 7.50 per cent.

Reverse Repo

Consequent to the change in the repo rate, the reverse repo rate under the LAF stands automatically adjusted to 6.50 per cent.

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Marginal Standing Facility

The marginal standing facility (MSF) rate has been reduced by 75 basis points from 10.25 percent to 9.50 per cent.

Standing Liquidity Facilities for Banks and PDs

The standing liquidity facilities provided to banks under export credit refinance (ECR) and to primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 7.50 per cent with effect from September 20, 2013.

Bank Rate

The Bank Rate stands adjusted by 75 basis points from 10.25 per cent to 9.50 per cent with effect from September 20, 2013. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as indicated below:

Item	Existing Rate	Revised Rate (Effective from September 20, 2013)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate plus 3.0 percentage points (13.25 per cent) or Bank Rate plus 5.0 percentage points (15.25 per cent)	Bank Rate plus 3.0 percentage points (12.50 per cent) or Bank Rate plus 5.0 percentage points (14.50 per cent)

Change in Daily Minimum Cash Reserve Maintenance

The minimum daily maintenance of cash reserve ratio has been reduced from 99 per cent of the requirement to 95 per cent effective from the fortnight beginning September 21, 2013.

Base Rate – Revised Guidelines

It has been decided to allow banks flexibility in computation/revision of Base Rate methodology to enable them to overcome the difficulties faced in this regard. Accordingly, it is advised that-

(i) Banks that have commenced their banking operations in India after the coming into effect of the Base Rate regime in July 2010 but have not completed one year of their banking operations as on September 2, 2013, will be allowed to revise their Base Rate methodology within a year from the date of commencement of their business operations in India.

(ii) Banks that will commence their banking business in India after September 2, 2013, will be allowed to revise their Base Rate methodology within a year from the date of commencement of their banking business in India.

(iii) In case, a bank, including banks listed above, desires to review its Base Rate methodology after five years from the date of its finalisation, the bank may approach the Reserve Bank for permission in this regard.

Export and Import of Currency

With a view to providing greater flexibility to resident individuals travelling abroad, it has been decided that any person resident in India:

(i) may take outside India (other than to Nepal and Bhutan) currency notes of the Government of India and the Reserve Bank of India notes up to an amount not exceeding Rs.10,000 per person; and

(ii) who had gone out of India on a temporary visit, may bring into India at the time of his/her return from any place outside India (other than from Nepal and Bhutan), currency notes of the Government of India and the Reserve Bank of India notes up to an amount not exceeding Rs.10,000 per person.

The earlier such limit was Rs.7,500 per person.

Distribution of Banknotes and Coins

Banks have been advised to explore the possibility of alternative avenues for distribution for banknotes and coins, such as, using the services of business correspondents (BCs) and engaging the services of cash in transit (CIT) entities.

It may be recalled that on September 2, 2013, banks were permitted to include distribution of banknotes and coins also in the scope of activities which may be undertaken by BCs.

BRANCH BANKING

Upfront Disbursal of Housing Loans

It has been observed that some banks have introduced certain innovative housing loan schemes in association with developers/builders, e.g., upfront disbursal of sanctioned individual housing loans to builders without linking the disbursals to various stages of construction of housing project, the interest/EMI on the housing loan availed of by the individual borrower being serviced by the builders during the construction period/specified period, etc. This might include signing of tripartite agreements between the bank, the builder and the buyer of the housing unit. These loan products are popularly known by various names like 80:20, 75:25 schemes.

Such housing loan products are likely to expose banks as well as their home loan borrowers to additional risks e.g., in case of disputes between individual borrowers and developers/builders, default/delayed payment of interest/EMI by the developer/builder during the agreed period on behalf of the borrower, non-completion of the project on time, etc. Further, any delayed payments by developers/builders on behalf of individual borrowers to banks may lead to lower credit rating/scoring of such borrowers by credit information companies (CICs). In cases where bank loans are also disbursed upfront on behalf of their individual borrowers in a lump-sum to builders/developers without any linkage to stages of construction, banks run disproportionately higher exposures with concomitant risks of diversion of funds.

Banks have, therefore, been advised that disbursal of housing loans sanctioned to individuals should be closely linked to the stages of construction of the housing project/houses and upfront disbursal should not be made in cases of incomplete/under-construction/green field housing projects.

Foreign Students Studying in India - Opening Bank A/cs

In view of the fact that foreign students arriving in India are facing difficulties in complying with the 'know your customer' (KYC) norms while opening a bank account due to non-availability of any proof of local address, the Reserve Bank has laid down the following procedure for opening such accounts.

- Banks may open a non-resident ordinary (NRO) bank account of a foreign student on the basis of his/her passport (with appropriate visa and immigration endorsement) which contains the proof of identity and address in the home country along with a photograph and a letter from the educational institution offering admission.
- Within a period of 30 days of opening the account, the foreign student should submit to the branch where the account has been opened, a valid address proof giving local address, in the form of a rent agreement or a letter from the educational institution as proof of living in a facility provided by the educational institution. Banks should not insist on the landlord visiting the branch for verification of the rent documents and alternative means of verification of local address may be adopted.
- During the 30 days period, the account should be operated with the condition of allowing foreign remittances not exceeding USD 1,000 into the account and a cap of monthly withdrawal of Rs. 50,000, pending verification of address.
- Students of Pakistani nationality will need the Reserve Bank'sprior approval for opening an account.

FEMA

Overseas Foreign Currency Borrowings

With a view to providing greater flexibility to AD category - I banks in seeking access to overseas funds, it has been decided that they may henceforth, borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 100 per cent of their unimpaired Tier I capital as at the close of the previous quarter or USD 10 million (or its equivalent), whichever is higher, as against the existing limit of 50 per cent (excluding borrowings for financing of export credit in foreign currency and capital instruments).

In view of the prevailing market conditions, it has been decided that AD category I banks, at their option, may enter into a swap transaction with the Reserve Bank in respect of the borrowings raised after September 10, 2013. The swaps would be available at a concessional rate of a hundred basis points below the market rate for all fresh borrowing with a minimum tenor of one year and a maximum tenor of three years, irrespective of whether such borrowings are in excess of fifty per cent of their unimpaired Tier I capital or not. Further, while the swaps shall be for the entire tenor of the borrowing, the rate shall be re-set after every one year from the date of the swap at hundred basis points lower than the market rate prevailing on the date of re-set. While banks are free to borrow in any freely convertible currency, the swap will be available only for conversion of USD equivalent into Rupees and the USD equivalent shall be computed at the relevant cross rate prevailing on the date of the swap. The concessional swap window is open till November 30, 2013. The Reserve Bank reserves the right to decline a swap transaction or to withdraw this facility before November 30, 2013 after due notice.

Further, the borrowings beyond the hitherto permitted level of 50 per cent of the unimpaired Tier I capital will be subject to the following conditions:

(i) The bank should have a Board approved policy on overseas borrowings which should contain the risk management practices that the bank would adhere to while borrowing abroad in foreign currency;

(ii) The bank should maintain a capital to risk weighted assests ratio (CRAR) of 12.0 per cent.

(iii) The borrowings beyond the existing ceiling should be with a minimum maturity of three years.

(iv) All other existing norms (FEMA regulations, NOPL norms, etc.) would continue to be applicable.

Swap Window for Attracting FCNR (B) Dollar Funds

It has been decided to introduce a US Dollar-Rupee swap window for fresh foreign currency non-resident (banks) {FCNR (B)} dollar funds, mobilised for a minimum tenor of three years and above. The salient features of the new swap facility are:

(a) The swap facility will be available to scheduled commercial banks (excluding RRBs) for fresh FCNR(B) deposits mobilised in any permitted currency for a minimum tenor of three years. The swap facility with the Reserve Bank will, however, be available in US Dollars only. The tenor of the swap will be for three years or more in line with the tenor of the underlying FCNR deposits.

(b) The swap window will be operated on a daily basis on all working days in Mumbai (except Saturdays and holidays). A particular bank can, however, avail of the swap facility only once in a week. During any particular week, the maximum amount of dollars that banks would be eligible to swap with the Reserve Bank would be equal to the fresh FCNR(B) deposits for a minimum tenor of three years mobilised in equivalent US Dollar terms during the preceding week(s).

(c) Under the swap arrangement, a bank can sell US Dollars in multiples of USD one million to the Reserve Bank and simultaneously agree to buy the same amount of US Dollars at the end of the swap period. The swap will be undertaken at a fixed rate of 3.5 per cent per annum. In the first leg of the transaction, the bank will sell US Dollars to the Reserve Bank at the RBI Reference Rate or any other rate as may be mutually agreed upon. The settlement of the first leg of the swap will take place on spot basis from the date of the transaction. In the reverse leg of the swap transaction, Rupee funds will have to be returned to the Reserve Bank along with the swap premium to get the US Dollars back.

(d) Banks desirous of availing the swap facility will have to furnish a declaration duly signed by their authorised signatories that they have mobilised the fresh FCNR(B) deposits for minimum tenor of three years during the preceding week(s).

(e) The swap facility will be operationalised by the Reserve Bank's Financial Markets Department at Mumbai. The Reserve Bank will exercise the right to decide on the day of operation and the number of banks that can avail of the facility on any particular day keeping in view the market conditions and other relevant factors.

(f) The underlying deposits will have a minimum lock-in period of one year. Premature withdrawal of such deposits would, however, be permitted after one year. Accordingly, swaps undertaken with the Reserve Bank cannot be cancelled before one year. In case of premature withdrawal of deposits after one year, banks may approach the Reserve Bank for termination of the swap. Banks desirous of terminating a

Published on 26th day of the month Posted at MUMBAI PATRIKA CHANNEL SORTING OFFICE - on last two working days of every month. **Regd. No. MH/MR/South-30/2012-14**

swap will have to furnish a declaration duly signed by their authorised signatories that they have allowed premature withdrawal of FCNR (B) deposits. In the event of pre-termination of a swap, the swap cost would be re-fixed for the completed period of the swap at 400 bps above the concessional contracted rate of 3.5 per cent offered to banks plus the prevailing USD/INR swap rate in the market for the residual tenor of the original swap (towards the replacement cost). The Reserve Bank's decision regarding re-pricing of the swap at the time of termination shall be final and no request for any modification or revision to the same would be entertained.

(g) The new swap window came into effect on September 10, 2013 and will remain open up to November 30, 2013. The Reserve Bank reserves the right to close the scheme earlier with prior notice.

Cancellation/Rebooking of Forward Contracts

With a view to providing operational flexibility to exporters and importers to hedge their foreign exchange risk, it has been decided to-

(a) allow exporters to cancel and rebook forward contracts to the extent of 50 per cent of the contracts booked in a financial year for hedging their contracted export exposures, and

(b) allow importers to cancel and rebook forward contracts to the extent of 25 per cent of the contracts booked in a financial year for hedging their contracted import exposures.

Forex Counters in International Airports in India

It has been decided to allow non-residents to carry Indian currency up to a maximum of Rs.10,000 beyond Immigration/Customs desk to the Duty Free Area/Security Hold Area in the departure hall in international airports in India for meeting miscellaneous expenditures. Non-residents will, however, not be allowed to carry Indian rupees beyond the Security Hold Area and they should dispose of Indian currency before boarding the plane.

In order to provide money changing facility to non-residents to convert unspent Indian Rupees with them, foreign exchange counters in the departure halls in international airports in India may be established in the Duty Free Area/Security Hold Area beyond the Immigration/Customs desk. Such foreign exchange counters will, however, only buy Indian Rupees from non-residents and sell foreign currency to them subject to the usual terms and conditions.

UCBs

Implementation of Core Banking Solution

In March 2013, primary (urban) co-operative banks (UCBs) were advised to implement core banking solution (CBS) in all their branches by December 31, 2013. On a review, it has been decided to revise the timeframe for implementation of CBS by UCBs as under:

Category of UCB	Time frame for implementation of CBS
Tier II UCBs	December 31, 2013 (no change)
Tier I UCBs (other than unit banks)	June 30, 2014
Unit banks	December 31, 2014

The Reserve Bank has reiterated that failure to implement CBS within the timeframe may result in denial of various facilities (expansion of branches or area of operation, etc.) to UCBs.

Loans for Repairs/Additions/Alterations

The ceiling on loans to individuals for carrying out repairs/additions/alterations to their dwelling units has been enhanced to Rs. 2 lakh in rural and semi-urban areas and Rs. 5 lakh in urban areas.

Such loans will also be eligible for classification under priority sector. There is no change to the extant combined ceiling for housing, real estate and commercial real estate loans granted by UCBs at 10 per cent of total assets as also the additional limit of 5 per cent of total assets for grant of housing loans up to Rs. 25 lakh to individuals.

RRBs

Analysis and Disclosure of Customer Complaints

With a view to enhancing the effectiveness of the grievance redressal mechanism, regional rural banks (RRBs) have been advised to place a statement of complaints before their Boards/customer service committees along with an analysis of the complaints received. The complaints should be analysed (i) to identify customer service areas in which the complaints are frequently received; (ii) to identify frequent sources of complaint; (iii) to identify systemic deficiencies; and (iv) for initiating appropriate action to make the grievance redressal mechanism more effective.

Further, it is clarified that RRBs should include all complaints pertaining to ATM cards issued by them in their disclosures. Where the card issuing bank can specifically attribute ATM related customer complaints to the acquiring bank, the same may be clarified by way of a note after including the same in the total number of complaints received.

RRBs have been advised not to transfer credit balances pending reconciliation representing various cases of excess cash in ATMs on account of failures in retraction of cash, sensor failure and other technical/hardware errors, to their profit and loss account.

RRBs have also been advised to place the detailed statement of complaints and its analysis on their web-site for information of the general public at the end of each financial year.

Edited and published by **Alpana Killawala** for the **Reserve Bank of India,** Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001 and printed by her at **Onlooker Press,** 16, Sassoon Dock, Colaba, Mumbai - 400 005.
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