R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2009-11

Monthly Subscription : ₹ 1.

Volume VII ◆ Issue 8
February 2011

MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Housing Loans up to Rs. 10 Lakh - Clarifications

The Government of India has issued certain clarifications on the **scheme of one per cent interest subvention on housing loans up to Rs. 10 lakh.** While submitting claims for reimbursement under the Scheme, banks may note the clarifications which are as follows -

a) Housing loans extended to non-resident Indians (NRIs) for construction of farm houses and to staff members of banks are not eligible for subsidy under the Scheme.

b) While calculating the interest subsidy, each disbursement should be treated as a separate loan and for each disbursement, subsidy claim should be made for twelve instalments. For loans fully disbursed in one stroke, subsidy would be provided upfront on the entire amount of the loan disbursed. Subsidy should be calculated for the 12 months period from the date of disbursement of the loan following the reducing balance of EMI.

c) Loans sanctioned prior to October 1, 2009 would not qualify for reimbursement under the Scheme.

d) All scheduled commercial banks (SCBs) should use their own funds for upfront credit of subsidy till the reimbursement is received from the Government of India.

e) Banks are advised to submit their claims in the prescribed format provided by the Reserve Bank, on a monthly basis, in respect of all housing loans eligible for subsidy under the Scheme.

All SCBs are further advised to implement the Scheme vigorously and provide the benefits of the Scheme to all eligible customers/beneficiaries expeditiously.

Branch Authorisation Policy Relaxed

General permission has been granted to domestic scheduled commercial banks (other than RRBs) to open administrative offices and central processing centres (CPCs) / service branches in Tier- 3 to Tier- 6 centres (with population up to 49,999 as per census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim, subject to reporting. While the administrative office (controlling offices) would be carrying out administrative work, the (CPCs)/service branches would exclusively attend to back office functions. These CPCs/service branches should not have direct interface with customers.

Banks should ensure that the centres where the branches are opened under general permission are not the outgrowth (locality developed around bigger centre) of a bigger centre. It is clarified that outgrowth of a bigger centre would have the same population group classification as that of the bigger centre.

The details of administrative offices and CPCs/service branches opened by banks under general permission should be reported to the Reserve Bank.

Base Rate

The Government of India, Ministry of New and Renewable Energy has formulated a scheme on financing of Off-Grid and Decentralised Solar (Photovoltaic and Thermal) applications as part of the Jawaharlal Nehru National Solar Mission. Under the scheme, banks may extend subsidised loans to entrepreneurs at interest rates not exceeding five per cent where refinance of two per cent from the Government of India is available. In this context, the Reserve Bank has advised that such lending at

CONTENTS

interest rates not exceeding five per cent per annum, where refinance of the Government of India is available, would not be considered as violation of its guidelines on Base Rate.

Repo/Reverse Repo Rates increased

The repo rate and the reverse repo rate under the liquidity adjustment facility (LAF) have been increased from January 25, 2011 as indicated below :

Repo Rate : by 25 basis points from 6.25 per cent to 6.50 per cent.

Reverse Repo Rate : by 25 basis points from 5.25 per cent to 5.50 per cent.

Standing Liquidity Facilities for Banks/PDs

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 revised repo rate, *i.e.,* at 6.50 per cent from January 25, 2011.

Additional Liquidity Support under LAF

The additional liquidity support to SCBs under the LAF to the extent of one per cent of their NDTL, set to expire on January 28, 2011, has now been extended up to April 8, 2011. For any shortfall in maintenance of the statutory liquidity ratio (SLR) arising out of availment of this facility, banks may seek waiver of penal interest purely as an *ad hoc,* temporary measure. The liquidity support availed under this facility should, however, be reported on a daily basis.

New Pension Option/Enhanced Gratuity - Treatment

The Reserve Bank has advised all public sector banks that the additional liability on account of re-opening of pension option for the employees who had not opted for pension earlier as well as the enhancement in gratuity limits should be fully recognised and charged to Profit and Loss Account for the financial year 2010-11.

The Reserve Bank has further advised that –

(a) The expenditure indicated above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be amortised over a period of five years (subject to (b) and (c) below) beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.

(b) Consequent upon the introduction of International Financial Reporting Standards (IFRS) from April 1, 2013 for the banking industry, the opening balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure.

(c) The unamortised expenditure carried forward should not include any amounts relating to separated/retired employees.

Appropriate disclosures of the accounting policy followed in this regard should be made in the Notes to Accounts to the financial statements.

In view of the exceptional nature of the event, new pension option and enhanced gratuity related unamortised expenditure would not be reduced from Tier I capital.

Banks should keep in view (b) above while planning their capital augmentation, suitably factoring in Basel III requirements also.

Mis-classification of Priority Sector Loans

The Reserve Bank has advised that henceforth, the amount of loans wrongly classified under priority sector, identified and reported by principal inspecting officers during annual financial inspection of banks will be taken into account for arriving at the shortfall under priority sector lending targets.

To begin with, such mis-classifications reported during the current year will be added to the shortfall reported by banks as on the last reporting Friday of the following year, for allocation to various funds.

It had also been reported that when banks buy loans given to eligible priority sector borrowers, by intermediaries like micro finance institutions (MFIs)/NBFCs, they reckon the present value of the loans arrived at by discounting at their rate of lending which is typically much lower than the actual rate charged to end–borrowers by such intermediaries. This has the effect of overstating the actual amount of priority sector loans to the extent of premium paid by banks to such intermediaries. Banks must, therefore, report the nominal amount actually disbursed to end priority sector borrowers and not the premium-embedded amount paid to the intermediaries.

Classification of Loans against Gold Jewellery

The Reserve Bank has clarified that loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, are not eligible for classification under agriculture sector.

Similarly investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under agriculture sector.

BRANCH BANKING

Opening of Small Accounts

The Government of India has, on December 16, 2010, issued a notification amending the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005. The amendment has defined/expanded the definition of certain terms.

Small Accounts

A 'small account' means a savings account in a banking company where-

(i) the aggregate of all credits in a financial year does not exceed rupees one lakh;

(ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and

(iii) the balance at any point of time does not exceed rupees fifty thousand.

Officially Valid Documents

The government notification has expanded the definition of ‘officially valid document’ to include job card issued by NREGA duly signed by an officer of the state government or the letters issued by the Unique Identification Authority of India containing details of name, address and ‘Aadhaar’ number.

Where a bank has relied exclusively on any of these two documents, viz., NREGA job card or Aadhaar letter as complete ‘know your customer’ (KYC) document for opening of an account, the bank account so opened, will also be subjected to all conditions and limitations prescribed for small accounts in the government notification.

Opening of Small Accounts

The notification also lays down the detailed procedure for opening ‘small accounts’ -

An individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account, provided -

(i) the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence.

(ii) a small account shall be opened only at core banking solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place;

(iii) a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account. The entire relaxation provisions in respect of the said account should be reviewed after twenty four months;

(iv) a small account should be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of the client should be established through the production of officially valid documents; and

(v) foreign remittance should not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents.

Banks are advised to ensure adherence to the above procedure for opening of small accounts.

UCBs

Investment in Zero Coupon Bonds

The Reserve Bank has advised all primary (urban) co-operative banks (UCBs) not to invest in zero coupon bonds (ZCBs) unless the issuer builds up a sinking fund for accrued interest and keeps it invested in liquid investments/securities (government bonds).

It has been observed that UCBs are investing in long term ZCBs issued by corporates, including those issued by NBFCs. As the issuers of ZCBs are not required to pay any interest or installments till the maturity of the bonds, credit risk in such investments would go unrecognised till the maturity of the bonds and this risk would especially be significant in the case of long term ZCBs.

FEMA

Participation in Currency Futures/Currency Options

Full fledged money changers (FFMCs) and ADs Category-II [other than regional rural banks (RRBs), local area banks (LABs), urban co-operative banks (UCBs) and non-banking financial companies (NBFCs)], having a minimum net worth of Rs. 5 crore, have been permitted to participate in the designated currency futures and currency options on exchanges recognised by the Securities and Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying foreign exchange exposures.

FFMCs and ADs Category–II which are RRBs, LABs, UCBs and NBFCs, may be guided by the instructions issued by the respective regulatory departments of the Reserve Bank.

NBFCs

CRAR of Deposit Taking NBFCs Raised

The minimum capital ratio of all deposit taking as well as systemically important non-deposit taking NBFCs has been aligned to 15 per cent. Accordingly, all deposit taking NBFCs have been advised to maintain a minimum capital ratio consisting of Tier I and Tier II capital, of not less than 15 per cent of their aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items from March 31, 2012.

Services to Disabled Persons

The Reserve Bank has advised NBFCs to include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, NBFCs should ensure that the grievances of persons with disabilities are redressed under the grievance redressal mechanism already set up by them.

Licensed to post without prepayment - Licence No. MR/Tech/WPP-209/South/09-11 Regd. No. MH/MR/South-30/2009-11
Posted at MUMBAI PATRIKA CHANNEL SORTING OFFICE - GPO on last two working days of every month.

It may be recalled that in July 2010, NBFCs were advised that there should be no discrimination in extending products and facilities, including loan facilities, to the physically/visually challenged applicants, on grounds of disability and that they should also advise their branches to render all possible assistance to such persons for availing of the various business facilities.

INFORMATION

GOI's Swavalamban Scheme

To address the longevity risk of the poorer sections of the society, the Government had announced Swavalamban Scheme in the Union Budget 2010-11. Under the Scheme, the Government of India shall contribute a sum of Rs. 1,000 during the current year and the next three years, to each account in the New Pension System of such subscribers who contribute any amount between Rs. 1,000 and Rs.12,000 per annum provided, they are not part of any statutory pension scheme or employer assisted retirement benefit scheme. The Government has targeted to cover ten lakh subscribers each in the four years beginning 2010-11, bringing the total number of subscribers to 40 lakhs by March 2014. The operational guidelines on the Swavalamban Scheme which, *inter-alia*, provide details on the applicability, benefits and coverage of the Scheme, eligibility criteria, funding, etc. of the Scheme have been approved and the Interim Pension Fund Regulatory and Development Authority (PFRDA) has placed these guidelines in public domain on its website http://www.pfrda.org.in. PFRDA will be the implementing agency for the Swavalamban Scheme. PFRDA has appointed agencies called Aggregators for enrolment of subscribers and contribution collection under the Swavalamban Scheme. A higher level of enrolments under the Scheme will ensure old age income security for such subscribers.

In his Budget Speech, the Finance Minister had also appealed to all the state governments to contribute a similar amount to the Scheme and participate in providing social security to the vulnerable sections of society. In response, two states, Haryana and Karnataka have also announced co-contributory schemes for specific occupational groups for the workers in the un-organised sectors by contributing Rs.1200 per annum over and above the subscribers' contribution and the contribution of the central government under the Swavalamban Scheme.

Source : Parliament Questions

Third Quarter Review of Monetary Policy for the Year 2010-11

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Third Quarter Review of Monetary Policy for the Year 2010-11 on January 25, 2011. The highlights are:

Projections

- Real GDP growth for 2010-11 retained at 8.5 per cent with an upside bias.
- Baseline projection of wholesale price index (WPI) inflation for March 2011 raised from 5.5 per cent to 7.0 per cent.
- Money supply (M_3) growth for 2010-11 retained at 17 per cent.
- Growth in non-food credit of scheduled commercial banks retained at 20 per cent.

Stance

The current stance of monetary policy is intended to:

- Contain the spill-over of high food and fuel inflation into generalised inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.
- Maintain an interest rate regime consistent with price, output and financial stability.
- Manage liquidity to ensure that it remains broadly in balance, with neither a surplus diluting monetary transmission nor a deficit choking off fund flows.

Monetary Measures

- Repo rate under the LAF increased by 25 basis points from 6.25 per cent to 6.50 per cent.
- Reverse repo rate under the LAF increased by 25 basis points from 5.25 per cent to 5.50 per cent.
- Cash reserve ratio (CRR) retained at 6 per cent of net demand and time liabilities (NDTL) of banks.

Expected Outcomes

The monetary policy actions are expected to:

- Contain the spill-over from rise in food and fuel prices to generalised inflation.
- Rein in rising inflationary expectations, which may be aggravated by the structural and transitory nature of food price increases.
- Be moderate enough not to disrupt growth.
- Continue to provide comfort to banks in their liquidity management operations.

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.
For renewal and change of address please write to the Chief General Manager, Department of Communication, Reserve Bank of India, Central Office Building, 12th floor, Fort, Mumbai - 400 001 without enclosing DD/cheque. MCIR is also available on Internet at www.mcir.rbi.org.in