R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2009-11
Monthly Subscription : Re. 1.

Volume V ◆ Issue 9
March 2009

MONETARY AND CREDIT INFORMATION REVIEW

UCBs

Prudential Guidelines on Restructuring of Advances

The Reserve Bank has issued revised guidelines on restructuring of advances by primary urban co-operative banks (UCBs) and has also realigned the extant instructions on the debt restructuring mechanism for small and medium enterprises (SMEs). The prudential guidelines would be applicable to all categories of debt restructuring other than those restructured on account of natural calamities which would continue to be governed by the extant guidelines. The revised guidelines supercede all the instructions issued on the subject so far and would be applicable to all accounts restructured after March 6, 2009.

Eligibility Criteria

- Banks may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.
- Banks can not reschedule/restructure/renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset should not stop merely because the restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring/ rescheduling/ renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.
- Normally, restructuring cannot take place unless alteration/ changes in the original loan agreement are made with the formal consent/application of the debtor. The process of restructuring can, however, be initiated by the bank in deserving cases subject to the customer agreeing to the terms and conditions.
- Banks should not take up an account for restructuring unless the financial viability is established and repayment by the borrower, as per the terms of the restructuring package, is reasonably certain. Banks should determine the viability based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on the merits of each case. Illustratively, the parameters may include the return on capital employed, debt service coverage ratio, gap between the internal rate of return and cost of funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. Accounts not considered viable should not be restructured and banks should accelerate the recovery measures in respect of such accounts. Any restructuring done without looking into the cash flows of the borrower and assessing the viability of the projects/ activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns/action.
- Borrowers indulging in frauds and malfeasance would continue to remain ineligible for restructuring.
- Board for Industrial and Financial Reconstruction (BIFR) cases are not eligible for restructuring without their express approval. In the case of SME debt restructuring mechanism and other cases, banks may consider the proposals for restructuring after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

CONTENTS

Asset Classification

Restructuring of advances could take place in the following stages :

(a) Before commencement of commercial production/ operation.

(b) After commencement of commercial production/operation but before the asset has been classified as 'sub-standard'.

(c) After commencement of commercial production/operation and the asset has been classified as 'sub-standard' or 'doubtful'.

Accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring.

Non performing assets (NPAs), upon restructuring, would slip into further lower asset classification category as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

All restructured accounts which have been classified as NPAs upon restructuring, would be eligible for up-gradation to the 'standard' category after observation of 'satisfactory performance' during the 'specified period' (i.e., a period of one year from the date when the first payment of interest or instalment of principal falls due under the terms of the restructuring package).

In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest/principal payment, whichever is earlier, falls due under the approved restructuring package. In the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the specified one year period, the additional finance should be placed in the same asset classification category as the restructured debt.

In respect of loan accounts which enjoy special regulatory treatment, upon restructuring, such NPAs would continue to have the same asset classification as prior to restructuring. In case satisfactory performance of the account is not evidenced during the 'specified period', it would slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. Such advances restructured on second or more occasion may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier, in terms of the current restructuring package, subject to satisfactory performance.

Income Recognition

Interest income in respect of restructured accounts classified as 'standard assets' will be recognised on accrual basis and that in respect of accounts classified as 'non performing assets' will be recognised on cash basis.

Provisioning

Normal Provisions

UCBs will hold provision against the restructured advances as per the existing provisioning norms.

Provision for Diminution in Fair Value of Restructured Advances

(i) Reduction in the rate of interest and/or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the bank. Banks should, therefore, measure such diminution in the fair value of the advance and make provisions for it by debit to profit and loss account. Such provision should be held in addition to the provisions as per existing provisioning norms and in an account distinct from that for normal provisions.

(ii) In the case of working capital facilities, the diminution in the fair value of the cash credit/overdraft component may be computed reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (working capital term loan and funded interest term loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

(iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1 till the maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the profit and loss account is not negated.

(iv) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in banks' prime lending rate (BPLR), term premium and the credit category of the borrower. Consequently, UCBs may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(v) If due to lack of expertise/appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances extended by small branches, it has the option of notionally computing the amount of diminution in the fair value and providing therefor, at five per cent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore till the financial year ending March 2011. The position would be reviewed thereafter.

The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100 per cent of the outstanding debt amount.

Special Regulatory Framework

The special regulatory treatment has the following two components :

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category

Incentive for Quick Implementation of Restructuring Package

As an incentive for quick implementation of the package, if the approved package is implemented by the bank within 120 days from the date of receipt of application, the asset classification status may be restored to the position which existed when the restructuring application was received by the bank. Further, all accounts which were standard accounts as on September 1, 2008 would be treated as standard accounts on restructuring provided, the restructuring package is put in place within 120 days from the date of taking up the restructuring package. The 120 days norm for quick implementation of the restructuring package would stand reduced to 90 days in respect of all restructuring packages implemented after June 30, 2009.

Asset Classification Benefits

(i) An existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) During the 'specified period', the asset classification of sub-standard/ doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the 'specified period'.

These benefits will be available subject to compliance with certain conditions.

Procedure

(i) Based on these guidelines, UCBs registered under the State Acts may formulate, with the approval of the concerned Registrar of the Cooperative Societies, a debt restructuring scheme for SMEs and other borrowers. In the case of multi-state co-operative banks, these guidelines may be formulated with the approval of the board of directors.

(ii) The restructuring would follow a receipt of a request to that effect from the borrowing units

(iii) In case of eligible SMEs which are under consortium/ multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

(iv) In case a UCB participates in the debt restructuring of other industrial units coming under consortium/multiple banking/syndication arrangements and also under the corporate debt restructuring (CDR) mechanism, the bank may be guided by the guidelines issued by the Reserve Bank's Department of Banking Operations and Development (DBOD) from time to time.

UCBs may consider incorporating in the approved restructuring packages, the creditor's rights to accelerate repayment and the borrower's right to pre-pay. The right of recompense should be based on certain performance criteria to be decided by the UCBs.

Disclosures

Banks should also disclose in their published annual balance sheets, under "notes on accounts", information relating to the number and amount of advances restructured and the amount of diminution in the fair value of the restructured advances.

INFORMATION

Gujarat Diamond Industry - Task Force Report

A Task Force convened by the Reserve Bank to look into the distressed diamond industry in Gujarat, has recommended measures for expeditious restructuring which include, fresh financing of existing borrowal accounts as per the Reserve Bank's guidelines, financing diamond sector units not financed earlier, re-training/re-skilling/rehabilitation of displaced diamond workers and providing financial relief to diamond workers.

The Task Force was convened pursuant to the deliberations at a meeting held by the RBI Governor with the Minister of Finance, the Minister of State for Finance, Government of Gujarat, and senior officials of government and banks to look into the problems being faced by the diamond industry in Gujarat.

India to become Member of BCBS and FSF

India has been invited to become a new member of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Forum (FSF).

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. It seeks to promote and strengthen supervisory and risk management practices globally.

Other countries invited to become new members are Australia, Brazil, China, Korea, Mexico and Russia. The Basel Committee's governance body will also be enlarged to include the central bank governors and heads of supervision from these new member organisations. With its expanded membership, the Committee is comprised of representatives from Australia, Belgium, Brazil, Canada, China, France, Germany, India, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Spain, Sweden, Switzerland and the United Kingdom

The Financial Stability Forum (FSF) was established by the G7 finance ministers and central bank governors in 1999 to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. The FSF Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

Other countries invited to become new members are the G-20 countries that are not currently in the FSF and these, apart from India, are Argentina, Brazil, China, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa,Turkey, Spain and the European Commission. The current FSF comprises national financial authorities (central banks, supervisory authorities and finance ministries) from the G7 countries, Australia, Hong Kong, Netherlands, Singapore and Switzerland, as well as international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank.

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.

POLICY

Relief Measures to Poultry Units in West Bengal

Pursuant to the Government of India granting interest subvention of 4 per cent per annum on the outstanding non-overdue loan amount as on January 1, 2008 to the poultry units of West Bengal for the period from January 1, 2008 to March 31, 2009, the Reserve Bank has issued guidelines on the scope of the subvention and its calculation as well as disbursement to banks. The guidelines are :

(i) The interest subvention will be calculated at four percentage points on term loans and working capital loans outstanding as on January 1, 2008. This will not include any part of the principal amount that had become overdue before notification of the first occurrence of the bird flu in the State.

(ii) All categories of borrowers, such as, individuals, partnership firms, 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 will 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, a) commercial layer farming; b) commercial broiler farming; c) breeding/farming of parent birds, both layer and broiler; d) breeding/farming of grand parents, both layer and broiler; e) pure line breeding; f) loans advanced to units for farming of low input technology birds, including backyard poultry; g) loans advanced to poultry hatcheries; h) feed mixing units, which have been sanctioned loan as part of the composite loan for a poultry unit; i) poultry processing plants; and j) poultry components of any composite loans, such as, homestead loans sanctioned by banks.

Banks should submit their consolidated one-time claims in the prescribed format latest by June 30, 2009 to the Chief General Manager, Rural Planning and Credit Department, Farm Sector Division, Reserve Bank of India, Central Office, Mumbai. All claims should be duly certified by statutory auditors.

Banks should give wide publicity to the Scheme so that all eligible poultry units of West Bengal derive benefit from the Scheme.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

The Government of India has extended the last date of repayment of the first instalment by “other farmers” from September 30, 2008 to March 31, 2009 under the Agricultural Debt Waiver and Debt Relief Scheme, 2008. The payment dates for the second and third instalments remain unchanged at March 31, 2009 and June 30, 2009.

Further, it is clarified that the additional period of one month from the pre-specified due dates, permitted to farmers eligible under the Debt Relief Scheme, for paying their share of the settlement, without affecting the standard asset classification status of the relevant account, would be available only for the first two instalments viz., those due on March 31, 2009. No grace period would be allowed for the last instalment and the entire share of the farmer is payable by June 30, 2009 itself, in order to maintain the eligibility of the ‘other farmers’ for the Debt Relief Scheme and to retain the standard asset classification status.

Repo/Reverse Repo Rate reduced

On a review of the current global and domestic macroeconomic situation, the Reserve Bank reduced the repo rate and the reverse repo rate from March 5, 2009. The revised rates are**:**

Repo Rate

The repo rate under the liquidity adjustment facility (LAF) has been reduced by 50 basis points from 5.5 per cent to 5.0 per cent.

Reverse Repo Rate

The reverse repo rate under the LAF has been reduced by 50 basis points from 4.0 per cent to 3.5 per cent.

Statement about Ownership and other Particulars concerning Monetary and Credit Information Review

Form IV

1.	Place of publication	:	Mumbai
2.	Periodicity of publication	:	Monthly
3.	Editor, publisher and printer’s name, nationality and address	:	Alpana Killawala Indian Reserve Bank of India Department of Communication Central Office Shahid Bhagat Singh Road Mumbai 400 001
4.	Names and addresses of individuals who own the Newspaper		Reserve Bank of India Department of Communication Central Office Shahid Bhagat Singh Road Mumbai 400 001

I, Alpana Killawala, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/-
Alpana Killawala
Date : March 1, 2009 Signature of Publisher

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