Proposed 2 - Tiered Regulatory Regime

UCBs may be classified into the following two tiers of regulatory regime:

a) **Tier I:**

Unit Banks with deposits upto Rs. 50 crore

b) **Tier II**

All other Banks

To determine the deposit base, the fortnightly average of the NDTL reported in the statutory returns in the preceding accounting year may be reckoned so that a stable and reliable basis is adopted.

The prudential norms recommended for banks falling under different Tiers are as under:

(I) Tier I Banks i.e. Unit Banks with deposits less than Rs.50 crore

(i) Asset classification norms:

To identify NPAs on the basis of 180 day delinquency norm for three more years commencing March 31 2005 but build up adequate provisions in the BDDR over the next three years such that they would be able to transit to 90 day NPA norm by March 31 2008. Since the 90 day norm for asset classification came into force effective March 31 2004, revised asset classification norm should not result in any write back of provisions and the new norm would be applicable for identification of NPAs in 2005 and onwards.

Note: Extant instructions would apply for agricultural loans.

(ii) Provisioning norms:

The provisioning norms will be as under for another three years:

Sub standard : 10%

Doubtful (up to one year) : 100% of unsecured portion plus 20% of secured portion

Doubtful (one to three years) : 100% of unsecured portion plus 30% of secured portion

Doubtful for more than 3 years: 100% of unsecured portion plus 50% of secured portion

Loss : 100%.

Note: i) A Sub standard account will be classified as doubtful after 18 months.

ii) All the above provisioning norms will apply for another 3 years. Consequently implementation of the instructions requiring classification of substandard account into doubtful category after 12 months instead of 18 months and 100 % provisioning for doubtful assets of over 3 years would be deferred by another three years. As such the banks should build up adequate provisions over this period to facilitate smooth transition.

(iii) Norms for Investment:

(iii.i) SLR: The minimum SLR holding in Government and other approved securities as a percentage of NDTL for non scheduled UCBs is presently 15 % for banks with NDTL of over Rs. 25 crores and 10% for the remaining non scheduled UCBs. It is observed that the smaller banks, particularly those operating in rural, semi-urban centers, find it difficult to make investments in G-Sec due to lack of access to the markets. In order to meet SLR requirements, these banks often have to purchase G-Sec at a price that is higher than prevailing market rates, as they do not have the wherewithal to obtain information on current market price of these securities, like access to PDO-NDS platform etc.

While efforts will be made to enable access to securities' market through Primary Dealers, in the interregnum, these banks could be exempted from compulsory investment in G-Sec to the extent of the deposits kept by them in SBI, Associates and Nationalised banks.

(iii.ii) Non-SLR: Present limit of 10% of total investments would continue.

(iv) Borrowings: Not to exceed 2% of deposits

(v) Capital Adequacy:

At present all UCBs are required to comply with 9% CRAR akin to commercial banks. For easier understanding and simplification, it is suggested that CRAR in respect of Tier I banks may be replaced with a Net Owned funds to NDTL ratio. It is proposed that a NDTL to NOF ratio of 15 could be prescribed.

(vi) Exposure Norms:

10% of capital funds or Rs.40 lakhs, which ever is lower for individual borrower and 20% or Rs.80 lakhs, which ever is lower, for group, would be applicable in order to contain concentration risk for the Tier I banks.
Off-Balance sheet exposure not to exceed 2 percent of NDTL.

(vii) Sensitive Sector Exposure:

Tier I banks should not be allowed to take any direct exposure to real estate, builders or to the capital market. However, loan for individual housing may still be extended by these banks upto the present limit of Rs.15 lakh per individual borrower.

(viii) Audit:

Concurrent audit should be compulsory for all banks. Statutory audit should be done using Long Form Audit Report. Statutory audit of banks with deposit base of over Rs 25 crore should be entrusted to chartered accountants.

TIER - II (All other banks) :

For all banks, other than unit banks with deposits upto Rs.50 crore, all regulations as applicable to commercial banks should be applied, However, for these banks the extant relaxations for UCBs could remain in force for the period already prescribed. Further, facilities and opportunities available to commercial banks should, as far as possible, be also made available to such banks to enable them to grow and compete with commercial banks. Banks that do not comply with the regulations should either reduce their operations to qualify for the relaxed regulations applicable for unit banks with deposits less than Rs.50 crore or may be required to convert into cooperative societies.