

## Regulatory and Other Measures

May 2011

RBI/2010-11/505 RPCD.CO.Plan BC. 66/04.09.01/2010-11 dated May 3, 2011

### Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status

The Chairman/Managing Director/  
Chief Executive Officer  
(All Scheduled Commercial Banks)

We invite a reference to paragraphs 92-93 of the Annual Policy Statement for the year 2011-12.

2. It has been decided to regulate microfinance sector by the Reserve Bank as a separate category. In this connection, we advise that bank credit to Micro Finance Institutions extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs/JLGs will be eligible for categorisation as priority sector advance under respective categories *viz.*, agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85 per cent of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of 'qualifying assets'. In addition, aggregate amount of loan, extended for income generating activity, is not less than 75 per cent of the total loans given by MFIs.

3. A 'qualifying asset' shall mean a loan disbursed by MFI, which satisfies the following criteria :

- i. The loan is to be extended to a borrower whose household annual income in rural areas does not exceed ₹60,000/- while for non-rural areas it should not exceed ₹1,20,000/-.
- ii. Loan does not exceed ₹35,000/- in the first cycle and ₹50,000/- in the subsequent cycles
- iii. Total indebtedness of the borrower does not exceed ₹50,000/-.
- iv. Tenure of loan is not less than 24 months when loan amount exceeds ₹15,000/- with right to borrower of prepayment without penalty.

- v. The loan is without collateral.
- vi. Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

4. Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans:

- i. Margin cap at 12 per cent for all MFIs. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.
- ii. Interest cap on individual loans at 26 per cent per annum for all MFIs to be calculated on a reducing balance basis.
- iii. Only three components are to be included in pricing of loans *viz.*, (a) a processing fee not exceeding 1 per cent of the gross loan amount, (b) the interest charge and (c) the insurance premium.
- iv. The processing fee is not to be included in the margin cap or the interest cap of 26 per cent.
- v. Only the actual cost of insurance *i.e.* actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges to be recovered as per IRDA guidelines.
- vi. There should not be any penalty for delayed payment.
- vii. No Security Deposit/Margin are to be taken.

5. The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85 per cent of total assets of the MFI are in the nature of 'qualifying assets', (ii) the aggregate amount of loan, extended for income

generation activity, is not less than 75 per cent of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

6. The guidelines relating to categorization of (i) investment by banks in securitised assets originated by MFIs and (ii) outright purchase of loan portfolios of MFIs as priority sector advances in the books of the banks would be issued in due course. In the meantime, fresh assets would qualify for priority sector treatment only if they satisfy the criteria of qualifying assets and adhere to the pricing guidelines as specified above.

7. Bank loans to MFIs, which do not comply with above conditions and bank loans to other NBFs, will not be reckoned as priority sector loans w.e.f. April 1, 2011. The bank loans extended prior to April 1, 2011 classified under Priority Sector will continue to be reckoned under Priority Sector till maturity of such loans.

8. We are in the process framing regulatory guidelines on the other recommendations of the Malegam Committee. Micro Finance Institutions to be included in the above regulatory framework have to initiate requisite organisational capacity building exercise so as to enable them to conform to the above guidelines. Banks which are lending to MFIs will be one of the important pillars of the new regulatory framework and, hence, they need to build up necessary criterion of due diligence while processing loan applications from MFIs. This process should be initiated immediately to ensure that MFIs availing finance from them are capable enough to put up the systems in terms of Corporate Governance, Human Resource Management, Customer Protection and other aspects of the proposed regulatory framework, so as to ensure that once the new regulatory framework is in place, Micro Finance Institutions can carry out their operations without any major disruption.

RBI/2010-11/511 DPSS.CO.No.2502/02.23.02/2010-11 dated May 4, 2011

### **Mobile Banking Transactions in India - Operative Guidelines for Banks**

The Chairman and Managing Director/Chief Executive Officers

All Scheduled Commercial Banks including RRBs/Urban Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks

A reference is invited to Para 125 of the Monetary Policy statement (2011-2012), the operative guidelines on mobile banking for banks dated October 08, 2008 and our circular no. RBI/2009-10/273 DPSS. CO. No. 1357/02.23.02/2009-10 dated December 24, 2009, on the subject.

2. The users of mobile banking services and also the volume of such transactions have been steadily increasing since the introduction of this facility. As per the current instructions mobile banking transactions up to ₹ 1000/- are permitted without insisting on end-to-end encryption. Banks have been representing to the Reserve Bank to enhance the cap fixed for such transactions given the extensive use of this facility.

3. It has, therefore, been decided to increase the limit of such transactions without end-to-end encryption to ₹ 5000/- with effect from the date of this circular. Banks may ensure to put in place adequate security measures and velocity limits based on their own risk perception.

4. The directive is issued under Section 18 of Payment and Settlement Systems Act, 2007, (Act 51 of 2007).

RBI/2010-11/512 DPSS.CO.No.2501/02.14.06/2010-11 dated May 4, 2011

### **Policy Guidelines for issuance and operation of Prepaid Instruments in India**

All System Providers, System Participants  
And Prospective prepaid Instrument Issuer

A reference is invited to Para 124 of the Monetary Policy statement (2011-2012) on the issue of mobile based semi-closed prepaid payment instruments. Attention is also invited to our circular RBI/2009-10/123- DPSS.PD.No.344/02.14.06/2009-2010 dated August 14, 2009 wherein an amendment to Paragraph 3.2 of the policy guidelines on the issue of prepaid instruments in India (RBI/2008-09/458, DPSS.CO.

PD.No.1873/02.14.06/2008-09 dated April 27, 2009), was carried out.

2. As per the amendment it was decided to permit Other Persons to issue mobile phone based semi-closed system pre-paid payment instruments (semi-closed m-wallets) complying with the above guidelines with the following conditions:

- i. The maximum value of such instruments shall not exceed ₹ 5000/-.
- ii. The purchase/reloading of these instruments against the value of airtime/talktime shall not be permitted.
- iii. This facility shall be enabled only to facilitate purchase of goods and services. Person-to-person transfer of value shall not be permitted

3. The position has been reviewed keeping in view the need to facilitate larger acceptance of mobile phone based prepaid payment instruments (M-wallets) as a mode of payment. Accordingly, it has now been decided to bring semi closed m-wallets on par with the other semi-closed prepaid instruments subject to the following conditions.

- a. The maximum value of such prepaid semi-closed m-wallet shall not exceed ₹ 50,000 as indicated in Para 6.3 of the above guidelines.
- b. The monetary ceilings on prepaid instruments issued based on customer due diligence as laid down in Para 6.4 of the extant guidelines would be applicable to such m-wallets.
- c. The conditions specified at Para 2(ii) & (iii) above will continue to be applicable to such semi-closed m-wallets.
- d. All other conditions specified in the 'Policy guidelines for issuance and operation of prepaid instruments in India' would mutatis mutandis apply to such m-wallets.

5. The directive is issued under section 18 of Payment and Settlement Systems Act 2007, (Act 51 of 2007).

RBI/2010-11/516 Ref. DBOD No. Ret. BC. 92/12.02.001/2010-11 dated May 09, 2011

### **Maintenance of Statutory Liquidity Ratio**

All Scheduled Commercial Banks  
(Excluding Regional Rural Banks)

Section 24 of the Banking Regulation Act, 1949-  
Maintenance of Statutory Liquidity Ratio (SLR)

Please refer to our circular DBOD No.Ret.BC 41/12.02.001/2009-10 dated September 08,2009 forwarding the Notification DBOD No.Ret.BC 40/12.02.001/2009-10 dated September 08,2009 and circular DBOD No.Ret.BC 29/12.02.001/2010-11dated July 27, 2010 forwarding Notification DBOD No.Ret.BC 28/12.02.001/2010-11dated July 27,2010 on the captioned subject.

2. As announced in the Reserve Bank of India's Annual Monetary Policy Statement 2011-12 on May 03, 2011 Scheduled Commercial Banks (SCBs) may borrow overnight up to one per cent of their respective Net Demand and Time Liabilities (NDTL) under the Marginal Standing Facility (MSF)Scheme effective from the fortnight beginning on May 07, 2011. Operating instructions in this regard are contained in circular FMD No.59/01.18.001/2010-11 dated May 9, 2011.

3. We have issued a new Notification DBOD No.Ret.BC 91/12.02.001/2010-11.dated May 09, 2011 superseding the existing Notification Ref. DBOD. No. Ret.BC.40/12.02.001/2009-10 dated September 8, 2009 (which was partially modified by Notification DBOD. No. Ret. BC 28/12.02.001/2010-11 dated July 27, 2010) on the maintenance of assets for the purpose of computing the Statutory Liquidity Ratio by Scheduled Commercial Banks. A copy of the new Notification referred to above is enclosed.

Ref. DBOD.No.Ret.BC. 91/12.02.001/2010-11 dated May 9, 2011

### **Notification**

In exercise of the powers conferred by sub-section (2A) of Section 24 of Banking Regulation Act, 1949 (10 of 1949) and in partial modification of the Notification

Ref.DBOD.No.Ret.BC.40/12.02.001/2009-10 dated September 8, 2009 and Notification DBOD. No. Ret. BC 28/12.02.001/2010-11 dated July 27, 2010 the Reserve Bank of India hereby specifies that every scheduled commercial bank shall continue to maintain in India assets, as detailed below, the value of which shall not, at the close of business on any day, be less than 24 per cent of the total net demand and time liabilities in India as on the last Friday of the second preceding fortnight as prescribed vide notification DBOD.No.Ret.BC.66/12.02.001/2010-11 dated December 16, 2010 valued in accordance with the method of valuation specified by the Reserve Bank of India from time to time:

- (a) Cash or
- (b) Gold valued at a price not exceeding the current market price, or
- (c) Investment in the following instruments which will be referred to as 'Statutory Liquidity Ratio (SLR) securities':
  - (i) Dated securities issued up to May 6, 2011 as listed in the Annex;
  - (ii) Treasury Bills of the Government of India;
  - (iii) Dated securities of the Government of India issued from time to time under the market borrowing programme and the Market Stabilization Scheme;
  - (iv) State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme; and
  - (v) Any other instrument as may be notified by the Reserve Bank of India.

Provided that the securities (including margin) referred to above, if acquired under the Reserve Bank-Liquidity Adjustment Facility (LAF), shall not be treated as an eligible asset for this purpose.

Explanation: For the above purpose, 'market borrowing programme' shall mean the domestic rupee loans raised by the Government of India and the State Governments from the public and managed by the Reserve Bank of India through issue of marketable securities, governed by the Government Securities Act, 2006 and the Regulations framed thereunder, through

an auction or any other method, as specified in the Notification issued in this regard.

2. Encumbered SLR securities shall not be included for the purpose of computing the percentage specified above.

Provided however that for the purpose of computing the percentage of assets referred to hereinabove, the following shall be included, namely :

- (i) securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of; and
- (ii) securities offered as collateral to the Reserve Bank of India for availing liquidity assistance from Marginal Standing Facility (MSF) up to one percent of the total net demand and time liabilities in India carved out of the required SLR portfolio of the bank concerned.

3. In computing the amount for the above purpose, the following shall be deemed to be cash maintained in India:

- (i) The deposit required under sub-section (2) of Section 11 of the Banking Regulation Act, 1949 to be made with the Reserve Bank by a banking company incorporated outside India;
- (ii) Any balances maintained by a scheduled bank with the Reserve Bank in excess of the balance required to be maintained by it under Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934); and
- (iii) Net balances in current accounts with other scheduled commercial banks in India.

RBI/2010-11/515 FMD. No.59/01.18.001/2010-11 dated May 9, 2011

### **Marginal Standing Facility – Scheme**

All Scheduled Commercial Banks

As announced in the Monetary Policy for the year 2011-12, a new Marginal Standing Facility (MSF) is being introduced with effect from May 9, 2011.

The Scheme will be operationalized on the lines of the existing Liquidity Adjustment Facility – Repo Scheme (LAF – Repo). The salient features of the Scheme are as under:

### 1. Effective Date

This facility will be effective from May 9, 2011.

### 2. Eligibility

All Scheduled Commercial Banks having Current Account and SGL Account with Reserve Bank, Mumbai will be eligible to participate in the MSF Scheme.

### 3. Tenor and Amount

Under the facility, the eligible entities can avail overnight, up to one per cent of their respective Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight. But for the intervening holidays, the MSF facility will be for one day except on Fridays when the facility will be for three days or more, maturing on the following working day. In the event, the banks' SLR holdings fall below the statutory requirement up to one per cent of their NDTL, banks will not have the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility in terms of notification issued under sub section (2A) of Section 24 of the Banking Regulation Act, 1949.

### 4. Timing

The Facility will be available on all working days in Mumbai, excluding Saturdays between 3.30 P.M. and 4.30 P.M.

### 5. Rate of Interest

The rate of interest on amount availed under this facility will be 100 basis points above the LAF repo rate, or as decided by the Reserve Bank from time to time.

### 6. Discretion to Reserve Bank

The Reserve Bank will reserve the right to accept or reject partially or fully, the request for funds under this facility.

### 7. Mechanics of operations

- i) The requests will be submitted electronically in the Negotiated Dealing System (NDS).

Eligible members facing genuine system problem on any specific day, may submit physical requests in sealed cover in the box provided in the Mumbai Office, Reserve Bank of India, to the Manager, Reserve Bank of India, Securities Section, Public Accounts Department (PAD), Mumbai Office by 4.30 P.M.

- ii) The NDS provides for submission of single or multiple applications by the member. However, as far as possible only one request should be submitted by an applicant.
- iii) The MSF will be conducted as 'Hold-in-Custody' repo, similar to LAF - Repo.
- iv) On acceptance of MSF requests, the applicant's RC SGL Account will be debited by the required quantum of securities and credited to Bank's RC SGL Account. Accordingly, the applicant's current account will be credited with the MSF application amount. The transactions will be reversed in the second leg. In case the second leg falls on a holiday, the reversal date will be the next working day.
- v) The MSF transactions between Reserve Bank and counter parties which would involve operation of the RC SGL Account would not require separate SGL forms.
- vi) Pricing of all securities including Treasury Bills will be at face value for MSF operations by Reserve Bank. Accrued interest as on the date of transaction will be ignored for the purpose of pricing of securities.

### 8. Minimum request size

Requests will be received for a minimum amount of ₹ One crore and in multiples of ₹ One crore thereafter.

### 9. Eligible Securities

MSF will be undertaken in all SLR-eligible transferable Government of India (GoI) dated Securities/Treasury Bills and State Development Loans (SDL).

## 10. Margin Requirement

A margin of five per cent will be applied in respect of GoI dated securities and Treasury Bills. In respect of SDLs, a margin of 10 per cent will be applied. Thus, the amount of securities offered on acceptance of a request for ₹100 will be ₹105 (face value) of GoI dated securities and Treasury Bills or ₹110 (face value) of SDLs.

## 11. Settlement of Transactions

The settlement of all applications received under the MSF Scheme will take place on the same day after the closure of the window for acceptance of applications.

## 12. SLR and Securities held in Repo SGL Account

The extant instructions issued by the Department of Banking Operations and Development (DBOD) of the Reserve Bank will apply on the securities offered by scheduled commercial banks for MSF operations.

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RBI/2010-11/517 RPCD.CO.Plan.BC.69/04.09.01/2010-11 dated May 9, 2011

## Housing Loan limit under priority sector

The Chairman/Managing Director/Chief Executive Officer

[All Scheduled Commercial Banks (excluding Regional Rural Banks)]

Please refer to paragraph 6.1 of our master circular RPCD.CO.Plan.BC.10/04.09.01/2010-11 dated July 1, 2010 on lending to priority sector, wherein loans up to ₹20 lakh irrespective of location, to individuals for purchase/construction of dwelling unit per family, excluding loans granted by banks to their own employees are eligible for classification under priority sector.

2. Pursuant to the announcement made by Union Finance Minister in paragraph 44 of the budget for the year 2011-12, it has been decided to increase the above limit from ₹20 lakh to ₹25 lakh.

3. The above change will be applicable to housing loans sanctioned on or after April 1, 2011.

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RBI/2010-11/520 Ref.DBS.ARS.BC. No.07/08.91.020/2010-11 dated May 11, 2011

## Regulatory and Audit Compliance

The Chief Executives Officers

All foreign banks operating in India

It is observed that Indian operations of foreign banks functioning in India as branches of the parent banks generally do not have a separate Audit Committee vested with the responsibility of examining and reviewing inspection/audit reports for their compliance. In the recent past, there have been concerns about the adequacy of regulatory compliance by foreign banks in India and it is felt that this is on account of Business Heads/Units reporting directly and being answerable to their 'Functional Heads' located overseas and not to the Chief Executive Officer (CEO) of Indian operations.

2. In this context, it has been decided that for all foreign banks operating in India, the Chief Executive Officer would be responsible for effective oversight of regulatory and statutory compliance as also the audit process and the compliance thereof in respect of all operations in India.

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RBI/2010-11/521 UBD.BPD.(PCB)CIR No.46/09.09.001/2010-11 dated May 11, 2011

## Limit of Housing Loans Under Priority Sector Advances - UCBs

The Chief Executive Officers

All Primary (Urban) Co-operative Banks

Please refer to our Circular UBD.PCB.Cir.No.11/09.09.01/2007-08 dated August 30, 2007 forwarding therewith the guidelines for UCBs on lending to priority sector. In terms of item (vi) under 'Categories of Priority Sector' and also para 7.1 of section I of Annex of the above Circular, loans up to ₹20 lakh irrespective of location, to individuals for purchase/construction of dwelling unit per family, excluding loans granted by banks to their own employees are eligible for classification under priority sector.

2. Pursuant to the announcements made by Union Finance Minister in paragraph 44 of the Budget Speech for the year 2011-12, it has been decided to increase

the above limit from ₹20 lakh to ₹25 lakh. The change will be applicable to housing loans sanctioned on or after April 1, 2011.

RBI/2010-11/524 UBD.BPD.(PCB). Cir. No.47/13.05.000/2010-11 dated May 11, 2011

### **UCBs - Exposure to Housing, Real Estate and Commercial Real Estate - Primary (Urban) Co-operative Banks**

The Chief Executive Officer,  
All Primary (Urban) Cooperative Banks.  
Monetary Policy Statement 2011-12

Please refer to para 2.3.4 of our Master Circular UBD.PCB.MC.No.1/13.05.000/2010-11 dated July 1, 2010 on Exposure Norms and Statutory/Other Restrictions and para 4.7.4 of Master Circular UBD.PCB.MC.No. 2/09.22.010/2010-11 dated July 1, 2010 on Finance for Housing Schemes stating that the limit prescribed for lending by UCBs to Housing, Real Estate and Commercial Real Estate may be exceeded to the extent of funds obtained for the purpose from higher financing agencies and refinance from the National Housing Bank. Please also refer to Circular UBD.BPD. (PCB).Cir.No.23/13.05.000/2010-11 dated November 15, 2010 advising that the exposure of UCBs to Housing, Real Estate and Commercial Real Estate would be limited to 10 percent of their total assets which could be exceeded by an additional 5 percent of total assets for the purpose of grant of housing loans to individuals for purchase or construction of dwelling units costing up to ₹ 10 lakh.

2. As announced in the Monetary Policy Statement 2011-12 (para 101- extract appended), UCBs would, henceforth, be permitted to lend upto an additional 5 percent of total assets, referred to in para 1 of Circular dated November 15, 2010, for housing loans to individuals upto ₹15 lakh.

3. It has also been decided that, the provisions contained in para 2.3.4 and para 4.7.4 of Master Circulars dated July 1, 2010, mentioned above, will not be applicable from the date of this Circular.

4. All other instructions regarding grant of loans by UCBs to Housing, Real Estate and Commercial Real

Estate sectors, including on computation of total assets, remain unchanged.

Monetary Policy Statement for the Year 2011-12 - (Para - 101)

### **Exposure of UCBs to Housing, Real Estate and Commercial Real Estate**

101. Pursuant to the announcements made in the Second Quarter Review of November 2010, UCBs were permitted to lend up to 10 per cent of their total assets to housing, real estate and commercial real estate and an additional 5 per cent of total assets for purchase and construction of dwelling units costing up to ₹ 10 lakh. Keeping in view the representations received from UCBs and their associations that they are finding it difficult to use the additional limit of 5 per cent of total assets due to the high cost of dwelling units, it is proposed:

- to permit UCBs to utilise the additional 5 per cent of their total assets permitted earlier, for housing loans up to ₹ 15 lakh.

RBI/2010-11/525 DBOD.Dir.BC.No.93/08.12.14/2010-11 dated May 12, 2011

### **National Disaster Management Guidelines on Ensuring Disaster Resilient construction of Buildings and Infrastructure**

All Scheduled Commercial Banks  
(excluding RRBs)

The National Disaster Management Authority (NDMA), Government of India has formulated guidelines on ensuring disaster resilient construction of buildings and infrastructure financed through banks and other lending institutions (A copy of NDMA guidelines of September 2010 is enclosed). The NDMA has observed that in the context of disaster resilience there are certain critical gaps and the guidelines aim at addressing these gaps in the current process of approving the loan applications. It has been observed that the structural design of the proposed buildings and structures are not completed before submitting the application for a bank loan and no processes are in place at the banks to ensure that disaster resilience

has indeed been incorporated in the assets during the design process at least before the construction begins.

2. As it is in the interest of lenders to ensure that physical assets created through their financing remain safe and disaster resilient, the guidelines prepared by NDMA can be adopted by banks and made applicable to new constructions as well as additions, modifications, extensions or alteration of houses financed by them. Further, depending on the nature of the asset and the vulnerability of the location to any of the disasters, banks could insist on ensuring that the disaster resistant features of NDMA guidelines are incorporated in the actual construction before the loan is sanctioned or disbursed so that the disaster management features are built in at the design stage itself.

3. We have examined the NDMA guidelines in consultation with the Indian Banks' Association and National Housing Bank and are of the view that adoption of the guidelines would be in the interest of lenders and borrowers.

4. We, accordingly, advise that banks should adopt the NDMA guidelines and suitably incorporate them as part of their loan policies, procedures and documentation.

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RBI 2010-11/529 DBOD.No.BP.BC. 94/21.04.048/2011-12 dated May 18, 2011

### **Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances**

The Chairman and Managing Directors/  
Chief Executive Officers

All Scheduled Commercial Banks (Excluding RRBs)

Please refer to paragraph 110 of the Monetary Policy Statement for the year 2011-12 wherein it was proposed to enhance the provisioning requirements on certain categories of non-performing advances and restructured advances. Accordingly, the revised provisioning requirements for the following categories of non-performing advances and restructured advances

will be as under: (the current provisioning requirements are laid down in paragraph 5 of the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Ref DBOD.No.BP.BC.21/21.04.048/2010-11 dated July 01, 2010).

#### **1. Sub-Standard Advances:**

Advances classified as 'sub-standard' will attract a provision of 15 per cent as against the existing 10 per cent. The 'unsecured exposures' classified as sub-standard assets will attract an additional provision of 10 per cent, *i.e.*, a total of 25 per cent as against the existing 20 per cent. However, 'unsecured exposures' in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available as indicated in our circular DBOD.No.BP.BC.96/08.12.014/2009-10 dated April 23, 2010, will attract an additional provision of 5 per cent only *i.e.* a total of 20 per cent as against the existing 15 per cent.

#### **2. Doubtful Advances:**

Doubtful Advances will continue to attract 100 per cent provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:

- i. The secured portion of advances which have remained in 'doubtful' category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
- ii. The secured portion of advances which have remained in 'doubtful' category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and
- iii. The secured portion of advances which have remained in 'doubtful' category for more than 3 years will continue to attract a provision of 100 per cent.

#### **3. Restructured Advances:**

- i. Restructured accounts classified as standard advances will attract a provision of 2 per cent



in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and

- ii. Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

RBI/2010-11/533 RPCD.CORRB.No.71/03.05.33/2010-11 dated May 16, 2011

### **Increase in Housing Loan Limit under Priority Sector**

The Chairman

All Regional Rural Banks (RRBs)

Please refer to paragraph 7.1 of our circular RPCD.No.RRB.BC.20/03.05.33/2007-08 dated August 22, 2007 on lending to Priority Sector, wherein loans up to ₹20 lakh irrespective of location, to individuals for purchase/construction of dwelling unit per family, excluding loans granted by banks to their own employees are eligible for classification under priority sector.

2. Pursuant to the announcement made by Union Finance Minister in paragraph 44 of the budget for the year 2011-12, it has been decided to increase the above limit from ₹20 lakh to ₹25 lakh.
3. The above change will be applicable to housing loans sanctioned on or after April 1, 2011.
4. Please acknowledge receipt of the circular to our Regional Office concerned.

RBI/2010-11/541 DBOD.No.BC.No.95/29.39.001/2010-11 dated May 23, 2011

### **'Fit and Proper' Criteria for Directors on the Boards of Banks**

The Chairmen & Managing Directors of all Nationalised Banks/

Managing Directors & CEOs of all Private Sector Banks/  
The Managing Directors of all the Associate Banks of State Bank of India

Please refer to DBOD circulars No.BC.104 & 105/08.139.001/2003-04 dated June 25, 2004 addressed to all private sector banks, DBOD.No.BC.No.46 & 47/29.39.001/2007-08 dated November 1, 2007 addressed to all nationalized banks and DBOD.No.BC.No.50/29.39.001/2007-08 dated November 14, 2007 issued to all Associate Banks of SBI, on the captioned subject.

2. It has been decided to partially modify the format of 'Declaration and Undertaking' prescribed for the purpose of conducting due diligence to determine the 'fit and proper' status of directors, incorporating an explanatory note against Column (IV)(g) of the said format. Henceforth, banks should use the revised format for obtaining declaration and undertaking from existing directors as well as the person to be appointed/elected as director.

RBI/2010-11/542 IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011

### **Guidelines on Credit Default Swaps (CDS) for Corporate Bonds**

All Market Participants

As indicated in paragraph 113 of the Second Quarter Review of Monetary Policy for year 2009-10, an Internal Group was constituted by the Reserve Bank to finalise the operational framework for the introduction of plain vanilla OTC single-name CDS for corporate bonds in India.

2. Draft guidelines on CDS based on the recommendations of the Group were placed on the RBI website on February 23, 2011 and were open for comments from all concerned.

3. Comments were received from a wide spectrum of banks, PDs and other market participants. The guidelines have been suitably revised in the light of the feedback received and are furnished in the Annex.

4. The guidelines would become effective from October 24, 2011.

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RBI/2010-2011/545 DNBS (PD) CC. No. 24/SCRC/26.03.001/2010-2011 dated May 25, 2011

### **Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002**

All registered Securitisation Companies/Reconstruction Companies

Pursuant to the announcement made by the Finance Minister in the budget speech for 2011-12, Government of India, Ministry of Finance notified the establishment of the Central Registry vide notification F. No. 56/05/2007-BO-II dated March 31, 2011. The objective of setting up of Central Registry is to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 25 of the Companies Act 1956 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

2. It may be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property.

3. A copy of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Central Registry) Rules, 2011 along with a copy of Notification dated March 31, 2011 issued by the Government of India in this regard, is enclosed for perusal and necessary action at your end.

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RBI/2010/11/547 DPSS.PD.No.2632/02.10.002/2010-2011 dated May 27, 2011

### **Reconciliation of failed transactions at ATMs**

The Chairman and Managing Director/Chief Executive Officers

All Scheduled Commercial Banks including RRBs/  
Urban Co-operative Banks/State Co-operative Banks/  
District Central Co-operative Banks

Please refer to our letter DPSS No. 711/02.10.02 / 2008-2009, 1424/02.10.02/2008-2009 and 101/02.10.02/2009-2010 dated October 23, 2008, February 11, 2009 and July 17, 2009 respectively on the captioned subject.

2. Reserve Bank has been continuously monitoring the implementation of various directions by the banks. Based on a review of the developments and with a view to further improve the efficiency of operations, it has been decided as under :-

- a. The time limit for resolution of customer complaints by the issuing banks shall stand reduced from 12 working days to 7 working days from the date of receipt of customer complaint. Accordingly, failure to recredit the customer's account within 7 working days of receipt of the complaint shall entail payment of compensation to the customer @ ₹ 100/- per day by the issuing bank.
- b. Any customer is entitled to receive such compensation for delay, only if a claim is lodged with the issuing bank within 30 days of the date of the transaction.
- c. The number of free transactions permitted per month at other bank ATMs to Savings Bank account holders shall be inclusive of all types of transactions, financial or non-financial.

- d. All disputes regarding ATM failed transactions shall be settled by the issuing bank and the acquiring bank through the ATM system provider only. No bilateral settlement arrangement outside the dispute resolution mechanism available with the system provider is permissible. This measure is intended to bring down the instances of disputes in payment of compensation between the issuing and acquiring banks.
3. The directive is issued under section 18 of Payment and Settlement Systems Act 2007, (Act 51 of 2007). Non-adherence to the provisions of this circular shall attract penalty as prescribed under the Payment and Settlement Systems Act 2007 (Act 51 of 2007).
4. This directive shall come into effect from July 01, 2011
5. Banks may widely publicise these changes at all ATM locations and by individual intimation to customers.

RBI/2010-11/549 DNBS.PD.CC.No. 221/03.02.002/2010-11 dated May 27, 2011

### **Review of Guidelines on entry of NBFCs into Insurance Business**

All NBFCs

Please refer to the circular DNBS.(PD).CC.No.13/02.01/99-2000 dated June 30, 2000 issued on Amendment to NBFC Regulations which contains the Guidelines for entry of NBFCs into Insurance Business.

In terms of para 2 of the above guidelines, NBFCs registered with RBI which satisfy the stipulated eligibility criteria will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such an NBFC can hold in a joint venture (JV) company is 50 per cent of the paid-up capital of the insurance company. Further, in terms of para 4 of the said Guidelines, a subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking business shall not be allowed to join the insurance company on risk participation basis.

2. It is clarified that in case more than one company (irrespective of doing financial activity or not) in the same group of the NBFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 percent prescribed for the NBFC in an insurance JV.

3. The term 'Companies in the same group shall mean an arrangement involving two or more entities related to each other through any of the following relationships : Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20 per cent and above'.