

## **Credit Control and other Measures September 1999**

**Selected circulars issued by the Reserve Bank of India during September 1999 are reproduced below.**

Ref.UBD No.Plan.PCB.6/ 10.01.00/ 1999-2000 dated September 7, 1999

### **All Primary Urban Co-operative Banks Small Scale Industrial Sector-**

- a) Promulgation of Ordinance**
- b) Recommendations of the SSI Board**

An ordinance (No.15 of 1992) titled "The Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings Ordinance 1992" promulgated and published in the Gazette of India, Extraordinary, Part II, Section I on September 23, 1992, has since been amended with effect from August 11, 1998, as published in the Gazette of India, Extraordinary, Part II, Section 1 on August 11, 1998.

2. The Ordinance 1992 was promulgated to provide for and regulate the payment of interest on delayed payments to small scale and ancillary industrial undertakings and for matters connected therewith or incidental thereto. We shall be glad if the above information is brought to the notice of SSI units financed by your bank.

3. We further advise that the following recommendations regarding sickness, credit/finance for SSI Sector had been made in the 44th SSI Board Meeting held on August 30, 1997.

- (i) The manufacturing and non-manufacturing enterprises amongst the sick units should be differentiated. The share of non-manufacturing sick units is substantial and affects the flow of credit to the manufacturing units.
- (ii) The under utilisation of installed capacity in small-scale sector for various items is a grey area. Institutional initiative involving State Directorate of Industries and Financial Institutions will facilitate in improving capacity utilisation leading to better returns and productive use of investment. The banks will particularly be required to support small industries on their increased working capital requirements with the improvement in the capacity utilisation.

Ref.UBD No.DS.PCB.CIR.9/ 13.01.00/1999-2000  
dated September 21, 1999

### **To All Primary Co-operative Banks**

#### **Interest Rates on Deposits**

Please refer to our Directive UBD.DC.102/V.1-86/87 dated June 25, 1987 as amended from time to time on the above subject.

2. In terms of clause (i) of paragraph 5 of the aforesaid directive banks have been prohibited from opening savings banks accounts in the name of certain bodies/ organisations. Clarification was sought by a bank regarding opening of savings bank account in the name of political parties. It is clarified that political parties come under the purview of the prohibition on opening of savings bank accounts. However, for the sake of clarity the said clause (i) has since been amended.

3. Paragraph 12 of the aforesaid directive provides for premature closure of a term deposit, a deposit in the form of daily deposit or a recurring deposit for reinvestment in another term deposit with the same bank on payment of interest as indicated in paragraph 11 thereof without levy of penalty. As the banks have now been given freedom to determine their own penal interest rates for premature withdrawal of domestic/ NRE term deposits, the banks should pay interest in respect of such a term deposit in the manner indicated in paragraph 11 without reducing the interest by way of penalty provided the deposit remains with the bank after reinvestment for a period longer than the remaining period of original contract.

4. Clause (ii) of paragraph 13 of the Directive UBD. No.DC. 12/V.1(B)-88/89 dated July 30, 1988 in case of NRE deposit and paragraph II of directive No.DS Dir. (AD)15/13.02.00/97-98 dated April 29, 1998 (addressed only to two authorised Scheduled Primary Cooperative Banks) in case of FCNR deposits, allow the banks to fix their own interest rates on overdue deposits where the overdue period exceeds 14 days and on the amount placed as a fresh deposit. It has been decided that banks are free to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of minimum period prescribed under the scheme, after renewal.

5. The amending directives No.UBD DS. 2/13.01.00/ and 1/13.02.00/1999-2000 dated September 21, 1999 are enclosed.

Ref.UBD No.DS.1/13.02.00/1999-2000  
dated September 21, 1999

### **Interest Rates on Deposits held under Foreign Currency Non-Resident (Banks) Scheme**

In exercise of the powers conferred by Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949 and in modification of its Directive No.DS.Dir(AD).15/13.12.00/97-98 dated April 29, 1998 as amended from time to time, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that-

1. The existing paragraph II of the aforesaid directive shall be modified as under :

#### **I. Overdue deposits**

"The Bank may, at its discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive), does not exceed 14 days and the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or

on the date when the depositor seeks renewal, whichever is lower. In the case of overdue deposits where the overdue period exceeds 14 days and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh FCNR(B) deposit, banks may fix their own interest rates for the overdue period on the amount so placed as a fresh term deposit. Banks are free to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of minimum stipulated period under the scheme, after renewal."

II. The existing paragraph 7 of the aforesaid directive shall be substituted as under:

**"7. Interest payable on the deposit of a deceased depositor**

In the case of a deposit standing in the name/s of

1. a deceased individual depositor or
2. two or more joint depositors, where one of the depositors has died, interest shall be paid in the manner indicated below:
  - (i) at the contracted rate on maturity of the deposit;
  - (ii) in the event of the heir/s, legal representative/s nominee/s claiming the payment of deposit before maturity date, the bank may, at its discretion, pay interest at an applicable rate prevailing on the date of placement of the deposit, without charging the penalty.
  - (iii) if the amount of the deposit is claimed by the heir/s, legal representative/s or nominee/s after the date of maturity, the bank shall pay interest at the contracted rate till the date of maturity. After the date of maturity to the date of payment to the heir/s, legal representative/ s or nominee/s the bank shall pay interest as permissible under the directive on interest rates on deposits operative on the date of maturity.
  - (iv) if on request from the heir/s, legal representative/s or nominee/s, bank agrees to split the amount of term deposit and issues two or more receipts individually in the name of the heir/s, legal representative/s or nominee/s, it shall not be construed as premature withdrawal of the term deposit for the purpose of levy of penalty provided the period and aggregate amount of the deposit do not undergo any change."

**Note:** "In the case of legal heirs being residents, the maturity proceeds may be converted into Indian Rupees on the date of maturity and interest be paid for the subsequent period at a rate applicable to the deposit of similar maturity under domestic deposit scheme."

Ref.UBD No.DS.2/13.01.00/1999-2000  
dated September 21, 1999

**Interest Rates on Deposits**

In exercise of the powers conferred by Sections 21 and 35A read with Section 56 of the Banking

Regulation Act, 1949 and in modification of its directive UBD.DC.102/V.1/86-87 dated June 25, 1987 as amended from time to time, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that:-

I. Clause (i) of paragraph 5 of the aofresaid directive shall be substituted by the following:

**"5. Prohibition against opening of savings bank accounts in the name of certain bodies/organisations**

- (i) No primary co-operative bank shall open a savings deposit account in the name of Government departments/bodies depending upon budgetary allocations for performance of their functions/ Municipal Corporations or Municipal Committees/Panchayat Samitis/ State Housing Boards/ Water and Sewerage/ Drainage Boards/ State Text Book Publishing Corporations/ Societies/ Metropolitan Development Authority/ State/ District Level Housing co-operative societies, etc. or any political party or any trading/ business or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association."

**Explanation:** for the purpose of this clause, 'political party' means an association or body of individual citizens of India, which is, or is deemed to be registered with the Election Commission of India as a political party under the Election Symbols (Reservation and Allotment) Order, 1968 as in force for the time being.

II. Paragraph 12 of the aforesaid Directive shall be substituted by the following:

**"12.Premature closure of a term deposit, a deposit in the form of daily deposit or recurring deposit for reinvestment in term deposit**

The primary co-operative bank on a request from the depositor, shall allow closure of a term deposit, a deposit in the form of daily deposit or recurring deposit, to enable the depositor to immediately reinvest the amount lying in the aforesaid deposits with the same bank in another term deposit. The Primary Co-operative Bank shall pay interest in respect of such term deposit in the manner indicated in paragraph 11 above without reducing the interest by way of penalty as stated in the said paragraph. Provided that the deposit remains with the bank after reinvestment for a period longer than the remaining period of the original contract."

III. Clause (ii) of paragraph 13 of the Directive UBD No.DC.12/V.1(B)-88/ 89 dated July 30, 1988 shall be substituted by the following.

"(ii) Non-resident (external) Rupee Account"

The Primary Co-operative Bank may, at its discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days and the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal whichever is lower. In the case of overdue deposits where the overdue period exceeds 14 days and if the depositor places the

entire amount of overdue deposit or a portion thereof as a fresh NRE term deposit, Primary Co-operative Banks may fix their own interest rates for the overdue period on the amount so placed as a fresh deposit. Banks are free to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of minimum period prescribed under the scheme, after renewal."

2. The other provisions of Directive UBD DC 102/V.1-86/87 dated June 25, 1987 and DC 12/V.1(D)88-89 July 30, 1988 as amended from time to time, shall remain unchanged.