

Credit Control and Other Measures

FEBRUARY 2000

Selected circulars issued by the Reserve Bank of India during February 2000 are reproduced below.

Ref. UBD No. BSD I/22/12.05.00/99-2000 dated February 8, 2000.

All Primary (Urban) Cooperative Banks.

Prudential Norms on Income Recognition, Asset Classification and Provisioning - Agricultural Loans Affected by Natural Calamities

Please refer to our circular UBD.No. Plan.33/09.09.01/96-97 dated December 13, 1996, permitting primary (urban) cooperative banks to finance agricultural activities subject to certain conditions stated therein:

2. It has since been decided that where natural calamities impair the repaying capacity of agricultural borrower, primary cooperative banks, as a relief measure, may decide on their own to:
 - a) convert the short-term production loan into a term loan or re-schedulement of the repayment period, and
 - b) sanction fresh short-term loans.
3. The primary cooperative banks are advised to follow the enclosed guidelines for the above course of action.
4. We further advise that in such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as Non Performing Advance(NPA). The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and/or installment of principal remains unpaid, after it has become past due, for two harvest seasons but for a period not exceeding two half years as indicated in our circular UBD.BSD.I/2/12.05.00/98-99 dated July 17, 1998.

Annexure

Guidelines to Primary (Urban) Cooperative Banks for Relief Measures to Persons Affected by Natural Calamities - Agricultural Advances

Periodical but frequent occurrences of droughts, floods, cyclones tidal waves and other natural calamities cause heavy toll of human life and widespread damage to economic pursuits of human beings in one area or the other of our country. The devastation caused by such natural calamities call for massive rehabilitation efforts by all agencies. The State and local authorities draw programmes for economic rehabilitation of the affected people. The developmental role assigned

to the commercial banks and cooperative banks warrants their active support in revival of the economic activities.

Since the area and time of occurrence and intensity of natural calamities can not be anticipated, it is imperative that the banks have a blueprint of action in such eventualities so that the required relief and assistance is provided with the utmost speed and without any loss of time. The primary (urban) cooperative banks may follow the following guidelines in such eventualities:

- (i) Banks may, on their own, decide the quantum of fresh loans to be granted to the affected borrowers taking into consideration amongst others, the extent of the crop loss/scale of finance and their repaying capacity.
- (ii) Amount of principal as well as interest in respect of short-term loans due in the year of occurrence of natural calamity may be converted into term loans or the repayment period may be rescheduled suitably. The period of conversion/reschedulement to be granted may vary depending on the intensity of calamity and the extent of crop loss and distress caused to the farmers. Amounts not collected during the year of occurrence of the calamity should be converted into term loans for a period upto 3 years and for small and marginal farmers upto 5 years in the normal circumstances. However, where the damage to crops arising out of the calamity is very severe and has caused acute distress to the farmers or if the calamity is for two successive years, banks may, at their discretion and in consultation with the Task Force/Steering Committees of the State Level Bankers Committee (SLBC)/District Consultative Committee (DCC), grant extensions of the converted loans for periods upto 5 years. In extreme cases of hardships arising out of very severe loss to the crops or occurrence of three successive crop failures and the debt burden being found to be beyond the immediate repaying capacity of the borrower, conversion for longer period upto a maximum period of 9 years may also be considered by banks in consultation with the Task Force/SLBC/DCC.
- (iii) Pending conversion of short-term loans, banks may grant fresh crop loans to the affected farmers.
- (iv) Conversion of short-term production loans may be taken up by banks at the time of sanction of fresh crop loans to the affected farmers without waiting for the due dates which are taken into account in normal course of sanction of such loans.
- (v) Similarly, installments of principal/interest in respect of term loans may be rescheduled for a period of three years which could be extended for longer period in the circumstances mentioned at (ii) above.
- (vi) Where relief in the form of conversion/reschedulement is extended to the farmers, such converted/ rescheduled dues should be treated as current dues and banks should not compound interest in respect of the loans so converted/rescheduled.
- (vii) In order to avoid delay in taking relief measures on the occurrence of natural calamity, banks may evolve a suitable policy framework in this regard with the approval of the

Board of Directors and forward a copy of the policy note to the Regional Office under whose jurisdiction the bank falls. It is advisable to provide an element of flexibility in the measures so as to synchronise the same with the measures which could be appropriate in a given situation in a particular State or District and parameters in this regard may be decided in consultation with the SLBC/ DCC as the case may be.

- (viii) As a measure of precaution, banks may get the documentation settled, in consultation with their Legal Department/Legal Advisers and may consider issuing appropriate instructions to branches/offices in respect of documentation in relation to cases covered by captioned guidelines.

Ref. UBD No. PCB.Plan/24/10.01.00/99-2000 dated February 23, 2000

All Primary (Urban) Co-operative Banks

Credit to Small Scale Industries Sector

As you are aware, Reserve Bank of India had appointed a one man High Level Committee headed by Shri S.L. Kapur, (IAS, Retd.), former Secretary, Government of India, Ministry of Industry, to suggest measures for improvement and simplification of procedures for credit to SSI Sector. In the light of the Committee's recommendations the following decisions have been taken -

- (1) In cases where adequate surplus of security is available and the banks have a first charge over fixed assets, they may take appropriate decision in regard to cash margin for SSI borrowers in respect of non-fund based facilities, based on the merits of the case, after following the usual norms in this regard.
- (2) Banks should develop a set of written loan policies. Such policies should, inter alia, specify explicitly, customer and group exposure limits, standards for documentation, sectoral exposure limits and delegation of powers. The smallest customer should expect and receive the courtesy and service reserved today for the biggest company. The prescribed comprehensive code of Banking Practices should be drawn up expeditiously outlining standards for disclosure of information about the bank's services and available products and the rights and obligations of its customers.
- (3) While fixing accountability a line should be drawn to separate malafide decisions from normal bonafide credit decisions, in order to keep the morale of the staff high.

These recommendations may be adopted by Primary Co-operative Banks for implementation.

Ref. UBD No. BSD. PCB./25/12.05.05/99-2000 dated February 28, 2000.

All Primary (Urban) Cooperative Banks

Income Recognition, Asset Classification, Provisioning and Other Related Matters

Please refer to paragraph (iii) of our circular UBD. BSD. 1/29/12.05.05/98-99 dated April 23, 1999, on the above subject, wherein primary cooperative banks have been advised to make a general provision on Standard Assets of a minimum of 0.25 per cent from the year ending March 31, 2000. In this connection, it is clarified that the provisions for standard assets may be netted from gross advances and only net advances should be shown in the balance sheet. You may please intimate to the Regional Office of the Reserve Bank of India, Urban Banks Department, under whose jurisdiction you function, the steps taken by you to comply with the prudential norms as advised in our circular dated April 23, 1999, on asset classification and provisioning requirements, as also other issues (as per details given in the Annexure to the above mentioned circular), within the time schedule prescribed. The report in this regard should reach the concerned Regional Office by September 30, 2000.

2. We further invite your attention to paragraph 5 of our circular UBD. No. I&L (PCB)61/12.05.00/94-95 dated June 6, 1995, on valuation of investments. It has been decided that for the year ending March 31, 2000, primary cooperative banks shall classify a minimum of 75 per cent of their investments in approved securities as "Current " investments. It has also been decided that primary cooperative banks should adopt the method indicated below for valuation of their investments, for preparation of the Balance Sheet as on March 31, 2000.

Investment Category	Method to be Adopted by Banks
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(1) <i>Permanent Investments</i>	<p>(i) "Perman ent" investments should be valued at cost and in case cost price is higher than the face value, the premium should be amortised over the remaining period of maturity of the security. On the other hand, where the cost price is less than the face value, the difference should be ignored and should not be amortised or taken to income account since the amount represents unrealised gain.</p> <p>(ii) Any gain on sale of securities in the "Permanent" category should be first taken to the Profit and Loss Account and thereafter it could be appropriated to "Capital Reserve".</p>
(2) <i>Current Investments</i>	Valuation of Government Securities in the "Current " category should be done as per market quotations as on March31, 2000, wherever available. Where market quotations are not available, valuation of the Government Securities should be made on the basis of guidelines issued by the Reserve Bank of India in this regard, from time to time. A separate communication in this regard will follow.

3. In this connection we advise that if there is any appreciation in the value of securities on account of the method of valuation as indicated above, it should not be booked as income. Further, banks which have adopted a more prudent method of valuation of securities than the one being suggested, may continue the practice hitherto followed by them.