

Credit Control and other Measures

MAY 2001

Selected circulars issued by the Reserve Bank of India during May 2001 are reproduced below.

Ref.No.MPD.BC. 207/07.01.279/2000-01 dated May 12, 2001

All Scheduled Commercial Banks

Cash Reserve Ratio

Under Section 42(1) of the Reserve Bank of India Act, 1934 all scheduled commercial banks [excluding Regional Rural Banks (RRBs)] are, at present, required to maintain with the Reserve Bank of India a cash reserve ratio (CRR) of 8.0 per cent of the net demand and time liabilities (NDTL) (excluding liabilities subject to zero CRR prescription). It has now been decided to reduce CRR by one half of one percentage point effective from fortnight beginning May 19, 2001.

2. The reduction in CRR by 0.5 percentage point will augment lendable resources of banks by about Rs. 4,500 crore.

Ref.No.UBD.BSD.I/RCS. 5/ 12.05.03/2000-2001 dated May 18, 2001

The Registrars of Co-operative Societies of all States

Classification of Urban Co-operative Banks as “Weak”

In order to give a focussed attention to the development of financially weak Urban Co-operative Banks (UCBs), a system of classification of such banks as “weak” and placing them under a scheme of rehabilitation was introduced in the year 1972. As per the prescribed norms, an urban co-operative bank is classified as weak if it falls under any one of the following categories:

(i) Owned funds are eroded to the extent of 25 per cent or more by the unprovided for bad or doubtful debts, other bad assets and accumulated losses or overdues exceed 50 per cent of the loans and advances outstanding;

(ii) Does not comply with the provisions regarding minimum share capital in terms of Section 11(1) of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies), *i.e.*, the real or exchangeable value of paid up share capital and reserves has fallen below the stipulated norm or Rupees one lakh; and

(iii) Has not achieved the viability norms prescribed by RBI, from time to time.

2. The High Power Committee appointed by the Reserve Bank in 1999 under the chairmanship of Shri K.Madhava Rao, IAS (Retd.) examined the system of declaring an UCB as weak and has recommended that an UCB should be classified as “weak” or “sick” based on three financial

parameters, *i.e.*, level of Capital to Risk Assets Ratio (CRAR), level of Net NPAs and the record of profitability.

3. The Committee has also recommended that the existing Bank Level Rehabilitation Review Committees should be discontinued since the system is not found effective and the primary responsibility for revival of weak banks should rest with banks themselves. However, State Level Rehabilitation Review Committees should continue.

4. It has been decided to accept the above said recommendations of the Committee. Accordingly, commencing from March 31, 2002, an UCB (including non-scheduled, scheduled, salary earners' and newly licensed banks) will be classified as "weak" or "sick" as per the norms given below :

Norm	Weak banks	Sick banks
CRAR	CRAR falls below the level of 75 per cent of the minimum prescription;	If CRAR falls below the level of 50 per cent of the minimum prescription;
	OR	AND
Level of NPAs	Net NPAs 10 per cent or more but less than 15 per cent of loans and advances outstanding as on March 31;	Net NPAs 15 per cent or more of loans and advances outstanding as on March 31; (However, if an urban bank is having Net NPAs more than 15 per cent of its loans and advances outstanding as on March 31, but not meeting other norms for its classification as a "sick", such a bank will be classified as a "weak" bank)
	OR	OR
Record of Profitability	Showing net losses in operation for two years out of the last three consecutive financial years.	Showing net losses in operation for the last three consecutive financial years.

5. The system of constituting Bank Level Rehabilitation Review Committees is discontinued with immediate effect. UCBs classified as "weak" should formulate an action plan for revival on their own or with the help of experts in the field of banking/management. The system of monitoring the progress achieved in their revival, however, will continue to be done by the Reserve Bank of India and by the State Level Review Committee.

Ref. No. UBD.C.O.BR.No. 538/16.51.00/2000-2001 dated May 21, 2001

All Primary (Urban) Co-operative Banks

Name as appearing in the certificate of Registration and the License - use of -Primary (Urban) Co-operative Banks

Please refer to our Circular UBD.BRNo. 11/16.51.00/98-99 dated December 11, 1998 on the captioned subject.

2. It is observed that many primary (Urban) Cooperative Banks still do not use the word "Cooperative" in their name as appearing in the certificate of registration issued by the Registrar of Co-operative Societies as well as in the licence issued by the Reserve Bank of India and continue to use their names in abridged (short) form on various stationery items, advertisement, hoarding, name boards, etc. We may reiterate that the usage of such abridged names on advertisements, stationery items etc. not only causes confusion in the minds of general public but also does not show the correct status of the co-operative bank. All Primary (Urban) Co-operative Banks are, therefore, again advised to desist from such practice and follow the instructions contained in our above circular meticulously.