Credit Control and other Measures

OCTOBER 2001

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

Ref.No.UBD.BSD.I.PCB.12/12.05/2001-02 dated October 5, 2001

All Primary (Urban) Co-operative Banks

Income Recognition, Asset Classification and Provisioning - Asset Classification - Adoption of 90 days norm

In terms of our circular No. UBD.BSD.I.16/ 12.05.05/2000-2001 dated December 8, 2000, a loan is classified as non-performing when the interest and/or instalment of principal remain overdue for a period of more than 180 days as against the international best practice of 90 days payment delinquency. In the Monetary and Credit Policy Measures for the year 2001-2002, it has already been announced by the Reserve Bank that norm for classification of an asset as non-performing will be reduce to 90 days from 180 days as at present. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where:

(i) Interest and/or instalment of principal remain over due for period of more than 90 days in respect of a term loan,
(ii) the account remains 'out of order' for a period of more than 90 days, in respect of an Over Draft/Cash Credit (OD/CC),
(iii) the bill remains overdue for a period of more than 90 days, in the case bills of purchased or discounted,
(iv) interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
(v) any amount to be received remain overdue for a period of more than 90 days in respect of other accounts.

The banks are, therefore, advised to chalk out an appropriate transition path for smoothly moving over to the 90 days norm. As a facilitating measure, banks should move over to charging of interest at monthly rests, by April 1, 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2002 and 90 days from the end of the quarter with effect from March 31, 2004. Banks would have to substantially upgrade their existing Management Information System (MIS) for collecting data on loans, where the interest and/or instalment of principal remain overdue for a period of more than 90 days in order to crystallise NPAs on a 90 days norm. Banks should commence making additional provisions for such loans, starting from the year ending March 31, 2002, which would strengthen their balance sheets and ensure smooth transition to the 90 days norm by March 31,

2004. Banks are, therefore, advised to work out necessary modalities and submit their action plans early and in any case by December 31, 2001 after approved by their Boards, **to the concerned Regional Office** of this Department. The implementation of the plans will be monitored by the Regional Offices of R.B.I. on a half-yearly basis.

3. In terms of extant prudential regulations, banks are required to make provisions as under in respect of various categories of assets.

We have been constantly reviewing the regulatory requirements in respect of prudential provisions and it is proposed to gradually enhance provisioning requirements in future. Considering that higher loan loss provisioning adds to the overall financial strength of the banks and the stability of the financial sector, banks are urged to voluntarily set apart provisions much above the minimum prudential levels as a desirable practice.

Asset Classification	**Provision Requirements**
Standard Assets	0.25 per cent
Sub-Standard Assets	10 per cent
Doubtful Assets	Between 20 per cent to 50 per cent of the secured portion depending on the age of NPA, and 100 per cent of the unsecured portion.
Loss Assets	100 per cent

Ref.No.UBD.BR.PCB.CIR.20/16.11.00/2001-2002 dated October 22, 2001

All Primary (Urban) Co-operative Banks

Change in Bank Rate

In terms of our circular letter No. BR.PCB.CIR.33A/16.11.00/2000-2001 dated March 1, 2001, the Bank Rate was reduced from 7.5 per cent per annum to 7.0 per cent per annum. It has since been decided that with effect from the close of business on October 22, 2001 the Bank Rate will be reduced by one half of one percentage point from '7.0 per cent per annum' to '6.5 per cent per annum'.

2. Accordingly, interest rates on advances from Reserve Bank of India for export credit refinance, refinance for SSI and penal interest rates on shortfalls in reserve requirments stand revised as detailed below :

	Existing Rates	**Revised Rates**
1) Interest Rates on advances from RBI		
(a)For export credit refinance facility	Bank Rate (7.0)	Bank Rate (6.5)
(b) For refinance for SSI under Section 17(2) (bb) read with Section 17(4)(c) of RBI Act, 1934	Bank Rate (7.0)	Bank Rate (6.5)
2. Penal Interest Rates on shortfalls in reserve requirements depending on duration of shortfalls.	Bank Rate *i.e.*, 7.0 per cent plus 3 percentage points (10.0) or Bank Rate plus 5 percentage points (12.0)	Bank Rate *i.e.*, 6.5 per cent plus 3 percentage points (9.5) or Bank Rate plus 5 percentage points (11.5)