

Regulatory and Other Measures

May 2010

RBI/2009-10/449 RPCD.SME & NFS. BC.No.
79 /06.02.31/2009-10 dated May 6, 2010

The Chairman/ Managing Director
All Scheduled Commercial Banks
(Including Regional Rural Banks and Local
Area Banks)

Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises (MSEs) – Collateral free loans to MSEs

As you are aware, a Working Group was constituted by the Reserve Bank of India to review the Credit Guarantee Scheme (CGS) of the Credit Guarantee Fund Trust for Micro and Small Enterprises (Chairman: Shri V.K. Sharma, Executive Director, RBI) and suggest measures to enhance its usage. The Report of the Working Group was released on March 6, 2010, which is available on our website (www.rbi.org.in). The Working Group has, *inter alia*, recommended that

"the limit for collateral free loans to the MSE sector be increased from the present level of Rs. 5 lakh to Rs.10 lakh and it be made mandatory for banks. Banks, in turn, can take cover for the collateral free credit facilities under CGS. In order to upscale the CGS, it is necessary to create widespread awareness about the key features and benefits of the Scheme. As the branch level functionaries have a predilection to lend against collaterals, the Group recommends that the Chief Executive Officers (CEOs) of banks assume complete and total ownership in the matter of strongly encouraging the branch level functionaries to avail of the CGS cover, including making performance

in this regard a criterion in the evaluation of their field staff.”

The above recommendations have been accepted by the Reserve Bank of India. Accordingly, in modification of our circular RPCD.SME & NFS.BC.No.16/06.02.31(P)/2009-10 dated August 24, 2009, banks are mandated not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector.

2. Banks may also strongly encourage their branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.

3. You are requested to issue suitable instructions to your branches/ controlling offices for meticulous and strict compliance in this regard.

RBI/2009-10/450 DNBS (PD) C.C No. 174 / 03.10.001/2009-10 dated May 6, 2010

To All Non- Banking Financial Companies

Finance for Housing Projects – Incorporating clause in the terms and conditions to disclose in pamphlets/brochures advertisements, information regarding mortgage of property to the NBFC

In a case which came up before the Hon'ble High Court of Judicature at Bombay, the Hon'ble Court observed that the bank granting finance in housing should insist on projects, disclosure of the charge or any other liability on the plot in question or development project being duly made in the Brochure or pamphlet *etc.* which may be published by developer/owner inviting

public at large to purchase flats and properties. The Court also added that this obviously would be part of the terms and conditions on which the loan may be sanctioned by the bank.

2. Keeping in view the above, it is felt desirable that while granting finance to housing/ development projects, NBFCs also should stipulate as a part of the terms and conditions that:

(i) the builder / developer / owner / company would disclose in the Pamphlets / Brochures / advertisements *etc.*, the name(s) of the entity to which the property is mortgaged.

(ii) the builder / developer / owner / company should indicate in the pamphlets / brochures, that they would provide No Objection Certificate (NOC)/ permission of the mortgagee entity for sale of flats / property, if required.

3. NBFCs are advised to ensure compliance with the above stipulations and funds should not be released unless the builder / developer / owner /company fulfils the above requirements.

RBI/2009-10/461 RPCD.CO.RFAML.BC. No. 83/07.40.00/ 2009-10 dated May 12, 2010

The Chief Executives of
all State and District Central Co-operative
Banks

Know Your Customer (KYC) guidelines - accounts of proprietary concerns

A reference is invited to paragraph 3 of Guidelines on 'Know Your Customer' Norms and Anti Money Laundering Measures

enclosed to our circular RPCD.AML.BC.No.80/07.40.00/ 2004-05 dated February 18, 2005. It has been advised to banks that internal guidelines for customer identification procedure of legal entities may be framed by them based on their experience of dealing with such entities, normal bankers' prudence and the legal requirements as per established practices. If the bank decides to accept such accounts in terms of the Customer Acceptance Policy, the bank should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

2. For sake of clarity, in case of accounts of proprietorship concerns, it has been decided to lay down criteria for the customer identification procedure for account opening by proprietary concerns. Accordingly, apart from following the extant guidelines on customer identification procedure as applicable to the proprietor, banks should call for and verify the following documents before opening of accounts in the name of a proprietary concern:

i. Proof of the name, address and activity of the concern, like registration

certificate (in the case of a registered concern), certificate/licence issued by the Municipal Authorities under Shop & Establishment Act, sales and income tax returns, CST/VAT certificate, certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities, Licence issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, *etc.*

ii. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.

3. These guidelines will apply to all new customers, while in case of accounts of existing customers, the above formalities should be completed in a time bound manner and should be completed before December 31, 2010.

4. Please acknowledge receipt to our Regional Office concerned.