

Credit Control and other Measures

APRIL 2002

Selected circular issued by the Reserve Bank of India during April 2002 reproduced below:

Ref.No.DS.PCB.Cir.37/13.05.00/2001-02 dated April 1, 2002.

The Chief Executive Officers of all Primary (Urban) Co-operative Banks

Limit on Credit Exposure to Individual/Group of borrowers

Please refer to our circular DS.PCB.Cir.39/ 13.05.00/95-96 dated January 16, 1996 on the captioned subject. In terms of paragraph 2 of the circular, banks had been advised that the exercise of computing the exposure ceiling should be conducted every year after the finalisation and audit of balance sheet of the bank is over.

2. In view of the linking of share holding to lending, accretion to share capital is a continuous process in urban co-operative banks. It has, therefore, been decided that accretion to or reduction in the share capital after the balance sheet date may be taken into account for determining exposure ceiling at half yearly intervals, with the approval of Board of Directors. Accordingly, banks may, if they so desire, fix a fresh exposure limit taking into account the amount of share capital available as on 30 September.

3. Urban Co-operative Banks are advised that accretions to capital funds other than to share capital such as half yearly profit etc. will not be eligible for reckoning the exposure ceiling as stated above. Banks should also ensure that they do not take exposures in excess of the ceiling prescribed in anticipation of infusion of capital on a future date.

4. Please acknowledge receipt to our concerned Regional Office.

Ref.No.PCB.CIR.POT 39/09.103.01/2001-02 dated April 5, 2002.

Professionalisation of Managements of Urban Co-operative Banks

Corporate Governance is critical for efficient functioning of any organisation, more so for a bank. One of the major reasons for the prevalence of weakness in the urban co-operative banking sector is the low level of professionalism of the Boards of Directors of these banks. The High Power Committee on Urban Co-operative Banks constituted by the Reserve Bank of India had, therefore, recommended that the Boards of Directors of newly constituted urban co-operative banks should, at all times, have at least two directors with suitable banking experience or with relevant professional qualifications *i.e.*, Chartered Accountants with bank accounting / auditing experience.

2. It has now been decided that the above suggestion of the High Power Committee should also be implemented by all the existing urban cooperative banks. Towards this end, all urban

cooperative banks should amend their bye-laws to incorporate a suitable provision therein to ensure that there should at all times be at least two directors with suitable banking experience (at middle/senior management level) or with relevant professional qualifications *i.e.*, Chartered Accountants with bank accounting/auditing experience.

3. We request you to initiate steps to amend the bye laws of your bank accordingly and also ensure compliance with the above requirement.

4. Please acknowledge receipt of this circular to our Regional Office under whose jurisdiction you are functioning and also advise them the steps taken to implement the suggestion.