

CREDIT CONTROL AND OTHER MEASURES

OCTOBER 1998

Selected circulars issued by the Reserve Bank of India during October 1998 are reproduced below.

Ref. UBD No. DS.SUB.Cir.4/13.05.00/ 98-99 dated October 5, 1998

All Scheduled Primary Co-operative Banks

Guidelines for Sanction of Working capital Finance to Information Technology (IT) and Software Industry

As banks are aware, Government of India on May 22, 1998 constituted a “National Task Force on Information Technology and Software Development” to recommend steps to remove bottlenecks in the path of rapid development of information technology and to give a boost to information technology and software industry. Recognising the potential of information technology for rapid and all round national development, the above referred Task Force has drawn “Information Technology Action Plan” for initiating action encompassing various aspects of development of the industry. Bank credit has been identified by it as an essential input for IT and software industry development and it has recommended issuing guidelines to banks for extending working capital finance to the said industry.

2. It may be recalled that in the Monetary and Credit Policy for the first half of 1997-98 announced in April 1997, Reserve Bank had, as a measure of bestowing operational freedom on banks and as a part of deregulation process, withdrawn its earlier laid down prescription of Maximum Permissible Bank Finance (MPBF) in the matter of arriving at quantum of working capital finance to be extended to various categories of borrowers, and permitted banks to decide on their own the loan policy and the manner of estimating the working capital finance based on MPBF method or any other method to be approved by their Board of Directors. The stance of Reserve Bank policy towards operational freedom to banks remain unchanged.

At the same time, Reserve Bank recognises the fact that the banks are not comfortable with extending aggressive credit support to a relatively new area of software industry unlike other traditional industries, due to several factors which make the assessment of credit needs and follow up thereof difficult, if not unsurmountable. It is, therefore, felt desirable to formulate guidelines to bring about uniformity in approach, for information of banks, on various aspects of lending to information technology and software industry to facilitate free flow of credit. Banks are, however, free to modify the guidelines based on their own experience without reference to Reserve Bank to achieve the purpose of the guidelines in letter and spirit.

3. This being a relatively new area of credit deployment, banks are requested to take adequate urgent steps to develop expertise in this area. Besides other measures which banks might take, the need for training Staff for developing them in acquiring skills of project appraisal in this new area of activity need not be over-emphasised. It has to be ensured that the concerned staff is well aware of the requirements of the industry and remain in tune with the latest developments so that the higher standards of project appraisal can be maintained before extending the working capital finance to Information Technology and software industries.

Ref. UBD No. Cir. BL. (RO) 9/ 07.01.00/98-99 dated October 14, 1998

ALL CHIEF GENERAL MANAGERS/ GENERAL MANAGERS (O-IN-C) OF REGIONAL OFFICES

Improvement in Customer Service - Delegation of Authority - Area of Operation of Urban Co-operative Banks

Please refer to our circular UBD. No. RBL. (PCB)19/07.01.00/95-96 dated October 10, 1995 addressed to all primary co-operative banks on the captioned subject. In terms of paragraph 4 of above circular, Urban Co-operative Banks desirous of extending their area of operation beyond the district of their registration are required to obtain prior approval of Reserve Bank of India and presently such requests are considered at the Central Office.

2. With a view to improve customer service and to speed up disposal of cases, we have examined scope for delegation of authority on the above subject to Regional Offices. Accordingly it has since been decided that requests for extension of area of operation to two or three neighbouring / contiguous district(s) within the state of registration may now be considered and approved by the concerned Regional Office subject to fulfillment of following eligibility norms.

- (i) The urban co-operative bank should be a licensed bank.
- (ii) It should comply with prescribed revised entry point norms.
- (iii) It should have achieved prescribed lending targets for priority sector and weaker sections.
- (iv) Its level of non-performing assets should not exceed 10 per cent of its total outstanding loans and advances, and should have made full provisioning therefore.
- (v) It should show consistent track record of posting profits during the preceeding three consecutive years.
- (vi) It should have 'A' audit classification for the last three consecutive years.
- (vii) It should comply with Reserve Bank of India's regulatory frame work, such as compliance with CRR/SLR requirements, timely submission of prescribed returns/ statements and satisfactory compliance with inspection findings, etc.

Approval in such cases should, however, be accorded at the level of Officer-in-Charge of the department.

3. It is clarified that proposals of urban co-operative banks for extending their area of operation beyond three neighbouring districts as above, may continue to be referred to Central Office as hitherto.

4. It is also advised that proposals received at Regional Offices may be disposed off within a fortnight from the date of receipt of the application from urban co-operative banks.