Credit Control and Other Measures April 1999

Selected circulars issued by the Reserve Bank of India during April 1999 is reproduced below.

Ref. UBD No.DS.PCB.CIR.27/ 13.03.00/98-99 dated April 8, 1999

All Primary Co-operative Banks

Advances to sugar industry -continuance of credit facilities by banks against stocks of freesale sugar sold to Government for Public Distribution System (PDS)

Government of India, according to the Sugar Budget for 1997-98, had indicated a deficit of 13.87 lakh tonnes of sugar as on December 15, 1998. In order to meet the commitments under the Public Distribution System (PDS), the Government has decided to purchase upto 12 lakh tonnes of free-sale-sugar, depending on actual requirement (including 5 lakh tonnes of sugar taken as loan from sugar mills in the 1996-97 season), Although the Government proposes to pay the sugar units at a rate to be decided on the basis of CCEA approved formula (i.e., actual average free-sale realisation for the preceding three months or the sale price in the current month or the c.i.f. cost of imports, whichever is the least), the units will be paid only levy price at the time of lifting the sugar. The difference between the levy price and the price as per the approved pricing formula referred to above will be paid by Government of India by the end of June 1999.

2. As you are aware, banks are required to refrain from granting clean advances to borrowers enjoying credit facilities against commodities covered by Selective Credit control. However, taking into account the circumstances leading to the purchase of free-sale sugar by the Government in the aforesaid manner as also to avoid hardships to borrowers, it has been decided, as a special case, to allow banks to finance the deficit in the accounts of the sugar mills on delivery of free-sale sugar against the initial payment at levy price, as a clean advance upto **end of June 1999.** Banks may if they so desire, segregate such unsecured credit, to facilitate monitoring thereof. They would, however, ensure that a margin of 15 per cent will continue to be maintained against other stocks of freesale sugar.

Ref. UBD No.BSD-I 29/12.05.05/98-99 dated April 23, 1999

The Chairman

All Primary (Urban) Co-operative Banks

Income Recognition Asset Classification and Other Related Matters

Please refer to our circular UBD. No. I&L38 / J-1-92 /93 dated February 9, 1993 and subsequent circulars issued from time to time on the captioned subject. We advise that the following policy changes have since been introduced in regard to prudential norms on income recognition asset classification and provisioning for primary (urban) co-operative banks.

<u>Provisioning Norms</u>

(i) Reduction in the time frame for classification of Assets as Doubtful Assets

In terms of our circular UBD. No.I&L38/J-1-92/93 dated February 9, 1993, an asset is required to be treated as doubtful if it has remained as substandard for a period exceeding two years. With a view to moving closer to international practices in regard to provisioning norms, it has been decided that an asset should be classified as doubtful if it has remained in substandard category for 18 months instead of 24 months as at present, by March 31, 2001. The banks are permitted to achieve these norms for additional provisioning, in phases, as under.

As on March 31, 2001: Provisioning of not less than 50 per cent on the assets which have become doubtful on account of new norm.

As on March 31, 2002: Balance of the provisions not made during the previous year, in addition to the provisions needed as on March 31, 2002.

(ii) Asset Classification and Provisioning Norms in respect of Government Guaranteed Advances

In terms of our circular cited above read with our circular UBD.No.45/ 12.05.00/93-94 dated December 24, 1993, credit facility backed by Government guarantees, though past due, are not to be treated as NPAs. However, income on such assets is not permitted to be taken to profit and loss account. Some banks have represented that a few State Governments are delaying in honouring their commitments under the guaranteed advances after the guarantee has been invoked. In order to strengthen the bank’s efforts to recover such dues expeditiously as well as to discourage such practices by the concerned State Governments, it has been decided, as a prudent measure, to introduce provisioning norms in respect of advances guaranteed by State Governments where guarantee has been invoked and has remained in default for more than two quarters. This measure would be effective in respect of advances sanctioned against State Government guarantee with effect from April 1, 2000. As regards provisioning requirement for advances guaranteed by State Governments which stood invoked as on March 31, 2000, necessary provision should be made during the financial year ending March 31, 2000 to March 31, 2003 with a minimum of 25 per cent each year.

(iii) Provision on Standard Assets

To start with, banks should make a general provision on standard assets of a minimum of 0.25 per cent from the year ending March 31, 2000.

Other Matters

It has been decided, in consultation with Government of India, to implement some of the recommendations made by the committee on Banking Sector Reforms (Chairman, Shri M. Narasimham).

These are given in Annexure.

3. All the primary (urban) co-operative banks are advised to bring this circular to the notice of their Board of Directors and take necessary steps to implement the above guidelines.

Annexure
Recommendations of the Committee on Banking Sector Reforms

	Recommendations	Decisions taken
(i)	Banks and Financial Institutions should avoid the practice of evergreening (Para No. 3.22)	The Reserve Bank reiterates that banks and financial institutions should adhere to the prudential norms on asset classification, provisioning, etc., and avoid the practice of "evergreening" of loan accounts.
(ii)	Any effort at financial restructuring must go hand in hand with operational restructuring. With the clearning up of the Balance Sheet, simultaneously steps to be taken to prevent/limit re-emergence of new NPAs. (Para No. 3.27)	The banks are advised to take effective steps for reduction of NPAs and also put in place risk management systems and practices to prevent re-emergence of fresh NPAs.
(iii)	Banks to pay special attention to reporting and checking by the back offices of trading transactions (Para No. 4.8)	While the system is already in place, banks are required to monitor this vigorously to strengthen their internal control systems. Detailed guidelines on risk management systems will be issued to further strengthen the internal control systems.
(iv)	There is need to institute an independent loan review mechanism especially for large borrowal accounts and to identify potential NPAs. (Para No. 4.12-4/16)	Banks should ensure a loan review mechanism for large advances soon after its sanction and continuously monitor the weaknesses developing in the accounts for initiating corrective measures in time.