

Regulatory and Other Measures

April 2007

RBI/2006-2007/311 Ref: UBD (PCB).No./5 / 12.03.000/2006-07 dated April 05, 2007

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

UCBs – Maintenance of CRR

Section 42(1) of Reserve Bank of India Act, 1934 – Maintenance of Cash Reserve Ratio (CRR)

Please refer to our Circular UBD (PCB) Cir. No.3/12.03.000/2006-07 dated March 1, 2007 on the captioned subject. As set out in the Press Release 2006-2007/1336 dated March 30, 2007, it has been decided to increase the Cash Reserve Ratio (CRR) of Scheduled Primary (Urban) Co-operative Banks by one-half of one percentage point of their Net Demand and Time Liabilities (NDTL) in two stages, effective from the fortnights indicated below:

Effective Date (i.e., the Fortnight Beginning from)	CRR on Net Demand and Time Liabilities (Per cent)
April 14, 2007	6.25
April 28, 2007	6.50

However, the effective CRR required to be maintained by Scheduled Primary (Urban) Co-operative Banks on total Demand and Time Liabilities shall not be less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934.

2. Interest on eligible cash balances for CRR

At present all Scheduled Primary (Urban) Co-operative Banks are paid interest at the rate of 1.00 per cent on eligible cash balances

maintained with Reserve Bank of India under the proviso to section 42 (1) and 42 (1A) of the Reserve Bank of India Act, 1934. It has now been decided that with effect from the fortnight beginning April 14, 2007, all Scheduled Primary (Urban) Co-operative Banks will be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with Reserve Bank of India under current CRR requirement.

RBI/2006-2007/361 UBD. PCB.Cir No. 38/09.14.000/ 2006-07 dated April 30, 2007

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

Income Recognition, Asset Classification and Provisioning Norms – UCBs Annual Policy Statement for the year 2007-08

Please refer to paragraph 210 of the Annual Policy Statement for the year 2007-08 (copy enclosed).

2. In terms of our circular UBD.PCB.Cir.21 / 12.05.05/2004-05 dated September 27, 2004, UCBs were instructed to provide 100% on the secured portion of advances classified as doubtful asset (D-III) category on or after April 1, 2006. Commencing from the year 2006-07, they were also required to provide on a graduated basis for the outstanding stock of D-III assets.

3. Given the heterogeneity of the UCB sector, it was decided to follow a two track regulatory approach. Accordingly, UCBs were classified under two categories, viz., (a) Tier I banks comprising unit banks having a single branch / Head Office with deposits upto Rs.100 crore and UCBs having

multiple branches within a single district with deposits upto Rs.100 crore and (b) Tier II banks comprising all the other banks. Relaxed prudential norms were issued vide circular UBD. PCB.Cir.No.1/09.14.00/05-06 dated July 4, 2005 for Tier-I banks. They were permitted to classify loan accounts as NPAs based on 180 day delinquency norm instead of 90 day norm up to March 31, 2007. This relaxation was allowed for the explicit purpose of enabling the UCBs concerned to make a transition to the 90 day NPA norm in the year 2007-2008 by building up adequate provisions and strengthening their appraisal, disbursement and post disbursement procedures.

4. Further, 100 per cent provisioning for secured portion of doubtful assets (D-III) category was deferred by three years for Tier I banks, while Tier II banks were required to provide 100 per cent on or after April 1, 2006.

5. Taking into consideration the progress made by UCBs so far and as announced in the Annual Policy Statement, it has been decided as under:

a) Tier-I banks

- (i) The 180 day loan delinquency norm for NPAs is extended by one more year, *i.e.*, up to March 31, 2008.
- (ii) The 12-month period for classification of a substandard asset in doubtful category will be effective from April 1, 2008.
- (iii) Further these banks would be required to provide 100 per cent on the secured portion of D-III advances classified as doubtful more than three years on or after April 1, 2010.

(iv) For the outstanding stock of D-III advances as on March 31, 2010, banks will be required to provide as under:

- 50 per cent as on March 31, 2010
- 60 per cent as on March 31, 2011
- 75 per cent as on March 31, 2012
- 100 per cent as on March 31, 2013

b) Tier-II banks

(i) 100 per cent provisioning for advances classified as D-III (doubtful more than three years) will apply to those classified as such on or after April 1, 2007 instead of those so classified on or after April 1, 2006.

(ii) Consequently, for the outstanding stock of D-III assets as on March 31, 2007, banks would be required to provide as under:

- 50 per cent upto March 31, 2007
- 60 per cent as on March 31, 2008
- 75 per cent as on March 31, 2009
- 100 per cent as on March 31, 2010

Annual Policy Statement for the year 2007-08

(c) Prudential Norms for UCBs: *Extension of Time*

210. As a part of the two-track regulatory approach to deal with the UCBs sector, UCBs are classified under two categories, viz., Tier I and Tier II banks. Tier I UCBs were allowed to classify loan accounts as NPAs based on 180 days delinquency norm instead of 90 days norm up to March 31, 2007. Furthermore,

effective from the financial year 2006-07, UCBs in Tier II were required to move towards a more stringent provisioning norms for doubtful assets. Taking into consideration the progress made by UCBs, so far, it is proposed:

- to extend by one year the existing relaxed prudential norms applicable to Tier I and Tier II banks.

RBI/2006-2007/362 UBD (PCB).Cir.No.39 / 13.05.000/06-07 dated April 30, 2007.

The Chief Executives of All Primary (Urban) Cooperative Banks

Loans Extended against Gold and Silver Ornaments – Reduction of Risk Weight-UCBs

Annual Policy Statement for the Year 2007-08 – Loans Extended against Gold and Silver Ornaments – Reduction of Risk Weight-UCBs

Please refer paragraph 151 of the Annual Policy Statement for the year 2007-08. (Copy enclosed).

2. In terms of our circular UBD.PCB.Cir.33/09.116.00/04-05 dated January 5, 2005, the risk weight on consumer credit including personal loan was increased from 100 % to 125 %z

3. It has been decided to reduce, with immediate effect, the risk weight on loans up to Rs.1 lakh against gold and silver ornaments to 50 per cent from the existing level of 125 per cent.