

Monetary and Credit Policy for the year 2003- 04
- Placement of deposits by Non- scheduled UCBs
with Scheduled UCBs

BPD. PCB. Cir. 46 / 16.20.00 /2002-03

May 17, 2003

All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

Monetary and Credit Policy for the year 2003- 04
- Placement of deposits by Non- scheduled UCBs
with Scheduled UCBs

In terms of circular UBD.No. BR. 43/ 16.20.00 / 2000-01 dated April 19, 2001, urban co-operative banks (UCBs) were prohibited from placing any fresh deposits with other UCBs except by way of balances in current accounts for meeting their clearing and remittance requirements. Further, such of those UCBs which were maintaining the funds in the form of fixed deposits or term deposits with other UCBs were required to unwind the outstanding deposits before the end of June 2002. In pursuance of the recommendations made by the Committee set up by the Government of India [Chairman : Shri Anant Geete, the then Hon. Minister of State for Finance (Expenditure, Banking & Insurance)] and in view of the difficulties expressed by UCBs in managing their short-term surplus funds while adhering to this prescription, the matter has since been reviewed. In this connection, a reference is invited to para 111 (copy enclosed) of the Governor's Statement on Monetary and Credit Policy for the year 2003-04 announced on April 29, 2003. Accordingly, it has been decided to permit non-scheduled UCBs to place deposits with strong scheduled UCBs, subject to the following conditions:

(a) Only strong Scheduled UCBs complying with following norms can accept deposits from other non-scheduled UCBs :

- (i) The bank is complying with the prescribed level of CRAR.
- (ii) Net NPAs of the bank is less than 7%.
- (iii) The bank has not defaulted in the maintenance of CRR/ SLR requirements for the last two years.
- (iv) The bank has declared net profits for the last three consecutive years.
- (v) The bank has 'A' rating from Co-operative Auditors for the last three consecutive years.
- (vi) The bank is complying with prudential norms on income recognition, asset classification and provisioning, exposure ceilings and loans and advances to directors.

(b) Acceptance of deposits from non-scheduled UCBs by the scheduled UCBs will also be subject to the following conditions :

- (i) The total inter-UCB deposits accepted by a scheduled UCB should not exceed 10% of its deposit liabilities as on 31st March of the previous financial year.
- (ii) The rate of interest offered on such deposits should be market related.

- (iii) The total amount of deposits placed by a non-scheduled UCB with one scheduled UCB should not exceed 20% of its capital funds, so as to be in consonance with the extant exposure norms. The capital funds for the purpose shall include the funds as defined in our circular UBD. No. DS. PCB. 4/ 13.05.00 / 2000-2001 dated August 25, 2000 read with UBD. No. DS.PCB. Cir. 25/ 13.05.00 / 2000-2001 dated January 18, 2001.

2. Scheduled UCBs, however, should **not** place deposits with other scheduled / non-scheduled urban co-operative banks.

Yours faithfully,

(K.V. Rajan)
Chief General Manager

Encl: as above

Extract from Governor's Statement on Monetary and Credit Policy for the year 2003-04

(b) Facility for Placement of Deposits with other Scheduled UCBs

111. It was indicated in the annual policy Statement of April 2001 that UCBs would not be permitted to increase the term deposit balances with other UCBs and the outstanding deposits had to be unwound before end-June 2002. In view of the difficulties expressed by UCBs in managing their short-term surplus funds while adhering to this prescription, it is proposed :

- To permit UCBs to place deposits with strong scheduled UCBs (other than banks classified as weak or sick) with certain conditions. Detailed guidelines in this regard are being issued separately.