

December 8, 2004

The Chairman/Managing Director,  
All Scheduled Commercial Banks  
(including RRBs)

Dear Sir,

Rural Lending – Service Area Approach – Review –  
Relaxation in Service Area Norms  
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The Service Area Approach (SAA) introduced in April 1989, in order to bring about an orderly and planned development of rural and semi- urban areas of the country, was extended to all Indian scheduled commercial banks including Regional Rural Banks (RRBs), vide our Circular letter RPCD.No.LBS.BC.87/65-87/88 dated 14.3.1988. Under the SAA, all rural and semi-urban branches of banks were allocated specific villages, generally in geographical contiguous areas, the overall development and the credit needs of which were to be taken care of by the respective branches.

2. As you are aware, the SAA scheme has been reviewed from time to time and appropriate changes made in the scheme to make it more effective. The scheme has been reviewed once again and it has been decided to dispense with the restrictive provisions of the scheme as announced in the mid-term review of annual policy statement for the year 2004-05, while retaining the positive features of the SAA such as credit planning and monitoring of the credit purveyance. Accordingly the following changes have been made in the scheme, which will be effective from the date of the circular.

- (i) The allocation of villages among the rural and semi-urban branches of banks shall not be applicable for lending, except under Government sponsored schemes. While the commercial banks and RRBs will be free to lend in any rural and semi-urban area, the borrowers will also have the choice of approaching any branch for their credit requirements.
- (ii) Consequently, the requirement of obtaining 'no due certificate' from the service area branch for lending by non-Service Area branch would also stand dispensed with. However, banks at their discretion may take steps considered necessary to avoid multiple financing.
- (iii) The Annual Credit Plans will be based on the Potential Linked Plans (PLPs) prepared by NABARD. The particulars of the potential available in different sectors (as indicated in the PLP) will be communicated by the Convenor of the BLBC to all the branches in the block. The branches in turn will prepare branch credit plans based on such communication.
- (iv) The branch credit plans would be aggregated by the BLBC convenor bank into block credit plan. The block credit plans would, in turn, be aggregated into district credit plans. The district credit plans would eventually be aggregated into State Level Credit Plans.

- (v) In view of this arrangement, the village credit plans need not be prepared by the bank branches.
- (vi) The various fora created under the Lead Bank Scheme, viz. BLBC, DCC, DLRC, SLBC & SLRC will continue to function as usual.
- (vii) The performance under the block credit plans will be reviewed in BLBC meetings, while the performance of banks under district plan will be reviewed at DCC meetings. Similarly, performance of banks at the State level will be reviewed in SLBC meetings. All these meetings will continue to be convened on quarterly basis (once in a quarter).
- (viii) As regards the monitoring/reporting aspects, NABARD has been requested to review the SAMIS reporting system and to intimate necessary modifications/changes in the SAMIS.

3. These relaxations have been introduced with a view to facilitate rural borrowers to have easy access to institutional credit from any bank of their choice at a competitive price and to provide banks, public and private, with a level playing field.

Please acknowledge receipt.

Yours faithfully,

( G. Srinivasan )  
Chief General Manager

