

June 24, 2008

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

Dear Sir/Madam,

**Wilful Defaulters and action thereagainst –UCBs**

Please refer to paragraph 3 of our circular UBD.BR.Cir.1/16.74.00/2002-03 dated August 01, 2002 wherein the term “wilful default” has been defined. In this connection, we advise that pursuant to the Hon’ble Supreme Court’s Order relating to writ petition Civil No.291 of 1998 titled Common Cause (A registered Society) Vs. Union of India & Anr., we had received a suggestion to expand the scope of definition of “wilful default”. The suggestion has been examined and it has been decided to accept the suggestion.

2. Accordingly, it has been decided to expand the scope of definition by inserting clause (d) in paragraph 3 of the circular referred to above, as indicated below:

3(d) *“The unit has defaulted in meeting its payment / repayment obligation to the lender and has also disposed of or removed the movable fixed assets or immovable property given by it for the purpose of securing a term loan without the knowledge of the bank / lender”.*

3. The modified paragraph 3 of the circular dated August 01, 2002 referred to above is Annexed.

4. Further, we also invite your attention to para 7 (a) of the circular dated August 01, 2002 and **reiterate** that no additional facilities should be granted by any Scheduled Urban Co-operative Bank to the listed wilful defaulters. In addition, the **entrepreneurs / promoters of companies** where Scheduled Urban Co-operative Banks have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the Scheduled Urban Co-operative Banks for floating new ventures for a period of five years from the date the name of the wilful defaulter is published in the list of wilful defaulters by RBI.

5. These instructions will come into force with immediate effect.

6. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

**(A.K.Khound)**  
Chief General Manager-In-Charge

**Modified para 3 of the RBI Circular UBD.BR.Cir.1/16.74.00/2002-03 dated August 01, 2002.**

3. It has been decided to redefine the term "wilful default", in supersession of the definition / illustrations contained in the Circular UBD.BR.Cir.1/16.74.00/2002-03 dated August 01, 2002, as follows:

A wilful default would be deemed to have occurred if any of the following events noted:

- a. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligation.
- b. The unit has defaulted in meeting its payment / repayment obligation to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- c. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the fund so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- d. The unit has defaulted in meeting its payment / repayment obligation to the lender and has also disposed of or removed the movable fixed assets or immovable property given by it for the purpose of securing a term loan, without the knowledge of the bank / lender.