RBI/2008-2009/113

RPCD.CO.RF.BC. No. 17 / 07.38.03 / 2008-09

July 30, 2008

To

All State Co-operative Banks (StCBs) and Central Co-operative Banks (DCCBs)

Dear Sir,

Agricultural Debt Waiver and Debt Relief Scheme, 2008-Prudential Norms on Income Recognition, Asset Classification and Provisioning, and Capital Adequacy

As you are aware, the Hon'ble Finance Minister, in his Budget Speech (paragraph 73) for 2008-09 has announced a debt waiver and debt relief scheme for farmers, for implementation by, inter alia, all State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs). The detailed scheme announced by the Government of India was communicated by NABARD to all State and Central Co-operative Banks on May 23, 2008.

2. The guidelines pertaining to Income Recognition, Asset Classification and Provisioning, and Capital Adequacy as applicable to the loans covered by the captioned scheme, are furnished in the Annex.

Yours faithfully

(G.Srinivasan)
Chief General Manager-in-Charge

Annex

PRUDENTIAL NORMS FOR THE BORROWAL ACCOUNTS COVERED UNDER THE AGRICULTURAL DEBT WAIVER AND DEBT RELIEF SCHEME, 2008

1. As advised under the captioned Scheme, while the entire ‘eligible amount’ shall be waived in the case of a small or marginal farmer, in the case of ‘other farmers’, there will be a one time settlement scheme (OTS) under which the farmer will be given a rebate of 25 per cent of the ‘eligible amount’ subject to the condition that the farmer repays the balance of 75 per cent of the ‘eligible amount’.

2. Norms for the accounts subjected to Debt Waiver

2.1 As regards the small and marginal farmers eligible for debt waiver, the amount eligible for waiver, as defined in the Para 4 of the enclosure to the aforesaid circular, pending receipt from the Government of India, may be transferred by the banks to a separate account named "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008". The balance in this account should be reflected under the column 'Advances' of the Balance Sheet .

2.2 The balance in this account may be treated by the banks as a "performing" asset, provided adequate provision is made for the loss in Present Value (PV) terms, computed under the assumption that such payments would be received from Government of India in the following installments:

a) 69% of the total amount due by end September, 2008; and

b) 31% by end July, 2009;

However, the provision required under the current norms for standard assets, need not be provided for in respect of the balance in this account.

2.3 The discount rate for arriving at the loss in PV terms as at para 2.2 above should be taken as 9.56 per cent, being the yield to maturity on 364-day Government of India Treasury Bill, prevailing as on the date of this circular.

2.4 The prudential provisions held in respect of the NPA accounts for which the debt waiver has been granted may be reckoned for meeting the provisions required on PV basis.

2.5 In case, however, the amount of prudential provision held is more than the amount of provision required on PV basis, such excess provision may be reversed in a phased manner. This phased reversal may be effected in the proportion of 69% and 31% during the years ended March 2009 and 2010 respectively, only after the installments due from the Government, for the relative years, have been received.

2.6 On receipt of the final instalment from the Government, the provision made for loss in PV terms may be transferred to the General Reserves below the line.

2.7 In case the claim of a farmer is specifically rejected at any stage, the asset classification of the account should be determined with reference to the original date of NPA (as if the account had not been treated as performing in the interregnum based on the transfer of the loan balance to the aforesaid account) and suitable provision should be made. The provision made on PV basis may also be reckoned against the NPA-provisions required, consequent upon the account being treated as NPA due to the rejection of the claim.

3. Norms for the accounts subjected to the Debt Relief

3.1 Under the scheme, in the case of ‘other’ farmers, the farmer will be given a rebate of 25% of the "eligible amount", by the Government by credit to his account, provided the farmer pays the balance of 75% of the ‘eligible amount". The Scheme provides for payment of share of 75% by such farmers in three instalments and the first two instalments shall be for an amount not less than one-third of the farmer’s share. The last dates of payment of the three instalments will be September 30, 2008; March 31, 2009 and June 30, 2009, respectively.

Asset Classification

3.2 Where the farmers covered under the Debt Relief Scheme have given the undertaking, agreeing to pay their share under the OTS, their relevant accounts may be treated by banks as "standard" / "performing" provided –

(a) adequate provision is made by the banks for the loss in PV terms for all the receivables due from the borrowers as well as the Government; and

(b) such farmers pay their share of the settlement within one month of the due dates.

Provisioning

3.3 Provisioning for standard assets: The accounts subject to debt relief would stand classified as standard assets after receipt of the aforesaid undertaking from the borrowers. Accordingly, such accounts would also attract the prudential provisioning as applicable to standard assets.

3.4 Provisioning on PV basis : For computing the amount of loss in PV terms under the Scheme, the cash flows receivable from the farmers, as per the repayment schedule vide para 3.1 above, as well as from the government should be discounted to the present value. It may be assumed in this context that 50% of Government’s contribution would be received by July 31, 2009 and balance by July 31, 2010. The discount rate to be applied for the purpose should be the interest rate at which the loan was granted including the element of interest subsidy, if any, available from the Government.

3.5 The prudential provisions held in respect of the NPA accounts, for which the debt waiver has been granted, may be reckoned for meeting the provisions required on PV basis as well as for the standard assets (pursuant to classification of these loans as standard) and shortfall, if any, may be provided for. Thus, the total provisions held would comprise the provisions required on PV basis, provision for standard assets and excess prudential provisions, if any, towards NPA.

3.6 Provisioning in case of down-gradation of accounts: As mentioned at para 3.2 (b) above, the accounts subject to Debt Relief Scheme would be classified as standard / performing assets only if the farmers pay their share of the settlement within one month of the pre-specified due dates. In case, however, the payments are delayed by the farmers beyond one month of the respective due dates, the outstanding amount in the relevant accounts of such farmers shall be treated as NPA. The asset classification of such accounts shall be determined with reference to the original date of NPA, (as if the account had not been treated as performing in the interregnum based on the aforesaid undertaking). On such down-gradation of the accounts, additional provisions as per the extant prudential norms should also be made.

For meeting this additional provisioning requirement, the excess prudential provisions, if any, held; the amount of provisions held for standard assets (as per para 3.3 above) together with the provision made on PV basis, all in respect of such downgraded account, could be reckoned. Such additional prudential provisions too should be continued to be held and reversed only as per the stipulation at para 3.7 below.

3.7 Reversal of excess prudential provisions : In case the amount of the prudential NPA-provisions held are larger than the aggregate of the provision required on PV basis and for the standard assets (pursuant to classification of these loans as standard), such excess prudential provision should not be reversed but be continued to be held till the earlier of the two events, viz., : (a) till the entire outstanding of the borrower stands repaid – at which point, the entire amount could be reversed to the P/L account; or (b) when the amount of such excess provision exceeds the amount outstanding on account of the repayments by the borrower – at which point, the amount of provision in excess of the outstanding amount could be reversed to the P/L account.

3.8 Reversal of the provisions made on PV Basis: The provision made on PV basis represents a permanent loss to the bank on account of delayed receipt of cash flows and hence, should not be reversed to the P/L Account. The amount of such provision should, therefore, be carried till the account is finally settled and after receipt of the Government's contribution under the Scheme, the amount should be reversed to the General Reserves below the line.

4. Grant of fresh loans to the borrowers covered under the Debt Waiver and Debt Relief Scheme

4.1 A small or marginal farmer will become eligible for fresh agricultural loans upon the eligible amount being waived, in terms of para 7.2 of the Scheme. The fresh loan may be treated as "performing asset", regardless of the asset classification of the loan subjected to the Debt Waiver, and its subsequent asset classification should be governed by the extant IRAC norms.

4.2 In case of "other farmers" eligible for fresh short-term production loans and investment loans, as provided for in Para 7.6 and 7.7, respectively, of the Scheme, these fresh loans may be treated as "performing assets", regardless of the asset classification of the loan subjected to the Debt Relief, and its subsequent asset classification should be governed by the extant IRAC norms.

5. <u>Capital Adequacy to be disclosed by the banks in terms of RBI circular RPCD.CO.RF.BC.No. 40 / 07.38.03 / 2007-08 dated December 4, 2007</u>

The amount outstanding in the account styled as "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008" shall be treated as a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms.