

**Guidelines to Primary (Urban) Co-operative Banks (UCBs)
on issuance of Long Term Deposits**

1. Term of Issue

UCBs may issue Long Term Deposits (LTD) with the prior permission of the respective Registrar / Central Register of Cooperative Societies (RCS / CRCS) granted in consultation with the Reserve Bank. LTDs may be issued to members and non-members, including those outside the area of operations of the UCB concerned. There is no prohibition on existing shareholders subscribing to Long Term Deposits. The amounts raised through LTD, which comply with the following terms and conditions will be eligible to be treated as lower Tier II capital

2.1. Maturity

LTD should have a minimum maturity of not less than 5 years.

2.2. Limits

The outstanding amount of LTD, which is eligible to be reckoned as Tier II capital, will be limited to 50 percent of Tier I capital. The above limit will be based on the amount of Tier I capital after deduction of goodwill and other intangible assets but before the deduction of equity investments in subsidiaries, if any.

2.3. Amount

The amount to be raised may be decided by the Board of Directors of banks.

2.4. Seniority of Claims

LTD will be subordinated to the claims of depositors and other creditors but would rank senior to the claims of shareholders, including holders of preference shares (both Tier I & Tier II). Among investors of instruments included in lower Tier II, the claims shall rank pari passu with each other.

2.5. Options

(a) LTD shall not be issued with a 'put option' or a 'step up' option.

(b) The 'call option' will be permissible and may be exercised after 5 years with prior permission of the Reserve Bank. While considering the proposals received from banks for exercising the call option the Reserve Bank would, among other things, take into consideration the bank's CRAR position both at the time of exercise of the call option and after exercise of the call option.

2.6. Redemption / Prepayment

Repayment of LTD at maturity shall be made only with the prior approval of the Reserve Bank of India (Urban Banks Department, Central Office) subject inter alia to the following conditions :

- (i) The bank's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.
- (ii) The impact of such repayment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

2.7. Interest Rate

LTD may bear a fixed rate of interest or a floating rate of interest referenced to a market determined rupee interest benchmark rate.

2.8. DICGC Cover

LTD will not be eligible for DICGC cover

2.9. Progressive Discount

These deposits will be subjected to a progressive discount for capital adequacy purposes as under :

Remaining Period of Maturity	Rate of Discount
Less than one year	100%
More than one year and Less than two years	80%
More than two years and less than three years	60%
More than three years and less than four years	40%
More than four years and less than five years	20%

2.10. **Classification in the Balance Sheet**

These instruments will be classified as 'borrowings' and shown separately in the Balance Sheet.

3. Reserve Requirement

Total amount raised by a bank through the issue of LTD will be reckoned as a liability for the computation of net demand and time liabilities for the purpose of reserve requirements (CRR and SLR).

4. Reporting Requirements

Banks issuing such long term deposits shall submit a report to the Chief General Manager-incharge, Urban Banks Department, Reserve Bank of India, Mumbai giving details of the deposit raised, including the terms of issue specified as above.

5. Investment in / grant of advances against LTD

UCBs should not invest in LTD of other UCBs; nor they should grant advances against the security of LTD issued by them or by other banks