

Guidelines for Setting up of Local Area Banks in the Private Sector

August 24, 1996

With a view to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas, it has been decided to allow the establishment of new local banks in the private sector. This is expected to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban areas. The following are the guidelines for establishment of the new local banks:

Object

Setting up of local area banks in private sector to cater to the credit needs of the local people and to provide efficient and competitive financial intermediation services in their area of operation.

Scope of Activities

Since these banks are being set up in district towns, their activities will be focussed on the local customers. It is expected that their lendings will be to agriculture and allied activities, SSI, agro-industrial activities, trading activities and the non-farm sector with a view to ensuring the provision of timely and adequate credit to the local clientele in the area of operation. The banks will observe the priority sector lending targets at 40% of net bank credit (NBC) as applicable to other domestic banks. Within the above target these banks will adhere to the requirement of lending at least 25% of their priority sector deployments (10% of NBC) to the weaker sections. This will be monitored strictly and on an ongoing basis.

Registration, Licensing : Scheduling

The bank shall be registered as a public limited company under the Companies Act, 1956. It will be licensed under the Banking Regulation Act, 1949 and will be eligible for including in the Second Schedule of the Reserve Bank of India Act, 1934.

Capital

The minimum paid up capital for such a bank shall be Rs.5 crore. The promoters' contribution for such a bank shall at least be Rs.2 crore. Proposals having diversified share holdings, will be preferred.

Promoters

The promoters of the bank may comprise individuals, corporate entities, trusts and societies. In the application for a banking licence the details of the initial contribution of

promoters, and the manner and method through which the minimum share capital of Rs.5 crore will be raised will need to be indicated.

Area of Operation

The area of operation of the proposed bank shall be a maximum of three geographically contiguous districts.

Head Office

The Head/Registered Office of the bank will be located at a centre within the area of operation of the bank.

Voting Rights

Voting rights of an individual share holder shall be governed by the ceiling of 10 % of the total voting rights as stipulated in Section 12(2) of the Banking Regulation Act, 1949.

Applicability of Statutes

The bank will be governed by the provisions of the Reserve Bank of India Act 1934, the Banking Regulation Act, 1949 and other relevant statutes. However, in regard to its liquidity requirements and interest rates, such banks will be governed by the provisions applicable to Regional Rural Banks established under the Regional Rural Banks Act, 1976.

Prudential Norms

Such a bank shall be subject to prudential norms, accounting policies and other policies as are laid down by RBI. The bank will have to achieve capital adequacy of 8 per cent of the risk weighted assets from the very beginning. Similarly, norms for income recognition, asset classification and provisioning will also be applicable to it from the beginning.

Branch Licensing

The bank shall be allowed to open branches only in its area of operation and in regard to branch licensing, it shall be governed by the existing policy.

General

The bank will have to comply with the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934 and abide by all guidelines, directives, instructions or advices of the RBI as may be in force from time to time.

Applications in the form prescribed under the Banking Regulation Act, 1949, backed by a project report for the establishment of such banks should be forwarded to the Chief General Manager, Rural Planning and Credit Department, Central Office, Reserve Bank of India, Mumbai-400 001.

**P.T.Achuthan
Manager**

Press Release : 1996-97/103