



# भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA

RBI/2025-26/19

DoR.CRE.REC.14/07.10.002/2025-26

April 01, 2025

All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

## Master Circular- Exposure Norms and Statutory / Other Restrictions - UCBs

Please refer to RBI [Master Circular DoR.CRE.REC.71/07.10.002/2023-24 dated January 16, 2024](#) on the captioned subject consolidating the instructions / guidelines issued to UCBs till January 15, 2024. Attached is the revised [Master Circular](#), updated to reflect all instructions issued upto March 31, 2025 on the above matter, as listed in the [Annex](#). It may be noted that this Master Circular only consolidates all instructions on the above matter issued up to March 31, 2025 and does not contain any new instructions/guidelines.

Yours faithfully,

(Vaibhav Chaturvedi)  
Chief General Manager

Encl: As above

## Master Circular on Exposure Norms and Statutory / Other Restrictions-UCBs

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## **Master Circular on Exposure Norms and Statutory / Other Restrictions – UCBs**

### **1. General**

1.1 As a prudential measure aimed at better risk management and avoidance of concentration of credit risk, primary (urban) co-operative banks (UCBs) have been advised to fix limits on their exposure -

- (i) to individual borrowers and group borrowers;
- (ii) to specific sectors; and,
- (iii) towards unsecured advances.

1.2 In addition, these banks are also required to observe certain statutory and regulatory restrictions in respect of:

- (i) advances against shares, debentures and bonds;
- (ii) investments in shares, debentures and bonds .

1.3 Currently operative instructions on all these aspects are detailed in the following paragraphs.

### **2. Definitions**

#### **2.1 Tier-I Capital**

Tier-I capital as on March 31 of the preceding financial year shall be reckoned for the purpose of fixing the exposure limits. Tier-I capital for the purpose will be the same as that prescribed for computation of capital adequacy of UCBs (vide [Master Circular dated April 1, 2025 on Prudential Norms on Capital Adequacy](#), as amended from time to time).

2.2 Exposure shall include both credit exposure (Loans and Advances) and investment exposure (Non- SLR securities) as indicated below.

#### **2.3 Credit Exposure**

2.3.1 Credit exposure shall include -

- (a) funded and non-funded credit limits and underwriting and similar commitments;
- (b) facilities extended by way of equipment leasing and hire purchase financing; and,
- (c) ad hoc limits sanctioned to the borrowers to meet the contingencies.

2.3.2 Credit exposure shall not include loans and advances granted against the security of bank's own term deposits.

2.3.3 The sanctioned limit or outstanding whichever is higher shall be reckoned for arriving at credit exposure limit. Further, in case of fully drawn term loans, where there is no scope of re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding for arriving at credit exposure limit.

2.3.4 In respect of non-funded credit limit, 100 per cent of such limit or outstanding, whichever is higher, need be taken into account for the purpose.

2.3.5 The level of individual bank's share in Consortium / Multiple Banking / Syndication shall be governed by single borrower / group exposure.

## 2.4 Investment Exposure (Non-SLR securities)

UCBs shall be guided by provisions contained at Chapter VII of the [Master Direction on 'Classification, Valuation and Operation of Investment Portfolio of UCBs' dated April 1, 2023](#), as updated from time to time.

## 2.5 Group

2.5.1 The decision in regard to definition of a group is left to the perception of the UCBs, which are generally aware of the basic constitution of their clientele. The group to which a particular borrowing unit belongs may, therefore, be decided by the UCBs on the basis of relevant information available with them, the guiding principle in this regard being commonality of management and effective control.

2.5.2 The different firms with one or more common partners engaged in the same line of business, viz., manufacturing, processing, trading activity, etc. shall be deemed to be connected group and units coming under common ownership shall be deemed to be a single party.

## 2.6 Unsecured advances

Unsecured advances shall include clean overdrafts, loans against personal security, clean bills or *Multani hundies* purchased or discounted, cheques purchased and drawals allowed against cheques sent for collection but shall exclude:

- (i) advances backed by guarantee of the central or state governments, public sector financial institutions, banks and Deposit Insurance & Credit Guarantee Corporation;
- (ii) advances against supply bills drawn on the central or state governments or state owned undertakings which are accompanied by duly authorised inspection notes or receipted challans;
- (iii) advances against trust receipts;
- (iv) advances against inland Document against Acceptance (D/A) bills drawn under letters of credit;

- (v) advances against inland D/A bills (even where such bills are not drawn under letters of credit) having a usance of not exceeding 90 days;
- (vi) advances granted to salaried employees against personal security, provided that the Co-operative Societies Act of the State concerned contains an obligatory provision for deduction of periodical loan instalments by the employer out of the employee's salary / wages to meet the bank's claims and provided further that the bank has taken advantages of this provision in respect of each of such advances<sup>1</sup>;
- (vii) advances against supply bills drawn on private parties of repute and receipted challans of public limited companies and concerns of repute and not outstanding for more than 90 days;
- (viii) advances against book debts which are not outstanding for more than 90 days;
- (ix) cheques issued by governments, public corporation and local self governing institutions;
- (x) advances in the form of packing credit for exports;
- (xi) demand drafts purchased;
- (xii) the secured portion of partly secured advances; and,
- (xiii) advances against legal assignment of contract moneys due, or to become due.

Note: All bills of exchange not accompanied by the official receipts of the Indian Railways or Indian Airlines Corporation or Road and Water Transport Operators, as approved by the Board of Directors of the primary co-operative bank, shall be deemed to be clean bills.

### **3. Exposure Norms**

#### **3.1 Exposure Ceiling to Individual / Group Borrowers**

3.1.1 UCBs are required to fix, with the approval of their Board of Directors, exposure ceiling in relation to their Tier-I capital. The exposure for the purpose shall comprise both credit exposure (loans and advances) and investment exposure (Non-SLR securities) as detailed at Para 2.3 and 2.4 so that -

- (i) the exposure to an individual borrower does not exceed 15 per cent of Tier-I capital; and,
- (ii) the exposure to a group of connected borrowers/parties does not exceed 25 per cent of Tier-I capital.

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<sup>1</sup> Please also refer para 4.2.4 and 4.2.5 of this Master Circular.

3.1.2 The exposure limits prescribed in Para 3.1.1 apply to all types of fresh exposures taken by UCBs after March 13, 2020 and UCBs were required to bring down their exposures which were in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. However, where the existing exposure comprises only term loans and non-fund-based facilities, while no further exposure shall be taken on such borrowers, these facilities may be allowed to continue as per their respective repayment schedule / till maturity.

3.1.3 Whether borrowers / parties belong to a 'group of connected borrowers / parties' shall be determined based on the instructions contained at Para 2.5.1 and 2.5.2 above.

### 3.2 Computation of exposure ceiling for individual / group borrowers

The exercise of computing the exposure ceilings may be conducted every year after the finalisation and audit of balance sheet of the bank and the exposure ceilings may be advised to the loan sanctioning authorities and the investment department in the bank. In view of the linking of shareholding to lending, accretion to or reduction in the share capital after the balance sheet date, may be taken into account for determining exposure ceiling at half-yearly intervals, with the approval of their Board of Directors. Accordingly, banks may, if they so desire, fix a fresh exposure limit taking into account the amount of share capital available as on 30<sup>th</sup> September. However, accretion to capital funds other than to share capital, such as half-yearly profit etc., will not be eligible for reckoning the exposure ceiling. Banks should also ensure that they do not take exposures in excess of ceiling prescribed in anticipation of infusion of capital on a future date.

### 3.3 Small value loans

UCBs shall have at least 50 per cent of their aggregate loans and advances comprising of Small Value Loans, i.e., loans of value not more than ₹25 lakh or 0.4 per cent of their Tier-I capital, whichever is higher, subject to a ceiling of ₹3 crore per borrower. Boards of UCBs, however, shall periodically review the portfolio behaviour and quality under different loan-size categories and where necessary, may consider fixing lower ceilings. Tier-I capital for this purpose shall be reckoned in the manner provided in paragraph 2.1 above. Notwithstanding the above, UCBs shall adhere to the exposure limits stipulated at Para 3.1 above. It is clarified that 'loans' for the purpose shall include all types of funded and non-funded exposures in the nature of credit. UCBs which do not, at present, comply with the prescribed threshold shall be in conformity with the above requirements as per following glide path:

Target Date →	March 31, 2025	March 31, 2026
Minimum percentage of Small Value Loans in aggregate loans and advances →	40%	50%

### 3.4 Real Estate Exposure Norms

3.4.1 UCBs are advised to frame, with the approval of their Board of Directors, comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, keeping in view the Reserve Bank of India guidelines to ensure that bank credit is used for construction activity and not for activity connected with speculation in real estate subject to the instructions in following paragraphs.

#### Aggregate Housing/Real estate Limits

3.4.2 Aggregate exposure of a UCB to residential mortgages (housing loans to individuals), other than those eligible to be classified as priority sector, shall not exceed 25 per cent of its total loans and advances.

3.4.3 Aggregate exposure of a UCB to real estate sector, excluding housing loans to individuals, shall not exceed five per cent of its total loans and advances.

3.4.4 Working capital loans given by UCBs against hypothecation of construction materials provided to the contractors who undertake comparatively small construction on their own without receiving advance payments is exempted from the prescribed limit.

3.4.5 UCBs are not permitted to exceed the limit prescribed for grant of housing, real estate, commercial real estate loans to the extent of funds obtained from higher financing agencies and refinance from National Housing Bank.

#### Individual housing loan limits

3.4.6 Housing loans to individuals shall be subject to the following ceilings:

UCB Tier <sup>2</sup>	Loan amount* per dwelling unit
Tier 1	₹60 lakh
Tier 2	₹1.40 crore
Tier 3	₹2 crore
Tier 4	₹3 crore

\*subject to extant single borrower exposure limits

### 3.5 Inter-bank Exposure Limit

#### 3.5.1 Prudential Inter-bank (Gross) Exposure Limit

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<sup>2</sup> UCBs are categorized under respective tiers in terms of the circular [DOR.REG.No.84/07.01.000/2022-23 dated December 01, 2022](#).

UCBs shall be guided by provisions contained at Para 14.1 (a) of chapter VIII of the [Master Direction on 'Classification, Valuation and Operation of Investment Portfolio of UCBs' dated April 1, 2023](#), as updated from time to time.

### 3.5.2 Prudential Inter-bank Counterparty Limit

UCBs shall be guided by provisions contained at Para 14.1 (b) of chapter VIII of the [Master Direction on 'Classification, Valuation and Operation of Investment Portfolio of UCBs' dated April 1, 2023](#), as updated from time to time.

### 3.6 Placement / acceptance of Deposits

Placement / acceptance of deposits by UCBs shall be subject to instructions contained under Chapter VIII of [Master Direction on Classification, Valuation and Operation of Investment Portfolio of UCBs dated April 1, 2023](#), as amended from time to time.

## 4. Ceiling on Unsecured Advances (with Surety & without Surety)

### 4.1 Limits on unsecured advances

The limits on unsecured advances (with or without surety) are as under:

<b>Limits for Individual Borrower and Group Borrower</b>				
<b>Criteria</b>	<b>UCBs with DTL up to ₹10 Crore</b>	<b>UCBs with DTL above ₹10 crore &amp; up to ₹50 Crore</b>	<b>UCBs with DTL above ₹50 Crore &amp; up to ₹100 Crore</b>	<b>UCBs with DTL above ₹100 Crore</b>
UCBs having CRAR equal to or more than 9%	₹1.00 lakh	₹2.00 lakh	₹3.00 lakh	₹5.00 lakh
UCBs having CRAR less than 9%	₹0.25 lakh	₹0.50 lakh	₹1.00 lakh	₹2.00 lakh

### 4.2 Aggregate Ceiling on Unsecured Advance

4.2.1 The total unsecured loans and advances (with surety or without surety or for cheque purchase) granted by a UCB to its members should not exceed 10 per cent of its total assets as per the audited balance-sheet as on 31 March of the preceding financial year.

No bank shall finance a borrower, who is already enjoying credit facilities with another bank, without obtaining a 'NOC' from such financing bank and where the aggregate of the credit facilities enjoyed by the borrower exceeds the ceiling stipulated in the directive for a single party, the prior approval of Reserve Bank of India shall be obtained.



4.2.2 In order to provide further impetus to UCBs engaged in financial inclusion it has been decided that for UCBs whose priority sector loan portfolio is not less than 90 per cent of the gross loans may, with the prior approval of the Reserve Bank, grant unsecured advances to the extent of 35 per cent of their total assets as per the audited balance sheet at the end of the preceding financial year, subject to the following conditions:

- (i) The entire unsecured loan portfolio in excess of the normally permitted 10 per cent, shall comprise of priority sector loans and the exposure to any individual borrower shall not exceed ₹40,000.
- (ii) CRAR of not less than 9 per cent as per the latest Inspection Report and audited financial statements.
- (iii) Gross NPAs of not more than 7 per cent as per the latest Inspection Report and audited financial statements.

4.2.3 In respect of UCBs whose priority sector lending portfolio is less than 90%, unsecured loans up to ₹10,000 sanctioned by UCBs shall be exempt from the aggregate ceiling on unsecured exposure of 10 per cent of total assets as per audited balance sheet as on March 31 of the previous financial year, subject to following conditions:

- (i) The individual amount sanctioned should not exceed ₹10,000.
- (ii) The loan should be for productive purpose and banks should ensure end use of funds lent.
- (iii) The bank should have CRAR of at least 9 per cent and
- (iv) The Gross NPAs of the bank should not be more than 7 per cent.

The unsecured loans so extended by the bank shall not exceed 15 per cent of its total assets. Financial parameters detailed above shall be as per the latest Inspection Report and audited financial statements.

4.2.4 In view of the fact that salary earners' banks grant advances to salaried employees of a particular institution / group of institutions to which their membership is restricted and deductions are made from the salaries through their employers, the salary earners' banks may allow such advances in excess of the limits prescribed above subject to the following conditions:

- (i) The Co-operative Societies Act of the State concerned contains an obligatory provision for deduction of periodical loan instalments by the employer out of employee's salaries / wages to meet bank's claims.
- (ii) The bank has taken advantage of this provision in respect of each of such advance.
- (iii) A general limit for such advances is fixed by the bank in terms of certain multiples of the pay packet taking into account the monthly income of the employees.

4.2.5 The advances granted by UCBs, other than salary earners' societies, to all salaried borrowers wherein repayment is sought to be ensured through deduction from borrower's salaries as per the provisions of the State Co-operative Societies Act, should be reckoned as secured only for the purpose of computation of total unsecured advances to the members as a whole. While granting advances to the individual salaried borrowers, the banks should ensure that these advances do not exceed the maximum limit on unsecured advances as indicated in paragraph 4.1.

#### 4.3 Credit Card Limits

UCBs shall be guided by provisions contained at Para 4 (c) of [Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022 dated April 21, 2022](#), as updated from time to time.

### 5. Statutory Restrictions

5.1 Consequent upon amendment of Banking Regulation Act, 1949 by the Banking Regulation (Amendment) Act, 2020, section 20 of the principal Act has become applicable to UCBs.

#### 5.2 Advances against Bank's Own Shares

In terms of Section 20(1)(a) of the Banking Regulation Act, 1949, a primary (urban) co-operative bank cannot grant loans and advances on the security of its own shares.

#### 5.3 Restrictions on Power to Remit Debts

Section 20A(1) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) stipulates that a UCB shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

- (i) any of its past or present directors, or
- (ii) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- (iii) any individual, if any of its directors is his partner or guarantor.

5.4 In terms of Section 20A(2) of the said Act, any remission made in contravention of the provisions of sub-section (1) above shall be void and of no effect.

### 6. Regulatory Restrictions

#### 6.1 Granting Loans and Advances to Directors and their Relatives

6.1.1 UCBs shall not make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms / companies / concerns in which the directors or their relatives are interested

(collectively called as “director related loans”). Further, the directors or their relatives or the firms / companies / concerns in which the directors or their relatives are interested shall also not stand as surety / guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs. ‘Advances’ for the purpose shall include all types of funded / working capital limits such as cash credits, overdrafts, credit cards, etc.

6.1.2 The following categories of Director related loans are exempted from the purview of the above instructions:

- (i) Regular employee-related loans to staff Directors, if any, on the Boards of UCBs;
- (ii) Normal loans, as applicable to members, to the Directors on the Boards of Salary Earners' UCBs;
- (iii) Normal employee-related loans to Managing Directors/ Chief Executive Officers of UCBs;
- (iv) Loans to Directors and their relatives against Government Securities, Fixed Deposits and Life Insurance policies standing in their own name.

6.1.3 Explanation: For the purpose of these directions –

(i) The term 'any other financial accommodation' shall include funded and non-funded credit limits and underwritings and similar commitments, as under:

(a) The funded limits shall include loans and advances by way of bill / cheque purchase / discounting, pre-shipment and post-shipment credit facilities and deferred payment guarantee limits extended for any purpose including purchase of capital equipment and acceptance limits in connection therewith sanctioned to borrowers, and guarantees by issue of which a bank undertakes financial obligation to enable its constituents to acquire capital assets. It shall also include investments which are in the nature of / in lieu of credit.

(b) The non-funded limits shall include letters of credit, guarantees other than those referred to in paragraph (a) above, underwritings and similar commitments. It shall also include off-balance sheet exposure in the form of derivatives.

(ii) The word “relative” shall have the meaning as under:

A person shall be deemed to be a relative of another, if and only if:-

- (a) They are members of a Hindu Undivided Family; or
- (b) They are husband and wife; or
- (c) The one is related to the other (or vice-versa) in the manner indicated below:
  - i) Father (including step-father)
  - ii) Mother (including step-mother)

- iii) Son (including step-son)
- iv) Son's wife
- v) Daughter (including step-daughter)
- vi) Daughter's husband
- vii) Brother (including step-brother)
- viii) Brother's wife
- ix) Sister (including step-sister)
- x) Sister's husband

(iii) The word “interested” shall mean the director of the UCB or his relative, as the case may be, being a director, managing agent, manager, employee, proprietor, partner, coparcener or guarantor, as the case may be, of the firm / company / concern [including Hindu Undivided Family (HUF)]:

Provided that a Director of a UCB or his relative shall also be deemed to be interested in a company, being the subsidiary or holding company, if he / she is a Director, Managing Agent, Manager, employee or guarantor of the respective holding or subsidiary company:

Provided further that a director of a UCB shall also be deemed to be interested in a company / firm if he / she holds substantial interest in or is in control of the company / firm or in a company, being the subsidiary or holding company, if he / she holds substantial interest in or is in control of the respective holding or subsidiary company:

Provided further that a relative of a director of a UCB shall also be deemed to be interested in a company / firm if he / she is a major shareholder or is in control of the company / firm or in a company, being the subsidiary or holding company, if he / she is a major shareholder or is in control of the respective holding or subsidiary company.

(iv) The term “substantial interest” shall have the same meaning as assigned to it in section 5(ne) of the Banking Regulation Act, 1949.

(v) The term “control” shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in another manner.

(vi) The term “major shareholder” shall mean a person holding 10 per cent or more of the paid up share capital.

6.1.4 UCBs shall be guided by [Master Direction – Reserve Bank of India \(Filing of Supervisory Returns\) Directions – 2024 dated February 27, 2024](#), as amended from time to time, for submission of return regarding Director-related loans.

## 6.2 Maximum Ceiling on Advances to Nominal Members

UCBs may sanction loans to nominal members for short / temporary period and for purchase of consumer durables, subject to the following ceiling:

UCBs		Ceiling of Loan Amount
(i)	with deposits upto ₹50 crore	₹50,000 per borrower
(ii)	with deposits above ₹50 crore	₹1,00,000 per borrower

## 6.3 Advances against Fixed Deposit Receipts (FDRs) Issued by Other Banks

The banks should desist from sanctioning advances against FDRs / term deposits of other banks.

## 6.4 Advances by Salary Earners' Primary (Urban) Co-operative Banks (SEBs) against Term Deposits of Non-members

6.4.1 In terms of RBI circular UBD.No.BL.(SEB)5A/07.01.00-2001/02 dated August 8, 2001, SEBs applying for permission to open branches should ensure, *inter alia*, that their byelaws do not contain provisions for giving loans to outsiders (non-employees) by enrolling them as members / nominal members.

6.4.2 SEBs are permitted to grant advances against term deposits of non-members, subject to the following conditions:

- (i) The SEB should be fulfilling all the criteria for financially sound and well managed (FSWM) UCBs.
- (ii) The SEB should have in place an Audit Committee of the Board of Directors which is constituted and functioning in compliance with the instructions contained in RBI circular UBD.No.Plan.(PCB).9/09.06.00-94/95 dated July 25, 1994.
- (iii) The bye-laws of SEB should have a provision for giving loans to non-members against term deposits held in their own name singly or jointly with other non-members/ members.
- (iv) The SEB should maintain a reasonable margin against such advances at all times as per the policy approved by its Board.
- (v) No credit facilities, other than advances against term deposits, shall be granted to non-members.

## 6.5 Bridge Loans / Interim Finance

UCBs have been prohibited from entertaining any proposal for bridge loan / interim finance including that against capital / debentures issues and / or in the form of loans of a bridging nature, pending raising of long term funds from the market by way of capital, deposits etc. from all the categories of non-banking financial companies i.e. equipment leasing, hire-purchase, loan, investment and also residuary non-banking companies.

## 6.6 Bank Finance against Shares, Debentures and Bonds

### 6.6.1 Bank Finance to Stock Brokers

(i) UCBs are prohibited from extending any fund based or non fund based credit facilities, whether secured or unsecured, to stockbrokers against shares and debentures / bonds, or other securities, such as fixed deposits, LIC policies etc.

(ii) UCBs are not permitted to extend any facility to commodity brokers. This would include issue of guarantees on their behalf.

6.6.2 Advances against units of mutual funds can be extended only to individuals as in the case of advances against the security of shares, debentures and bonds (Para 6.6.3).

6.6.3 Loans against the primary / collateral security of shares / debentures should be limited to ₹5 lakh if the security is in physical form and up to ₹10 lakh if the security is in demat form.

6.6.4 A margin of 50 per cent should be maintained on all such advances.

6.6.5 Aggregate of all loans against the security of shares and debentures should be within the overall ceiling of 20 per cent of Tier - I capital of the bank as on 31st March of the previous financial year, as defined in [Master Circular - Prudential Norms on Capital Adequacy - Primary \(Urban\) Co-operative Banks \(UCBs\) dated April 1, 2025](#), as amended from time to time.

6.6.6 UCBs shall be guided by provisions of [Master Direction – Reserve Bank of India \(Filing of Supervisory Returns\) Directions – 2024 dated February 27, 2024](#), as amended from time to time, for submission of return on advances against security of shares / debentures .

6.6.7 It is essential that before accepting shares as security, banks should put in place appropriate risk management systems. All the approved loan proposals should be placed before the Audit Committee of the Bank at least once in two months. The Management and Audit Committee should ensure that all loans against shares are made only to those individuals who are not in any way connected with any stock broking

entity. Details of the loan sanctioned should be reported to the Board in its subsequent meeting.

## 6.7 Bank Finance against Preference Shares and Long Term (Subordinated) Bonds

UCBs shall not grant any loan or advance to any person for purchasing their own Perpetual Non Cumulative Preference Shares (PNCPS), Tier-II preference shares (such as Perpetual Cumulative Preference Shares, Redeemable Non Cumulative Preference Shares and Redeemable Cumulative Preference Shares), Perpetual Debt instruments (PDI) and Long Term Subordinated bonds (LTSB). UCBs shall not grant any loan or advance to any person for purchasing PNCPS, Tier-II preference shares, PDI and LTSB of other banks. UCBs should not invest in PNCPS (Tier-I), other Preference shares (Tier-II) and also in Long Term (Subordinated) Deposits (Tier-II), PDI, LTSB issued by other banks; nor should they grant advances against the security of the above instruments issued by them or other banks.

## 6.8 Bank Finance to Non-Banking Financial Companies (NBFCs)

### 6.8.1 Admission of NBFCs as Members

(i) For availing loans or advances from a UCB, its membership is a must. However, UCBs are normally not expected to enroll non-banking financial institutions (like investment and financial companies as well as other persons engaged in the business competing with or conflicting with the business of the bank) as their members since it would be in contravention of the state co-operative societies act concerned and will also not be in conformity with the provision of model by-law No. 9. Therefore, **banks should not finance NBFCs, other than those engaged in hire-purchase / leasing.**

(ii) Similarly, admission of non-banking financial companies which are **not engaged exclusively** in leasing / hire purchase business as members may be contrary to the provisions contained in the state cooperative societies act concerned and model by-law No. 9. It will, therefore, be necessary for the UCBs to obtain prior approval of the Registrar of Co-operative Societies concerned before admitting such leasing / hire purchase companies as members.

### 6.8.2 Activities eligible for finance to NBFCs engaged in Hire Purchase / Leasing Activities

Within the prescribed credit exposure norms and above stated restrictions, UCBs, with working capital funds aggregating to ₹25 crore and above, may finance the NBFC - Investment and Credit Companies (NBFC-ICC), subject to the following limits:

Type of NBFC	Maximum Limit on Bank Finance
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(i)	NBFC-ICC having not less than 75 per cent of their assets in equipment leasing and hire purchase, and 75 per cent of their gross income from these two types of activities as per the last audited balance sheet of the companies.	3 times of the Net Owned Funds (NOF) of the NBFC
(ii)	NBFC-ICC carrying out equipment leasing and hire purchase other than (i) above	2 times of the Net Owned Funds (NOF) of the NBFC

#### Note

(i) The maximum limit on bank finance should be within the overall ceiling of borrowing by NBFCs, upto ten times of their NOF.

(ii) Bank finance to leasing concerns should be restricted only to "full payout" leases i.e., those leases where the cost of the asset is fully recovered during the primary lease period itself and further it should cover purchases of only new equipment.

(iii) As a prudent policy, lease rentals due during the period of next five years should alone be taken into account for the purpose of lending.

#### 6.8.3 Activities not Eligible for Finance to NBFCs engaged in Hire Purchase / Leasing Activities

6.8.3.1 The following activities undertaken by non-banking financial companies engaged in hire purchase / leasing activities are not eligible for bank credit. As such, these items should be excluded from the build-up of current assets while arriving at permissible bank finance for all categories of NBFCs :

- (i) Bills discounted / rediscounted by NBFCs, except where specifically permitted;
- (ii) Investments made in shares, debentures etc. of a current nature, i.e., stock-in-trade;
- (iii) Investment in and advances to subsidiaries, group companies or other entities; and,
- (iv) Investments in and inter-corporate loans / deposits to other companies.

6.8.3.2 In respect of items indicated at (i) and (ii) above, banks should not make any adjustment in the projected net working capital (NWC). It may be added that the projected NWC represents long-term surplus available to support current operations and, therefore, does not need to be adjusted as a result of changing / pruning the level of current assets while reducing the level of maximum permissible bank finance.

#### 6.8.4 Financing of NBFCs by Scheduled UCBs



Scheduled UCBs may rediscount bills discounted by NBFCs arising from sale of commercial vehicles, including light commercial vehicles, two wheeler and three wheeler vehicles, subject to normal lending safeguards and the following conditions:

- (i) the bills should have been drawn by the manufacturers on dealers only;
- (ii) the bills should represent genuine sale transactions as may be ascertained from the chassis / engine numbers; and,
- (iii) before rediscounting the bills, the UCBs should satisfy themselves about the bona- fides and track record of NBFCs which have discounted the bills.

#### 6.9 Financing Equipment Leasing and Hire Purchase Financing

Consequent to the Government of India notification dated December 12, 1995 specifying 'Hire Purchase' and 'Equipment Leasing' as forms of business in which it is lawful for a primary cooperative bank to engage, Scheduled UCBs are allowed to undertake these activities. Scheduled UCBs are advised to ensure that:

- (i) These activities are undertaken only at select branches of banks.
- (ii) These activities are to be treated at par with loans and advances and subject to extant exposure norms on individual / group borrowers.
- (iii) The banks should maintain a balanced portfolio of equipment leasing, hire purchase vis-a-vis aggregate credit. Credit exposure to each of these activities should not exceed 5 per cent of total advances.
- (iv) The banks undertaking these activities should follow prudent accounting standards. Entire lease rental should not be taken to banks' income account. Only the interest component should be taken to income account. The component representing replacement cost of the asset should be carried to the Balance Sheet in the form of a provision for depreciation.
- (v) As a prudent measure, full depreciation should be provided during the primary lease period of the asset.

Non Scheduled UCBs, which also desire to undertake these activities should obtain RBI permission.

#### 6.10 Financing for Agricultural Activities

UCBs are permitted to finance agricultural activities subject to the following conditions:

- (i) UCBs would provide direct finance only to members (no nominal members) and not through any agency like primary agricultural credit societies and primary land development banks etc.,
- (ii) Credit should be extended only after obtaining 'no dues certificate' from the existing credit agencies in the area, and
- (iii) Banks should follow the scales of finance and obtain security as per guideline issued by RBI / NABARD.

## 6.11 Loans to Self Help Groups (SHGs) / Joint Liability Groups (JLGs)

6.11.1 UCBs may lend to SHGs and JLGs as per their Board approved policy framed according to the prescribed RBI guidelines in this regard.

6.11.2 UCBs may follow the method of lending directly to SHGs / JLGs. Lending through intermediaries will not be permitted.

6.11.3 The extant limits (individual and total) on grant of unsecured loans and advances will not apply to loans granted to SHGs. However, loans granted by UCBs to JLGs, to the extent not backed by tangible security, will be treated as unsecured and will be subject to the extant limits on unsecured loans and advances.

6.11.4 Loans granted to SHGs / JLGs would be governed by the extant guidelines on individual exposure limits.

6.11.5 The maximum amount of loan to SHGs should not exceed four times of the savings of the group. The limit may be exceeded in case of well managed SHGs subject to a ceiling of ten times of savings of the group. The groups may be rated on the basis of certain objective parameters such as proven track record, savings pattern, recovery rate, housekeeping etc. JLGs are not obliged to keep deposits with the bank and hence the amount of loan granted to JLGs would be based on the credit needs of the JLG and the bank's assessment of the credit requirement.

## 6.12 Restriction on Advances to Defaulters of Statutory Dues

6.12.1 Under the law, employees' contributions to provident fund deducted from wages of the employees / members, for a period of more than six months and not paid to the Commissioner are a first charge on the assets of the borrowers, in the case of the insolvency / winding up of the borrowing employer. In the circumstances, primary (urban) cooperative banks should safeguard their interest vis-à-vis such statutory dues.

6.12.2 Therefore, banks should satisfy themselves that there are no arrears of Provident Fund and other statutory dues of the borrowers by obtaining a declaration from them that all such dues have been duly paid. Proof in this regard may be called for only in cases where banks have reason to doubt the borrowers' declaration. Even where a proof is required, it is not necessary to insist on a certificate from the Regional Provident Fund Commissioner; production of a receipt evidencing the payment of the dues or a certificate from the auditors of the borrower or any other similar proof may be considered sufficient. In the case of sick units where there are arrears for reasons beyond the control of the borrowers, banks may continue to consider such cases on merits.

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## Annex

### (i) List of Circulars consolidated in the Master Circular

No	Circular No.	Date	Subject
1.	<a href="#">DOR.CRE.REC.62/07.10.002/2024-25</a>	24.02.2025	Review and rationalization of prudential norms - UCBs
2.	<a href="#">DOR.CRE.REC.29/07.10.002/2024-25</a>	25.07.2024	Bank Finance against Shares and Debentures
3.	<a href="#">DOR.CRE.REC.28/07.10.002/2024-25</a>	25.07.2024	Small Value Loans – Primary (Urban) Co-operative Banks (UCBs)
4.	<a href="#">DOR.REG.No.84/07.01.000/2022-23</a>	01.12.2022	Revised Regulatory Framework - Categorization of Urban Co-operative Banks (UCBs) for Regulatory Purposes
5.	<a href="#">DOR.CRE.REC.42/09.22.010/2022-23</a>	08.06.2022	Individual Housing loans – Enhancement in limits
6.	<a href="#">DOR.CAP.REC.92/09.18.201/2021-22</a>	08.03.2022	Issue and regulation of share capital and securities - Primary (Urban) Co-operative Banks
7.	<a href="#">DOR.CRG.CRS.Cir.No.5/13.05.000/2020-21</a>	05.02.2021	Loans and advances to directors, their relatives, and firms / concerns in which they are interested
8.	<a href="#">DOR (PCB).BPD.Cir No.10/13.05.000/2019-20</a>	13.03.2020	Limits on exposure to single and group borrowers/parties and large exposures and Revision in the target for priority sector lending – UCBs
9.	<a href="#">DCBR.BPD (PCB).BC.No.3/12.05.001/2016-17</a>	01.09.2016	Advances against Term Deposits of Non-members

10.	<a href="#">DCBR.CO.BPD. (PCB). No.15/13.05.000/2015-16</a>	21.04.2016	Unsecured Exposure Norms for UCBs – Relaxation
11.	<a href="#">UBD.BPD.(PCB). Cir. No. 53/13.05.000/ 2013-14</a>	28.03.2014	Guidelines on Sale of Financial Assets to Securitisation Company/ Reconstruction Company (SC/RC) by Multi State Urban Cooperative Banks
12.	<a href="#">UBD CO BPD (PCB) Cir No. 29/13.05.000/2013-14</a>	10.10.2013	Unsecured Exposure Norms for UCBs
13.	<a href="#">UBD CO BPD (PBC) Cir No. 13 /09.22.010/ 2013-14</a>	10.09.2013	Finance for Housing Schemes – Primary (Urban) Co-operative Banks – Loans for repairs / additions / alterations – enhancement of limits
14.	<a href="#">UBD BPD (PCB) Cir. No.45/13.05.000/ 2012- 13</a>	03.04.2013	Unsecured credit exposure norms for UCBs
15.	<a href="#">UBD.BPD.(PCB).Cir.No.47/13.05.000/201011</a>	11.05.2011	Monetary Policy Statement 2011-12 Exposure to Housing, Real Estate and Commercial Real Estate - Primary (Urban) Co-operative Banks
16.	<a href="#">UBD.BPD.(PCB).Cir.No.23/13.05.000/201011</a>	15.11.2010	Exposure to Housing, Real Estate Sector and Commercial Real Estate -Urban Co-operative Banks
17.	<a href="#">UBD.BPD.(PCB).Cir.No.21/13.05.000/201011</a>	15.11.2010	Maximum Limit on Unsecured Loans and Advances
18.	<a href="#">UBD.(PCB) BPD.Cir.No.69/09.22.010/2009- 10</a>	09.06.2010	Exposure to Real Estate and CRE
19.	<a href="#">UBD.BPD.PCB.Cir.No.63/16.20.000/ 2009-10</a>	04.05.2010	Investment in unlisted non-SLR securities

20.	<a href="#">UBD.BPD.PCB.Cir.No.62/16.20.000/ 2009-10</a>	30.04.2010	Classification of investments in bonds of infrastructure companies
21.	<a href="#">UBD.PCB.Cir.No.7/13.05.000/07-08</a>	13.07.2007	Bank Finance against Shares and Debentures-
22.	<a href="#">UBD.PCB.Cir.No.32/13.05.000/06-07</a>	12.03.2007	Loans and advances to directors, relatives and firms / concerns in which they are interested
23.	<a href="#">UBD.PCB.Cir.No.29/13.05.000/05-06</a>	30.01.2006	Maximum Limit on advances - Limit on credit exposure to individual / group of borrowers
24.	<a href="#">UBD.PCB.Cir.No.22/13.05.000/05-06</a>	05.12.2005	Maximum Limit on advances - Limit on Unsecured advances to single party / connected group
25.	<a href="#">UBD.PCB.Cir.No.14/13.05.000/05-06</a>	06.10.2005	Loans and advances to directors, relatives and firms / concerns in which they are interested.
26.	<a href="#">UBD.DS.cir.No.44/13.05.00/04-05</a>	15.04.2005	Maximum Limit on advances - Limit on credit exposure to individual / group of borrowers
27.	<a href="#">BPD.BPD(PCB)Cir.No.34/13.05.00/2003 04</a>	11.02.2004	Maximum Limit on advances - Limit on credit exposure to individual / group of borrowers - computation of capital funds
28.	BPD.DS(PCB)Cir.No.29/13.05.00/2003 -04	05.01.2004	Finance against shares & debentures by UCBs
29.	<a href="#">UBD.BPD.Cir.No.50/13.05.00/2002-03</a>	29.04.2003	Loans & Advances to directors, relatives and firms / concerns in which they are interested

30.	UBD.DS.PCB.Cir.No.37/13.05.00/2001- 02	01.04.2002	Limit on Credit Exposure to individual / group of borrowers
31.	UBD.No.DS.PCB.C1R.41/13.05.00/2000- 01	19.04.2001	Bank Finance against Shares and Debentures
32.	UBD.No.DS.PCB.CIR.35/13.05.00/1999-2000	13.03.2001	Maximum Limit on Advances - Unsecured Advances by Salary Earners' Banks - Revision of Limit
33.	UBD.No.PCB.Cir.25/13.05.00/2000-2001	18.01.2001	Maximum Limit on Advances - Limits on Credit Exposure to Individual / Group of Borrowers - Computation of Capital Funds
34.	UBD.No.DS.PCB.24/13.05.00/2000-2001	16.01.2001	Credit Extended to Diamond Exporters - Embargo on Import of Conflict Diamonds
35.	UBD.No.DS.4/13.05.00/2000	25.08.2000	Maximum Limit on Advances - Limits on Credit Exposure to Individuals / Group of Borrowers - Computation of Capital Funds
36.	UBD.No.DS.PCB.1/13.05.00/2000-2001	28.07.2000	Credit Extended to Diamond Exporters - Embargo on Import of Conflict Diamonds
37.	UBD.No.DS.CIR.31/13.05.00/1999-2000	01.04.2000	Maximum Limit on Advances - Limits on Credit Exposure
38.	UBD.No.DS.PCB.CIR.41/13.05.00/97-98	12.02.1998	Advances granted to Directors and their relatives
39.	UBD.No.DS/PCB/CIR.38/13.05.00/96-97	04.02.1997	Limits on Credit Exposure to Individual / Group of borrowers - Advances against security of term deposits

40.	UBD.No.Plan.PCB.33/09.09.01/96-97	13.12.1996	Financing Agricultural Activities by PCBs
41.	UBD.No.DS.PCB.CIR.27/13.05.00/96-97	11.11.1996	Maximum Limit on Advances - Limits on Unsecured Advances to single party / connected Group
42.	UBD.No.DS.PCB.DIR.16/13.05.00/96-97	11.11.1996	Maximum Limit on Advances
43.	UBD.No.DS.PCB.CIR.25/13.05.00/96-97	30.10.1996	Advances granted to directors and their relatives by Primary (Urban) Co-operative Banks
44.	UBD.No.Plan.PCB.20/09.63.00/96-97	16.10.1996	Policy and practice regarding Nominal Membership
45.	UBD.No.DS.PCB.Cir.65/13.01.00/95-96	31.05.1996	Advances against Fixed Deposit Receipts (FDRs) issued by other banks
46.	UBD.No.DS.PCB.Cir.63/13.05.00/95-96	24.05.1996	Lending to non-banking financial companies
47.	UBD.No.DS.PCB.CIR.53/13.05.00/95-96	22.03.1996	Maximum Limit on Advances - Limits on Credit Exposure to Individuals / Group of Borrowers
48.	UBD.No.DS.PCB.CIR.39/13.05.00/95-96	16.01.1996	Maximum Limit on Advances - Limits on credit exposure to individuals / group of borrowers
49.	UBD.No.DS.PCB.DIR.18/13.05.00/95-96	16.01.1996	Maximum Limit on Advances
50.	UBD.No.DS.PCB.CIR.60/13.05.00/94-95	30.05.1995	Lending to Non-Banking Financial Companies
51.	UBD.No.DS.(PCB)CIR.58/13.05.00/94- 95	17.05.1995	Bridge Loans / Interim Finance
52.	UBD.No.DS(PCB)Dir.16/13.05.00/94-95	29.04.1995	Maximum limit on advances

53.	UBD.No.DS(PCB)Cir.54/13.05.00/94-95	29.04.1995	Maximum limit on advances
54.	UBD.No.DS.CIR.25/13.05.00/94-95	21.10.1994	Lending to non-Banking financial companies
55.	UBD.I&L.Cir.RCS.1/12.05.00/94-95	15.07.1994	Granting of loans and advances to persons engaged in business competing with or conflicting with the business of primary cooperative banks
56.	UBD.No.DS.CIR.PCB.4/13.05.00/94-95	12.07.1994	Maximum limit on advances - Advances to Directors and their relatives and to concerns in which Directors or their relatives are interested
57.	UBD.No.(PCB)DIR.5/13-05.00/93-94	26.05.1994	Maximum Limit on Advances
58.	UBD.No.DS(PCB)Cir.76/13.05.00/ 93-94	26.05.1994	Maximum limit on advances - Advances to Directors and their relatives and to concerns in which Directors or their relatives are interested
59.	UBD.No.40/09.63.00/93-94	16.12.1993	Policy and practice regarding Nominal Membership
60.	UBD.No.(PCB)29/DC.(R.1)-92/93	26.12.1992	Bridge Loans / Interim Finance
61.	UBD.No.Plan.8/UB.8/91/92	05.02.1992	Policy and Practice regarding Nominal Membership
62.	UBD(PCB)55/DC.R.1-90/91	25.02.1991	Maximum Limit on Advances - Advances Against Cheques Sent for Collection
63.	UBD.PCB.2/DC.(R-1)-90/91	20.07.1990	Financing of Leasing / Hire Purchase Companies



64.	UBD.No.DC.99/R.1-87/88	08.02.1988	Maximum Limit on Advances - advances to Salaried Borrowers
65.	UBD.No.P&O.100/UB.8-86/87	25.06.1987	Policy and Practice regarding Nominal Membership
66.	ACD.Plan.(IFS)1295/PR.36-78/9	17.10.1978	Sanction of Credit Facilities to Borrowers who are defaulting in payment of Statutory Dues such as Provident Fund, etc. by PCBs

Withdrawn

**(ii) List of other circulars from which Instructions relating to Credit Exposure Norms and Statutory / Other Restrictions on Loans & Advances have also been consolidated in the Master Circular**

No	Circular No.	Date	Subject
1	<a href="#">UBD.BPD.(PCB).Cir.No.7/09.22.010/2011-12</a>	31.10.2011	Revision in Limits of Housing Loans and Repayment Period – Second Quarter Review of Monetary Policy 2011-12
2	<a href="#">UBD.BPD.(PCB)CIR.No.50/13.05.000(B)/201011</a>	02.06.2011	Financing of Self Help Groups (SHGs) and Joint Liability Groups (JLGs) by Primary (Urban) Co-operative Banks (UCBs)
3	<a href="#">UBD.No.DS.PCB.7/13.04.00/2000- 2001</a>	10.10.2000	Monetary and Credit Policy Measures - Mid-Term Review for the Year 2000-2001
4	UBD.No.DS.SUB.2/13.05.00/2000- 2001	25.08.2000	Rediscounting of Bills by Banks
5	<a href="#">UBD.No.Plan.SPCB.01/09.09.01/ 2000-2001</a>	01.07.2000	Priority Sector Lending - Lending to NBFCs for Onlending to Agriculture
6	UBD.No.DS.SUB.3/13.05.00/1999- 2000	21.09.1999	Rediscounting of Bills by Banks
7	UBD.Plan.No.SPCB.1/09.09.01/99- 2000	27.08.1999	Priority Sector lending - Flow of credit to food and agro-based processing, forestry and tiny sector enterprises

8	UBD.No.DS.PCB.Cir.10/13.05.00/ 98-99	27.11.1998	Bank Finance against Shares and Debentures
9	UBD.Plan.Gr.SUB/5/09.09.01/98- 99	18.11.1998	Bank Credit to Non Banking Financial Companies (NBFCs) against financing of trucks Classification under Priority Sector
10	UBD.No.DS.PCB.CIR.55/13.05.00/ 97-98	29.04.1998	Advances against Shares and Debentures
11	UBD.No.DS.PCB.CIR.46/13.05.00/ 96-97	23.04.1997	Lending under consortium arrangement
12	UBD.No.DS.PCB.Cir.40/13.05.00/ 96-97	13.02.1997	Lending for working capital purposes Sanction of ad-hoc limits
13	UBD.No.Plan.PCB.60/09.78.00/ 95-96	08.04.1996	Equipment leasing and hire purchase financing activities
14	UBD.NO.DS.PCB.CIR.35/13.05.00/ 95-96	05.01.1996	Grant of financial Assistance against Share / Debenture of joint stock companies
15	UBD.No.Plan./CIR(RCS).9/09.22. 01/95-96	01.09.1995	Finance for Housing Schemes - Primary (urban) Co-operative Banks
16	UBD.No.DC.7/13.05.00/95-96	09.08.1995	Grant of financial Assistance against Shares / Debentures of joint stock companies
17	UBD.No.(PCB)50/13.05.00-93/94	14.01.1994	Restrictions on credit to certain sectors - Real Estate Loans

18	UBD.No.(PCB)54/DC(R.1)-92/93	07.04.1993	Restriction on Credit to Certain Sectors
19	UBD(PCB)38/DC.(R.1)-91/92	13.11.1991	Restriction on Credit to Certain Sectors

Withdrawn