

Draft Reserve Bank of India (Regional Rural Banks – Credit Risk Management) Directions, 2025

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Reserve Bank of India (Regional Rural Banks – Credit Risk Management) Directions, 2025

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Introduction

Regional Rural Banks (RRBs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of RRBs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of RRBs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

Accordingly, in exercise of powers conferred by sections 21 and 35A of the Banking Regulation Act, 1949, the Reserve Bank being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

Chapter-I - Preliminary

A. Short title and Commencement

1. These directions shall be called the Reserve bank of India (Regional Rural Banks – Credit Risk Management) Directions, 2025.
2. These directions shall come into force with immediate effect.

B. Applicability

3. These Directions shall be applicable to Regional Rural Banks (hereinafter collectively referred to as 'RRBs' and individually as a 'RRB').

C. Definitions

4. 1) In these Directions, unless the context otherwise requires,
 - i) 'Cash credit' means a facility, under which a customer is allowed an advance up to the credit limit against the security by way of hypothecation / pledge of goods,

book debts, standing crops, etc. The facility is a running account and 'Drawing Power - DP' is periodically determined with reference to the value of the eligible current assets. The outstanding amount is repayable on demand.

- ii) 'Current Account' means A form of demand deposit account wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings nor Term deposit account.
- iii) 'Overdraft' means a facility, under which a customer is allowed to draw an agreed sum (credit limit) in excess of credit balance in their account. The overdraft facility may be secured (against fixed / term deposits and other securities, like small saving instruments, surrender value of insurance policies, etc.) or clean (i.e. without any security). The overdraft facility might be granted on their current account, savings deposits account or temporary overdraft on credit accounts.
- iv) 'Revaluation Reserve' means a reserve created on the revaluation of assets or net assets represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.

2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, or the Reserve Bank of India Act, 1934 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank or as used in commercial parlance, as the case may be.

Chapter-II - Board Approved Policies

5. The bank shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, *inter alia*, cover aspects related to valuation of properties including empanelment of valuers, and opening of current accounts and CC / OD accounts. The specific aspects to be addressed in these policies are also detailed in the relevant paragraphs of this Directions.

Chapter-III - Statutory Restrictions

A. Advances against Bank's own Shares

6. In terms of Section 20(1)(a) of the Banking Regulation Act, 1949, a bank cannot grant any loans and advances on the security of its own shares.

B. Advances to Bank's Directors

7. The banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company [not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act, 2013, or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.
8. Section 20(1)(b) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest. Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949. For the applicability of Section 20 of BR Act, 1949, the banks shall be guided by following instructions:
 - i) Section 20 (1) (b) of the B. R. Act, 1949 shall not apply to
 - a. subsidiary of the banking company, or
 - b. a company registered under Section 8 of the Companies Act, 2013 or
 - c. a Government company.
 - ii) The sanction or grant of credit facilities to Companies in India by foreign banks having branches in India shall be in compliance with the spirit of Section 20 of the Banking Regulation Act, 1949. Accordingly, a foreign

bank branch in India shall not lend to a firm / company in India, if a director in the foreign bank's Board abroad has an interest in the firm / company or if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

- iii) A director shall be considered to have interest in a company if he is a director / managing agent / manager / employee or guarantor in the concerned company and shall be considered to have interest in a firm if he is a partner / manager / employee or guarantor in the concerned firm.
- iv) In case a banking company is granting any loan or advance to a subsidiary of the holding company, the provisions of Section 20 shall be attracted if any of the directors of the banking company is a director of the holding company, irrespective of whether any of the directors of the banking company is a director of the subsidiary or not.
- v) The provisions of Section 20(1)(b)(iii) of the B R Act, 1949 are not attracted in case of advances granted or commitment made by the bank to a company prior to appointment of the Director of the company on the Board of the bank.
- vi) The bank is precluded from renewing the loan / limit after its expiry or enhancing the limit that would have been sanctioned prior to the date of company's Director becoming a Director of the bank as renewal / enhancement / change in terms would mean entering into fresh commitment by the bank. Alternatively, the director has to relinquish the directorship of either the bank or the company.
- vii) Section 20 does not make any distinction between the directors on the basis of the interest they represent. Therefore, the prohibitions stipulated under Section 20 are applicable to nominee directors also.
- viii) Purchase of cheques is specifically exempted from prohibitory provisions of Section 20. However, withdrawal against uncleared effects (cheques presented for clearing) amounts to grant of advance and therefore shall

attract provisions of Section 20.

- ix) Derivative transactions are off balance sheet items and are treated on similar lines with non-fund based transactions and are out of purview of Section 20 provided it is ensured by banks that the transactions are genuine hedge transactions arising out of normal business requirements (not speculative ones) and no liability devolves on banks. The bank has to satisfy about the genuineness of the underlying exposure of the concerns. The banks shall adhere to the instructions contained in Reserve Bank of India (Regional Rural Banks – Credit Facilities) Directions, 2025 and Reserve Bank of India (Regional Rural Banks – Concentration Risk Management) Directions, 2025.
- x) Provisions of Section 20 shall also apply to priority Sector lending.
- xi) The provisions of Section 20 shall not apply to public trust.

9. (1) Section 20 of Banking Regulation Act, 1949 (B.R. Act, 1949) prohibits banks from granting any loan or advance to any of its Directors. However, in exercise of the powers conferred by clause (a) of the Explanation under sub-section (4) of Section 20 of Banking Regulation Act, 1949 and having regard to the considerations referred to therein, the Reserve Bank has specified that for the purposes of the said Section, the following loans / advances granted to the Chief Executive Officer / Whole Time Directors shall not be considered as 'loans and advances':

- i) Loan for purchasing of car
- ii) Loan for purchasing of personal computer
- iii) Loan for purchasing of furniture
- iv) Loan for constructing / acquiring a house for personal use
- v) Festival advance
- vi) Credit limit under credit card facility

The extant policy guidelines exempting the above mentioned loans and advances from applicability of Section 20 of Banking Regulation Act, 1949 required banks

to approach Reserve Bank for prior approval, except in case of loans granted to a Director who was an employee of the bank immediately prior to his / her appointment as a Director.

2) In order to streamline the existing processes and to obviate the need to approach Reserve Bank on case-to-case basis, it has been decided that in exercise of the powers vested with Reserve Bank under Section 35B of the B.R. Act, 1949, commercial banks can grant loans and advances to the Chief Executive Officer / Whole Time Directors, without seeking prior approval of Reserve Bank, subject to the following conditions:

- i) The loans and advances shall form part of the compensation / remuneration policy approved by the Board of Directors or any committee of the Board to which powers have been delegated or the Appointments Committee, as the case may be.
- ii) The guidelines on Base Rate shall not be applicable on the interest charged on such loans. However, the interest rate charged on such loans shall not be lower than the rate charged on loans to the bank's own employees.

3) The terms and conditions of the loans granted to the Chief Executive Officer / Whole Time Directors which are currently outstanding may, at the banks' discretion, be reviewed in the light of the above guidelines in order to address transition issues.

4) Banks shall note that in view of the prohibition under Section 20 of the BR Act, 1949, apart from the types of loans mentioned in paragraph 9 (1), no other loan can be sanctioned to Directors.

10. For the above purpose, the term 'loans and advances' shall not include the following:

- i) loans or advances against Government securities, life insurance policies or fixed deposit;
- ii) loans or advances to the Agricultural Finance Corporation Ltd;
- iii) such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of

the banking company) in his capacity as an employee of that banking company and on the same terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. The banking company includes every bank to which the provisions of Section 20 of the Banking Regulation Act, 1949 apply;

- iv) call loans made by banking companies to one another;
- v) facilities like bills purchased / discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance / co- acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;
- vi) line of credit / overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and
- vii) a credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

11. As regards giving guarantees and opening of L/Cs on behalf of the bank's directors, it is pertinent to note that in the event of the principal debtor committing default in discharging his liability and the bank being called upon to honour its obligations under the guarantee or L/C, the relationship between the bank and the director could become one of the creditor and debtor. Further, it is possible for the directors to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. Such transactions defeat the very purpose of restrictions imposed under Section 20, if the bank does not take appropriate steps to ensure that the liabilities thereunder do not devolve on them. In view of the above, while extending non-fund-based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies / firms in

which the directors are interested; it shall be ensured that:

- i) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of L/Cs, or acceptors, or guarantors out of their own resources,
- ii) the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and
- iii) no liability would devolve on the bank on account of L/Cs acceptances.

12. In case, such contingencies arise as at (ii) & (iii) above, the bank shall be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

C. Restrictions on Holding Shares in Companies

13. While granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) of the Banking Regulation Act, 1949 shall be strictly observed.

D. Restrictions on Credit to Companies for Buy-back of their Securities

14. In terms of provisions of the Companies Act, 2013, companies are permitted to purchase their own shares or other specified securities out of their

- 1) free reserves, or
- 2) securities premium account, or
- 3) the proceeds of any shares or other specified securities,

subject to compliance of various conditions specified therein. Therefore, banks shall not provide loans to companies for buy-back of shares / securities.

Chapter-IV - Valuation of Properties - Empanelment of Valuers

15. The banks shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:
16. Policy for valuation of properties
 - 1) The bank shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
 - 2) The valuation shall be done by professionally qualified independent valuers *i.e.* the valuer shall not have a direct or indirect interest.
 - 3) The banks shall obtain minimum two Independent Valuation Reports for properties valued at Rupees 50 crore or above.

17. Revaluation of bank's own properties

In addition to the above, the banks may keep the following aspects in view while formulating policy for revaluation of their own properties:

- 1) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55 per cent as a part of Tier II Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy shall *inter alia* cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc.
- 2) As the revaluation shall reflect the change in the fair value of the fixed asset, the frequency of revaluation shall be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation shall reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks shall adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation for a particular class of asset.

18. Policy for Empanelment of Independent valuers

- 1) The banks shall have a procedure for empanelment of professional valuers and maintain a register / record of 'approved list of valuers'.
- 2) The banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, banks shall take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

19. The banks shall also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.

Chapter-V - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI

20. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 25 of the Companies Act 1956 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
21. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry shall be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act, particulars of any charge creating security interest over property is required to be filed with the Registry within 30 days from the date of creation.
22. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:
 - 1) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
 - 2) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
 - 3) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature.

- 4) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or instrument other than mortgage.

Chapter-VI - Opening of Current Accounts and CC / OD Accounts by Banks

A. Opening of Current Accounts for borrowers availing Cash Credit / Overdraft Facilities from the Banking System

23. For borrowers, where the aggregate exposure of the banking system is less than ₹5 crore, banks can open current accounts without any restrictions placed vide this circular subject to obtaining an undertaking from such customers that they (the borrowers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.

Explanation (1): 'Exposure' for the purpose of instructions contained in paragraph 23 to paragraph 37 shall mean sum of sanctioned fund based and non-fund-based credit facilities availed by the borrower. All such credit facilities carried in their Indian books shall be included for the purpose of exposure calculation.

In case of proprietary firms, the aggregate exposure shall include all the credit facilities availed by the borrower, for business purpose or in personal capacity.

The banks may compute the aggregate exposure based on the information available from Central Repository of Information on Large Credits (CRILC), Credit Information Companies (CICs), National E-Governance Services Ltd. (NeSL), etc. and by obtaining customers' declaration, if required.

(2) 'Banking System' for the purpose of instructions contained in paragraph 23 to paragraph 37, shall include Scheduled Commercial Banks and Payments Banks only.

24. Where the aggregate exposure of the banking system is ₹5 crore or more:

- 1) Borrowers can open current accounts with any one of the banks with which it has CC / OD facility, provided that the bank has at least 10 per cent of the aggregate exposure of the banking system to that borrower. In case none of the lenders has at least 10 per cent of the aggregate exposure, the bank having the highest exposure among CC / OD providing banks may open current accounts.

- 2) Other lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts shall be remitted within two working days of receiving such funds, to the CC / OD account maintained with the above-mentioned bank (paragraph 23(1)) maintaining current accounts for the borrower. The balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. However, banks maintaining collection accounts are permitted to debit fees / charges from such accounts before transferring funds to CC / OD account.
- 3) Non-lending banks are not permitted to open current / collection accounts.

B. Opening of Current Accounts for borrowers not availing Cash Credit / Overdraft Facilities from the banking system

25. In case of borrowers where aggregate exposure of the banking system is ₹50 crore or more:
 - 1) Banks shall be required to put in place an escrow mechanism. Borrowers shall be free to choose any lending bank as their escrow managing bank. All lending banks shall be part of the escrow agreement. The terms and conditions of the agreement may be decided mutually by lending banks and the borrower.
 - 2) Current accounts of such borrowers can only be opened / maintained by the escrow managing bank.
 - 3) Other lending banks can open 'collection accounts' subject to the condition that funds shall be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower. Further, balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. While there is no prohibition on amount or number of credits in 'collection accounts', debits in these accounts shall be limited to the purpose of remitting the proceeds to the said escrow account. However, banks maintaining collection accounts are permitted to debit fees / charges from such accounts before

transferring funds to the escrow account.

- 4) Non-lending banks shall not open any current account for such borrowers.
26. In case of borrowers where aggregate exposure of the banking system is ₹5 crore or more but less than ₹50 crore, there is no restriction on opening of current accounts by the lending banks. However, non-lending banks may open only collection accounts as detailed at paragraph 25 (3) above.
27. In case of borrowers where aggregate exposure of the banking system is less than ₹5 crore, banks may open current accounts subject to obtaining an undertaking from them that they (the customers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more. The current account of such customers, as and when the aggregate exposure of the banking system becomes ₹5 crore or more, and ₹50 crore or more, shall be governed by the provisions of paragraph 26 and paragraph 27 respectively.
28. Banks are free to open current accounts of prospective customers who have not availed any credit facilities from the banking system, subject to necessary due diligence as per their Board approved policies.
29. Banks are free to open current accounts, without any of the restrictions placed in this Circular, for borrowers having credit facilities only from NBFCs / FIs / co-operative banks / non- bank institutions, etc. However, if such borrowers avail aggregate credit facilities of ₹5 crore or above from the banks covered under these guidelines, the provisions of the Circular shall be applicable.

C. Opening of Cash Credit / Overdraft Facilities

30. When a borrower approaches a bank for availing CC / OD facility, the bank can provide such facilities without any restrictions placed vide this circular if the aggregate exposure of the banking system to that borrower is less than ₹5 crore. However, the bank shall obtain an undertaking from such borrowers that they (the borrowers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.

31. For borrowers, where the aggregate exposure of the banking system is ₹5 crore or more:

- 1) Banks having a share of 10 per cent or more in the aggregate exposure of the banking system to such borrower can provide CC / OD facility without any restrictions placed vide these instructions.
- 2) In case none of the banks has at least 10 per cent exposure, bank having the highest exposure among CC / OD providing banks can provide such facility without any restrictions.
- 3) Where a bank's exposure to a borrower is less than 10 per cent of the aggregate exposure of the banking system to that borrower, while credits are freely permitted, debits to the CC / OD account can only be for credit to the CC / OD account of that borrower with a bank that has 10 per cent or more of aggregate exposure of the banking system to that borrower. Funds shall be remitted from these accounts to the said transferee CC / OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. However, banks are permitted to debit interest / charges pertaining to the said CC / OD account and other fees / charges before transferring the funds to the CC / OD account of the borrower with bank(s) having 10 per cent or more of the aggregate exposure. It may be noted that banks with exposure to the borrower of less than 10 per cent of the aggregate exposure of the banking system can offer working capital demand loan (WCDL) / working capital term loan (WCTL) facility to the borrower.
- 4) In case there is more than one bank having 10 per cent or more of the aggregate exposure, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks.

D. Exemptions Regarding Specific Accounts

32. Banks are permitted to open and operate the following accounts without any of the

restrictions placed in terms of paragraph 23 to paragraph 31:

- 1) Specific accounts which are stipulated under various statutes and specific instructions of other regulators / regulatory departments / Central and State Governments. An indicative list of such accounts is given below:
 - i) Accounts for real estate projects mandated under Section 4 (2) I (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70 per cent of advance payments collected from the home buyers;
 - ii) Nodal or escrow accounts of payment aggregators / prepaid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007;
 - iii) Accounts for the purpose of IPO / NFO / FPO / share buyback / dividend payment / issuance of commercial papers / allotment of debentures / gratuity etc. which are mandated by respective statutes or by regulators and are meant for specific / limited transactions only;
- 2) Accounts opened as per the provisions of Foreign Exchange Management Act, 1999 (FEMA) and notifications issued thereunder including any other current account if it is mandated for ensuring compliance under the FEMA framework;
- 3) Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorised to collect the same, for borrowers of such banks which are not authorised to collect such taxes, duties, statutory dues, etc.;
- 4) Accounts for settlement of dues related to debit card / ATM card / credit card issuers / acquirers;
- 5) Accounts of White Label ATM Operators and their agents for sourcing of currency;
- 6) Accounts of Cash-in-Transit (CIT) Companies / Cash Replenishment Agencies (CRAs) for providing cash management services;

- 7) Accounts opened by a bank funding a specific project for receiving / monitoring cash flows of that specific project, provided the borrower has not availed any CC / OD facility for that project;
- 8) Inter-bank accounts;
- 9) Accounts of All India Financial Institutions (AIFIs), viz., EXIM Bank, NABARD, NHB, and SIDBI;
- 10) Accounts attached by orders of Central or State governments / regulatory body / Courts / investigating agencies etc. wherein the customer cannot undertake any discretionary debits;

33. Banks maintaining accounts listed in paragraph 32 shall ensure that these accounts are used for permitted / specified transactions only. Further, banks shall flag these accounts in the CBS for easy monitoring. Lenders to such borrowers may also enter into agreements / arrangements with the borrowers for monitoring of cash flows / periodic transfer of funds (if permissible) in these accounts.

E. Other Instructions

34. All banks, whether lending banks or otherwise, shall monitor all accounts regularly, at least on a half-yearly basis, specifically with respect to the aggregate exposure of the banking system to the borrower, and the bank's share in that exposure, to ensure compliance with these instructions. If there is a change in exposure of a particular bank or aggregate exposure of the banking system to the borrower which warrants implementation of new banking arrangements, such changes shall be implemented within a period of three months from the date of such monitoring.
35. Banks shall put in place a monitoring mechanism, both at head office and regional / zonal office levels to monitor non-disruptive implementation of the circular and to ensure that customers are not put to undue inconvenience during the implementation process.
36. Banks shall not route drawal from term loans through CC / OD / Current accounts of

the borrower. Since term loans are meant for specific purposes, the funds shall be remitted directly to the supplier of goods and services. In cases where term loans are meant for purposes other than for supply of goods and services and where the payment destination is identifiable, banks shall ensure that payment is made directly, without routing it through an account of the borrower. However, where the payment destination is unidentifiable, banks may route such term loans through an account of the borrower opened as per the provisions of the circular. Expenses incurred by the borrower for day-to-day operations may be routed through an account of the borrower.

37. The flow-charts related to these instructions are furnished as [Annex I](#) and [Annex II](#).

Chapter-VII - Loan System for Delivery of Bank Credit

38. With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, delivery of bank credit for such borrowers shall be as under:

i) Minimum level of 'loan component'

In respect of borrowers having aggregate fund based working capital limit of ₹150 crore and above from the banking system, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 60 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility. The bifurcation of the working capital limit into loan and cash credit components shall be effected after excluding the export credit limits (pre-shipment and post-shipment) and bills limit for inland sales from the working capital limit. Investment by the bank in the commercial papers issued by the borrower shall form part of the loan component, provided the investment is sanctioned as part of the working capital limit.

ii) Sharing of Working Capital Finance

Bifurcation of working capital facility into loan component and cash credit component shall be maintained at individual bank level in all cases, including consortium lending. The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to guidelines on bifurcation as stated in sub-paragraph 38 (i) above. All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above- mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.

iii) Amount and tenor of the loan

The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

iv) Repayment / Renewal / Rollover of Loan Component

Banks / consortia / syndicates will have the discretion to stipulate repayment of the WCLs in instalments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.

v) For risk weights credit conversion factor for undrawn portion of cash credit limits sanctioned to the aforesaid large borrowers, banks shall refer to Reserve Bank of India (Prudential Norms on Capital Adequacy) Directions, 2025.

Chapter-VIII – Miscellaneous

39. Banks shall not extend any financial assistance (including working capital funds) to NBFCs.
40. The banks shall strictly follow the credit risk management guidelines contained in 'Guidance Notes on Risk Management.

Chapter-IX - Repeal and other provisions

A. Repeal and saving

41. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to Regional Rural Banks stands repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.
42. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

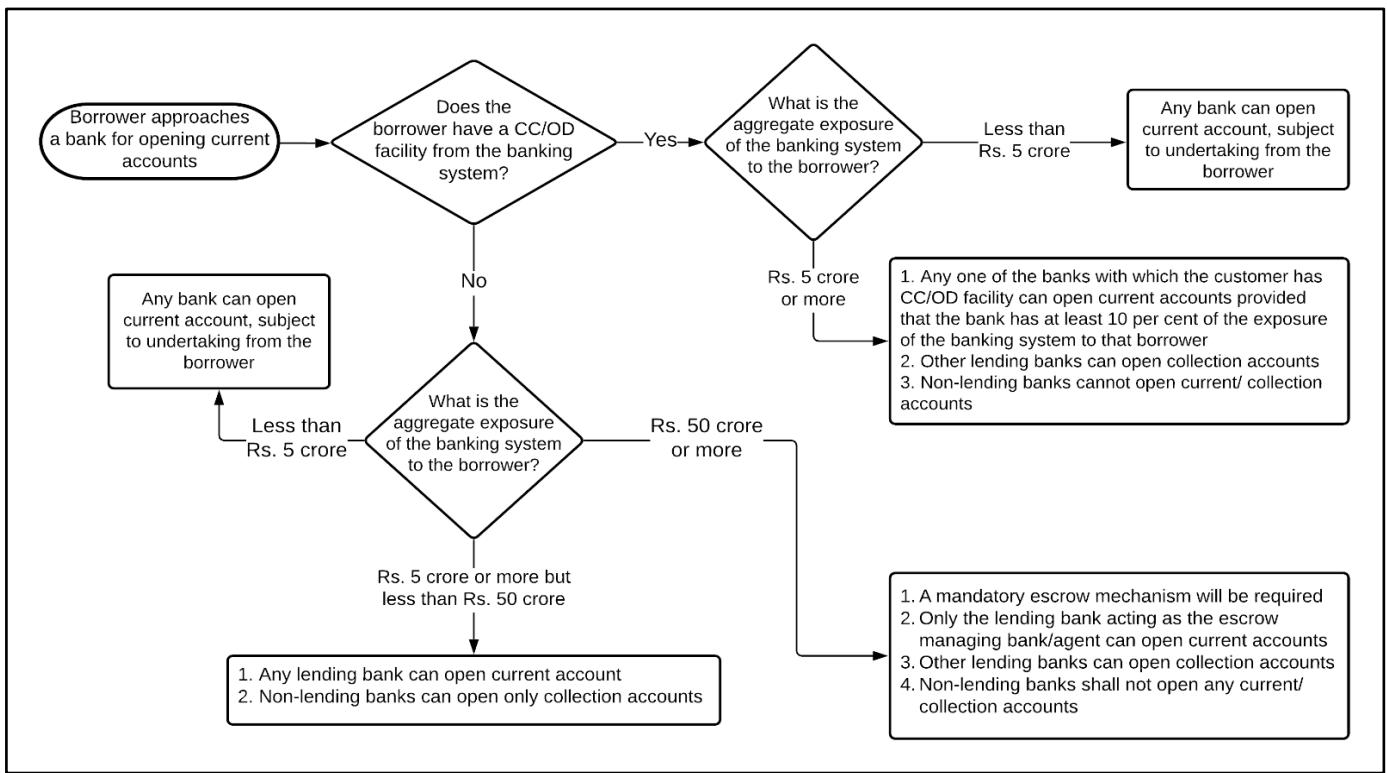
B. Application of other laws not barred

43. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

44. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

Annex I – Flow Chart – Opening of Current Accounts



Annex II – Flow Chart – Opening of Cash Credit / Overdraft Accounts

