

Draft Reserve Bank of India (Regional Rural Banks- Transfer and Distribution of Credit Risk) Directions, 2025

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Reserve Bank of India (Regional Rural Banks- Transfer and Distribution of Credit Risk) Directions, 2025

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Introduction

Credit Risk Transfer and Distributions are resorted to by lending institutions for multitude of reasons ranging from liquidity management and rebalancing their exposures or strategic sales. RBI has been taking several steps towards its development through Directions/Guidelines on transfer of loan exposures, Inter Bank Participations, consortium arrangements and others. In this regard, the Reserve Bank hereby issues a comprehensive and self-contained framework of regulatory guidelines governing different avenues of credit risk transfer and distribution. 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.

PRELIMINARY

A. Short title and commencement

1. These directions shall be called the Reserve Bank of India (Regional Rural Banks—Transfer and Distribution of Credit Risk) Directions, 2025.
2. These Directions shall come into effect on the day it is placed on the official website of the Reserve Bank of India.

B. Applicability

3. These directions shall be applicable to Regional Rural Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

4. The terms have been defined in the respective Parts of this Direction.
5. All other expressions, unless defined in the respective parts, 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 or any statutory modification or re-enactment thereto or any other relevant regulation or as used in commercial parlance, as the case may be.

PART A - TRANSFER OF LOAN EXPOSURES

6. Loan transfers are essential to the development of a credit risk market, enabling diversification of credit risk originating in the banking sector and ensure the availability of market-based credit products for a diversified set of investors having commensurate capacity and risk appetite.

Chapter I- Scope and Definitions

A. Applicability and Purpose

7. Banks shall acquire loans only from a transferor specified as a lender in paragraph 12(4) unless specifically permitted.

8. RRBs are permitted as only transferor(s) of stressed loans under Chapter III of these directions and are not permitted as transferors(s) or transferee(s) in any other type of loan transfers.

9. No bank shall undertake any loan transfers or acquisitions other than those permitted under Part A of this direction and in the manner prescribed therein.

Explanation: The above proviso shall be without prejudice to the provisions of Reserve Bank of India (Regional Rural Banks– Securitisation Transactions) Directions, 2025; Master Direction – External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019; obtention of guarantees; or products explicitly permitted in terms of RBI guidelines.

10. The directions in Part A will be applicable to all loan transfers undertaken by the bank, including transfer of loans through novation or assignment.

Provided that in cases of loan transfers, legal ownership of the loan shall be mandatorily transferred to the transferee(s) to the extent of economic interest transferred.

11. These directions shall apply only to banks as transferor(s) in loan transfers, unless specifically made applicable to other categories of entities as transferee(s) as per the specific permissions.

B. Definitions

12. For the purpose of the Part A of these Directions, following definitions shall apply:

(1) “credit enhancement” means a contractual arrangement in which an entity provides some degree of added protection to other parties to a transaction so as to mitigate the credit risk of their acquired exposures;

(2) “default” means non-payment of debt (as defined under the Insolvency and Bankruptcy Code, 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be;

Provided that for revolving facilities like cash credit, default would also mean, without prejudice to the above, the outstanding balance remaining continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.

(3) “Economic Interest” refers to the risks and rewards that may arise out of loan exposure through the life of the loan exposure;

(4) “Lenders” shall include the following set of entities,

Scheduled Commercial Banks; Regional Rural Banks; Local Area Banks; Primary (Urban) Co-operative Banks; State Co-operative Banks/ Central Co-operative Banks; All India Financial Institutions (NABARD, NHB, EXIM Bank, SIDBI and NaBFID); Small Finance Banks; Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs).

Provided that Regional Rural Banks; Local Area Banks; and Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks are permitted as only transferor(s) of stressed loans under Chapter III and are not permitted as transferors(s) or transferee(s) in any other type of loan transfers.

(5) “net book value (NBV)” means the funded outstanding in a loan exposure reduced by the specific provisions made against such exposure;

(6) “permitted transferees” mean the lenders specified below:

Scheduled Commercial Banks, All India Financial Institutions (NABARD, NHB, EXIM Bank, SIDBI and NaBFID), Small Finance Banks; and All Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs).

(7) “personal loans” refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable

assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).

Explanation: A loan shall be categorised as personal loan if it falls within the purview of the above definition, even if such loans are not explicitly classified so in any regulatory / supervisory reporting.

(8) “portfolio” means a set of loan exposures transferred together at a point of time under the same transfer agreement;

Provided that transfer agreements under which loans are transferred as a portfolio shall list the details of the individual loan exposures which are transferred as a portfolio.

(9) “stressed loans” mean loan exposures that are classified as non-performing assets (NPA) or as special mention accounts (SMA);

(10) “time of transfer” means the point at which the associated risks and rewards, to the extent of economic interest transferred and as documented in the, assignment, or novation contract, become binding on the transferor and transferee.

(11) “transfer” means a transfer of economic interest in loan exposures by the transferor to the transferee(s), with or without the transfer of the underlying loan contract, in the manner permitted in Part A of these directions;

Explanation: Consequently, the transferee(s) shall “acquire” the loan exposures following a loan transfer.

(12) “transferee” means the entity to which the economic interest in a loan exposure is transferred under Part A of these directions;

Provided that a transferee shall not be a person disqualified in terms of Section 29A of the Insolvency and Bankruptcy Code, 2016;

Provided further that in case of transfer of loan exposures of borrowers in whose accounts instances of fraud have been detected by any lender, the transferee(s) shall neither belong to the existing promoter group of such borrower nor shall be a subsidiary / associate / related party etc. (domestic as well as overseas) of any person belonging to the existing promoter group of such borrower.

Explanation I: In market parlance, transferee may be alternatively referred to as the assignee under assignment transactions, wherever applicable.

Explanation II: For the purpose of the second proviso above, the term ‘promoter group’ shall have the same meaning as in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; and the term ‘related party’ shall have the same meaning as in the Insolvency and Bankruptcy Code, 2016.

Explanation III: The responsibility for verifying and establishing that the transferee(s) comply with the above provisos shall be with the transferor(s).

(13) “transferor” means the entity which transfers the economic interest in a loan exposure under these directions;

Explanation: In market parlance, transferor may be alternatively referred to as the assignor under assignment transactions, wherever applicable

Chapter II- General Conditions applicable for all loan transfers

A. General Requirements

13. The bank shall put in place a comprehensive Board approved policy for transfer and acquisition of loan exposures under these guidelines. These guidelines must, *inter alia*, lay down the minimum quantitative and qualitative standards relating to due diligence, valuation, requisite IT systems for capture, storage and management of data, risk management, periodic Board level oversight, etc. Further, the policy must also ensure independence of functioning and reporting responsibilities of the units and personnel involved in transfer / acquisition of loans from that of personnel involved in originating the loans. All transactions must meet the requirements as detailed in the policy.

14. Loan transfers should result in transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contract. In all cases, if there are any modifications to terms and conditions of the loan contract during and after transfer (e.g. in take-out financing), the same shall be evaluated against restructuring as applicable.

15. Lenders referred to in Paragraph 12(4), regardless of whether they are transferors or otherwise, should not offer credit enhancements or liquidity facilities in any form in the case of loan transfers.

16. A loan transfer should result in immediate separation of the transferor from the risks and rewards associated with loans to the extent that the economic interest has been transferred.

In case of any retained economic interest in the exposure by the transferor, the loan transfer agreement should clearly specify the distribution of the principal and interest income from the transferred loan between the transferor and the transferee(s). However, it is reiterated that any retention of economic interest by the transferor shall not result in credit enhancement.

17. The transferee(s) should have the unfettered right to transfer or otherwise dispose of the loans free of any restraining condition to the extent of economic interest transferred to them.

(1) The transferee(s) shall have no recourse to the transferor for any expenses or losses linked to the transferred economic interest except those specifically permitted under these guidelines.

(2) Further, the transferor / transferee(s) shall not be constrained to obtain consent from the transferee(s) / transferor, as the case may be, when it comes to resolution or recovery in respect of the beneficial economic interest retained by or transferred to the respective entity.

18. The transferor shall have no obligation to re-acquire or fund the re-payment of the loans or any part of it or substitute loans held by the transferee(s) or provide additional loans to the transferee(s) at any time except those arising out of breach of warranties or representations made at the time of transfer.

The transferor should be able to demonstrate that a notice to this effect has been given to the transferee(s) and that the transferee(s) have acknowledged the absence of such obligation.

19. Wherever security interest is held by the transferor in trust with the transferee(s) as the beneficiaries, the transferee(s) shall ensure that a mutually agreed and binding mechanism for timely invocation of such security interest, if the need arises, has been properly documented and put in place.

20. The transfer of loans by transferor(s) must not contravene the rights of underlying obligors and all necessary consents from obligors (including from third parties), where necessary as per the respective contracts, should have been obtained.

21. A transferor should notify RBI (Department of Supervision) of all instances where it has replaced loans transferred to a transferee or paid damages arising out of any representation or warranty.

22. The extant instructions on outsourcing and the applicable provisions of Reserve Bank of India (Regional Rural Banks– Know Your Customer) Directions, 2025 shall be complied with in all cases.

23. In respect of exposures that do not meet the requirements of these directions, transferee(s) shall maintain capital charge equal to the actual exposure acquired. In such cases, the transferor shall continue to recognise the transferred loan in its

entirety, as if it was not transferred at all in the first place, and the consideration received shall be recognised as an advance.

24. There is no restriction on transfer of loan accounts classified as fraud by banks. Banks can transfer such exposures to permitted transferees as per their board approved policies in compliance with paragraph 51.

B. Transferor as servicing facility provider

25. The transferee(s) may engage a servicing facility provider, which may also be the transferor, to administer or service the acquired exposures.

26. If a bank, including a transferor, performs the role of a servicing facility provider for the transferee(s) after the loan transfer has occurred, it shall ensure that the following conditions are fulfilled:

(1) The nature, purpose, extent of the facility and all required standards of performance shall be clearly specified in a written agreement.

(2) The facility is provided on an 'arm's length basis' on market terms and conditions.

(3) Payment of any fee or other income arising from the role as a servicing facility provider is not subject to deferral or waiver in a way that would directly or indirectly provide credit enhancement or liquidity facility.

(4) The duration of the facility is limited to the earliest of the dates on which:

(i) the underlying loans are completely amortised;

(ii) all claims connected with the transferee(s)' economic interest in the underlying loans are paid out; or

(iii) the lender's obligations as the servicing facility provider are otherwise terminated.

(5) There should not be any recourse to the lender beyond the fixed contractual obligations.

(6) The transferee(s) have the clear right to select an alternative party to provide the servicing facility.

(7) The bank should be under no obligation to remit funds to the transferee(s) until it has received funds generated from the underlying loans.

(8) The bank shall hold in trust, on behalf of the transferee(s), the cash flows arising from the underlying loans and shall avoid co-mingling of these cash flows with its own cash flows.

Provided that if the above conditions are not satisfied, the transferor bank shall maintain capital on the loans transferred as if the loans in respect of which servicing facility is being provided are held by it directly on its books.

Chapter III- Transfer of stressed loans

A. General Requirements

27. The instructions contained in this Chapter would cover transfer of stressed loans, including transfer to ARCs.

28. The transfer of stressed loans must be done through assignment or novation only; loan participation is not permitted in the case of stressed loans.

29. The Board approved policies of banks on transfer and / or acquisition of stressed loans shall, inter alia, cover the following aspects:

- (1) Norms and procedure for transfer or acquisition of such loans;
- (2) Valuation methodology to be followed to ensure that the realisable value of stressed loans, including the realisability of the underlying security interest, if available, is reasonably estimated;
- (3) Delegation of powers to various functionaries for taking decision on the transfer or acquisition of the loans;

30. The policy on transfer of stressed loans shall be based on the following principles:

- (1) The process of identification of stressed loans beyond a specified value, as may be determined by a bank's policy, for transfer shall follow a top-down approach i.e., the head office/corporate office of the bank shall be actively involved in identification of stressed loans for transfer;
- (2) At a minimum, all loans classified as NPA above a threshold amount decided by the Board/Board Committee shall be reviewed by the Board/Board Committee at periodic intervals and a view, with documented rationale, be taken on transfer or otherwise. The loans identified for transfer shall be listed for the purpose of transfer as indicated above.

31. Transferors should have clear policies with regard to valuation of loan exposures proposed to be transferred. The basis or the grounds which will determine the type of valuation used - internal or external - must be clearly specified in the policy. The discount rate used by the transferor in the internal valuation exercise shall also be spelt out in the policy. This may be either cost of equity or average cost of funds or

opportunity cost or some other relevant rate, subject to a floor of the contracted interest rate charged. However, in case the credit exposure being transferred (without netting for provisions), singly, jointly, or severally, is Rs.100 crore or more, the transferor shall obtain two external valuation reports. The cost of valuation exercise, external or otherwise, shall be borne by the transferor.

32. In general, bank shall transfer stressed loans, including through bilateral sales, only to permitted transferees and ARCs.

33. The manner of transfer must be in terms of the Board approved policy of the transferor. Banks may also use e-auction platforms, wherever available, for transferring their loans.

34. However, when negotiated on a bilateral basis, such negotiations must necessarily be followed by an auction through Swiss Challenge method if the aggregate exposure (including investment exposure) of lenders to the borrower/s whose loan is being transferred is ₹100 crore or more. In all other cases, the bilateral negotiations shall be subject to the price discovery and value maximisation approaches adopted by the transferor as part of the Board approved policy described in paragraph 29, which may also include Swiss Challenge method. The broad guidelines to be followed for the Swiss Challenge Method are given in paragraphs 51 to paragraph 53.

35. The transferor shall ensure that subsequent to transfer of the stressed loans, they do not assume any operational, legal or any other type of risks relating to the transferred loans including additional funding or commitments to the borrower / transferee(s) with reference to the loan transferred. Subsequently, fresh exposure may be taken on the borrower after a cooling period laid down in the respective Board approved policy of the transferor, which in any case, shall not be less than 12 months from the date of such transfer.

36. The transferor(s) must provide adequate time for due diligence by prospective acquirers, which may vary as per the size of the loan.

37. The transferor(s) shall ensure that no transfer of a stressed loan is made at a contingent price whereby in the event of shortfall in the realization of the agreed price, the transferor(s) would have to bear a part of the shortfall.

38. The transferor shall transfer the stressed loans to transferee(s) other than ARCs only on cash basis. The entire transfer consideration should be received not later than at the time of transfer of loans, and the loan can be taken out of the books of the transferor only on receipt of the entire transfer consideration. If the transfer to transferee(s) other than ARCs is at a price below the net NBV at the time of transfer, the shortfall shall be debited to the profit and loss account of the year in which transfer has taken place. If the sale consideration is for a value higher than the NBV at the time of transfer, the excess provisions may be reversed.

39. In the case of ARC, the asset classification of stressed loans acquired by it and the associated provisions to be maintained shall be continued to be guided by the extant instructions as applicable to them in this regard.

B. Additional requirements for transfer of NPAs

40. The transferor shall continue to pursue the staff accountability aspects as per the existing instructions in respect of the NPAs transferred to other lenders.

C. Transfer of loans to Asset Reconstruction Companies

41. Subject to the provisions of the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025 all stressed loans which are in default in the books of the transferors are permitted to be transferred to ARCs. This shall include loan exposures classified as fraud as on the date of transfer provided that the responsibilities of the transferor with respect to continuous reporting, monitoring, filing of complaints with law enforcement agencies and proceedings related to such complaints shall also be transferred to the ARC. The transfer of such loan exposures to an ARC, however, does not absolve the transferor from fixing the staff accountability as required under the extant instructions on frauds.

42. In case of specific stressed loans, where it is considered necessary, transferor(s) shall be free to enter into agreement with the ARC to share, in an agreed proportion, any surplus realised by the ARC from the concerned stressed loan. In such cases, the terms of transfer should provide for a report from the ARC to the transferor(s) on the value realised from the loan. Transferor(s) shall not account for the profit until it has materialised.

43. When the stressed loan is transferred to ARC at a price below the NBV at the time of transfer, bank shall debit the shortfall to the profit and loss account for the year

in which the transfer has taken place. A bank is permitted to use countercyclical or floating provisions for meeting any shortfall on transfer of stressed loan when the transfer is at a price below the NBV.

44. On the other hand, when the stressed loan is transferred to an ARC for a value higher than the NBV at the time of transfer, bank shall reverse the excess provision on transfer to the profit and loss account in the year the amounts are received and only when the sum of cash received by way of initial consideration and / or redemption or transfer of Security Receipts (SR) / Pass Through Certificates (PTCs)/ other securities issued by ARCs is higher than the NBV of the loan at the time of transfer. Further, such reversal shall be limited to the extent to which cash received exceeds the NBV of the loan at the time of transfer.

(1) Notwithstanding the provisions contained in paragraph 44, the bank can reverse the entire excess provision [viz. sale consideration (-) NBV] to the Profit and Loss Account in the year of transfer if the sale consideration comprises only of cash and SRs guaranteed by the Government of India.

Provided that, the non-cash component of the excess provision [viz. excess provision (-) cash received at the time of transfer] shall be deducted from CET 1 capital, and no dividends shall be paid out of this component.

45. Investments by lenders in SRs / PTCs / other securities issued by ARCs shall be valued periodically by reckoning the Net Asset Value (NAV) declared by the ARC based on the recovery ratings received for such instruments.

Provided that when transferors invest in the SRs/PTCs issued by ARCs in respect of the stressed loans transferred by them to the ARC, the transferors shall carry the investment in their books on an ongoing basis, until its transfer or realization, at lower of the redemption value of SRs arrived based on the NAV as above, and the NBV of the transferred stressed loan at the time of transfer.

46. If the investment by the transferor in SRs issued against loans transferred by it is more than 10 percent of all SRs issued against the transferred asset, then the valuation of the SRs on the books of the transferor shall be the lower of the following:

(1) value arrived at in terms of paragraph 45; and

(2) face value of the SRs reduced by the notional provisioning rate applicable if the loans had continued on the books of the transferor.

Provided that in respect of valuation of investment in SRs outstanding in the books of Regional Rural Banks, as on September 24, 2021, the following treatment shall be applicable:

- (i) The difference between the carrying value of such SRs and the valuation arrived at in terms of this clause, as on the next financial reporting date after the date of issuance of these directions, may be provided over a five-year period starting with the financial year ending March 31, 2022 – i.e. from FY 2021-22 till FY 2025-26.
- (ii) Subsequent valuation of investments in such SRs on an ongoing basis shall, however, be strictly in terms of the provisions of these directions.
- (iii) RRBs concerned shall put in place a board approved plan to ensure that the provisioning made in each of the financial years in compliance of sub-clause (a) above is not less than one fifth of the required provisioning on this count.
- (iv) Valuation of investments in SRs made by all lenders after the issuance of these directions shall be strictly in terms of the provisions of these directions.

47. (1) Notwithstanding the provisions contained in paragraph 46, or the proviso to paragraph 45, SRs guaranteed by the Government of India shall be valued periodically by reckoning the Net Asset Value (NAV) declared by the ARC based on the recovery ratings received for such instruments.

(2) However, any unrealized gain recognized in the Profit and Loss Account on account of fair valuation of such investments shall be deducted from CET 1 capital, and no dividends shall be paid out of such unrealized gains.

(3) Any SRs outstanding after the final settlement of the government guarantee or the expiry of the guarantee period, whichever is earlier, shall be valued at ₹1.

48. SRs/PTCs which are not redeemed as at the end of the resolution period (i.e., five years or eight years as the case may be) shall be treated as loss asset in books of the lender and fully provided for.

49. The valuation, classification and other norms applicable to investment in non-SLR instruments prescribed by RBI from time to time shall be applicable to lender's

investment in debentures/ bonds/ SRs /PTCs issued by ARC. However, if any of the above instruments issued by ARC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme, the bank shall reckon the NAV obtained from ARC from time to time, for valuation of such investments.

50. Where stressed loans are taken over by ARCs as agents for recovery in exchange for a fee, the loans will not be removed from the books of the transferors but realisations as and when received shall be credited to the loan accounts. The transferors shall continue making provisions for the loan in the normal course.

D. Price Discovery through Swiss Challenge Method

51. Subject to the requirements under Paragraph 29, the bank shall put in place a board approved policy on adoption of Swiss Challenge Method for transfer of their stressed loans.

(1) The policy should specify the conditions under which bank(s) may opt for Swiss Challenge method, which could be based on parameters such as a tolerance limit for extent of haircut required by the lender(s) in the base-bid (as specified in Paragraph 53), for instance, or any objective parameter identified by the bank(s)' Board.

(2) The policy should also specify the minimum mark-up over the base-bid required for the challenger bid (as specified in Paragraph 53) to be considered by the bank(s), which in any case, shall not be less than five per cent and shall not be more than 15 per cent. For this purpose, mark-up shall be the difference between the challenger bid and the base-bid expressed as a percentage of the base-bid.

52. On an ongoing basis, the bank should identify the stressed loans which will be offered for transfer and an authenticated list of such loans shall be maintained by the lenders. The list may, at the discretion of the lender, be disclosed to prospective bidder on entering into confidentiality agreement.

53. The broad contours of the Swiss Challenge Method are as under:

(1) A prospective transferee interested in acquiring a specific stressed loan may offer a bid to the bank(s), which shall be termed as the base-bid.

(2) The bank(s) shall then publicly call for counter bids from other perspective buyers, on comparable terms, by disclosing the essential elements of the base-bid and

also clearly specifying the minimum mark-up (as specified in Paragraph 51) that would be acceptable.

(3) If no counter bid crossed the minimum mark-up specified in the invitation, the base-bid becomes the winning bid.

(4) If counter bid(s) cross the minimum mark-up specified in the invitation, the highest counter bid becomes the challenger bid. The prospective transferee who provided the base-bid is then invited to match the challenger bid. If the prospective transferee who provided the base-bid either matches the challenger bid or bids higher than the challenger bid, such bid shall become the winning bid; else, the challenger bid shall be the winning bid.

(5) The bank(s) will then have the following two options:

- (i) Transfer the loan to winning bidder, as determined above;
- (ii) If the bank decides not to transfer the loan to winning bidder, the bank will be required to make immediate provision on the account to the extent of the higher of the following:
 - (a) The discount on the book value quoted in the challenger bid, and
 - (b) The provisioning required as per extant asset classification and provisioning norms.

E. Disclosures and Reporting

54. The banks should be guided by Reserve Bank of India (Regional Rural Banks—Financial Statements: Presentation and Disclosures) Directions, 2025 for all disclosure related requirements.

55. Banks shall report each loan transfer transaction undertaken under these directions to a trade reporting platform as notified by the Reserve Bank. The detailed instructions in this regard will be issued separately. In anticipation of the same, bank shall maintain a database of loan transfer transactions with adequate MIS concerning each transaction till the reporting platform is notified and the related instructions are issued.

PART B - OTHER TYPES OF CREDIT RISK TRANSFER

Chapter I- Inter-bank Participations

56. There shall be two categories of Participations namely Inter-Bank Participations with Risk Sharing and Inter-Bank Participations without Risk Sharing.

Provided that Regional Rural Bank can issue Inter-Bank Participation Certificate (IBPC) of a tenor of 180 days on risk sharing basis to scheduled commercial banks against their priority sector advances in excess of 60% of their outstanding advances

57. The provisions contained in paragraph 13 to paragraph 26, relating to General Conditions applicable for all loan transfers shall apply to this chapter on Inter Bank Participations.

A. Inter-Bank Participations with Risk Sharing

58. Selection of Accounts: A bank will allot such participations only in respect of advances, which are not in default. The aggregate amount of such Participations in any account should not exceed 40 per cent of the outstanding in the account at the time of issue. Further, during the currency of the Participations the aggregate amount of Participations should be covered by the outstanding balance in the account. In case the outstanding balance falls short of the participations outstanding, the issuing bank will reduce the Participations to the extent necessary and if need be, issue Participations for smaller amounts.

59. Period of Participation: The minimum period of such a Participation shall be of a tenor of 180 days.

60. Rate of Interest: The rate of interest on Participations would be left free to be determined between the issuing bank and the participating bank.

61. Transferability: Participations shall not be transferable.

62. Documentation: A bank should subscribe to the "uniform code for Participations" prepared by IBA which will spell out clearly their inter-se rights and obligations in relation to the securities covered by the advances in question.

63. Risk: The risk would be deemed to have crystallised when the issuing bank recalls the advances and stops operations in the relative account. In such a case the issuing bank would give due notice to the participating bank intimating the default.

64. Repayment: The issuing bank will normally repay the amount of Participations together with interest to the participant bank on the date of maturity, excepting when the risk has materialised. In cases where risk has materialised the issuing bank will take necessary action, in consultation with the participating bank and share the recoveries proportionately.

65. Accounting: In the case of the issuing bank, the aggregate amount of Participations would be reduced from the aggregate advances outstanding. Such transactions will not be reflected in the individual borrower's accounts but will be only netted out in the financial reporting. The participating bank shall show the aggregate amount of such Participations as part of its advances. The issuing bank will maintain a record of full particulars of such Participations.

There shall be no privity of contract between the borrower and the participating bank and to avoid any difficulty, bank will incorporate in the cash credit agreement of the borrowers an appropriate clause permitting the lending bank to shift a part of the advance to any bank, without notice to the borrowers, by way of Participations. The agreement may also provide that in the event of issue of Participations the issuing bank would continue to represent the participating bank in protecting the latter's interests.

Chapter II- Transfer of Borrower Accounts and Take-out Financing

66. The provisions contained in paragraph 13 to paragraph 26 shall apply to this chapter on Transfer of Borrower accounts and Take-out Financing.

A. Transfer of Borrower Accounts:

67. The bank is advised that before taking over an account, the transferee bank should obtain necessary credit information from the transferor bank as per the format prescribed in Annex I. This would enable the transferee bank to be fully aware of the irregularities, if any, existing in the borrower's account(s) with the transferor bank. The transferor bank, on receipt of a request from the transferee bank, should share necessary credit information as per the prescribed format at the earliest.

B. Take-out financing

68. Take-out financing structure is essentially a mechanism designed to enable banks to avoid asset-liability maturity mismatches that may arise out of extending long tenor loans to infrastructure projects. Under the arrangements, banks financing the infrastructure projects will have an agreement with financial Institutions for transferring to the latter the outstandings in their books on a pre-determined basis. The banks may also be guided by the instructions regarding take-out finance contained in Reserve Bank of India (Regional Rural Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

PART C: REPEAL AND OTHER PROVISIONS

A. Repeal and saving

69. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Transfer and Distribution of Credit Risk as applicable to Regional Rural Banks stands repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

70. 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

71. 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

72. 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.

Revised Format for Credit Information Exchange

Part – I Bio Data of the Company

I.	Borrowing party's name and address	
II.	Constitution	
III.	Names of Directors / Partners	
IV.	Business activity	
	* Main	
	* Allied	
V.	Names of other financing Banks	
VI.	Net worth of Directors / Partners	
VII.	Group affiliation, if any	
VIII.	Date on associate concerns, if banking with the same bank	
IX.	Changes in shareholding and management from the previous report, if any	

Part - II Major credit quality indicators

I.	IRAC Classification	
II.	Internal Credit rating with narration	
III.	External Credit rating, if any	
IV.	Latest available Annual Report of the borrower	As on -----

Part – III
Exposure Details other than Derivatives

(Rs. in crore)

I.	Type of credit facilities, e.g. working capital loan / demand loan / term loan / short term loan / foreign currency loan, corporate loan / line of credit / Channel financing, contingent facilities like LC, BG & DPG (I & F) etc. Also, state L/C bills discounting / project wise finance availed).
II.	Purpose of loan
III.	Date of loan facilities (including temporary facilities)
IV.	Amount sanctioned (facility wise)
V.	Balance outstanding (facility wise)
VI.	Repayment terms
VII.	Security offered
	* Primary
	* Collateral
	* Personal / Corporate Guarantees
	* Extent of control over cash flow
VIII.	Defaults in term commitments / lease rentals / others
IX.	Any other special information like court cases, statutory dues, major defaults, adverse internal / external audit observations

Part - IV

Exposure Details – Derivatives Transactions

(Rs. in crore)

Sr. No.	Nature of the derivatives Transactions	Notional Amount of contracts	Weighted average maturity of contracts	Amount of positive MTM for the bank (Not due for settlement)	Amount of contracts classified as NPA	Notional Amount of outstanding contracts which have been restructured	Major reasons for restructuring (in brief)
A.	Plain Vanilla Contracts						
1.	Forex Forward contracts						
2.	Interest rate Swaps						
3.	Foreign Currency Options						
4.	Any other contracts (Please specify)						
B.	Complex derivatives including various types of option combinations designed as cost reduction/zero cost structures						
1.	Contracts involving <u>only</u> interest rate derivatives.						

2.	Other contracts including those involving foreign currency derivatives						
3.	Any other contracts (Please specify)						

Part – V

Un-hedged foreign currency exposures of the borrower with currency-wise details

(Rs. in crore)

I	Short term exposures (less than one year)	
(a)	Long positions	
(b)	Short positions	
(c)	Net short- term exposure (a-b)	
II	Long term exposures (one year and beyond)	
(a)	Long positions	
(b)	Short positions	
(c)	Net long-term exposure (a-b)	
III	Overall Net Position (I –II) for each currency (Please give Overall Net Position in this format for each currency)	
IV	Overall Net Position across all currencies	

Part – VI

Experience with the borrower

I.	Conduct of funded facilities (based on cash management / tendency to overdraw)	
II.	Conduct of contingent facilities (based on payment history)	
III.	Compliance with financial covenants	
IV.	Company's internal systems & procedures	
V.	Quality of management	
VI.	Overall Assessment	
(The above to be rated as good, satisfactory or below par only)		
(*) Broad guidelines for incorporating comments under this head is furnished in the next page		

Broad Guidelines for Incorporating Comments under Part - VI (Experience) of the Credit Information Report

		Good	Satisfactory	Below Par
I.	Conduct of funded facilities			
	* Over-drawings (No. of times)	Upto 4 times	5 to 6 times	Above 6 times
	* Average period of adjustment	Within 1 month	Within 2 months	Beyond 2 months
	* Extent of overdrawings (% of limit)	Upto 10%	10 to 20%	Above 20%
II.	Conduct of contingent facilities (Other than Derivatives)			
	* No. of Defaults	Upto 2 times	3 to 4 times	Above 4 times
	* Average period of adjustment	Within 1 week	Within 2 weeks	Beyond 2 weeks
III	Conduct of Derivatives Transactions			
	* No. of contracts where the positive MTM value due to the bank remained overdue for more than 30 days	<25% of total	25-50% of total number of contracts	> 50% of total number of contracts

		number of contracts		
	<p>* No. of contracts where the positive MTM value due to the bank remained overdue for more than 90 days and the account had to be classified as NPA (but later on regularized and is not NPA as on the date of exchange of information)</p> <p>Note: All cases where any of the contracts has been classified as NPA and continues to be NPA as on the date of the exchange of information should be shown as Below Par)</p>	<1% of total number of contracts	1-5% of total number of contracts	> 5% of total number of contracts
	* No. of contracts restructured during the relevant period	<25% of total number of contracts	25-50% of total number of contracts	> 50% of total number of contracts
IV.	Compliance with financial covenants			
	* Stock statement / Financial data	Timely	Delay upto 15 days	Delay over 15 days
	* Creation of charge	Prompt	Delay upto 2 months	Delay over 2 months
V.	Company's internal systems and procedures			
	* Inventory Management	Adequate systems are in place	Adequate systems are in place but not adhered	Adequate systems are not in place
	* Receivables Management	- do -	- do -	- do -
	* Resource Allocation	- do -	- do -	- do -
	* Control over Information	- do -	- do -	- do -
VI.	Quality of management			

	*	Integrity	Reliable	Nothing adverse	Cannot be categorized in previous columns
	*	Expertise Competence / Commitments	Professional & visionary	Have necessary experience	-do-
	*	Tract Record	Timely	Executions /	-do-