

RBI/2007-2008/82

UBD.BPD (PCB) MC. No.9 /13.05.000/2007-08

July 4, 2007

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Master Circular on Management of Advances- UCBs

Please refer to our Master Circular UBD.BPD (PCB) MC. No. 13 /13.05.00/2005-06 dated January 22, 2007 on the captioned subject (Available on RBI website www.rbi.org.in). The enclosed Master Circular consolidates and updates all the instructions/guidelines on the subject issued upto June 30, 2007.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager-in-Charge

**Master Circular
on
MANAGEMENT OF ADVANCES**

(Updated upto 30 June, 2007)

(The Master Circular is also available at RBI
Website www.rbi.org.in and may be
down loaded from there)



RESERVE BANK OF INDIA

**Urban Banks Department,
Central Office,
Mumbai.**

Management of Advances

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MANAGEMENT OF LOANS AND ADVANCES

1. BACKGROUND

- 1.1 In the context of rapid growth of primary (urban) co-op. banks (PCBs), qualitative aspects of lending, such as adequacy of lending to meet credit requirements of their borrowers and effective supervision and monitoring of advances have assumed considerable importance. Previously working capital finance provided by the banks to trade and industry was regulated by the Reserve Bank of India through a series of guidelines/instructions issued. There were various quantitative and qualitative restrictions on bank's lending. The banks were also expected to ensure conformity with the basic financial disciplines prescribed by the RBI from time to time under Credit Authorisation Scheme (CAS).
- 1.2 However, consistent with the policy of liberalisation and financial sector reforms, several indirect measures to regulate bank credit such as exposure norms for lending to individual/group borrowers, prudential norms for income recognition, asset classification and provisioning for advances, capital adequacy ratios, etc. were introduced by RBI and greater operational freedom has been provided to banks in dispensation of credit.
- 1.3 Banks are now expected to lay down, through their boards, transparent policies and guidelines for credit dispensation, in respect of each broad category of economic activity, keeping in view the credit exposure norms and various other guidelines issued by the Reserve Bank of India from time to time. Some of the currently applicable guidelines are detailed in the following paragraphs.

2. WORKING CAPITAL REQUIREMENTS UPTO RS. 1 CRORE

- 2.1 The assessment of working capital requirement of borrowers, other than SSI units, requiring fund based working capital limits upto Rs.1.00 crore and SSI units requiring fund based working capital limits upto to Rs.5.00 crore from the banking system may be made on the basis of their projected annual.
- 2.2 In accordance with these guidelines, the working capital requirement is to be assessed at 25% of the projected turnover to be shared between the borrower and the bank, viz. borrower contributing 5% of the turnover as net working capital (NWC) and bank providing finance at a minimum of 20% of the turnover.
- 2.3 The banks may, at their discretion, carry out the assessment based on projected turnover basis or the traditional method. If the credit requirement based on traditional production/processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned, as borrower must be financed upto the extent of minimum 20 per cent of their projected annual turnover.

- 2.4 The banks may satisfy themselves about the reasonableness of the projected annual turnover of the applicants, both for new as well as existing units, on the basis of annual statements of accounts or any other documents such as returns filed with sales-tax/revenue authorities and also ensure that the estimated growth during the year is realistic.
- 2.5 The borrowers would be required to bring in 5 per cent of their annual turnover as margin money. In other words, 25 per cent of the output value should be computed as working capital requirement, of which at least four-fifth should be provided by the banking sector, the balance one-fifth representing the borrower's contribution towards margin for the working capital. In cases, where output exceeds the projections or where the initial assessment of working capital is found inadequate, suitable enhancement in the working capital limits should be considered by the competent authority as and when deemed necessary. For example, in case, annual turnover of a borrower is projected at Rs. 60.00 lakh, the working capital requirement will be computed at Rs. 15.00 lakh (i.e. 25%) of which Rs. 12 lakh (i.e. 20%) may be provided by the banking system, while Rs. 3.00 lakh (i.e. 5 %) should be borrower's contribution towards margin money.
- 2.6 Drawals against the limits should, however, be allowed against the usual safeguards so as to ensure that the same are used for the purpose intended. Banks will have to ensure regular and timely submission of monthly statements of stocks, receivables, etc., by the borrowers and also periodical verification of such statements vis-à-vis physical stocks by their officials.
- 2.7 In regard to the above, few clarifications to some of the issues raised by banks are given in *Annex I*.

3. WORKING CAPITAL REQUIREMENTS ABOVE RS. 1 CRORE

3.1 Method of Assessment

- 3.1.1 The revised guidelines in respect of borrowers other than SSI units, requiring working capital limits above Rs.1 crore and for SSI units requiring fund based working capital limits above Rs.5 crore, from the banking system bestow greater level of flexibility to the primary (urban) co-operative banks in their day-to-day operations without diluting the prudential norms for lending as prescribed by Reserve Bank of India.
- 3.1.2 The earlier prescription regarding Maximum Permissible Bank Finance (MPBF), based on a minimum current ratio of 1.33:1, recommended by Tandon Working Group has been withdrawn. Banks are now free to decide on the minimum current ratio and determine the working capital requirements according to their perception of the borrowers and their credit needs.
- 3.1.3 Banks may evolve an appropriate system for assessing the working capital credit needs of borrowers whose requirement are above Rs.1 crore. Banks may adopt any of the under-noted methods for arriving at the working capital requirement of such borrowers.

- a) The turnover method, as prevalent for small borrowers may be used as a tool of assessment for this segment as well,
- b) Since major corporates have adopted cash budgeting as a tool of funds management, banks may follow cash budget system for assessing the working capital finance in respect of large borrowers.
- c) The banks may even retain the concept of the MPBF with necessary modifications.

3.2 Norms for Inventory/Receivables

- 3.2.1 In order to provide flexibility in the assessment of credit requirements of borrowers based on a total study of borrowers' business operations, i.e., taking into account the production/processing cycle of the industry as well as the financial and other relevant parameters of the borrower, the banks have also been permitted to decide the levels of holding of each item of inventory as also of receivables, which in their view would represent a reasonable build-up of current assets for being supported by bank finance.
- 3.2.2 Reserve Bank of India no longer prescribes detailed norms for each item of inventory as also of receivables.

3.3 Classification of Current Assets and Current Liabilities

- 3.3.1 With the withdrawal of MPBF, inventory norms and minimum current ratio, the classification of current assets and current liabilities ceases to be mandatory. The banks may decide on their own as to which items should be included for consideration as current assets or current liabilities.
- 3.3.2 Banks may also consider evolving suitable internal guidelines for accepting the projections made by their borrowers relating to the item "Sundry Creditors (Goods)" appearing as an item under "Other Current Liabilities" in the balance sheet.

3.4 Bills Discipline

In respect of borrowers enjoying fund-based working capital credit limits of Rs. 5 crore and more from the banking system, the banks are required to ensure that the book-debt finance does not exceed 75 per cent of the limits sanctioned to borrowers for financing inland credit sales. The remaining 25 per cent of the credit sales may be financed through bills to ensure greater use of bills for financing sales.

3.5 Grant of Ad hoc Limits

To meet the contingencies, banks may decide on the quantum and period for granting ad hoc limits to the borrowers based on their commercial judgement and merits of individual cases. While granting the ad hoc limits the banks must ensure that the aggregate credit limits (inclusive of ad hoc limits) do not exceed the prescribed exposure ceiling.

3.6 Commitment Charge

The levy of commitment charge is not mandatory and it is left to the discretion of the financing banks/ consortium/syndicate. Accordingly, banks are free to evolve their own guidelines in regard to commitment charge for ensuring credit discipline.

3.7 Consortium Arrangement

The mandatory requirement of formation of consortium for extending working capital finance under multiple banking arrangements has been withdrawn.

3.8 Syndication of Credit

The syndication of loans is an internationally practised model for financing credit requirements. The banks are free to adopt syndication route, irrespective of the quantum of credit involved, if the arrangement suits the borrower and the financing banks.

3.9 Loan System for Delivery of Bank Credit

3.9.1 Background

In order to bring about an element of discipline in the utilisation of bank credit by large borrowers, instill efficiency in funds management, loan system for delivery of bank credit was been introduced for borrowers enjoying working capital credit limits of Rs.10 crore and above from the banking system and the minimum level of loan component for such borrowers was fixed at 80 per cent. These guidelines have been revised by RBI, in the light of current environment of short-term investment opportunities available to both the corporates and the banks. In case any primary (urban) co-operative bank is having borrowers with MPBF of Rs. 10 crore and above where it has participated under consortium/syndication, it should ensure strict compliance with the under-noted guidelines.

3.9.2 Loan Component and Cash Credit Component

- (i) Banks may change the composition of working capital by increasing the cash credit component beyond 20 per cent or to increase the loan component beyond 80 per cent, as the case may be, if they so desire.
- (ii) Banks are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.
- (iii) If a borrower so desires, higher loan component can be granted by the bank; this would entail corresponding pro-rata reduction in the cash credit component of the limit.
- (iv) In the case of borrowers with working capital (fund based) credit limit of less than Rs. 10 crore, banks may persuade them to go in for the Loan System by offering an incentive in the form of lower rate of interest on the 'loan component' as compared to the 'cash credit component' The

actual percentage of 'loan component' in these cases may be settled by the bank with its borrower clients.

- (v) In respect of certain business activities which are cyclical and seasonal in nature or have inherent volatility, the strict application of loan system may create difficulties for the borrowers. Banks, may with the approval of their respective Boards, identify such business activities which may be exempt from the loan system of credit delivery.

3.9.3 Ad hoc Credit Limit

The release of ad hoc/additional credit for meeting temporary requirements may be considered by the financing bank only after the borrower has fully utilised/exhausted the existing limit.

3.9.4 Sharing of Working Capital Finance

- (i) The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to the stipulations contained in Para. 3.9.2 above.
- (ii) The level of individual bank's share shall be governed by the norm for single / group borrowers credit exposure.

3.9.5 Rate of Interest

Banks are allowed to fix separate lending rates for 'loan component' and 'cash credit component'.

3.9.6 Period of Loan

The minimum period of the loan for working capital purposes may be fixed by banks in consultation with borrowers. Banks may decide to split the loan component according to the need of the borrower with different maturity bases for each segment and allow roll over.

3.9.7 Security

In regard to security, sharing of charge, documentation, etc., banks may themselves decide on the requirements, if necessary, in consultation with the other participant banks.

3.9.8 Export Credit

Export credit limit would be allowed in the form hitherto granted. The bifurcation of the working capital limit into loan and cash credit components, as stated in paragraph 3.9.2 (i) above, would be effected after excluding the export credit limits (pre-shipment and post-shipment).

3.9.9 Bills Limit

Bills limit for inland sales may be fully carved out of the 'loan component'. Bills limit also includes limits for purchase of third party

(outstation) cheques/bank drafts. Banks must satisfy themselves that the bills limit is not mis-utilised.

3.9.10 Renewal/Roll-over of Loan Component

The loan component , may be renewed/rolled over at the request of the borrower. However, banks may lay down policy guidelines for periodical review of the working capital limit and the same may be scrupulously adhered to.

3.9.11 Provision for Investing Short Term Surplus Funds of Borrowers

The banks, at their discretion, may permit the borrowers to invest their short term/temporary surpluses in short-term money market instruments like Commercial Paper (CP), Certificates of Deposit (CDs) and in Term Deposit with banks, etc.

3.9.12 Applicability

The loan system would be applicable to borrowal accounts classified as 'standard' or 'sub-standard'.

4. CREDIT ADMINISTRATION

4.1 Rate of interest

4.1.1 UCBs are permitted to determine their lending rates taking into account their cost of funds, transaction costs etc with the approval of their Board. However, banks are advised to ensure that the interest rates charged by them are transparent and known to all customers. Banks are also required to publish the minimum and maximum interest rates charged on advances and display the information in every branch.

4.1.2. It may however be appreciated that though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious and can neither be sustainable nor be conforming to normal banking practice.

4.1.3. Boards of banks are, therefore, advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks may take into account, *inter-alia*, the following broad guidelines:

- (i) An appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower.
- (ii) Interest rates charged by banks, *inter-alia*, should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower. Further, in considering the question of risk,

the presence or absence of security and the value thereof should be taken into account.

- (iii) The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction.
- (iv) In the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to Rs.25,000. Penal interest may be levied for reasons such as default in repayment, non-submission of financial statements, etc. However, the policy on penal interest should be governed by well-accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers.
- (v) Banks should ensure that the total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers. The small and marginal farmers for the purpose shall include those with land holding of 5 acres and less.
- (vi) An appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

4.2 No Objection Certificate

The primary (urban) co-operative banks should not finance a borrower already availing credit facility from another bank without obtaining a 'No Objection Certificate' from the existing financing bank.

4.3 Opening of Current Accounts

4.3.1 Keeping in view the importance of credit discipline for reduction in NPA levels at the time of opening of current accounts banks should:

- (i) insist on a declaration from the account holder to the effect that he is not enjoying any credit facility with any other commercial bank or obtain a declaration giving particulars of credit facilities enjoyed by him with any other commercial bank/s.
- (ii) ascertain whether he/she is a member of any other co-operative society/bank; if so, the full details thereof such as name of the society/bank, number of shares held, details of credit facilities, such as nature, quantum, outstanding, due dates etc should be obtained.

4.3.2 Further, in case he/she is already enjoying any credit facility from any other commercial/co-operative bank, the bank opening a current account should duly inform the concerned lending bank(s) and also specifically insist on obtaining a "No Objection Certificate" from them. In case of a prospective customer who is a corporate or large borrower enjoying credit facilities from more than one bank, the banks may inform the consortium leader, if under consortium, and the concerned banks, if under multiple banking arrangement. In case a facility has been availed from a co-operative bank/society, it is essential for the bank to comply with the requirements of the Co-operative

Societies Act/Rules of the state concerned in regard to membership and borrowings.

4.3.3 Banks may open current accounts of prospective customers in case no response is received from the existing bankers after a minimum waiting period of a fortnight. If a responses is received within a fortnight, banks should assess the situation with reference to information provided on the prospective customer by the bank concerned and are not required to solicit a formal no objection, consistent with true freedom to the customer of banks as well as needed due diligence on the customer by the bank.

4.4 Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants

As per the Income Tax Act, 1961, filing of audited balance sheet and profit & loss account is mandatory for certain types of non-corporate entities. Therefore, the banks must insist on the audited financial statements from the borrowers enjoying large limits; since such borrowers would, in any case, be submitting audit certificate to the income-tax authorities, based on audit of their books of accounts by a Chartered Accountant.

4.5 Defaults in Payment of Statutory Dues by Borrowers

4.5.1 It has been observed that many of the borrowers enjoying credit facilities from primary (urban) co-operative banks default in payment of Provident Fund, Employees State Insurance and other statutory dues. Despite this, such borrowers continue to carry on operations with the assistance of bank finance without meeting their statutory obligations.

4.5.2 In the case of insolvency/winding up of a borrowing employer, under the law, there are certain priorities in regard to the recovery of statutory dues e.g., employees contribution towards provident fund deducted from wages of the employee members for a period of more than six months and not paid to the Commissioner, are a first charge on the assets of borrowers.

4.5.3 In the circumstances, the banks should safeguard their interest vis-à-vis such statutory dues and, therefore, it would be desirable for the banks to ensure that provident funds and similar other dues are paid by the borrowers promptly. For the purpose, the banks should incorporate an appropriate declaration in their application forms for grant/renewal/ enhancement of credit facilities so as to ensure that the position regarding the statutory dues is disclosed therein.

4.5.4 Where warranted, banks should satisfy themselves about genuineness of the party's declaration in this regard. Thus, the sanction/renewal/ enhancement of credit facilities can be utilised by banks as a leverage for enforcing necessary discipline on the part of their borrowers.

4.5.5 In respect of the corporate borrowers and non-corporate borrowers, the amount of statutory dues should normally be reflected in their annual accounts which should be duly certified by the auditors, and hence, the banks should have no difficulty in ascertaining the position of their statutory dues. Nonetheless, in addition to duly audited annual accounts, banks should also

obtain a specific certificate from the Chartered Accountant as regards the position of statutory dues, if the audited accounts do not clearly indicate the position.

4.5.6 After ascertaining the quantum of statutory dues, the banks should ensure that these are cleared by the borrowers within a reasonable period and that too through internal generation of funds. The non-payment of statutory dues is one of the symptoms of incipient sickness of an industrial unit. Therefore, it is in the interest of both the lender and borrower to give high priority to the clearance of these dues. Apart from insisting on the borrowers to indicate a definite programme for clearance of arrears, banks may consider suitable restrictions on the outflow of funds by way of dividends, repayment of loans from promoters or their friends, relatives or inter-corporate borrowings etc., till the overdue statutory liabilities are cleared.

4.6 Sanction of Advances

4.6.1 Irregularities/ Deficiencies in Credit Sanction

Banks should, take suitable precautions to avoid irregular practices such as sanctioning of advances beyond discretionary powers and/or without proper credit appraisal in order to minimise chances of frauds.

4.6.2 Delegation of Powers

- (i) The Board of Directors should delegate specific powers to the Branch Managers and other functionaries at the Head Office level as also to the Chairman in the matter of sanction of advances and expenditure. A system should also be introduced to ensure that powers are exercised within the limits prescribed and any transgressions are immediately reported to Head Office.
- (ii) The internal inspectors should examine during the course of inspection of branches whether powers have been exercised properly and any unauthorised exercise of powers should immediately be brought to the notice of Head Office. Similarly, sanctions beyond discretionary powers by the Chairman, Chief Executive Officer and other executives at the Head Office should also be reported to the Board of Directors.

4.6.3 Oral Sanction

The higher authorities at various levels should desist from the unhealthy practice of conveying sanction of advances orally or on telephone.

4.6.4 Proper Record of Deviations

- (i) Only in exigencies, where sanctions are made on telephone/oral instructions of higher functionaries or sanctions beyond discretionary powers have to be resorted to, the following steps should be taken:
 - (a) Record of such instructions/sanctions should be maintained by the sanctioning/disbursing authorities explaining the circumstances under which sanctions were made.

- (b) Written confirmation of the competent sanctioning authority should be obtained by the disbursing authority / official within a week/fortnight.
 - (c) Sanctions within discretionary powers should also be reported to Head Office within a stipulated time and Head Office should meticulously follow up receipt of such returns.
 - (d) Head Office should diligently scrutinise the statements/ returns and should initiate stringent action against erring functionary(ies) if he/they is/are found to have indulged in unauthorised sanctioning.
- (ii) Officials should exercise powers delegated to them judiciously and should not exceed their discretionary powers for granting loans and advances. Violations, if any, in this regard should be viewed seriously and the guilty should be punished suitably.

4.7 Monitoring Operations in Loan Accounts

4.7.1 Diversion of Funds

Some of the bank clients are known to be making large cash withdrawals. It is quite possible that such cash withdrawals may be used by the account holders for undesirable or illegal activities. While cash withdrawals cannot be refused, banks should keep a proper vigil over requests of their clients for cash withdrawals from their accounts for large amounts.

4.7.2 Post-Sanction Monitoring

- (i) It is the primary responsibility of banks to be vigilant and ensure proper end use of bank funds /monitor the funds flow. It is, therefore, necessary for banks to evolve such arrangements as may be considered necessary to ensure that drawals from cash credit/overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/subsidiaries, and acquisition of shares, debentures, units of Unit Trust of India and other mutual funds, and other investments in the capital market. This has to be so, even if there is sufficient drawing power/undrawn limit for the purpose of effecting drawals from the cash credit account.
- (ii) Post sanction follow-up of loans and advances should be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge, etc. are not tampered with in any manner and are adequate.
- (iii) Drawals against clearing cheques should be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need therefor should be subjected to thorough scrutiny and periodical review. Banks should not issue banker's cheques/pay orders/demand drafts against instruments presented for clearing, unless the proceeds thereof are collected and credited to the account of

the party. Further, banker's cheques /pay orders/ demand drafts, should not be issued by debit to cash credit /over draft accounts which are already overdrawn or likely to be overdrawn with the issue of such instruments.

- (iv) Drawals against clearing instruments should be normally confined to bank drafts and government cheques and only to a limited extent against third party cheques.
- (v) Cheques against which drawals are allowed should represent genuine trade transactions and strict vigilance should be observed against assisting kite-flying operations.
- (vi) Drawals against cheques of allied /sister concerns should not be permitted and the facility of drawal against clearing cheques should normally be of temporary nature and should not be allowed on a regular basis without proper scrutiny and appraisal.
- (vii) Bills of accommodation nature should never be purchased and the officials responsible for purchase of such bills should be punished suitably.
- (viii) In case a borrower is found to have diverted finance for the purposes, other than for which it was granted, banks must recall the amounts so diverted. In addition, banks may charge penal interest on the amount diverted.
- (ix) Where borrowers fail to repay the amounts diverted from cash credit accounts for uses other than for which the limit was sanctioned, banks should reduce the limits to the extent of amount diverted. The above aspects relating to safe guards are only illustrative in nature and not exhaustive.

4.7.3 Responsibility

- (i) The primary responsibility for preventing misuse of funds rests with the management of banks. For the purpose, highest standards of integrity and efficiency are imperative in urban banks which are the trustees of public money. The banks should, therefore, take appropriate steps to review and tighten their internal administration and control measures so as to eliminate the scope for misuse/diversion of funds and malpractices.
- (ii) Banks should take serious view of instances of misuse of power, corruption and other malpractices indulged by the members of staff and erring staff members should be given punishments befitting the seriousness of the irregularity. Light punishments such as issue of warning, stoppage of increments, transfer, etc. may not prove a deterrent in all cases. Quick disposal of enquiries by the banks and award of deterrent punishment would be necessary in all such cases, The Board should take more active interest in these matters.

4.8 Annual Review of Advances

For an effective monitoring of the advances, it is imperative for the banks to undertake an exercise for review of the advances on a regular basis. Apart from the usual objective of such a review of assessing the quality of operation, safety of funds, etc. the review should specifically attempt to make an assessment of the working capital requirements of the borrower based on the latest data available, whether limits continue to be within the need-based requirements and according to the bank's prescribed lending norms.

4.9 Valuation of properties-empanelment of valuers:

It has been observed that different banks follow different policies for valuation of properties and appointment of valuers for the purpose. The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of banks. Banks are therefore advised to put in place a system/procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose as per the guidelines given at Annex II.

5 OTHER GUIDELINES

5.1 Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities--

- 5.1.1** The primary (urban) co-operative banks are expected to provide relief and rehabilitation assistance, in their area of operation to people affected by natural calamities such as droughts, floods, cyclones, etc. Reserve Bank of India has from time to time issued guidelines/instructions to banks in regard to relief measures to be provided in areas affected by natural calamities. These guidelines have been consolidated and are given in Annex III
- 5.1.2** In order to avoid delay in taking relief measures on the occurrence of natural calamity, banks should evolve a suitable policy framework with the approval of the Board of Directors. An element of flexibility may be provided in the measures so as to synchronise the same with the measures which could be appropriate in a given situation in a particular State or District and parameters, in this regard, may be decided in consultation with SLBC/DCC, as the case may be.
- 5.1.3** Banks should get the documentation settled as per revised guidelines in consultation with their legal departments, taking into account the relevant provisions of the Contract Act and the Limitations Act and may issue appropriate instructions to their offices in respect of documentation in relation to cases covered by these guidelines.
- 5.1.4** Whenever required, RBI advises the banks to follow these guidelines in respect of persons affected by riots and disturbances.

5.2 Disclosure of Information on Defaulting Borrowers of Banks and Financial Institutions

- 5.2.1 The Reserve Bank of India has been collecting information regarding defaulting borrowers and suit filed accounts of scheduled commercial banks and financial institutions for circulation among banks and financial institutions to put them on guard against such defaulters.
- 5.2.2 Similar information has also to be collected from scheduled primary (urban) co-operative banks. These banks are, therefore, required to submit to the Reserve Bank of India as at the end of September and March every year, the details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under funded and non-funded limits) aggregating Rs. 1 crore and above as per the format given in *Annex IV*.
- 5.2.3 The Reserve Bank of India is circulating to the banks and financial institutions the information on the defaulters (i.e., advances classified as doubtful and loss). The banks and financial institutions may make use of the information while considering the merits of the requests for new or additional credit limits by existing and new constituents.
- 5.2.4 The data on borrowal accounts against which suits have been filed for recovery of advances (outstanding aggregating Rs.1.00 crore and above) and suit filed accounts of wilful defaulters with outstanding balance of Rs 25 lakh and above , based on information furnished by scheduled commercial banks and financial institutions is available at www.cibil.com
- 5.2.5 It is likely that some of the borrowers named in the list of suit filed accounts may approach the scheduled primary (urban) co-operative banks for their credit requirements. The information available will be of immense use to scheduled primary (urban) co-operative banks, while considering requests for fresh/additional credit limits. The banks can verify the list to ensure that the defaulting borrowing units as also their proprietors/partners/ directors etc. named in the list of suit-filed accounts, either in their own names or in the names of other units with which they are associated, are not extended further credit facilities.
- 5.2.6 The banks may make enquiry, if any, about the defaulters from the reporting bank/ financial institution.

6 MONITORING OF WILFUL DEFAULTERS

6.1 Collection and dissemination of information on cases of wilful default of Rs. 25.00 lakh and above

- 6.1.1 Pursuant to the instructions of the Central Vigilance Commission for collection of information on wilful defaulters by RBI and dissemination to the reporting banks and financial institutions, a scheme has been framed under which the banks and financial institutions will be required to submit the details of the

wilful defaulters. The scheduled primary (urban) co-operative banks have also been brought within the ambit of the scheme.

6.1.2 The details of the scheme are given below:

- (i) The scheme has come into force with effect from 1st April 1999. Accordingly, scheduled primary (urban) co-operative banks are required to report on a quarterly basis, all cases of wilful defaults which occurred, or are detected after 31st March 1999 in the proforma given in Annex V.
- (ii) The scheme covers all non-performing borrowal accounts with outstanding (funded facilities and such non-funded facilities which are converted into funded facilities) aggregating to Rs. 25.00 lakh and above.

6.2 Wilful Default

"A wilful default would be deemed to have occurred, if :

- (a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.

OR

- (b) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

OR

- (c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor the funds are available with the unit in the form of other assets.

6.3 Diversion and siphoning of funds

6.3.1 Diversion of funds would be construed to include any one of the under-noted occurrences:

- (a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanctions;
- (b) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- (c) transferring funds to the subsidiaries / group companies or other corporates by whatever modalities;

- (d) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;
- (e) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;
- (f) short fall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

6.3.2 Siphoning of funds should be construed to have occurred if any funds borrowed are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgement of the lenders based on objective facts and circumstances of the case.

6.4 Cut-off limits

While the penal measures would normally be attracted by all the borrowers identified as wilful defaulters or the promoters involved in diversion / siphoning of funds, keeping in view the present limit of Rs.25 lakh fixed by the Central Vigilance Commission for reporting of cases of wilful default by scheduled banks to RBI, any wilful defaulter with an outstanding balance of Rs.25 lakh or more would attract the penal measures stipulated at para 6.6 below. The limit of Rs.25 lakh may also be applied for the purpose of taking cognisance of the instances of `siphoning' / `diversion' of funds.

6.5 End-use of Funds

In cases of project financing, banks should seek to ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate / clean loans, such an approach ought to be supplemented by `due diligence' on the part of lenders themselves, and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability were above board. Scheduled pcbs, therefore, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio. Needless to say, ensuring end-use of funds by banks should form a part of their loan policy document for which appropriate measures should be put in place.

6.5.1 The following are the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds :

- (a) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers ;
- (b) Regular inspection of borrowers' assets charged to the lenders as security;
- (c) Periodical scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;

- (d) Periodical visits to the assisted units;
- (e) System of periodical stock audit, in case of working capital finance;
- (f) Periodical comprehensive management audit of the `Credit' function of the lenders, so as to identify the systemic weaknesses in the credit-administration.

6.6 Penal measures

In order to prevent access to the capital markets by the wilful defaulters, a copy of the list of wilful defaulters is forwarded by RBI to SEBI as well. It has also been decided that the following measures should be initiated by scheduled PCBs against the wilful defaulters

- (a) No additional facilities be granted to the listed wilful defaulters. In addition, the entrepreneurs / promoters of companies where banks have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the RBI.
- (b) The legal process, where warranted, against the borrowers/guarantors and foreclosure of loans should be initiated expeditiously. The lenders may also initiate criminal proceedings against wilful defaulters, wherever necessary.
- (c) Wherever possible, the banks should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit. It would be imperative on the part of the banks to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers is kept to the barest minimum. It should be ensured that a solitary or isolated instance is not made the basis for imposing penal measures.

6.7 Treatment of Group

While dealing with wilful default of a single borrowing company in a group, the banks should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where a letter of comfort and/or the guarantees furnished by the companies within the group on behalf of the wilfully defaulting units are not honoured when invoked by scheduled banks, such group companies should also be reckoned as wilful defaulters.

6.8 Role of Auditors

- 6.8.1 In case any falsification of accounts on the part of the borrowers is observed by banks, they should lodge a formal complaint against the auditors of the borrowers, with Institute of Chartered Accountant of India (ICAI) if it is observed that the auditors were negligent or deficient in conducting the audit to enable the ICAI to examine and fix accountability of the auditors.
- 6.8.2 With a view to monitoring the end-use of funds, if the lenders desire a specific certification from borrowers' auditors regarding diversion / siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors scheduled pcbs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers / auditors.

6.9 Filing of Suits to Recover Dues from Wilful Defaulters

- 6.9.1 There are few cases where the amount outstanding is substantial but the banks have not initiated any legal action against the defaulting borrowers. It may be noted that the cases of wilful defaults have an element of fraud and cheating and therefore, should be viewed differently.
- 6.9.2 Scheduled pcbs should examine all cases of wilful defaults of Rs. 1.00 crore and above and file suits in such cases, if not already done. Banks should also examine whether in such cases of wilful defaults, there are instances of cheating/fraud by the defaulting borrowers and if so, they should also file criminal cases against those borrowers. In other cases involving amounts below Rs. 1.00 crore, banks should take appropriate action, including legal action, against the defaulting borrowers.

7. Small and Medium Enterprises (SMEs) and its restructuring-

As part of announcement made by the Government of India for improving flow of credit to small and medium enterprises, certain guidelines have been issued to UCBs for restructuring of debt of all eligible small and medium enterprises (SMEs). Details are furnished in Annex VI. Consequent to the enactment and notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 on June 16, 2006 and October 2, 2006, respectively, the definition of micro, small and medium enterprises engaged in manufacturing or production and in providing or rendering of services has been modified and is required to be implemented by the banks with immediate effect. (Details in Annex VII)

8. SPECIFIC LENDING ACTIVITIES

8.1 Bridge Loans/Interim Finance

- 8.1.1 The grant of bridge loan/interim finance by pcbs to any company (including finance companies) is totally prohibited.
- 8.1.2 The ban on sanction of bridge loans/interim finance is also applicable in respect of Euro issues.
- 8.1.3 The banks should not circumvent these instructions by purport and/or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc. as also short-term loans, the repayment of which is proposed/expected to be made out of funds to be or likely to be mobilised from external/other sources and not out of the surplus generated by the use of the asset(s).
- 8.1.4 If any bank has sanctioned and disbursed any bridge loan/interim finance, it should report the same to the concerned Regional Office of the Urban Banks Department with full particulars and certifying that the loans are utilised strictly for the purpose for which the public issue and/or market borrowing was intended. Thereafter, the concerned banks should immediately take steps to ensure timely repayment of such bridge loans/interim finance already sanctioned and disbursed and under no circumstances, should the banks allow extension of time for repayment of existing bridge loans/interim finance.
- 8.1.5 These instructions are issued by the Reserve Bank of India in exercise of powers conferred by the Sections 21 and 35A read with section 56 of the Banking Regulation Act, 1949.

8.2 Advances to Builders/Contractors

- 8.2.1 The builders/contractors, who generally require, huge funds, take advance payments from the prospective buyers or from those on whose behalf construction is undertaken and, therefore, may not normally require bank finance for the purpose. Any financial assistance extended to them by banks may result in dual financing. The banks should, therefore, normally refrain from sanctioning loans and advances to this category of borrowers.
- 8.2.2 However, where contractors undertake comparatively small construction work on their own, (i.e. when no advance payments are received by them for the purpose), the banks may consider extending financial assistance to them against the hypothecation of construction materials, provided such loans and advances are in accordance with the by-laws of the bank.
- 8.2.3 The banks should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/aggregate exposure limit for such loans, margins, security, repayment schedule and availability of supplementary finance taking into account guidelines issued by RBI and the policy should be approved by the bank's Board.

- 8.2.4 Exposure to builders and contractors for commercial real estate will include fund based and non-fund based exposures secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels etc). Further while framing the policy the banks may also consider for inclusion the National Building Code framed by Bureau of Indian Standards (BIS). For detailed information the website of Bureau of Indian Standards (www.bis.org.in) can be accessed.
- 8.2.5 Banks should undertake a proper scrutiny of the relevant loan applications, and satisfy themselves, among other things, about the genuineness of the purpose, the quantum of financial assistance required, creditworthiness of the borrower, his repayment capacity, etc. and also observe the usual safeguards, such as, obtaining periodical stock statements, carrying out periodical inspections, determining drawing power strictly on the basis of the stock held, maintaining a margin of not less than 40 to 50 percent, etc. They should also ensure that materials used up in the construction work are not included in the stock statements for the purpose of determining the drawing power.
- 8.2.6 The banks may also take collateral security, wherever available. As the construction work progresses the contractors will get paid and such payments should be applied to reduce the balance in the borrowal accounts. If possible, the banks could perhaps enter into a tripartite agreement with the borrower and his clients, particularly when no collateral securities are available for such advances. Thus, the banks should ensure that bank credit is used for productive construction activity and not for activity connected with speculation in real estate

8.3 Financing of Leasing/Hire Purchase Companies

8.3.1 Enrolment of Financial Companies as Members

- (i) Primary (urban) co-operative banks are normally not expected to enroll non-banking financial institutions like investment and financial companies 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 provisions of model by-law No.9 recommended for adoption, by all banks.
- (ii) Therefore, the primary (urban) co-operative banks are not permitted to finance such type of non-banking financial companies (NBFCs).

8.3.2 Norms for financing Leasing/Hire Purchases Companies

- (i) As in the case of finance and investment companies, 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 co-operative societies act concerned and model bye-law No.9 referred to above. It will, therefore, be

necessary for banks to obtain prior approval of the concerned Registrar of Co-operative Societies before admitting them as members.

- (ii) Even financing the leasing/hire purchase companies by primary (urban) co-operative banks on a large scale is not favoured by the Reserve Bank of India, since the banks are basically required to cater to the credit needs of the people of small means.
- (iii) Presently banks with working capital funds aggregating to Rs. 25 crore and above only are permitted to take up the financing of leasing/hire purchase companies, that too, only in consortium with other scheduled commercial banks. The banks should observe the following norms, while financing such companies :
 - (a) The level of finance to leasing/hire purchase companies depends on the net owned funds of the companies, subject to the overall ceiling on their borrowings upto ten times of their owned funds.
 - (b) Bank credit to companies exclusively engaged in equipment leasing and hire purchases and such leasing/hire purchase companies which are predominantly engaged in equipment leasing/hire purchase business (i.e., at least 75 per cent of assets are in equipment leasing/hire purchase and 75 per cent of their gross income is derived from these two types of activities as per their last audited balance sheet) may be extended within the ceiling of three times of the net owned funds within the overall ceiling of their borrowings upto ten times of net owned funds.
 - (c) In the case of other equipment leasing/hire purchases companies (i.e. companies whose assets in equipment leasing/hire purchase business are less than 75 per cent and whose gross income derived from these two types of activities as per the last audited balance sheet is less than 75 per cent of its gross income), the credit limit has to be within two times of their net owned funds from the present level of four times.

8.4 Working Capital Finance to Information Technology (IT) and Software Industry

8.4.1 Banks are permitted to decide on their own the loan policy and the manner of estimating the working capital finance based on MPBF method or any other method to be approved by their Board of Directors. The stance of Reserve Bank policy towards operational freedom to banks remains unchanged. At the same time, Reserve Bank recognises the fact that the banks are not comfortable with extending aggressive credit support to a relatively new area of software industry unlike other traditional industries, due to several factors which make the assessment of credit needs and follow up thereof difficult, if not insurmountable.

8.4.2 In order to bring about uniformity in approach, the Reserve Bank has formulated guidelines for information of banks, on various aspects of lending to information technology and software industry to facilitate free flow of credit. The same were enclosed to our circular DS.SUB.No.4/13.05.00/98-99 dated 5 October 1998, addressed to scheduled PCBs. Banks are, however, free to

modify the guidelines based on their own experience without reference to Reserve Bank to achieve the purpose of the guidelines in letter and spirit.

8.4.3 These guidelines have been framed based on the recommendations made by the study group appointed by Reserve Bank to study the modalities of credit extension to software industry as also taking into account the suggestions made by the industry associations.

8.4.4 This being a relatively new area of credit deployment, primary (urban) co-operative banks may take adequate steps to develop expertise in this area. Besides other measures which banks might take, the need for training staff for developing them in acquiring skills of project appraisal in this new area of activity need not be over-emphasised. It has to be ensured that the concerned staff is well aware of the requirements of the industry and remain in tune with the latest developments so that the higher standards of project appraisal can be maintained before extending the working capital finance to Information Technology and software industries.

8.5 Advances against Gold:

Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Banks would find granting of advances against the security of such hallmarked jewellery safer and easier. Preferential treatment of hallmarked jewellery is likely to encourage practice of hallmarking which will be in the long-term interest of consumers, lenders and the industry. Therefore, banks while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.

8.6 Grant of loans for acquisition of off/investing in small savings instruments including Kisan Vikas Patras:

Grant of loans for acquiring/investing in KVPs does not promote fresh savings and, rather, channelise the existing savings in the form of bank deposits to small savings instruments and thereby defeat the very purpose of such schemes. Banks may therefore ensure that no loans are sanctioned for acquisition of/investing in small savings instruments including Kisan Vikas Patras.

9. DISCOUNTING / REDISCOUNTING OF BILLS BY BANKS

Banks may adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills:

- i. Since banks have already been given freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers, they may sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors.
- ii. Banks should clearly lay down a bills discounting policy approved by their Board of Directors, which should be consistent with their policy of sanctioning of working capital limits. In this case, the procedure for Board approval should include banks' core operating process from the time the bills are tendered till

these are realised. Banks may review their core operating processes and simplify the procedure in respect of bills financing. In order to address the oft-cited problem of delay in realisation of bills, banks may take advantage of improved computer / communication network like Structured Financial Messaging System (SFMS), wherever available, and adopt the system of 'value dating' of their clients' accounts.

- iii. Banks should open letters of credit (LCs) and purchase / discount / negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents who have been sanctioned regular credit facilities by the banks. Banks should not, therefore, extend fund based (including bills financing) or non-fund based facilities like opening of LCs, providing guarantees and acceptances to non-constituent borrower or / and non-constituent member of a consortium / multiple banking arrangement.
- iv. For the purpose of credit exposure, bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above, will be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.
- v. While purchasing / discounting / negotiating bills under LCs or otherwise, banks should establish genuineness of underlying transactions / documents.
- vi. Banks should ensure that blank LC forms are kept in safe custody as in case of security items like blank cheques, demand drafts etc. and verified / balanced on daily basis. LC forms should be issued to customers under joint signatures of the bank's authorised officials.
- vii. The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' should be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. Banks should not, therefore, open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause.
- viii. Accommodation bills should not be purchased / discounted / negotiated by banks. The underlying trade transactions should be clearly identified and a proper record thereof maintained at the branches conducting the bills business.
- ix. Banks should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.
- x. Bills rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by non-bank financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

- xii. Banks may exercise their commercial judgment in discounting of bills of services sector. However, while discounting such bills, banks should ensure that actual services are rendered and accommodation bills are not discounted. **Services sector bills should not be eligible for rediscounting.** Further, providing finance against discounting of services sector bills may be treated as unsecured advance and therefore, should be within the limits prescribed by UBD for sanction of unsecured advances.
- xiii. In order to promote payment discipline which would to a certain extent encourage acceptance of bills, all corporate and other constituent borrowers having turnover above threshold level as fixed by the bank's Board of Directors should be mandated to disclose 'aging schedule' of their overdue payables in their periodical returns submitted to banks.
- xiv. Banks should not enter into Repo transactions using bills discounted / rediscounted as collateral.

Any violation of these instructions will be viewed seriously and invite penal action from RBI.

Master Circular

Management of Advances**Clarifications in regard to Assessment of
Working Capital Limits***[Ref. para 2.7]*

	Issues raised by banks	Clarifications
	(1)	(2)
(i)	Whether banks should sanction working capital limits computed on the basis of a minimum of 20 per cent of the projected annual turnover/output value or whether it is intended that banks should also arrive at the requirement based on the traditional approach of production/processing cycle and thereafter decide the quantum of need-based finance. If the traditional approach is followed the working capital finance arrived at could be either more than or less than 20 per cent. In case it is less than 20 per cent, whether banks should still give 20 per cent ?	The assessment of working capital credit limits should be done both as per projected turnover basis and traditional method. If the credit requirement based on production/ processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned as RBI guidelines stipulate bank finance at minimum of 20 per cent of the projected turnover. On the other hand if the assessed credit requirement is lower than the one assessed on projected turnover basis, while the credit limit can be sanctioned at 20 per cent of the projected turnover, actual drawals may be allowed on the basis of drawing power to be determined by banks after excluding unpaid stocks. In the case of Selective Credit Control commodities the drawing power should be determined as indicated in the RBI directive.
(ii)	Whether projected turnover/output value basis 'gross sales'	The projected turnover/output value may be interpreted as projected 'Gross Sales' which will include excise duty also.

	Issues raised by banks	Clarifications
	(1)	(2)
(iii)	Whether the 5 per cent promoter's stake (Net Working Capital) should be reckoned with reference to the projected turnover or with reference to the working capital arrived at based on production/processing cycle.	In terms of extant guidelines the working capital requirement is to be assessed at 25 per cent of the projected turnover to be shared between the borrower and bank viz. borrower contributing 5% of the turnover as NWC and bank providing finance at a minimum of 20 per cent of the turnover. The above guidelines were framed assuming an average production/processing cycle of 3 months (i.e. working capital would be turned over four times in a year). It is possible that certain industries may have a production cycle shorter/longer 3 months. While in the case of a shorter cycle, the same principle could be applied as it is the intention to make available at least 20 per cent of turnover by way of bank finance. In case the cycle is longer, it is expected that the borrower should bring in proportionately higher stake in relation to his requirement of bank finance. Going by the above principle, at least 1/5th of working capital requirement should be brought in by way of NWC.
(iv)	Whether 5 per cent NWC should be reckoned with reference to turnover or with reference to available long term sources; in other words is the prescribed NWC the minimum amount?	Since the bank finance is only intended to support need-based requirement of a borrower if the available NWC (net long term surplus funds) is more than 5 per cent of the turnover the former should be reckoned for assessing the extent of the bank finance
(v)	Whether drawing power should continue to be regulated through stocks and whether unpaid stocks deducted for arriving at drawing power ?	It is left to the discretion of banks. However, in arriving at drawing power, unpaid stocks are not financed as it would result in double financing. The drawing power should conform to Reserve Bank of India directives in the case of Selective Credit Control commodities
(vi)	Since the present instructions cover traders as well, and most trade is done at market credit, whether the credit limits should be assessed as 20 per cent of the turnover per se and actual drawing regulated through stocks ?	In the case of traders, while bank finance could be assessed at 20 per cent of the projected turnover, the actual drawals should be allowed on the basis of drawing powers to be determined by banks after ensuring that unpaid stocks are excluded. In the case of SCC commodities the RBI directive should be scrupulously followed.

Guidelines on valuation of properties-empanelment of valuers –

(Vide para no 4.8)

Banks may be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

(a) Policy for valuation of properties

- i) Banks should have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
- ii) The valuation should be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest.
- iii) The banks should obtain minimum two Independent Valuation Reports for properties valued at Rs.50 crore or above.

(b) 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.

- i) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55% 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 should *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. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.
- ii) As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks should adhere to these principles meticulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

(c) Policy for Empanelment of Independent valuers

- i) Banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.
 - ii) 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 may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.
2. Banks may also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India

Master Circular

Management of Advances

**Guidelines for Relief Measures by Banks
in Areas Affected by Natural Calamities**

[Vide para 5.1.1]

1. Periodical but frequent occurrence of droughts, floods, cyclones, tidal waves and other natural calamities cause heavy toll of human life and wide spread damage to economic pursuits of human beings in one area or the other of the country. The devastation caused by such natural calamities call for massive rehabilitation efforts by all agencies. The State and local authorities draw programmes for economic rehabilitation of the affected people. The developmental role assigned to the commercial banks and co-operative banks, warrants their active support in revival of the economic activities.
2. Since the area and time of occurrence and intensity of natural calamities cannot be anticipated, it is imperative that the banks have a blue-print of action in such eventualities so that the required relief and assistance is provided with the utmost speed and without any loss of time. This presupposes that all the branches of commercial banks and their Regional and Zonal Officers will have a set of standing instructions spelling out the action that the branches will have to initiate in the calamity affected areas immediately after the requisite declaration by the district/State authorities. It is necessary that these instructions should also be available with the State Government authorities and all the District Collectors so that all concerned are clear as to the action that would be taken by the banks' branches in the affected areas.
3. The precise details in regard to the provision of credit assistance by the commercial banks, will depend on the requirements of the situation, their own operational capabilities and the actual needs of the borrowers. This can be decided by them in consultation with the district authorities.
4. Nevertheless, to enable banks to take uniform and concerted action expeditiously, particularly to provide the financial assistance to agriculturist, small scale industrial units, artisan, small business and trading establishments affected by natural calamities, the following guidelines are commended.
5. To facilitate co-ordination and expeditious action by the financing institutions, the convenors of the concerned District Consultative Committee (DCC) of the affected districts should convene a meeting immediately after the occurrence of natural calamities. In the event of the calamity covering a larger part of the State, the convenors of the State Level Bankers' Committee (SLBC) will also convene a meeting immediately to evolve a co-ordinated programme of action for implementation of the programme in collaboration with the State/district

authorities while determining the quantum of assistance required by a person affected by the natural calamity, the banks may take into consideration the assistance/subsidy received by him from the State Government and/or other agencies.

6. Divisional/Zonal Managers of commercial banks should be vested with certain discretionary powers so that they do not have to seek fresh approvals from their Central Offices to the line of action agreed to by the District/State Level Bankers' Committees. *For example*, such discretionary power would be necessary in respect of adoption of scale of finance, extension of loan periods, sanction of new loans, keeping in view the total liability of the borrower (i.e. arising out of the old loan where the assets financed are damaged or lost on account of natural calamity as well as the new loan for creation/repair of such assets, margin, security, etc.).

7. **Identification of the Beneficiaries**

The bank branches should obtain from the concerned Govt. authorities list of affected villages within their area of operation. From among the identified persons, assessment of loss sustained by the existing constituents of the banks would be easier. In the case of fresh borrowers, however, discreet enquiries should be made in this regard and assistance of the Govt. authorities should be sought wherever available for ascertaining genuineness of their requirements. For providing conversion facilities in respect of crop loans, procedure for identification of areas where such facilities have to be provided has been indicated under crop loans in paragraph 12 below.

8. **Coverage**

- (i) Each branch will provide credit assistance not only to its existing borrowers but also to other eligible persons within its command area provided they are not covered by any other financial agency.
- (ii) Credit requirements of the borrowing members of the co-operatives will be met by the Primary Agricultural Co-operative Societies (PACs)/LAMPS/FSS etc. Branches of commercial banks may, however, finance the non-borrowing members of the co-operative societies, for which the latter will issue the usual 'No objection' certificates speedily.

9. **Priorities**

Immediate assistance including finances would be needed for protecting and rejuvenating standing crops/orchards/plantations etc. Equally important will be repair and protection of livestock sheds, grains and fodder storage/structures, drainage, pumping, and other measures and operations to repair pump-sets, motors, engines and other necessary implements. Subject to seasonal requirements, next crop financing would be taken up.

10. **Agricultural Loans**

- (i) The bank assistance in relation to agriculture would be needed in the form of short-term loans for the purpose of raising crops and term loans for purchase of milch/draught animals, repairs of existing tube-wells and pump-sets, digging of

new tube-wells and installation of new pump-sets, land reclamation, silt/sand removal, protection and rejuvenation of standing crops/orchard/plantations, etc., repairs and protection of livestock sheds, grain and fodder storage structures, etc.

ii) Crop Loans: In the case of natural calamities, such as droughts, floods etc., Government authorities would have declared *annewari* to indicate the extent to which the crops are damaged. However, where such declaration has not been made banks should not delay in providing conversion facilities, and the District Collector's certificate that crop yield is below 50 percent of the normal yield supported by the views of the DCC in the matter (for which a special meeting may have to be convened) should be sufficient for invoking quick relief arrangements. The certificate of the Collector should be issued crop-wise covering all crops, including food-grains. Issuing of such certificates in respect of cash crops, may, however, be left to the discretion of the Collector.

(iii) To be effective, the assistance to farmers will have to be disbursed with utmost speed. For this purpose the lead bank and the district authorities concerned should evolve a procedure whereby identification of borrowers, issuance of certificates regarding Government/co-operative/bank dues, title of the applicant to land etc. is secured simultaneously.

(iv) Possibilities of organising credit camps, where Block Development and Revenue officials, Co-operative Inspectors, Panchayat Pradhans etc. could help finalise the applications on the spot, could be explored in consultation with the district authorities where such credit camps are being organised. The State Government will also arrange with the Collectors to issue an executive order for the following officers or their authorised representatives to assume respective duties and responsibilities as envisaged under implementation of credit camps programme:

- Block Development Officer
- Co-operative Inspector
- Revenue Authority/Village Revenue Assistant
- Bank official operating in the area
- PACS/LAMPS/FSS
- Gram Panchayat Pradhan

In order to avoid delay, the forms in which the State Government Officers have to give certificates at the Credit Camps may be got printed in sufficient numbers by the respective District Magistrates.

(v) In considering loan applications for the ensuing crop season the current dues of the applicants to the State Government may be ignored, provided the State Government declare a moratorium for a sufficiently long period on all amounts due to the government as on the date of occurrence of the natural calamity.

11. Consumption Loans

As per extant instructions, loans up to Rs. 250/- could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000/- in the States where the State Governments have constituted risk funds for such lending. The present limit may be enhanced to Rs. 5,000/- without any collateral and such loans may be provided even if no risk fund has been constituted.

12. Fresh Loans

Timely fresh financial assistance to resume productive activities may be provided not only to the existing borrowers, but also to other eligible borrowers. Notwithstanding the status of the existing account, fresh loans granted to the borrowers will be treated as current dues.

13. Restructuring of existing loans

As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required. The principal amount outstanding in the crop loans and agriculture term loans as well as accrued interest thereon may be converted into term loans.

The repayment period of restructured term loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. Generally, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans. The asset classification status of the restructured term loan and other dues will be as under:

a) The restructured crop loans may be treated as current dues and need not be classified as NPA. The asset classification of the restructured term loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and / or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. Depending upon the duration of crops raised by an agriculturist, the above norms would also be made applicable to the restructured agricultural term loans.

b) The above norms will be applicable to all direct agricultural advances as listed at Annex I of Master Circular No. UBD.PCB.MC.No.10/09.14.000/2007-08 dated July 4,2007 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances.

c) Additional finance, if any, may be treated as “standard asset” and its future asset classification will be governed by the terms and conditions of its sanction.

d) The asset classification as on the date of natural calamity will continue, if the restructuring is completed within a period of three months from the date of natural calamity. The restructured accounts would, otherwise, be governed by provisions of circular UBD.BPD.No. 30 /09.09.001/05-06 dated March 9, 2006. Further, the guidelines applicable to sub-standard accounts, will apply, mutatis mutandis to doubtful accounts.

e) In retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis.

14. Scale of Finance

Scale of finance in respect of different crops will be uniform in a district. The scales will be fixed taking into account the prevailing conditions and norms presently adopted by different lending agencies. In fixing the scales, minimum consumption needs of borrowers will be taken into account. The concerned District Magistrate and Managers of branches of banks operating in the district would be advised to adopt the scales so laid down.

15. Development Loans - Investment Costs

- (i) The existing term loan instalments will have to be rescheduled/postponed keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz.,
 - (a) Droughts, floods or cyclones etc. where only crop for that year is damaged and productive assets are not damaged.
 - (b) Floods or cyclones where the productive assets are partially or totally damaged and borrowers are in need of a new loan.
- (ii) In regard to natural calamity under category (a), the banks may postpone the payment of instalment during the year of natural calamity and extend the loan period by one year except (subject to the following exceptions) -
 - (a) Those cultivators who had not effected the development or investment for which the loan was obtained or had disposed of the equipment or machinery purchased out of the loan.
 - (b) Those who are income tax payers.
 - (c) In the case of drought, those who are having perennial sources of irrigation except where water supply was not released from canals or irrigation facility was not available from other perennial sources.
 - (d) Tractor owners, except in genuine case where there is loss of income and consequential impairment of their repaying capacity.
- (iii) Under this arrangement the instalments defaulted wilfully in earlier years will not be eligible for rescheduling. The banks may have to postpone

payment of interest by borrowers. While fixing extension of period the commitment towards interest may also be taken into account.

- (iv) In regard to category (i)(b) above, i.e., where the borrower's assets are totally damaged, the rescheduling by way of extension of loan period may be determined on the basis of overall repaying capacity of the borrower including his repayment commitment on the old term loans and towards the conversion loan (medium term loan) on account of postponing of repayment of short-term loans and the fresh crop loan. In such cases, the repayment period of total loan (including interest liability) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. may be fixed having regard to the repaying capacity of the borrower subject to a maximum of 15 years, depending upon the type of investment as well as the economic (useful) life of the new asset financed, except in cases where loans relate to land shaping, silt removal, soil conservation etc. Thus in the case of loans for agricultural machineries, viz. pump-sets and tractors, it should be ensured that the total loan period does not generally exceed 9 years from the date of advance.

16. Apart from rescheduling existing term loans, banks will provide to affected farmers diverse type of term loans for developmental purposes, such as:

(i) Minor Irrigation

Term loans for repairs to wells, pump-sets, etc. which are to be quantified after assessing the extent of damage and estimated cost of repairs.

(ii) Bullocks

Where the drought animals have been washed away, requests for fresh loans for a new pair of bullocks/he-buffaloes may be considered. Where loans are given for purchase of new cattle or where farmers have bought milch cattle, reasonable credit may be given for purchase of fodder or feed.

(iii) Milch Cattle

Term loan for milch cattle will be considered depending upon breed, milk yield, etc., the loan amount will include repairs to shelters, purchase of equipment and feed.

(iv) Insurance

Considering the proneness of areas to cyclones and other natural calamities, the cattle should be insured instead of Risk-cum-Mortality Fund established for similar purpose in other safe areas. Milch animals/draught cattle should be branded for identification as also to serve as safeguard against their re-sale by the beneficiaries.

(v) Poultry and Piggery

For poultry piggery and goatery, loans will be considered as per norms of different banks.

(vi) Fisheries

In the case of borrowers who have lost their boats, nets and other equipment, re-phasing of payment of existing dues may be allowed on merits. Fresh loans may be granted to them with loan maturity of 3/4 years. Loans for repairs to boats of the existing borrowers may also be considered. In cases where subsidy is available, the quantum of loan should be reduced to that extent. In States where substantial subsidy towards the cost of boats, nets, etc., is likely to be available, proper co-ordination with the concerned State Government Department in this regard must be ensured. Apart from complying with other norms and conditions for grant of advances, assistance may be sought from the Department of Fisheries, which may be expected to take measures which would enable banks to proceed with financing for this purpose. The boats should be comprehensively insured against all risks including natural calamities as far as possible.

17. Land Reclamation

- (i) It is likely that financial assistance will be required for reclamation of lands covered by sand casting. Normally, sand/silt deposits upto 3 inches will either be ploughed back into the soil or removed by the farmers without any need for financial assistance. Loan applications will, however, be considered in cases where immediate cultivation is possible and reclamation (removal of sand) is necessary. Wherever reclamation finance for saline lands is warranted, the cost of reclamation not exceeding 25 percent of the scale allowed for crop loan may be advanced along with the crop loan.
- (ii) For other activities like Sericulture, Horticulture, Floriculture, Betelvine growing etc., banks will advance loans for investment and working capital under their existing schemes and follow usual procedures laid down by them. The working capital finance may be provided until such period the income from the plantation is adequate to take care of such expenditure.
- (iii) However, additional need based crop loans, if necessary, would be given for revitalisation/rejuvenation of standing crop/orchards based on individual assessment.
- (iv) The question relating to procurement and proper arrangement for supply of adequate quantity of seeds and various types of fertilisers will have to be discussed with the State Government and District Administration in each district. Similarly, for the purpose of ensuring adequate irrigation facilities, the State Government will undertake repairs to Government owned shallow and deep tube-wells and River Lift Irrigation System damaged by floods and other natural calamities. As for fisheries, the fisheries department of the State Government will make arrangement to obtain fingerlings/and supply them to those who wish to revive tank fishing with bank finance.

- (v) The State Government will have to consider preparation of schemes which would enable commercial banks to obtain refinance at NABARD rates for amounts advanced by banks for the said purpose.

18. Artisans and Self-Employed

- (i) For all categories of rural artisans and self employed persons including handloom weavers, loans will be needed for repairs of sheds, replacement of implements and purchase of raw materials and stores. In sanctioning the loan, due allowance will be made for subsidy/assistance available from the concerned State Government.
- (ii) There may be many artisans, traders and self-employed who may not have any banking arrangement or facility with any bank, but will now need financial assistance for rehabilitation. Such categories will be eligible for assistance from banks' branches in whose command areas they reside or carry on their profession/business. Where such a person/party falls under the command area of more than one bank, the banks concerned will meet together and sort out his problem.

19. Small Scale and Tiny Units

- (i) Rehabilitation of units under village and cottage industry sector, small scale industrial units as also smaller of the medium industrial sector damaged, will also need attention. Term loans for repairs to and renovation of factory buildings/sheds and machinery as also for replacement of damaged parts and working capital for purchase of raw materials and stores will need to be provided urgently.
- (ii) Where the raw materials or finished goods have been washed away or ruined or damaged, banks security for working capital will naturally be eroded and the working capital account (Cash Credit or Loan) will be out of order. In such cases, banks will convert drawings in excess of the value of security into a term loan and also provide further working capital to the borrower.
- (iii) Depending on the damage suffered and time needed for rehabilitation and restarting production and sales, term loan instalments will have to be suitably rescheduled keeping in view the income generating capacity of the unit. Short-fall in margins will have to be condoned or even waived and borrower should be allowed time to build up margin gradually from his future cash generation. Wherever State Government or any agency has formulated special scheme for providing grants/subsidy/seed money, suitable margin may be stipulated to the extent of such grants/subsidy/seed money.
- (iv) The primary consideration before the banks in extending credit to a small/tiny unit for its rehabilitation should be the viability of the venture after the rehabilitation programme is implemented.

20. **Terms and Conditions**

The terms and conditions governing relief loans will be flexible as to security, margin, etc. In the case of small loans covered by guarantee of Deposit Insurance and Credit Guarantee Corporation, personal guarantees will not be insisted upon. In any case, credit should not be denied for want of personal guarantees.

21. **Security**

Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan may be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans sympathetic view will have to be taken:

- (a) Where the crop loan (which has been converted into term loan) was earlier given against personal security/hypothecation of crop which would be the case for crop loans upto Rs. 5,000/- and the borrower is not able to offer charge/mortgage of land as security for the converted loan, he should not be denied conversion facility merely on the ground of his inability to furnish land as security.
- (b) If the borrower has already taken a term loan against mortgage/charge on land, the bank should be content with a second charge for the converted term loan.
- (c) Banks should not insist on third party guarantees for providing conversion facilities.
- (d) In the case of term loans for replacement of equipment, repairs, etc. and for working capital finance to artisans and self-employed persons or for crop loans, usual security may be obtained. Where land is taken as security in the absence of original Title Records, a Certificate issued by the Revenue Department Officials may be accepted for financing farmers who have lost proof of their titles i.e. in the form of deeds, as also the registration certificates issued to registered share-croppers.
- (e) As per the recommendations of the RBI report on customer service, banks will finance the borrowers who require loans upto Rs. 500/- without insisting either on collateral security or guarantee for any type of economic activity.

22. **Margin**

Margin requirements be waived or the grants/subsidy given by the concerned State Government may be considered as margin.

23. Interest

The rates of interest will be in accordance with the directives of the RBI. Within the areas of their discretion, however, banks are expected to take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people.

- (i) Those meeting the eligibility criteria under the scheme of Differential Rate of Interest should be provided credit in accordance with the provision of the scheme.
- (ii) In respect of current dues in default, no penal interest will be charged. The banks should also suitably defer the compounding of interest charges.

24. Other Issues:

(i) Business Continuity Planning

In the backdrop of increased leveraging of technology in banking system, Business Continuity Planning (BCP) has become a key pre-requisite for minimizing business disruption and system failures. As a Business Continuity Planning (BCP) strategy, banks may identify alternate branches for branches located in areas prone to natural calamities. Banks may therefore formulate full-fledged comprehensive BCP along with Disaster-Recovery (DR) arrangements. The banks may also focus on keeping the DR site current, to test them comprehensively and synchronize the data between the primary and secondary sites.

(ii) Access to customers to their bank accounts:

a. In areas where the bank branches are affected by natural calamity and are unable to function normally, banks may operate from temporary premises, under advice to RBI. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of RBI. Banks may also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to RO of RBI.

b. To satisfy customer's immediate cash requirements, banks could consider waiving the penalties related to accessing accounts such as fixed deposits.

c. Restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Banks may consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

(iii) Currency Management :

Banks/ branches affected by natural calamity, if required, may contact other banks maintaining its current accounts or the currency chest branch to which it is linked in order to ensure that supply of currency is maintained to its customers.

(iv) KYC Norms

To facilitate opening of new accounts by persons affected by natural calamities especially for availing various relief's given by Government/other agencies, banks may open accounts with –

- a. introduction from another account holder who has undergone full KYC procedure, or
- b. documents of identity such as Voter's Identity Card or a driving license, identity card issued by an office, company, school, college, etc. along with a document indicating the address such as Electricity Bill, Ration Card etc. or
- c. introduction by two neighbours who have the documents as indicated in para (b) above or
- d. in the absence of the above, any other evidence to the satisfaction of the bank.

The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs. 1, 00,000/- or the amount of relief granted, (if higher) in a year.

(v) Clearing and Settlement Systems

To ensure continuity in clearing service, RBI has advised the banks for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solution for the remaining cities. The banks in a clearing area could meet with a view to providing flexible clearing services where normal clearing services are disrupted. However, notwithstanding these arrangements, banks may also consider discounting cheques for higher amounts to meet customers' requirement of funds. Banks could also consider waiver fees for EFT, ECS or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity

25. Applicability of the guidelines in the case of trade and industry

Instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance will be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture

26. Applicability of the Guidelines in the case of Riots and Disturbances

Whenever, RBI advises the banks to extend rehabilitation assistance to the riot/disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the State Government agencies as having been affected by the riots, etc., are extended rehabilitation/assistance.

- (i) With a view to ensuring quick relief to the affected persons, the District Collector, on occurrence of the riot/disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary, and submit a report to the DCC on the extent of damage caused to the life and property in the area affected by riots/disturbances. If the DCC is satisfied that there

has been extensive loss to life and property, the relief, as per aforesaid guidelines, may be extended to the people affected by riots/disturbances. In certain centres where there are no DCCs, the District Collector may request the Convenor SLBC of the State to convene a meeting of the bankers to consider extension of relief to the affected persons. The report submitted by the Collector and the decision thereon of DCC/SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the RBI.

- (ii) It should be ensured that only genuine persons duly identified by the State Administration, as having been affected by the riots/disturbances are provided the assistance.

Master Circular

Management of Advances

Details of the borrowal accounts which have been classified as doubtful, loss or suit filed with outstanding (both under funded and non-funded) aggregating Rs. 1.00 crore and above

[Vide para 5.2.2]

Name of the Bank :

1. Name of the Company/firm
2. Registered address of the company/firm
3. Names of the directors/partners of defaulting company/firm
4. Name of the branch
5. Type of facilities and limits sanctioned under each facility
6. Amount outstanding
7. Nature and value of securities held in each category
8. Asset classification of the defaulting account
(specify doubtful, loss or suit filed)
9. Date of classifying the account as doubtful / loss / suit filed

Master Circular
Management of Advances

Format for Reporting of Data on Wilful Default

[Vide para 6.1.2 (i)]

Information should be furnished to the Reserve Bank of India in floppy diskette in format specified as below :

- a) Input media : 3.5" floppy disk file
- b) File Characteristics : ASCII or dbf file

The field - wise description of various items is as follows :

- 1) Serial Number : 9 (4) Unique number to be given to each of the records
- 2) Bank-branch name : x (14) As in the case of Basic Statistical return
- 3) Party 's name : x (45) The legal name
- 4) Registered address : x (96) Registered Office address
- 5) Amount outstanding : 9(6) Total amount outstanding in Rs. Lakhs
- 6) Name of directors : x(336) To be divided into 14 sub-fields of 24 bytes each
- 7) Status : Suit filed or non-suit filed

**Guidelines on debt restructuring mechanism
for Small and Medium Enterprises (SMEs)
(Vide para 7)**

As part of announcement made by the Hon'ble Finance Minister for improving flow of credit to small and medium enterprises, the following guidelines are issued for restructuring of debt of all eligible small and medium enterprises (SMEs).

2. Definition of SMEs-

“ At present, a small scale industrial unit is an undertaking in which investment in plant and machinery, does not exceed Rs.1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs 5 crore. Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crore may be treated as Medium Enterprises (ME). “

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 which was notified on October 2, 2006. The definition of the small and medium enterprises as provided in the Act (Annex VII) will have immediate effect.

3. Eligibility criteria

- (i) These guidelines would be applicable to the following entities, which are viable or potentially viable :
- a) All non-corporate SMEs irrespective of the level of dues to banks.
 - b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
 - c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.
- (ii) Accounts involving willful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.
- (iii) Accounts classified by banks as “Loss Assets” will not be eligible for restructuring.
- (iv) In respect of BIFR cases banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

4. Viability criteria

Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

5. Prudential norms for restructured accounts

i) Treatment of 'standard' accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would not cause a standard asset to be classified in the sub-standard category, provided the borrower's outstanding is fully covered by tangible security.

b) A rescheduling of interest element would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

ii) Treatment of 'sub-standard' / 'doubtful' accounts subjected to restructuring

a) A rescheduling of the instalments of principal alone, would render a 'sub-standard' / 'doubtful' asset eligible to continue in the 'sub-standard' / 'doubtful' category for the specified period (as defined in paragraph 7 below), provided the borrower's outstanding is fully covered by tangible security.

b) A rescheduling of interest element would render a sub-standard / 'doubtful' asset eligible to be continued to be classified in sub-standard / 'doubtful' category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

c) Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard / 'doubtful'.

iii) Treatment of Provision

a) Provision made towards interest sacrifice should be created by debit to Profit & Loss account and held in a distinct account. For this purpose, the future interest due as per the current BPLR in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate term premium and credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

b) Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

- c) The amount of provision made for NPA, may be reversed when the account is re-classified as a 'standard asset'.

6. Additional finance

Additional finance, if any, may be treated as 'standard asset' in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restructuring package. If the restructured asset does not qualify for upgradation at the end of the above period, additional finance shall be placed in the same asset classification category as the restructured debt.

7. Upgradation of restructured accounts

The sub-standard / doubtful accounts at para 5 (ii) (a) & (b) above, which have been subjected to restructuring, whether in respect of principal instalment or interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

8. Asset classification status

During the specified one-year period, the asset classification status of rescheduled accounts will not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification would be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

9. Repeated restructuring

The special dispensation for asset classification as available in terms of paragraphs 5, 6 and 7 above, shall be available only when the account is restructured for the first time.

10. Procedure

(i) Based on these guidelines, banks registered under the State Acts may formulate, with the approval of the concerned Registrar of the Co-operative Societies, a debt restructuring scheme for SMEs. However, in the case of Multi State Co-operative banks, the above guidelines may be formulated with the approval of the Board of Directors.

(ii) The restructuring would follow a receipt of a request to that effect from the borrowing units.

(iii) In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

11. Time frame

Banks should work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

12. Review

Banks may review the progress in rehabilitation and restructuring of SME accounts on a quarterly basis and keep the Board and the concerned RCS informed.

13. Disclosure:

It may be ensured that the scheme formulated in this regard as enumerated in para 10 above is brought to the notice of all beneficiaries. The bank may place the scheme on its website and give adequate publicity through other means. A copy may also be forwarded to SIDBI and the concerned Regional Offices of Reserve Bank of India

Banks should also disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of restructuring undertaken during the year for SME accounts:

(a) Total amount of assets of SMEs subjected to restructuring.

[(a) = (b)+(c)+(d)].

(b) The amount of standard assets of SMEs subjected to restructuring.

(c) The amount of sub-standard assets of SMEs subjected to restructuring.

(d) The amount of doubtful assets of SMEs subjected to restructuring.

Definition of Micro, Small and Medium Enterprises

(Vide para 7)

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

i) A micro enterprise is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006 does not exceed Rs. 25 lakh;

ii) A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

iii) A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than Rs.5 crore but does not exceed Rs.10 crore.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore

Master Circular

Management of Advances

A. List of Circulars consolidated in the Master Circular

No	Circular No.	Date	Subject
1	UBD.PCB.Cir.No.44/13.04.000/06-07	18.05.2007	Complaints about Excessive Interest Charged by Banks
2	UBD. PCB.Cir.No 35 /09.09.001/06-07	18.04.2007	Credit flow to Micro, Small and Medium Enterprises Sector
3	UBD.PCB.BPD.33/13.05.000/06-07	16.03.207	Grant of loans for acquisition of Kisan Vikas Patras (KVPs)
4	UBD. PCB. Cir.No.26/13.05.000/06-07.	09.01.2007	Valuation of Properties- Empanelment of Valuers
5	UBD.PCB.Cir.No.10 /13.05.000/2006-07	04.09.2006	Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities
6	UBD.PCB.Cir.No.8/13.05.000/06-07	21.08.2006	Guidelines on Relief Measures to be Extended by Banks in Areas Affected by Natural Calamities
7	UBD.PCB.Cir.No.58/09.09.01/05-06	19.06.2006	Adherence to National Building Code(NBC)- specifications necessary for lending institutions
8	UBD.PCB.Cir.No. 46/13.05.000/05-06	19.04.2006	Bills discounted under LC-Risk weight and exposure norms.
9	UBD.BPD.Cir.No.36/09.09.001/05-06	09.03.2006	Debt restructuring mechanism for Small and Medium Enterprises (SMEs) - Announcement made by the Union Finance Minister
10	UBD.PCB.Cir.No.34/13.05.000/05-06	02.03.2006	Advances against Gold Ornaments and Jewellery
11	UBD.PCB.Cir.No. 8/09.116.00/05-06	09.08.2005	Prudential norms on capital adequacy-risk weight on housing finance/commercial real estate exposures

No	Circular No.	Date	Subject
12	UBD.PCB.Cir.No.14/09.11.01/2004-05	24.08.2004	Opening of Current Accounts by banks-need for discipline.
13	UBD.PCB.Cir.No.7/09.11.01/2004-05	29.07.2004	Opening of Current Accounts by banks-need for discipline.
14	UBD.BPD.PCB.CIR.37/13.05.00/2003-04	16-03-2004	Discounting/Rediscounting of Bills By Banks
15.	UBD.No.DS.PCB.Cir.34/13.05.00/2001-02	28.03.2002	Loan System for Delivery of Bank Credit
16.	UBD.BSD.1.No.8/12.05.00/200-1-02	31-08-2001	Issue of banker's cheques/pay orders/demand drafts
17.	UBD.NO.POT.No.33/09.17.03/2000-2001	20-02-2001	Relief measures for the persons/business affected by the earthquake in Gujarat
18.	UBD.DS.32/13.04.00/2000-01	12-02-2001	Reliefs/Concessions for Exporters Affected by the Earthquake
19	UBD.No.POT.CIR.30/09.20.00/2000-01	01-02-2001	Branch Advisory Committees
20	UBD No.BR.11/16.74.00/98-99	30-06-1999	Collection and Dissemination of Information on Cases of Wilful Default of Rs. 25.00 lakh and above
21	UBD.No.DS.SUB.Cir.4/13.05.00/98-99	05-10-1998	Guidelines for Sanction of Working Capital Finance to Information Technology (IT) and Software Industry
22.	UBD.No.DS.PCB.8/13.04.00/98-99	30-09-1998	Reliefs/Concessions for Exporters Affected by Cyclone in Gujarat
23.	UBD No.BR.3/16.74.00/98-99	29-07-1998	Disclosure of information regarding defaulting borrowers of banks at-id financial institutions
24	UBD.No.DS.SUB.19/13.05.00/97-98	12-02-1998	Reporting of Credit Sanctions
25	UBD.No.DS.PCB.Cir.28/13.05.00/97-98	16-12-1997	Guidelines for lending by banks-Assessment of working capital
26	UBD.No.DS.PCB.Cir.25/13.05.00/97-98	04-12-1997	'Bill' finance for settlement of dues of SSI suppliers
27	UBD.No.DS.PCB.Cir15/13.05.00/97-98	21-10-1997	Loan system for delivery of bank credit

No	Circular No.	Date	Subject
28.	UBD.No.DS.PCB.Cir.47/13.05.00/96-97	23-04-1997	Guidelines for lending by banks-Assessment of working capital-Concept of maximum permissible bank Finance - Review of policy
29	UBD.No.DS.PCBcir.31/13.05.00/96-97	23-04-1997	Loan system for delivery of bank credit
30.	UBD.No.DS.PCB.CIR.31/13.05.00/96-97	29-11-1996	Loan system for Delivery of Bank Credit
31	UBD.No.Plan.PCB.5/09.08.00/96-97	16-07-1996	Management of advances portfolio and control over advances
32	UBD.No.DS.PCB.Cir.64/13.05.00/95/96	31-05-1996	Loan System for Delivery of Bank credit
33	UBD.No.DS.PCB.Cir.63/13.05.00/95-96	24-05-1996	Lending to non-banking financial companies
34	UBD.No.BR.6/16.74.00/95-96	06-05-1996	Disclosure of information regarding defaulting borrowers of banks and financial institutions
35	UBD.No.Plan.PCB.60/09.78.00/95-96	08-04-1996	Equipment leasing and hire purchase financing activities
36	UBD.DS.PCB.CIR.54/13.05.00-95/96	23-03-1996	Realistic assessment of credit requirement Measures to prevent diversion of funds
37.	UBD.No.DC.23/13.05.00/95-96	19-10-1995	Credit Monitoring System-Introducing of Health Code for borrowal accounts in banks
38	UBD.No.DS.PCB.CIR.22/13.05.00/95-96	13-10-1995	Loan System for Delivery of Bank Credit
39	UBD.No.DS.PCB.CIR.14/13.05.00/95-96	28-09-1995	Introduction of a loan system for delivery of bank credits.
40	UBD No.DS.CIR.PCB.62/13.05.00/94-95	12-06-1995	Assessment of Working Capital limits of less than Rs. 1 crore-Clarifications
41	UBD No.DS.PCB.CIR.59/13.06.00/94-95	31-05-1995	Norms for bank lending for working capital purposes-Revised guidelines
42	UBD.No.DS.PCB.CIR.60/13.05.00/94-95	30-05-1995	Lending to Non-Banking Financial Companies
43	UBD.No.DS.(PCB)CIR.58/13.05.00/94-95	17-05-1995	Bridge Loans/Interim Finance

No	Circular No.	Date	Subject
44	UBD.No.DS.PCB.CIR.41/13.05.00/ 94-95	04-02-1995	Compliance with lending discipline-(a) Charging of uniform rates of interest for lending under consortium arrangement and (b) penal interest for non-compliance with the discipline
45.	UBD No.DS.CIR.PCB.43/13.05.00/94-95	10-02-1995	Guidelines on lending under consortium arrangements
46.	UBD No.DS.CIR.PCB.39/13.05.00/94-95	14-01-1995	Levy of commitment charge on unutilised portion of credit limit
47	UBD.No.DS.CIR.25/13.05.00/94-95	21-10-1994	Leading to non-Banking financial companies
48.	UBD.No.DS.CIR.PCB.19/13.04.00/94-95	05-10-1994	Inventory/Receivables norms for various industries
49	UBD.No.DS.CIR.PCB18/13.05.00/94-95	19-09-1994	Report of the in-House Group setup to review the role of Reserve Bank of India in laying down norms for bank lending for working capital purposes - Revised guidelines.
50	UBD.No.DS.CIR.PCB-3/13.05.00/94-95	06-07-1994	Guidelines on lending under consortium arrangements
51	UBD.No.(PCB).CIR.80/13.05.00/93-94	01-06-1994	Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tending term loans
52.	UBD.No.(PCB)50/13.05.00-93/94	14-01-1994	Restrictions on credit to certain sectors – Real Estate Loans
53	UBD.No.POT.47/09.51.00/93-94	06-01-1994	Incidence of guarantee premium payable to Deposit Insurance and Credit Guarantee Corporation
54	UBD.No.(PCB)DC.40/13.05.00/93-94	13-12-1993	Credit Authorisation Scheme - Treatment of term loan instalments for assessment of working capital requirements
55	UBD.No.Plan.22/09.11.00/93-94	28-09-1993	Monitoring of flow of funds
56	UBD(PCB)5/13.06.00/93-94	14-08-1993	Credit Authorisation Scheme - Co-ordination between banks and Financial institutions in ex-tending term loans.

No	Circular No.	Date	Subject
57.	UBD.No.(PCB)1/13.06.00/93-94	12-07-1993	Review of inventory/receivable norms for financing vegetable and hydrogenated oil industry
58.	UBD.No.DC(PCB)99/13.06.00/92-93	30-06-1993	Review of inventory/receivables norms for financing biscuits and bakery products industry
59.	UBD.No.(SUC)DC.124/13.06.00/92-93	30-06-1993	Inventory and Receivables Norms Basmati Rice
60	UBD.No.(PCB)54/DC(R.1)-92/93	07-04-1993	Restriction on Credit to Certain Sectors
61	UBD.No.(PCB).DC45/R.1/92-93	25-02-1993	Credit Authorisation Scheme Treatment of term loan instalments for assessment of working capital requirements
62	UBD.No.41-UB.17(c)-92/93	10-02-1993	Guidelines for relief measures by urban banks in areas affected by recent riots
63	UBD.No.I&L.40J.1.-92 /93	09-02-1993	Diversion of working capital funds
64	UBD.No.(PCB)29/1)C.(R.1)-92/93	26-12-1992	Bridge Loans/Interim Finance
65	UBD.(PCB)5/DC.R.1A/92-93	24-07-1992	Inventory and Receivables norms for power Generation/Distribution Industry
66.	UBD.(PCB)3/DC.R.1A.92/93	14-07-1992	Inventory and Receivables norms for certain segments of Chemical Industry Essential Oil based chemicals
67.	UBD(PCB)38/DC.(R.1)-91/92	13-11-1991	Restriction on Credit to Certain Sectors
68.	UBD.(SUC)36 /DC.R.1(A)-90/91	31-05-1991	Restrictions of Drawals Under Large Cash Credit Limits
69	UBD(PCB)42/DC.HC.(Policy).90/91	11-02-1991	Credit Monitoring System Health Code for Borrowal Accounts in Urban Co-operative Banks
70.	UBD.PCB.2/DC.(R-1)-90/91	20-07-1990	Financing of Leasing/Hire Purchase Companies
71	UBD.(SUC)22/DC.R-1-90/91	07-07-1990	Credit Monitoring Arrangement Lending Discipline - Quarterly Information System (QIS)

No	Circular No.	Date	Subject
72.	UBD.No.DC.113/R.1A-89/89	24-04-1989	Assessment of Working Capital Requirements - Inventory/Receivable Norms for Paper Industry and for Consumable Spares
73.	UBD.No.DC.27/R.1.A-88/89	23-08-1988	Inventory/Receivables Norms for Engineering Industry
74.	UBD.No(DC)2/R.1-A-88/89	08-07-1988	Inventory/Receivable norms for Certain Segments of Chemical Industry
75.	UBD.No.(DC)123/R.1-87/88	31-05-1988	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks
76	UBD.No.(DC)101/R.1-A-87/88	15-02-1988	Inventory/Receivable Norms for Various Industries
77.	UBD.NO.I&L.67/J.1-87/88	21-11-1987	Advances to Builders/Contractors
78	UBD(DC)104/R.1-86/87	25-06-1987	Guidelines for Assessment of Working Capital Requirements, Opening of Letters of Credit and Issue of Guarantees
79	UBD.DC.84/R.1-86/87	03-06-1987	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks
80	UBD.(DC)57/R.1-86/87	19-02-1987	Defaults In Payment of Statutory Dues by Borrowers
81	UBD.No.DC.41/R.1-86/87	07-11-1986	Withholding of Credit Facilities to Borrowers to Ensure Financial Discipline
82	UBD(DC)83/R.1-85/86	24-03-1986	Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants
83.	UBD.NO.I&L.38 /J.1-85/86	11-10-1985	Advances Granted by Urban Co-operative Banks - Diversion of Funds
84	UBD.P&O.1383/UB.17(C)-84/85	22-05-1985	Guidelines for relief measures by urban banks in areas affected by natural calamities
85	UBD.POT.654/UB.17(C)-84/85	23-11-1984	Banks assistance to persons affected by recent disturbances
86	ACD.OPR.1569/A.35-79/80	02-10-1979	Measures to restrict further credit expansion

No	Circular No.	Date	Subject
87.	ACD.OPR.2697/A.75/74-5	24-12-1974	Credit authorisation scheme for co-operative banks
88.	ACD.OPR.1222/A.75/74-5	07-09-1974	Credit authorisation scheme for co-operative banks
89.	ACD.Plan.3109/PR.414(9)/68-9	18-06-1969	Working group on industrial financing through co-operative banks - recommendations pertaining to the urban co-operative banks - action required

B. List of Other Circulars from which instructions relating to Management of Advances have also been consolidated in the Master Circular

No	Circular No.	Date	Subject
1.	UBD.No.I&L/69/12.05.00/93-94	13-05-1994	Committee to enquire into various aspects relating to frauds and malpractices in banks (Ghosh Committee)
2.	UBD.21/12:15:00/93-94	21-09-1993	Committee to enquire into various aspects relating to frauds and malpractices in banks primary (urban) co-operative banks
3.	UBD.No.2420-J.20-83/84	02-04-1984	Frauds, Mis-Appropriation, Embezzlements And Defalcation Of Funds In Primary (Urban) Co-operative Banks