

RBI/2007/234

UBD.BPD (PCB) MC. No. 13 /13.05.000/2006-07

January 22, 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. 5 /13.05.00/2005-06 dated August 11, 2005 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, 2006.

Yours faithfully,

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

Encl: As above.

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 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 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.

4.2 Opening of Current Accounts

4.2.1 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.

4.2.2 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.

4.2.3 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.

4.3 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.

4.4 Defaults in Payment of Statutory Dues by Borrowers

- 4.4.1 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.
- 4.4.2 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.
- 4.4.3 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.
- 4.4.4 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.
- 4.4.5 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.
- 4.4.6 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.

4.5 Sanction of Advances

4.5.1 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.

4.5.2 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.

4.5.3 Oral Sanction

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

4.5.4 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.

4.6 Monitoring Operations in Loan Accounts

4.6.1 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.

4.6.2 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.

4.6.3 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.

4.7 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.

5 OTHER GUIDELINES

5.1 Relief Measures to Persons 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.
- 5.1.2** The Government of India has evolved, in consultation with the RBI and the IBA, a set of broad guidelines (Standing Guidelines) indicating the steps to be taken by the banks in calamity affected areas. The Standing Guidelines, duly modified, are given in Annex II.
- 5.1.3** 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.
- 5.1.4** 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.
- 5.1.5** 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 III.
- 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 IV.
 - (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. GUIDELINES FOR REHABILITATION OF SICK SMALL SCALE INDUSTRIAL UNITS

- (i) The Reserve Bank of India, had constituted a Working Group on Rehabilitation of Sick SSI units, under the Chairmanship of Shri S. S. Kohli, to review the existing guidelines in regard to rehabilitation of sick small scale units and to recommend the revision of the guidelines for rehabilitation of currently sick and potentially viable SSI units, making them transparent and non-discretionary. The revised guidelines are detailed in Annex V. Reserve Bank of India has accepted all the major recommendations of the Group.
- (ii) The emphasis of the rehabilitation effort in case of SSI units is on early detection of signs of incipient sickness, adequate and intensive relief measures and their speedy application rather than giving a long span of time to the units for rehabilitation.
- (iii) The banks should take a sympathetic attitude and strive for rehabilitation, in respect of units in the SSI sector, particularly wherever the sickness is on account of circumstances beyond the control of the entrepreneurs. Banks are also advised to take a pro-active stance in providing timely assistance for rehabilitation of small scale units, which are affected by the industrial down turn and delays in payments against supplies made by them to large scale and other units.
- (iv) In the case of units where revival is not possible, banks should try for a settlement and or resort to other recovery measures expeditiously.
- (v) It may be noted that the enclosed guidelines are applicable to industrial units which were being financed by the bank before they turned into sick units. Primary (urban) co-operative banks are not expected to take over financing of sick industrial units, particularly, those financed by commercial banks earlier, in view of the risks involved.

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.

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.
- xi. 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.
- xii. 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.
- xiii. 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.

Annex I

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.

	Issues raised by banks	Clarifications
	(1)	(2)
(ii)	Whether projected turn over/output value basis 'gross sales'	The projected turnover/output value may be interpreted as projected 'Gross Sales' which will include excise duty also.
(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.

Annex II

Master Circular

Management of Advances

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

[Vide para 5.1.2]

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

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.

11. 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.

12. Guidelines for Providing Conversion Facilities

The following guidelines are suggested for providing conversion facilities:

- (i) Banks may, of their own, decide the quantum of fresh loans to be granted to the affected borrowers taking into consideration, amongst others, the extent of the crop loss/scale of finance and their repaying capacity.
- (ii) Amount of principal as well as interest in respect of short-term loans due in the year of occurrence of natural calamity may be converted into term loans or the repayment period may be rescheduled suitably. The period of conversion/re-schedulement to be granted may vary depending on the intensity of calamity and the extent of crop loss and distress caused to the farmers. Amounts not collected during the year of occurrence of the calamity should be converted into term loans for a period upto 3 years and for small and marginal farmers upto 5 years in the normal circumstances. However, where the

damage to crops arising out of the calamity is very severe and has caused acute distress to the farmers or if the calamity is for two successive years, banks may, at their discretion and in consultation with Task Force/Steering Committee of SLBC, grant extensions of the converted loans for longer periods ranging upto 5 to 7 years. In extreme cases of hardships arising out of the very severe loss to the crops or occurrence of three successive crop failures and the debt burden being found to be beyond the immediate repaying capacity of the borrower, conversion for longer period upto a maximum period of 9 years may also be considered by banks, in consultation with the Task Force/SLBC.

- (iii) Pending conversion of short-term loans, banks may grant fresh crop loans to the affected farmers.
 - (iv) Conversion of short-term production loans may be taken up by banks at the time of sanction of fresh crop loans to the affected farmers without waiting for the due dates which are taken into account in normal course of sanction of such loans.
 - (v) Similarly, instalments of principal/interest in respect of term loans may be rescheduled for a period of 3 years which could be extended for longer period in the circumstances mentioned at (ii) above.
 - (vi) Where relief in the form of conversion/re-schedulement of loans is extended to the farmers, such converted/rescheduled dues should be treated as current dues and banks should not compound interest in respect of the loans so converted/ rescheduled.
 - (vii) Banks may not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted/ rescheduled.
 13.
 - (i) 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.
 - (ii) 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
 - (iii) 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.
14. 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.

15. 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.

16. 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.
17. 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.

18. 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 activates 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.

19. Consumption Loans

In view of the damage to crops and property, existing borrowers need consumption loans for sustenance till the flow of income is resumed. For this purpose, Rs. 75/- is admissible for 'general consumption'. In view of the special situation obtaining in the affected areas and the need for consumption loan for general purposes, the banks may extend for 'general consumption' loan upto Rs. 250/- to be released in suitable instalments over the period upto the harvesting of the current or the next crop depending on the devastation caused by the natural calamity or proper assessment in individual cases. This limit may be raised to Rs. 1,000/- in the States where the State Governments have constituted risk funds for such lending by commercial banks.

20. 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.

21. 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.

22. 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.

23. 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.

24. Margin

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

25. 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.

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.

Annex III

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

Annex IV

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

ANNEX - V

GENERAL GUIDELINES FOR REHABILITATION OF SICK SSI UNITS [vide para 7(i)]

Incipient Sickness

1. It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself. The branch/bank officials should keep a close watch on the operations in the account and take adequate measures to achieve this objective. The managements of the units financed should be advised about their primary responsibility to inform the banks if they face problems which could lead to sickness and to restore the units to normal health. The organizational arrangements at branch level should also be fully geared for early detection of sickness and prompt remedial action. Banks/Financial Institutions will have to identify the units showing symptoms of sickness by effective monitoring and provide additional finance, if warranted, so as to bring back the units to a healthy track.

1.1 An illustrative list of warning signals of incipient sickness that are thrown up during the scrutiny of borrowal accounts and other related records e.g. periodical financial data, stock statements, reports on inspection of factory premises and godowns, etc. is given in given below, which will serve as a useful guide to the operating personnel.

- i) Continuous irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest debited remaining unrealised;
- ii) Outstanding balance in cash credit account remaining continuously at the maximum;
- iii) Failure to make timely payment of instalments of principal and interest on term loans;
- iv) Complaints from suppliers of raw materials, water, power, etc. about non-payment of bills;
- v) Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements;
- vi) Attempts to divert sale proceeds through accounts with other banks;
- vii) Downward trend in credit summations;
- viii) Frequent return of cheques or bills;
- ix) Steep decline in production figures;
- x) Downward trends in sales and fall in profits;
- xi) Rising level of inventories, which may include large proportion of slow or non-moving items;
- xii) Larger and longer outstanding in bill accounts;
- xiii) Longer period of credit allowed on sale documents negotiated through the bank and frequent return by the customers of the same as also allowing large discount on sales;
- xiv) Failure to pay statutory liabilities;
- xv) Utilization of funds for purposes other than running the units.

- xvi) Not furnishing the required information/data on operations in time.
- xvii) Unreasonable/wide variations in sales/receivables levels vis-à-vis level of co-operation for stock inspections, etc.
- xviii) Delay in meeting commitments towards payments of instalments due, crystallized liabilities under LC/BGs, etc.
- xix) Diverting/routing of receivables through non-lending banks.

1.2 Further, the system of asset classification introduced in banks will be useful for detecting advances, which are deteriorating in quality, well in time. When an advance slips into the sub-standard category, as per norms, the branch/bank should make full enquiry into the financial health of the unit, its operations, etc. and take remedial action. The bank/branch officials who are familiar with the day-to-day operations in the borrowal accounts should be under obligation to identify the early warning signals and initiate corrective steps promptly. Such steps may include providing timely financial assistance depending on established need, if it is within the powers of the branch manager, and an early reference to the controlling office where the relief required are beyond his delegated powers. The branch/bank manager may also help the unit, in sorting out difficulties which are non-financial in nature and require assistance from outside agencies like Government departments/undertakings, Electricity Boards, etc. He should also keep the term lending institutions informed about the position of the units wherever they are also involved.

2. Definition of Sick SSI Unit :

An SSI unit be considered 'Sick' if

i) any of the borrowal accounts of the unit remains substandard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard, is reduced in due course;

or

ii) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year;

and

iii) the unit has been commercial production for at least two years.

This would enable banks to take action at an early stage for revival of the units. For the purpose of formulating nursing programme, banks should go by the above definition with immediate effect.

3. Viability of Sick SSI Units

A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny / decentralised sector units, the period of reliefs /concessions and repayment period of restructured debts which were hitherto, two years and three years respectively have been revised, so as not to exceed five and seven years respectively, as in the case of other SSI units. Based on the norms specified above, it will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. Viability of a unit identified as sick, should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable'/'viable'. While identifying and implementing the rehabilitation package, banks/

FIs are advised to do 'holding operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during of such 'holding operation'.

4.Reliefs and Concessions for Rehabilitation of Potentially Viable Units

4.1 It is emphasised that only those units which are considered to be potentially viable should be taken up for rehabilitation. The reliefs and concessions specified are not to be given in a routine manner and have to be decided by concerned bank/financial institution based on the commercial judgement and merits of each case. Banks have also the freedom to extent reliefs and concessions beyond the parameters in deserving cases. Only in exceptional cases, concessions/ reliefs beyond the parameters should be considered. In fact, the viability study itself should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix.

The viability and the rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off of scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. Norms for grant of reliefs and concessions by banks/ financial institutions to potentially viable sick SSI units for rehabilitation are furnished in below:

i) Interest Dues on Cash Credit and Term Loan

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation programme.

ii) Unadjusted Interest Dues

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same terms as at (i) above.

iii) Term Loans

The rate of interest on term loans may be reduced, where considered necessary, by not more than three per cent in the case of tiny/ decentralised sector units and by not more than two per cent for other SSI units, below the document rate.

iv) Working Capital Term Loan (WCTL)

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 5 years. The rate of interest applicable may be 1.5% to 3% points below the prevailing fixed rate/minimum lending rate of the bank, wherever applicable, to all sick SSI units including tiny and decentralized units.

v) Cash Losses

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also be financed by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded at the rates prescribed by SIDBI under its scheme for rehabilitation assistance.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses as above, should be worked out before interest (i.e., after excluding interest) on working capital etc., due to the banks and should be financed by the financial institutions if it is one of the financiers of the unit. In other words, the financial institutions should not be asked to provide for interest due to the banks in the computation of future cash losses and this should be taken care of by future cash accruals. The interest due to the bank should be funded by it separately. Where, however, a commercial bank alone is the financier, the future cash losses including interest will be financed by it.

The interest on the funded amounts of cash losses/interest will be the rates prescribed by Small Industries Development Bank of India under its scheme for rehabilitation assistance.

vi) Working Capital

Interest on working capital may be charged at 1.5% below the prevailing fixed/ minimum lending rate charged by the bank wherever applicable. Additional working capital limits may be extended at a rate not exceeding the minimum lending rate chargeable by the bank.

vii) Contingency Loan Assistance

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks/financial institutions may provide, where considered necessary, appropriate additional financial assistance upto 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

viii) Funds for Start-up Expenses and Margin for Working Capital

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses, while margin money assistance may either come from SIDBI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged at a rate 1.5% below the prevailing fixed/minimum lending rate chargeable by the bank wherever applicable or as prescribed by SIDBI/NABARD where refinance is obtained from it for the purpose.

All interest rate concessions would be subject to annual review depending on the performance of the units.

ix) Promoters' Contribution

As per the extant RBI guidelines, promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 per cent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and at 20 per cent of such requirements for other units. In the case of units in the decentralized sector, promoters' contribution may not be insisted upon. A need is felt for increasing the promoters' contribution towards rehabilitation from the present limits. It is, therefore, open to banks and financial institutions to stipulate a higher promoters' contribution where warranted. At least 50 per cent of the above promoters' contribution should be brought in immediately and the balance within six months.

For arriving at promoters' contribution, the monetary value of the sacrifices from banks, financial institutions and Government may be taken into account, in addition to the long-term requirement of funds under the rehabilitation package. While evolving packages, it should be made a precondition that the promoters should bring in their contribution within the stipulated time frame. Further, in regard to concessions and relief made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/cash accruals.

4.2 Units becoming sick on account of wilful mismanagement, wilful default, unauthorized diversion of funds, disputes among partners/promoters, etc. should not be considered for rehabilitation and steps should be taken for recovery of bank's dues. The definition of wilful default, will broadly cover the following :

- i) Deliberate non-payment of the dues despite adequate cash flow and good net-worth.
- ii) Siphoning off of funds to the detriment of the defaulting unit.
- iii) Assets financed have either not been purchased or have been sold and proceeds have been mis-utilised.
- iv) Misrepresentation /falsification of records.
- v) Disposal/removal of securities without bank's knowledge; and.
- vi) Fraudulent transactions by the borrower.

The views of the lending banks in regard to wilful mis-management of funds/defaults will be treated as final.

5. Delegation of Powers

The delay in the implementation of agreed rehabilitation packages should be reduced. One of the factors contributing to such delay was found to be the time taken by banks having multiple branches for obtaining clearance from the Head Office for the relief and concessions. As it is essential to accelerate the process of clearance, the banks may delegate sufficient powers to senior officers at various levels to sanction the bank's rehabilitation package drawn up in conformity with the prescribed guidelines.

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Appendix

Master Circular

Management of Advances

A. List of Circulars consolidated in the Master Circular

No	Circular No.	Date	Subject
1	UBD.PCB.Cir.No.58/09.09.01/05-06	19.06.2006	Adherence to National Building Code(NBC)-specifications necessary for lending institutions
2	UBD.PCB.BPD.Cir.No. 46/13.05.000/05-06	19.04.2006	Bills discounted under LC-Risk weight and exposure norms.
3	UBD.PCB.Cir.No.34/13.05.000/05-06	02.03.2006	Advances against Gold Ornaments and Jewellery
4	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
5	UBD.PCB.Cir.No.14/09.11.01/2004-05	24.08.2004	Opening of Current Accounts by banks-need for discipline.
6	UBD.PCB.Cir.No.7/09.11.01/2004-05	29.07.2004	Opening of Current Accounts by banks-need for discipline.
7.	UBD.BPD.PCB.CIR.37/13.05.00/2003-04	16-03-2004	Discounting/Rediscounting of Bills By Banks
8	UBD.POT.PCB.No.1/09.09.0/2002-03	19-07-2002	Guidelines for Rehabilitation of Sick SSI Units
9.	UBD.No.DS.PCB.Cir.34/13.05.00/2001-02	28.03.2002	Loan System for Delivery of Bank Credit
10.	UBD.BSD.1.No.8/12.05.00/200-1-02	31-08-2001	Issue of banker's cheques/pay orders/demand drafts
11.	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
12.	UBD.DS.32/13.04.00/2000-01	12-02-2001	Reliefs/Concessions for Exporters Affected by the Earthquake
13	UBD.No.POT.CIR.30/09.20.00/2000-01	01-02-2001	Branch Advisory Committees
14	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
15	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
16.	UBD.No.DS.PCB.8/13.04.00/98-99	30-09-1998	Reliefs/Concessions for Exporters Affected by Cyclone in Gujarat

No	Circular No.	Date	Subject
17.	UBD No.BR.3/16.74.00/98-99	29-07-1998	Disclosure of information regarding defaulting borrowers of banks at-id financial institutions
18	UBD.No.DS.SUB.19/13.05.00/97-98	12-02-1998	Reporting of Credit Sanctions
19	UBD.No.DS.PCB.Cir.28/13.05.00/97-98	16-12-1997	Guidelines for lending by banks- Assessment of working capital
20	UBD.No.DS.PCB.Cir.25/13.05.00/97-98	04-12-1997	'Bill' finance for settlement of dues of SSI suppliers
21.	UBD.No.DS.PCB.Cir15/13.05.00/97-98	21-10-1997	Loan system for delivery of bank credit
22.	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
23	UBD.No.DS.PCBcir.31/13.05.00/96-97	23-04-1997	Loan system for delivery of bank credit
24.	UBD.No.DS.PCB.CIR.31/13.05.00/96-97	29-11-1996	Loan system for Delivery of Bank Credit
25	UBD.No.Plan.PCB.5/09.08.00/96-97	16-07-1996	Management of advances portfolio and control over advances
26.	UBD.No.DS.PCB.Cir.64/13.05.00/95/96	31-05-1996	Loan System for Delivery of Bank credit
27	UBD.No.DS.PCB.Cir.63/13.05.00/95-96	24-05-1996	Lending to non-banking financial companies
28	UBD.No.BR.6/16.74.00/95-96	06-05-1996	Disclosure of information regarding defaulting borrowers of banks and financial institutions
29	UBD.No.Plan.PCB.60/09.78.00/95-96	08-04-1996	Equipment leasing and hire purchase financing activities
30	UBD.DS.PCB.CIR.54/13.05.00-95/96	23-03-1996	Realistic assessment of credit requirement Measures to prevent diversion of funds
31.	UBD.No.DC.23/13.05.00/95-96	19-10-1995	Credit Monitoring System- Introducing of Health Code for borrowal accounts in banks
32	UBD.No.DS.PCB.CIR.22/13.05.00/95-96	13-10-1995	Loan System for Delivery of Bank Credit
33	UBD.No.DS.PCB.CIR.14/13.05.00/95-96	28-09-1995	Introduction of a loan system for delivery of bank credits.
34	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
35	UBD No.DS.PCB.CIR.59/13.06.00/94-95	31-05-1995	Norms for bank lending for working capital purposes-Revised guidelines
36.	UBD.No.DS.PCB.CIR.60/13.05.00/94-95	30-05-1995	Lending to Non-Banking Financial Companies
37	UBD.No.DS.(PCB)CIR.58/13.05.00/94-95	17-05-1995	Bridge Loans/Interim Finance

No	Circular No.	Date	Subject
38.	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
39.	UBD No.DS.CIR.PCB.43/13.05.00/94-95	10-02-1995	Guidelines on lending under consortium arrangements
40.	UBD No.DS.CIR.PCB.39/13.05.00/94-95	14-01-1995	Levy of commitment charge on unutilised portion of credit limit
41	UBD.No.DS.CIR.25/13.05.00/94-95	21-10-1994	Leading to non-Banking financial companies
42.	UBD.No.DS.CIR.PCB.19/13.04.00/94-95	05-10-1994	Inventory/Receivables norms for various industries
43	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.
44	UBD.No.DS.CIR.PCB-3/13.05.00/94-95	06-07-1994	Guidelines on lending under consortium arrangements
45	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
46.	UBD.No.(PCB)50/13.05.00-93/94	14-01-1994	Restrictions on credit to certain sectors – Real Estate Loans
47	UBD.No.POT.47/09.51.00/93-94	06-01-1994	Incidence of guarantee premium payable to Deposit Insurance and Credit Guarantee Corporation
48	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
49.	UBD.No.Plan.22/09.11.00/93-94	28-09-1993	Monitoring of flow of funds
50	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.
51.	UBD.No.(PCB)1/13.06.00/93-94	12-07-1993	Review of inventory/receivable norms for financing vegetable and hydrogenated oil industry
52.	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
53.	UBD.No.(SUC)DC.124/13.06.00/92-93	30-06-1993	Inventory and Receivables Norms Basmati Rice
54	UBD.No.(PCB)54/DC(R.1)-92/93	07-04-1993	Restriction on Credit to Certain Sectors

No	Circular No.	Date	Subject
55	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
56	UBD.No.41-UB.17(c)-92/93	10-02-1993	Guidelines for relief measures by urban banks in areas affected by recent riots
57.	UBD.No.I&L.40J.1.-92 /93	09-02-1993	Diversion of working capital funds
58	UBD.No.(PCB)29/1)C.(R.1)-92/93	26-12-1992	Bridge Loans/Interim Finance
59	UBD.(PCB)5/DC.R.1A/92-93	24-07-1992	Inventory and Receivables norms for power Generation/Distribution Industry
60.	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
61.	UBD(PCB)38/DC.(R.1)-91/92	13-11-1991	Restriction on Credit to Certain Sectors
62.	UBD.(SUC)36 /DC.R.1(A)-90/91	31-05-1991	Restrictions of Drawals Under Large Cash Credit Limits
63	UBD(PCB)42/DC.HC.(Policy).90/91	11-02-1991	Credit Monitoring System Health Code for Borrowal Accounts in Urban Co-operative Banks
64.	UBD.PCB.2/DC.(R-1)-90/91	20-07-1990	Financing of Leasing/Hire Purchase Companies
65	UBD.(SUC)22/DC.R-1-90/91	07-07-1990	Credit Monitoring Arrangement Lending Discipline - Quarterly Information System (QIS)
66.	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
67.	UBD.No.DC.27/R.1.A-88/89	23-08-1988	Inventory/Receivables Norms for Engineering Industry
68.	UBD.No(DC)2/R.1-A-88/89	08-07-1988	Inventory/Receivable norms for Certain Segments of Chemical Industry
69.	UBD.No.(DC)123/R.1-87/88	31-05-1988	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks
70	UBD.No.(DC)101/R.1-A-87/88	15-02-1988	Inventory/Receivable Norms for Various Industries
71.	UBD.NO.I&L.67/J.1-87/88	21-11-1987	Advances to Builders/Contractors
72	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
73	UBD.DC.84/R.1-86/87	03-06-1987	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks

No	Circular No.	Date	Subject
74	UBD.(DC)57/R.1-86/87	19-02-1987	Defaults In Payment of Statutory Dues by Borrowers
75.	UBD.No.DC.41/R.1-86/87	07-11-1986	Withholding of Credit Facilities to Borrowers to Ensure Financial Discipline
76	UBD(DC)83/R.1-85/86	24-03-1986	Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants
77.	UBD.NO.I&L.38 /J.1-85/86	11-10-1985	Advances Granted by Urban Co-operative Banks - Diversion of Funds
78.	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
79.	UBD.POT.654/UB.17(C)-84/85	23-11-1984	Banks assistance to persons affected by recent disturbances
80	ACD.OPR.1569/A.35-79/80	02-10-1979	Measures to restrict further credit expansion
81.	ACD.OPR.2697/A.75/74-5	24-12-1974	Credit authorisation scheme for co-operative banks
82.	ACD.OPR.1222/A.75/74-5	07-09-1974	Credit authorisation scheme for co-operative banks
83.	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