

**RBI/2009-10/69**

**DBOD No. Dir. BC 13/13.03.00/2009-10**

July 1, 2009

Ashadha 9, 1931(Saka)

**All Scheduled Commercial Banks  
(excluding RRBs)**

**Dear Sir**

**Master Circular- Loans and Advances – Statutory and Other Restrictions**

Please refer to the [Master Circular DBOD.No.Dir.BC.17/13.03.00/2008-09](http://www.rbi.org.in) dated July 1, 2008 consolidating the instructions/guidelines issued to banks till June 30, 2008 relating to statutory and other restrictions on Loans and Advances. The Master Circular has been suitably updated by incorporating the instructions issued up to June 30, 2009 and has been placed on the RBI website (<http://www.rbi.org.in>). A copy of the Master Circular is enclosed.

Yours faithfully

**(P. Vijaya Bhaskar)**

**Chief General Manager-in-Charge**

Encl: as above

## CONTENTS

<b>Para No</b>	<b>Particulars</b>	<b>Page No.</b>
A	Purpose	1
B	Classification	1
C	Previous instructions	1
D	Application	1
1.	Introduction	2
2.	Guidelines	2
2.1	Statutory Restrictions	2
2.1.1	Advances against bank's own shares	2
2.1.2	Advances to bank's Directors	2
2.1.3	Restrictions on Holding Shares in Companies	4
2.1.4	Restrictions on Credit to Companies for Buy-back of their Securities	4
2.2	Regulatory Restrictions	5
2.2.1	Granting loans and advances to relatives of Directors	5
2.2.2	Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers of Banks	7
2.2.3	Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)	9
2.2.4	Restrictions on Advances against Sensitive Commodities under Selective Credit Control (SCC)	9
2.2.5	Restriction on payment of commission to staff members including officers	12
2.3	Restrictions on other loans and advances	12
2.3.1	Loans and Advances against Shares, Debentures and Bonds	12
2.3.2	Money Market Mutual Funds	12
2.3.3	Advances against Fixed Deposit Receipts (FDRs) Issued by Other Banks	12
2.3.4	Advances to Agents/Intermediaries based on consideration of Deposit Mobilisation	12
2.3.5	Loans against Certificate of Deposits (CDs)	13
2.3.6	Bank Finance to Non-Banking Financial Companies (NBFCs)	13
2.3.7	Financing Infrastructure/ Housing Projects	13
2.3.8	Issue of Bank Guarantees in favour of Financial Institutions	18
2.3.9	Discounting/Rediscounting of Bills by Banks	20
2.3.10	Advances against Bullion/Primary gold	22
2.3.11	Advances against Gold Ornaments & Jewellery	22
2.3.12	Gold (Metal) Loans	22
2.3.13	Loans and advances to Real Estate Sector	24
2.3.14	Loans and advances to Small Scale Industries	24
2.3.15	Loan system for delivery of bank credit	24
2.3.16	Lending under Consortium Arrangement/Multiple Banking Arrangement	25
2.3.17	Working Capital Finance to Information Technology and Software Industry	26
2.3.18	Guidelines for bank finance for PSU disinvestments of Government of India	26
2.3.19	Grant of Loans for acquisition of Kisan Vikas Patras (KVPs)	28
2.3.20	7% Savings Bonds, 2002; 6.5% Savings Bonds 2003 ( Non-Taxable) and 8% Savings (Taxable) Bonds 2003- Collateral Facility	29

2.3.21	Guidelines on Settlement of Non Performing Assets- Obtaining Consent Decree from Court	29
2.3.22	Project Finance Portfolio of Banks	29
2.3.23	Bridge Loans against receivables from Government	30
2.4.	Guidelines on Fair Practices Code for Lenders	30
Annex 1	List of Controlled Substances	34
Annex 2	List of Controlled Substances	35
Annex 3	Selective Credit Control- Other Operational Stipulations	36
Annex 4	List of banks nominated to import Gold	37
Annex 5	List of Circulars consolidated	38

## **Master Circular on Loans and Advances - Statutory and Other Restrictions**

### **A. Purpose**

This Master Circular consolidates the instructions issued by the Reserve Bank of India to banks on statutory and other restrictions on loans and advances.

### **B. Classification**

A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.

### **C. Previous instructions**

This Master Circular consolidates and updates the instructions on the above subject contained in the circulars listed in **Annex 5**.

### **D. Application**

To all Scheduled Commercial Banks, excluding Regional Rural Banks.

### **Structure**

#### **1. INTRODUCTION**

#### **2. GUIDELINES**

- 2.1 Statutory Restrictions
- 2.2 Regulatory Restrictions
- 2.3 Restrictions on other loans and advances
- 2.4 Guidelines on Fair Practices Code for Lenders

#### **3. ANNEX**

- Annex 1 - List of Controlled Substances
- Annex 2 - List of Controlled Substances
- Annex 3 - Selective Credit Control - Other operational stipulations
- Annex 4 - List of banks nominated to import Gold
- Annex 5 - List of circulars consolidated

## **1. INTRODUCTION**

This Master Circular provides a framework of the rules/regulations/instructions issued to Scheduled Commercial Banks on statutory and other restrictions on loans and advances.

Banks should implement these instructions and adopt adequate safeguards in order to ensure that the banking activities undertaken by them are run on sound, prudent and profitable lines.

## **2. GUIDELINES**

### **2.1 Statutory Restrictions**

#### **2.1.1 Advances against bank's own shares**

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

#### **2.1.2 Advances to bank's Directors**

2.1.2.1 Section 20(1) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest.

2.1.2.2 Banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

2.1.2.3 There are certain exemptions in this regard. In terms of the explanation to the Section, 'loans or advances' shall not include any transaction which the Reserve Bank may specify by general or special order as not being a loan or advance for the purpose of this Section. While doing so the RBI shall, keep in view the nature of the transaction, the period within which, and the manner and circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations.

2.1.2.4 If any question arises whether any transaction is a loan or advance for the purpose of this Section, it shall be referred to RBI, whose decision thereon shall be final.

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

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

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

- (d) such loans or advances as are granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior to his appointment as Chairman/ Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and Festival Advance, with the prior approval of the RBI and on such terms and conditions as may be stipulated by it;
- (e) such loans or advances as are granted by a banking company to its whole-time director for the purpose of purchasing furniture, car, Personal Computer or constructing/acquiring house for personal use, Festival advance with the prior approval of RBI and on such terms & conditions as may be stipulated by it;
- (f) call loans made by banking companies to one another;
- (g) facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;
- (h) line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd.(NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and
- (i) a credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

Note: For obtaining the prior approval of the Reserve Bank as stipulated in clauses (d) and (e) above, the bank should make an application to the Department of Banking Operations and Development, Central Office, Mumbai.

2.1.2.6 Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949.

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

2.1.2.8 In view of the above, while extending non-fund based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies/firms in which the directors are interested; it should be ensured that -

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

2.1.2.9 In case, such contingencies arise as at (b) & (c) above, the bank will be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

#### 2.1.2.10 Restrictions on Power to Remit Debts

Section 20A of the Banking Regulation Act, 1949 stipulates that notwithstanding anything to the contrary contained in Section 293 of the Companies Act, 1956, a banking company shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

- (a) any of its directors, or
- (b) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- (c) any individual, if any of its directors is his partner or guarantor.

Any remission made in contravention of the provisions stated above shall be void and have no effect.

#### 2.1.3 Restrictions on Holding Shares in Companies

2.1.3.1 In terms of Section 19(2) of the Banking Regulation Act, 1949, banks should not hold shares in any company except as provided in sub-section (1) whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less.

2.1.3.2 Further, in terms of Section 19(3) of the Banking Regulation Act, 1949, the banks should not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the bank is in any manner concerned or interested.

2.1.3.4 Accordingly, while granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) should be strictly observed.

#### 2.1.4 Restrictions on Credit to Companies for Buy-back of their Securities

In terms of Section 77A(1) of the Companies Act, 1956, companies are permitted to purchase their own shares or other specified securities out of their

- free reserves, or
- securities premium account, or
- the proceeds of any shares or other specified securities,

subject to compliance of various conditions specified in the Companies (Amendment) Act, 1999. Therefore, banks should not provide loans to companies

for buy-back of shares/securities.

## **2.2 Regulatory Restrictions**

### **2.2.1 Granting loans and advances to relatives of Directors**

Without prior approval of the Board or without the knowledge of the Board, no loans and advances should be granted to relatives of the bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks, as per details given below.

#### **2.2.1.1 Lending to directors and their relatives on reciprocal basis**

There have been instances where certain banks have developed an informal understanding or mutual/reciprocal arrangement among themselves for extending credit facilities to each other's directors, their relatives, etc. By and large, they did not follow the usual procedures and norms in sanctioning credit limits to the borrowers, particularly those belonging to certain groups or directors, their relatives, etc. Facilities far in excess of the sanctioned limits and concessions were allowed in the course of operation of individual accounts of the parties. Although, there is no legal prohibition on a bank from giving credit facilities to a director of some other banks or his relatives, serious concern was expressed in Parliament that such *quid pro quo* arrangements are not considered to be ethical. The banks should, therefore, follow the guidelines indicated below in regard to grant of loans and advances and award of contracts to the relatives of their directors and directors of other banks and their relatives:

2.2.1.2 Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rs. 25 lakhs and above to -

- (a) directors (including the Chairman/Managing Director) of other banks \*;
- (b) any firm in which any of the directors of other banks \* is interested as a partner or guarantor; and
- (c) any company in which any of the directors of other banks \* holds substantial interest or is interested as a director or as a guarantor.

2.2.1.3 Unless sanctioned by the Board of Directors/Management Committee, banks should also not grant loans and advances aggregating Rs.25 lakhs and above to -

- (a) any relatives of their own Chairmen/Managing Directors or other Directors;
- (b) any relatives of the Chairman/Managing Director or other directors of other banks \*;
- (c) any firm in which any of the relatives as mentioned in (a) & (b) above is interested as a partner or guarantor; and
- (d) any company in which any of the relatives as mentioned in (a) & (b) above hold substantial interest or is interested as a director or as a guarantor.

\* including directors of Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds.

2.2.1.4 The proposals for credit facilities of an amount less than Rs.25 lakh to these borrowers may be sanctioned by the appropriate authority in the financing bank under powers vested in such authority, but the matter should be reported to the Board.

2.2.1.5 The Chairman/Managing Director or other director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his interest

to the Board when any such proposal is discussed. He should not be present in the meeting unless his presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

2.2.1.6 The above norms relating to grant of loans and advances will equally apply to awarding of contracts.

2.2.1.7 The scope of the term 'relative' will be as under:

- Spouse
- Father
- Mother (including step-mother)
- Son (including step-son)
- Son's Wife
- Daughter (including step-daughter)
- Daughter's Husband
- Brother (including step-brother)
- Brother's wife
- Sister (including step-sister)
- Sister's husband
- Brother (including step-brother) of the spouse
- Sister (including step-sister) of the spouse

2.2.1.8 The term 'loans and advances' will not include loans or advances against -

- Government securities
- Life insurance policies
- Fixed or other deposits
- Stocks and shares
- Temporary overdrafts for small amounts, i.e. upto Rs. 25,000/-
- Casual purchase of cheques up to Rs. 5,000 at a time
- Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

2.2.1.9 The term 'substantial interest' shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

2.2.1.10 Banks should evolve, inter alia, the following procedure for ascertaining the interest of a director of a financing bank or of another bank, or his relatives, in credit proposals/award of contracts placed before the Board/Committee or other appropriate authority of the financing banks.

- (i) Every borrower should furnish a declaration to the bank to the effect that -
- (a) (where the borrower is an individual) he is not a director or specified near relation of a director of a banking company;
  - (b) (where the borrower is a partnership firm) none of the partners is a director or specified near relation of a director of a banking company; and
  - (c) (where the borrower is a joint stock company) none of its directors, is a director or specified near relation of a director of a banking company.



(ii) The declaration should also give details of the relationship of the borrower to the director of the bank.

2.2.1.11 In order to ensure compliance with the instructions, banks should forthwith recall the loan when it transpires that the borrower has given a false declaration.

2.2.1.12 The above guidelines should also be followed while granting loans/ advances or awarding contracts to directors of scheduled co-operative banks or their relatives.

2.2.1.13 These guidelines should also be followed by banks when granting loans and advances and awarding of contracts to directors of subsidiaries/trustees of mutual funds/venture capital funds set up by them as also other banks.

2.2.1.14 These guidelines should be duly brought to the notice of all directors and also placed before the bank's Board of Directors.

## **2.2.2 Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers of Banks**

2.2.2.1 The statutory regulations and/or the rules and conditions of service applicable to officers or employees of public sector banks indicate, to a certain extent, the precautions to be observed while sanctioning credit facilities to such officers and employees and their relatives. In addition, the following guidelines should be followed by all the banks with reference to the extension of credit facilities to officers and the relatives of senior officers:

### **(j) Loans & advances to officers of the bank**

No officer or any Committee comprising, inter alia, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board.

### **(ii) Loans and advances and award of contracts to relatives of senior officers of the bank**

Proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority should be reported to the Board. Further, when a credit facility is sanctioned by an authority, other than the Board to -

- any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor; or
- any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor,

such transaction should also be reported to the Board.

2.2.2.2 The above norms relating to grant of credit facility will equally apply to the awarding of contracts.

### **2.2.2.3 Application of the Guidelines in case of Consortium Arrangements**

In the case of consortium arrangements, the above norms relating to grant of credit facilities to relatives of senior officers of the bank will apply to the relatives of senior officers of all the participating banks.

### **2.2.2.4 Scope of certain expressions**

- (i) The scope of the term 'relative' is the same as mentioned at paragraph 2.2.1.7.
- (ii) The term 'Senior Officer' will refer to -
- a) any officer in senior management level in Grade IV and above in a nationalised bank, and
  - b) any officer in equivalent scale
    - in the State Bank of India and associate banks, and
    - in any banking company incorporated in India.
- (iii) The term 'credit facility' will not include loans or advances against -
- a) Government securities
  - b) Life Insurance policies
  - c) Fixed or other deposits
  - d) Temporary overdrafts for small amount i.e. upto Rs. 25,000/-, and
  - e) Casual purchase of cheques up to Rs. 5,000/- at a time.
- (iv) Credit facility will also not include loans and advances such as housing loans, car advances, consumption loans, etc. granted to an officer of the bank under any scheme applicable generally to officers.
- (v) The term 'substantial interest' shall have the same meaning assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

2.2.2.5 In this context, banks may, inter alia,

- (i) evolve a procedure to ascertain the interest of the relatives of a senior officer of the bank in any credit proposal/award of contract placed before the Board Committee or other appropriate authority of the financing bank;
- (ii) obtain a declaration from every borrower to the effect that -
  - (a) if he is an individual, that he is not a specified, near relation to any senior officer of the bank,
  - (b) if it is a partnership or HUF firm, that none of the partners, or none of the members of the HUF, is a near, specified relation of any senior officer of the bank, and
  - (c) if it is a joint stock company, that none of its directors, is a relative of any senior officer of the bank.
- (iii) ensure that the declaration gives details of the relationship, if any, of the borrower to any senior officer of the financing bank.
- (iv) make a condition for the grant of any credit facility that if the declaration made by a borrower with reference to the above is found to be false, then the bank will be entitled to revoke and/or recall the credit facility.
- (v) consider in consultation with their legal advisers, amendments, if any, required to any applicable regulations or rules, *inter alia*, dealing with the service conditions of officers of the bank to give effect to these guidelines.

### **2.2.3 Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)**

2.2.3.1 Government of India has advised that as per the Montreal Protocol, to which India is a party, Ozone Depleting Substances (ODS) are required to be phased out as per schedule prescribed therein. The list of chemicals given in **Annex 1 & 2** to the

Montreal Protocol is annexed for ready reference. The Protocol has identified the main ODS and set a time limit on phasing out their production/consumption in future, leading to a complete phase out eventually. Projects for phasing out ODS in India are eligible for grants from the Multilateral Fund. The sectors covered in the phase out programme are given below.

<b>Sector</b>	<b>Type of substance</b>
Foam products	Chlorofluorocarbon - 11 (CFC - 11)
Refrigerators and Air-conditioners	CFC – 12
Aerosol products	Mixtures of CFC - 11 and CFC – 12
Solvents in cleaning applications	CFC - 113 Carbon Tetrachloride, Methyl Chloroform
Fire extinguishers	Halons - 1211, 1301, 2402

2.2.3.2 Banks should not extend finance for setting up of new units consuming/producing the above ODS. In terms of circular No. FI/12/96-97 dated February 16, 1996 issued by the erstwhile Industrial Development Bank of India no financial assistance should be extended to small/medium scale units engaged in the manufacture of the aerosol units using CFC and no refinance would be extended to any project assisted in this sector.

#### **2.2.4 Restrictions on Advances against Sensitive Commodities under Selective Credit Control (SCC)**

##### **2.2.4.1 Issue of Directives**

- (i) With a view to preventing speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Section 21 & 35A of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities.
- (ii) The commodities, generally treated as sensitive commodities are the following:
  - (a) food grains i.e. cereals and pulses,
  - (b) selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castorseed, oils thereof, vanaspati and all imported oils and vegetable oils,
  - (c) raw cotton and kapas,
  - (d) sugar/gur/khandsari,
  - (e) cotton textiles which include cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres and partly out of cotton yarn and partly out of man-made fibres.

##### **2.2.4.2 Commodities currently exempted from Selective Credit Control**

- (i) Presently the following commodities are exempted from all the stipulations of Selective Credit Controls:

Sr. No.	Commodity	Exemption with effect from
1.	Pulses	21.10.1996
2.	Other food grains (viz. coarse grains)	21.10.1996
3.	Oilseeds (viz. groundnut, rapeseed/mustard, cotton seed, linseed, castorseed)	21.10.1996
4.	Oils (viz. groundnut oil, rapeseed oil, mustard oil, cottonseed oil, linseed oil, castor oil) including vanaspati	21.10.1996
5.	All imported oil seeds and oils	21.10.1996
6.	Sugar, including imported sugar, excepting buffer stocks and unreleased stock of sugar with Sugar Mills	21.10.1996
7.	Gur and Khandsari	21.10.1996
8.	Cotton and Kapas	21.10.1996
9.	Paddy/Rice	18.10.1994
10.	Wheat *	12.10.1993
* Temporarily covered under SCC with effect from 8.4.97 to 7.7.97.		

Banks are free to fix prudential margins on advances against these sensitive commodities.

#### 2.2.4.3 Commodities covered under Selective Credit Control

(i) Presently, the following commodities are covered under stipulations of Selective Credit Control:

- a) Buffer stock of sugar with Sugar Mills
- b) Unreleased stocks of sugar with Sugar Mills representing
  - levy sugar, and
  - free sale sugar

#### 2.2.4.4 Stipulations of Selective Credit Control

(i) Margin on sugar

Commodity	Minimum Margin	With effect from
(a) Buffer stocks of sugar	0%	01.04.1987
(b) Unreleased stocks of sugar with Sugar Mills representing -		
• levy sugar	10%	22.10.1997
• free sale sugar	@	10.10.2000

@ Margins on credit for free sale sugar will be decided by banks including RRBs and LABs based on their commercial judgement.

(ii) Valuation of sugar stocks

(a) The unreleased stocks of the levy sugar charged to banks as security by the sugar mills shall be valued at levy price fixed by Government.

(b) The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

(iii) Interest rates

Banks have the freedom to fix lending rates for the commodities coming within the purview of Selective Credit Control.

(iv) Other operational stipulations

(a) The other operational stipulations vary with the commodities. These stipulations are advised whenever Selective Credit Controls are reintroduced for any specific sensitive commodities.

(b) Although, none of the earlier stipulations are currently applicable to the only sensitive commodity covered under Selective Credit Control viz. buffer stocks and unreleased stocks of levy/free sale sugar with Sugar Mills, yet these are reproduced in **Annex 3** for understanding therefrom the underlying objectives of Selective Credit Control so that banks do not allow the customers dealing in Selective Credit Control commodities any credit facilities which would directly or indirectly defeat the purpose of the directives.

(v) Delegation of powers

(a) The matter relating to delegation of powers with regard to approval of credit proposals relating to sensitive commodities coming under Selective Credit Control was reviewed and it was decided that the existing practice of banks' submitting credit proposals above Rs.1 crore to Reserve Bank of India for its prior approval under Selective Credit Control shall be discontinued and banks will have the freedom to sanction such credit proposals in terms of their individual loan policies. Accordingly, banks need not forward the credit proposals above Rs.1 crore in respect of borrowers dealing in sensitive commodities to Reserve Bank of India for its prior approval.

(b) Banks are also advised to circulate these instructions among their controlling offices/branches and take all necessary steps to ensure that the powers delegated at various levels are exercised with utmost caution without sacrificing the broad objectives of the Selective Credit Control concept.

### **2.2.5 Restriction on payment of commission to staff members including officers**

Section 10(1)(b)(ii) of Banking Regulation Act, 1934, stipulates that a banking company shall not employ or continue the employment of any person whose remuneration or part of whose remuneration takes the form of commission or a share in the profits of the company. Further, clause (b) of Section 10(1)(b)(ii) permits payment of commission to any person who is employed only otherwise than as a regular staff. Therefore, banks should not pay commission to staff members and officers for recovery of loans.

### **2.3 Restrictions on other loans and advances**

### **2.3.1 Loans and Advances against Shares, Debentures and Bonds**

Banks are required to strictly observe regulatory restrictions on grant of loans and advances against shares, debentures and bonds which are detailed in the Master Circular on 'Bank Finance Against Shares and Debentures' dated August 28, 1998 read with the Master Circular dated July 1, 2009 on 'Exposure Norms' and the Circular on Financing of acquisition of equity in overseas companies dated June 7, 2005. The restrictions, inter alia, on loans and advances against shares and debentures, are-

- No loans to be granted against partly paid shares.
- No loans to be granted to partnership/proprietorship concerns against the primary security of shares and debentures.

### **2.3.2 Money Market Mutual Funds**

All the guidelines issued by the Reserve Bank of India on Money Market Mutual Funds (MMMMF) have been withdrawn and the banks are to be guided by the SEBI Regulations in this regard. However the banks/ FIs which are desirous of setting up MMMFs would have to take necessary clearance from the RBI for undertaking this additional activity before approaching SEBI for registration.

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

There have been instances where fake term deposit receipts, purported to have been issued by some banks, were used for obtaining advances from other banks. In the light of these happenings, the banks should desist from sanctioning advances against FDRs, or other term deposits of other banks.

### **2.3.4 Advances to Agents/Intermediaries based on Consideration of Deposit Mobilisation**

Banks should desist from being party to unethical practices of raising of resources through agents/intermediaries to meet the credit needs of the existing/prospective borrowers or from granting loans to intermediaries, based on the consideration of deposit mobilisation, who may not require the funds for their genuine business requirements.

### **2.3.5 Loans against Certificate of Deposits (CDs)**

Banks cannot grant loans against CDs. Furthermore, they are also not permitted to buy-back their own CDs before maturity. On a review it has been decided to relax these restrictions on lending and buy back, until further notice, only in respect of CDs held by mutual funds. While granting such loans to the mutual funds, banks should keep in view the provisions of paragraph 44(2) of the SEBI ( Mutual Funds) Regulations, 1996. Further, such finance if extended to equity-oriented mutual funds, will form part of banks' capital market exposure, as hitherto.

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

Banks may be guided by the Master Circular on Bank Finance to Non-Banking Financial Companies (NBFCs) dated July 1, 2009 in this regard.

### **2.3.7 Financing Infrastructure/ Housing Projects**

#### **2.3.7.1 Housing Finance**

Banks may refer to the Master Circular on Housing Finance dated July 1, 2009 in this regard.

#### 2.3.7.2 Guidelines for Financing of Infrastructure Projects

In view of the critical importance of the infrastructure sector and high priority being accorded for development of various infrastructure services, the matter has been reviewed in consultation with Government of India and the revised guidelines on financing of infrastructure projects are set out as under.

#### 2.3.7.3 Definition of 'infrastructure lending'

Any credit facility in whatever form extended by lenders (i.e. banks, FIs or NBFCs) to an infrastructure facility as specified below falls within the definition of "infrastructure lending". In other words, a credit facility provided to a borrower company engaged in

- developing or
- operating and maintaining, or
- developing, operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature :
  - i. a road, including toll road, a bridge or a rail system;
  - ii. a highway project including other activities being an integral part of the highway project;
  - iii. a port, airport, inland waterway or inland port;
  - iv. a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
  - v. telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
  - vi. an industrial park or special economic zone ;
  - vii. generation or generation and distribution of power;
  - viii. transmission or distribution of power by laying a network of new transmission or distribution lines;
  - ix. construction relating to projects involving agro-processing and supply of inputs to agriculture;
  - x. construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
  - xi. construction of educational institutions and hospitals;
  - xii. laying down and/or maintenance of gas, crude oil and petroleum pipelines.
  - xiii. any other infrastructure facility of similar nature.

#### 2.3.7.4 Criteria for Financing

Banks/FIs are free to finance technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings subject to the following conditions:

- (i) The amount sanctioned should be within the overall ceiling of the prudential exposure norms prescribed by RBI for infrastructure financing.
- (ii) Banks/ FIs should have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to the risk analysis and sensitivity analysis.
- (iii) In respect of projects undertaken by public sector units, term loans may be sanctioned only for corporate entities (i.e. public sector undertakings registered under Companies Act or a Corporation established under the relevant statute). Further, such term loans should not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources if such supplementing was contemplated in the project design. While such public sector units may include Special Purpose Vehicles (SPVs) registered under the Companies Act set up for financing infrastructure projects, it should be ensured by banks and financial institutions that these loans/investments are not used for financing the budget of the State Governments. Whether such financing is done by way of extending loans or investing in bonds, banks and financial institutions should undertake due diligence on the viability and bankability of such projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations and that the repayment/servicing of debt is not out of budgetary resources. Further, in the case of financing SPVs, banks and financial institutions should ensure that the funding proposals are for specific monitorable projects. It has been observed that some banks have extended financial assistance to State PSUs which is not in accordance with the above norms. Banks/FIs are, therefore, advised to follow the above instructions scrupulously, even while making investment in bonds of sick State PSUs as part of the rehabilitation effort.
- (iv) Banks may also lend to SPVs in the private sector, registered under the Companies Act for directly undertaking infrastructure projects which are financially viable and not for acting as mere financial intermediaries. Banks may ensure that the bankruptcy or financial difficulties of the parent/ sponsor should not affect the financial health of the SPV.

#### 2.3.7.5 Types of Financing by Banks

(i) In order to meet financial requirements of infrastructure projects, banks may extend credit facility by way of working capital finance, term loan, project loan, subscription to bonds and debentures/ preference shares/ equity shares acquired as a part of the project finance package which is treated as "deemed advance" and any other form of funded or non-funded facility.

##### (ii) Take-out Financing

Banks may enter into take-out financing arrangement with IDFC/ other financial institutions or avail of liquidity support from IDFC/ other FIs. A brief write-up on



some of the important features of the arrangement is given in paragraph 2.3.7.8(i). Banks may also be guided by the instructions regarding take-out finance contained in Circular No. DBOD. BP. BC. 144/ 21.04.048/ 2000 dated February 29, 2000.

(iii) Inter-institutional Guarantees

Banks are permitted to issue guarantees favouring other lending institutions in respect of infrastructure projects, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow-up of the project. For detailed instructions on inter-institutional guarantee, please see paragraph 2.3.8.

(iv) Financing promoter's equity

In terms of Circular No. DBOD. Dir. BC. 90/ 13.07.05/ 98 dated August 28, 1998, banks were advised that the promoter's contribution towards the equity capital of a company should come from their own resources and the bank should not normally grant advances to take up shares of other companies. In view of the importance attached to the infrastructure sector, it has been decided that, under certain circumstances, an exception may be made to this policy for financing the acquisition of the promoter's shares in an existing company, which is engaged in implementing or operating an infrastructure project in India. The conditions, subject to which an exception may be made, are as follows:

- (i) The bank finance would be only for acquisition of shares of existing companies providing infrastructure facilities as defined in paragraph (a) above. Further, acquisition of such shares should be in respect of companies where the existing foreign promoters (and/ or domestic joint promoters) voluntarily propose to disinvest their majority shares in compliance with SEBI guidelines, where applicable.
- (ii) The companies to which loans are extended should, inter alia, have a satisfactory net worth.
- (iii) The company financed and the promoters/ directors of such companies should not be a defaulter to banks/ FIs.
- (iv) In order to ensure that the borrower has a substantial stake in the infrastructure company, bank finance should be restricted to 50% of the finance required for acquiring the promoter's stake in the company being acquired.
- (v) Finance extended should be against the security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired. The shares of the borrower company / company being acquired may be accepted as additional security and not as primary security. The security charged to the banks should be marketable.
- (vi) Banks should ensure maintenance of stipulated margins at all times.
- (vii) The tenor of the bank loans may not be longer than seven years. However, the Boards of banks can make an exception in specific cases, where necessary, for financial viability of the project.-

- (viii) This financing would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.
- (ix) The banks financing acquisition of equity shares by promoters should be within the regulatory ceiling of 40 per cent of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (both fund based and non-fund based).
- (x) The proposal for bank finance should have the approval of the Board.

#### 2.3.7.6 Appraisal

- (i) In respect of financing of infrastructure projects undertaken by Government owned entities, banks/Financial Institutions should undertake due diligence on the viability of the projects. Banks should ensure that the individual components of financing and returns on the project are well defined and assessed. State Government guarantees may not be taken as a substitute for satisfactory credit appraisal and such appraisal requirements should not be diluted on the basis of any reported arrangement with the Reserve Bank of India or any bank for regular standing instructions/periodic payment instructions for servicing the loans/bonds.
- (ii) Infrastructure projects are often financed through Special Purpose Vehicles. Financing of these projects would, therefore, call for special appraisal skills on the part of lending agencies. Identification of various project risks, evaluation of risk mitigation through appraisal of project contracts and evaluation of creditworthiness of the contracting entities and their abilities to fulfill contractual obligations will be an integral part of the appraisal exercise. In this connection, banks/FIs may consider constituting appropriate screening committees/special cells for appraisal of credit proposals and monitoring the progress/performance of the projects. Often, the size of the funding requirement would necessitate joint financing by banks/FIs or financing by more than one bank under consortium or syndication arrangements. In such cases, participating banks/ FIs may, for the purpose of their own assessment, refer to the appraisal report prepared by the lead bank/FI or have the project appraised jointly.

#### 2.3.7.7 Prudential requirements

- (i) Prudential credit exposure limits

Credit exposure to borrowers belonging to a group may exceed the exposure norm of 40 per cent of the bank's capital funds by an additional 10 per cent (i.e. up to 50 per cent), provided the additional credit exposure is on account of extension of credit to infrastructure projects. Credit exposure to single borrower may exceed the exposure norm of 15 per cent of the bank's capital funds by an additional 5 per cent (i.e. up to 20 per cent) provided the additional credit exposure is on account of infrastructure as defined in paragraph (a) above. In addition to the exposure permitted above, banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds. The bank should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where the bank had exceeded the prudential exposure limits during the year.

- (ii) Assignment of risk weight for capital adequacy purposes

Banks are required to be guided by the Prudential Guidelines on Capital Adequacy and Market Discipline- Implementation of the New Capital Adequacy Framework , as amended from time to time in the matter of capital adequacy.

(iii) Asset-Liability Management

The long-term financing of infrastructure projects may lead to asset – liability mismatches, particularly when such financing is not in conformity with the maturity profile of a bank's liabilities. Banks would, therefore, need to exercise due vigil on their asset-liability position to ensure that they do not run into liquidity mismatches on account of lending to such projects.

(iv) Administrative arrangements

Timely and adequate availability of credit is the pre-requisite for successful implementation of infrastructure projects. Banks/ FIs should, therefore, clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Multiplicity of appraisals by every institution involved in financing, leading to delays, has to be avoided and banks should be prepared to broadly accept technical parameters laid down by leading public financial institutions. Also, setting up a mechanism for an ongoing monitoring of the project implementation will ensure that the credit disbursed is utilised for the purpose for which it was sanctioned.

#### 2.3.7.8 Take-out financing/liquidity support

(i) Take-out financing arrangement

Take-out financing structure is essentially a mechanism designed to enable banks to avoid asset-liability maturity mismatches that may arise out of extending long tenor loans to infrastructure projects. Under the arrangements, banks financing the infrastructure projects will have an arrangement with IDFC or any other financial institution for transferring to the latter the outstandings in their books on a pre-determined basis. IDFC and SBI have devised different take-out financing structures to suit the requirements of various banks, addressing issues such as liquidity, asset-liability mismatches, limited availability of project appraisal skills, etc. They have also developed a Model Agreement that can be considered for use as a document for specific projects in conjunction with other project loan documents. The agreement between SBI and IDFC could provide a reference point for other banks to enter into somewhat similar arrangements with IDFC or other financial institutions.

(ii) Liquidity support from IDFC

As an alternative to take-out financing structure, IDFC and SBI have devised a product, providing liquidity support to banks. Under the scheme, IDFC would commit, at the point of sanction, to refinance the entire outstanding loan (principal+ unrecovered interest) or part of the loan, to the bank after an agreed period, say, five years. The credit risk on the project will be taken by the bank concerned and not by IDFC. The bank would repay the amount to IDFC with interest as per the terms agreed upon. Since IDFC would be taking a credit risk on the bank, the interest rate to

be charged by it on the amount refinanced would depend on the IDFC's risk perception of the bank (in most of the cases, it may be close to IDFC's PLR). The refinance support from IDFC would particularly benefit the banks which have the requisite appraisal skills and the initial liquidity to fund the project.

### **2.3.8 Issue of Bank Guarantees in favour of Financial Institutions**

2.3.8.1 Banks may issue guarantees favouring other banks/FIs/other lending agencies for the loans extended by the latter, subject to strict compliance with the following conditions.

- (i) The Board of Directors should reckon the integrity/robustness of the bank's risk management systems and, accordingly, put in place a well-laid out policy in this regard.

The Board approved policy should, among others, address the following issues:

- a) Prudential limits, linked to bank's Tier I capital, up to which guarantees favouring other banks/FIs/other lending agencies may be issued.
  - b) Nature and extent of security and margins
  - c) Delegation of powers
  - d) Reporting system
  - e) Periodical reviews
- (ii) The guarantee shall be extended only in respect of borrower constituents and to enable them to avail of additional credit facility from other banks/FIs/lending agencies
  - (iii) The guaranteeing bank shall assume a funded exposure of at least 10% of the exposure guaranteed.
  - (iv) Banks should not extend guarantees or letters of comfort in favour of overseas lenders including those assignable to overseas lenders, except for the relaxations permitted under FEMA.
  - (v) The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight as per the extant guidelines.
  - (vi) Banks should ensure compliance with the recommendations of the Ghosh Committee and other internal requirements relating to issue of guarantees to obviate the possibility of frauds in this area.

#### **2.3.8.2 Lending banks**

A. Banks extending credit facilities against the guarantees issued by other banks/FIs should ensure strict compliance with the following conditions:

- (i) The exposure assumed by the bank against the guarantee of another bank/FI will be deemed as an exposure on the guaranteeing bank/FI and will attract appropriate risk weight as per the extant guidelines.
- (ii) Exposures assumed by way of credit facilities extended against the guarantees issued by other banks should be reckoned within the inter

bank exposure limits prescribed by the Board of Directors. Since the exposure assumed by the bank against the guarantee of another bank/FI will be for a fairly longer term than those assumed on account of inter bank dealings in the money market, foreign exchange market and securities market, the Board of Directors should fix an appropriate sub-limit for the longer term exposures since these exposures attract greater risk.

- (iii) Banks should monitor the exposure assumed on the guaranteeing bank/FI, on a continuous basis and ensure strict compliance with the prudential limits/sub limits prescribed by the Board for banks and the prudential single borrower limits prescribed by RBI for FIs.
- (iv) Banks should comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

B. However, the above conditions will not be applicable in the following cases:

(a) In respect of infrastructure projects, banks may issue guarantees favouring other lending institutions, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 percent of the project cost and undertakes normal credit appraisal, monitoring and follow up of the project.

(b) Issuance of guarantees in favour of various Development Agencies/Boards, like Indian Renewable Energy Development Agency, National Horticulture Board, etc. for obtaining soft loans and/or other forms of development assistance from such Agencies/Boards with the objective of improving efficiency, productivity, etc., subject to the following conditions:

- Banks should satisfy themselves, on the basis of credit appraisal, regarding the technical feasibility, financial viability and bankability of individual projects and/or loan proposals i.e. the standard of such appraisal should be the same, as is done in the case of a loan proposal seeking sanction of term finance/loan.
- Banks should conform to the prudential exposure norms prescribed from time to time for an individual borrower/group of borrowers.
- Banks should suitably secure themselves before extending such guarantees.

(c) Issue of guarantees favouring HUDCO/State Housing Boards and similar bodies for loans granted by them to private borrowers who are unable to offer clean or marketable title to property, provided banks are otherwise satisfied about the capacity of borrowers to adequately service such loans.

d) Issuance of guarantees by consortium member banks unable to participate in rehabilitation packages on account of temporary liquidity constraints, in favour of the banks which take up their share of the limit.

C. Banks should not grant co-acceptance/guarantee facilities under Buyers Lines of Credit Schemes introduced by IDBI, SIDBI, Exim Bank, Power Finance Corporation (PFC) or any other financial institution, unless specifically permitted by the RBI.

### **2.3.9 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 limits 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 often-cited problem of delay in realisation of bills, banks may take advantage of improved computer / communication networks like the Structured Financial Messaging system (SFMS) 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. However, in cases where negotiation of bills drawn under LC is restricted to a particular bank, and the beneficiary of the LC is not a constituent of that bank, the bank concerned may negotiate such an LC, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary. However, the prohibition regarding negotiation of unrestricted LCs of non-constituents will continue to be in force.
- (iv) Sometimes, a beneficiary of the LC may want to discount the bills with the LC issuing bank itself. In such cases, banks may discount bills drawn by beneficiary only if the bank has sanctioned regular fund-based credit facilities to the beneficiary. With a view to ensuring that the beneficiary's bank is not deprived of cash flows into its account, the beneficiary should get the bills discounted / negotiated through the bank with whom he is enjoying sanctioned credit facilities.
- (v) 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.
- (vi) While purchasing / discounting / negotiating bills under LCs or otherwise, banks should establish genuineness of underlying transactions / documents.
- (vii) 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.

- (viii) 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. On a review it has been decided that banks may negotiate bills drawn under LCs, on 'with recourse' or 'without recourse' basis, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank. However, the restriction on purchase/discount of other bills (the bills drawn otherwise than under LC) on 'without recourse' basis will continue to be in force.
- (ix) 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.
- (x) Banks should be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.
- (xi) Bills rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by non-bank financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.
- (xii) Banks may exercise their commercial judgment in discounting of bills of the 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 norm prescribed by the Board of the bank for unsecured exposure limit.
- (xiii) In order to promote payment discipline which would, to a certain extent, encourage acceptance of bills, all corporates and other constituent borrowers having turnover above threshold level as fixed by the bank's Board of Directors should be mandated to disclose 'aging schedule' of their overdue payables in their periodical returns submitted to banks.
- (xiv) Banks should not enter into Repo transactions using bills discounted / rediscounted as collateral.

#### **2.3.10 Advances against Bullion/Primary gold**

- (a) Banks should not grant any advance against bullion/ Primary gold.
- (b) Banks should desist from granting advances to the silver bullion dealers which are likely to be utilised for speculative purposes.

#### **2.3.11 Advances against Gold Ornaments & Jewellery**

Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Therefore, 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 consumer, 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.

### **2.3.12 Gold (Metal) Loans**

2.3.12.1 Banks nominated to import gold (list of banks as per **Annex 4**) as per extant instructions may extend Gold (Metal) Loans to domestic jewellery manufacturers, who are not exporters of jewellery, subject to the condition that any gold loan borrowing or other non-funded commitments taken by them for the purpose of providing gold loans to domestic jewellery manufacturers will be taken into account for the purpose of the overall ceiling (presently 25 % of Tier I capital) in respect of aggregate borrowing for non-export purposes. The Gold Loans extended to exporters of jewellery would continue to be out of the 25% ceiling. The Gold (Metal) Loans provided by banks will be subject to the following conditions:

- (i) The tenor of the Gold (Metal) Loans, which nominated banks are permitted to extend to domestic jewellery manufacturers who are not exporters of jewellery, may be decided by the nominated banks themselves provided the tenor does not exceed 180 days and the banks' policy with regard to tenor and monitoring of end use of gold loan is documented in the banks' loan policy and strictly adhered to by the banks. The above guidelines will be reviewed in the light of experience gained, and the performance of the banks in regard to monitoring the end-use of gold loans will be an important factor in deciding upon their future requests for annual renewal of authorization to import gold / silver.
- (ii) Interest charged to the borrowers should be linked to the international gold interest rate.
- (iii) The gold borrowings will be subject to normal reserve requirements.
- (iv) The loan will be subject to capital adequacy and other prudential requirements.
- (v) Banks should ensure end-use of gold loans to jewellery manufacturers and adhere to KYC guidelines.
- (vi) Any mismatch arising out of the gold borrowings and lendings should be within the prudential risk limits approved by the nominated bank's Board.
- (vii) The banks should carefully assess the overall risks on granting gold loans and lay down a detailed lending policy with the approval of the Board.

2.3.12.2 Presently, nominated banks can extend Gold (Metal) Loans to exporters of jewellery who are customers of other scheduled commercial banks, by accepting stand-by letter of credit or bank guarantee issued by their bankers in favour of the nominated banks subject to authorised banks' own norms for lending and other conditions stipulated by RBI. Banks may also extend the facility to domestic jewellery manufacturers, subject to the following conditions:

- (i) The stand-by LC / BG shall be extended only on behalf of domestic jewellery manufacturers and shall cover at all times the full value of the quantity of gold borrowed by these entities. The stand-by LC / BG shall be issued by scheduled commercial banks in favour of a nominated bank (list appended) only and not to any other entity which may otherwise be having permission to import gold.



(ii) The bank issuing the stand-by LC / BG (only inland letter of credit / bank guarantee) should do so only after carrying out proper credit appraisal. The bank should ensure that adequate margin is available to it at all times consistent with the volatility of the gold prices.

(iii) The stand-by LC / BG facilities will be denominated in Indian Rupees and not in foreign currency.

(iv) Stand-by LC / BG issued by the non-nominated banks will be subject to extant capital adequacy and prudential norms.

(v) The banks issuing stand-by LC / BG should also carefully assess the overall risks on granting these facilities and lay down a detailed lending policy with the approval of their Board.

2.3.12.3 The nominated banks may continue to extend Gold (Metal) Loans to jewellery exporters subject to the following conditions:

- The exposure assumed by the nominated bank extending the Gold (Metal) Loan against the stand-by LC / BG of another bank will be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per the extant guidelines.
- The transaction should be purely on back-to-back basis i.e. the nominated banks should extend Gold (Metal) Loan directly to the customer of a non-nominated bank, against the stand-by LC / BG issued by the latter.
- Gold (Metal) Loans should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.
- The banks may calculate their exposure and compliance with prudential norms daily by converting into Rupee the gold quantity by crossing London AM fixing for Gold / US Dollar rate with the rupee-dollar reference rate announced by RBI.

2.3.12.4 There will be no change in the existing policy on lending against bullion. Banks should recognise the overall risks in extending Gold (Metal) Loans as also in extending SBLC / BG. Banks should lay down an appropriate risk management / lending policy in this regard and comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

2.3.12.5 Nominated banks are not permitted to enter into any tie up arrangements for retailing of gold / gold coins with any other entity including non-banking financial companies / co-operative banks / non-nominated banks.

### **2.3.13 Loans and advances to Real Estate Sector**

While appraising loan proposals involving real estate, banks should ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

### **2.3.14 Loans and advances to Small Scale Industries**

SSI units having working capital limits of up to Rs. 5 crore from the banking system are to be provided working capital finance computed on the basis of 20 percent of their projected annual turnover. The banks should adopt the simplified procedure in respect of all SSI units (new as well as existing).

### **2.3.15 Loan system for delivery of bank credit**

(a) In the case of borrowers enjoying working capital credit limits of Rs. 10 crore and above from the banking system, the loan component should normally be 80 percent. Banks, however, have the freedom to change the composition of working capital by increasing the cash credit component beyond 20 percent or to increase the 'Loan Component' beyond 80 percent, as the case may be, if they so desire. 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.

(b) In the case of borrowers enjoying working capital 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.

(c) 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 exempted from the loan system of delivery.

### **2.3.16 Lending under Consortium Arrangement/Multiple Banking Arrangement**

Various regulatory prescriptions regarding conduct of consortium / multiple banking / syndicate arrangements were withdrawn by Reserve Bank of India in October 1996 with a view to introducing flexibility in the credit delivery system and to facilitate smooth flow of credit. However, Central Vigilance Commission, Government of India, in the light of frauds involving consortium / multiple banking arrangements which have taken place recently, has expressed concerns on the working of Consortium Lending and Multiple Banking Arrangements in the banking system. The Commission has attributed the incidence of frauds mainly to the lack of effective sharing of information about the credit history and the conduct of the account of the borrowers among various banks.

The matter has been examined in consultation with the Indian Banks Association who are of the opinion that there is need for improving the sharing / dissemination of information among the banks about the status of the borrowers enjoying credit facilities from more than one bank. Accordingly, the banks are encouraged to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks as under:

(i) At the time of granting fresh facilities, banks may obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks in the format prescribed (Ref RBI circular nos. [DBOD No. BP.BC.46/08.12.001/2008-09 dated September 19, 2008](#) and [DBOD No. BP.BC.94/08.12.001/2008-09 dated December 8, 2008.](#)). In the case of existing

lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of Rs.5.00 crore and above or wherever, it is in their knowledge that their borrowers are availing credit facilities from other banks, and introduce a system of exchange of information with other banks as indicated above.

(ii) Subsequently, banks should exchange information about the conduct of the borrowers' accounts with other banks in the format given in Annex II of RBI DBOD circulars referred to in (i) above at least at quarterly intervals.

(iii) Obtain regular certification by a professional, preferably a Company Secretary, Chartered Accountant or Cost Accountant, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in Annex III of RBI circulars referred to in (i) above and [DBOD. No. BP.BC.110/08.12.001/2008-09 dated February 10, 2009](#)..

(iv) Make greater use of credit reports available from CIBIL.

(v) The banks should incorporate suitable clauses in the loan agreements in future (at the time of next renewal in the case of existing facilities) regarding exchange of credit information so as to address confidentiality issues.

### **2.3.17 Working Capital Finance to Information Technology and Software Industry**

Following the recommendations of the “National Task force on Information Technology and Software development“, Reserve Bank has framed guidelines for extending working capital to the said industry. Banks are however free to modify the guidelines based on their own experience without reference to the Reserve Bank of India to achieve the purpose of the guidelines in letter and spirit. The salient features of these guidelines are set forth below:

(i) Banks may consider sanction of working capital limits based on the track record of the promoters group affiliation, composition of the management team and their work experience as well as the infrastructure.

(ii) In the case of the borrowers with working capital limits of up to Rs 2 crore, assessment may be made at 20 percent of the projected turnover. However, in other cases, the banks may consider assessment of MPBF on the basis of the monthly cash budget system. For the borrowers enjoying working capital limits of Rs 10 crore and above from the banking system the guidelines regarding the loan system would be applicable.

(iii) Banks can stipulate reasonable amount as promoters' contribution towards margin.

(iv) Banks may obtain collateral security wherever available. First/ second charge on current assets, if available, may be obtained.

(v) The rate of interest as prescribed for general category of borrowers may be levied. Concessional rate of interest as applicable to pre-shipment/post-shipment credit may be levied.

(vi) Banks may evolve tailor-made follow up system for such advances. The banks could obtain quarterly statements of cash flows to monitor the operations. In case the sanction was not made on the basis of the cash budgets, they can devise a reporting system, as they deem fit.

### **2.3.18 Guidelines for bank finance for PSU disinvestments of Government of India**

2.3.18.1 In terms of RBI circular DBOD No. Dir. BC .90/13.07.05/98 dated August 28, 1998, banks have been advised that the promoters' contribution towards the equity capital of a company should come from their own resources and the bank should not normally grant advances to take up shares of other companies. Banks were also advised to ensure that advances against shares were not used to enable the borrower to acquire or retain a controlling interest in the company/companies or to facilitate or retain inter-corporate investment. It is clarified that the aforesaid instructions of the 1998 circular would not apply in the case of bank finance to the successful bidders under the PSU disinvestment programme of the Government, subject to the following:

- Banks' proposals for financing the successful bidders in the PSU disinvestment programme should be approved by their Board of Directors.
- Bank finance should be for acquisition of shares of PSU under a disinvestment programme approved by Government of India, including the secondary stage mandatory open offer, wherever applicable and not for subsequent acquisition of the PSU shares. Bank finance should be made available only for prospective disinvestments by Government of India.
- The companies, including the promoters, to which bank finance is to be extended should have adequate net worth and an excellent track record of servicing loans availed from the banking system.
- The amount of bank finance thus provided should be reasonable with reference to the banks' size, its net worth and business and risk profile.

2.3.18.2 In case the advances against the PSU disinvestment is secured by the shares of the disinvested PSUs or any other shares, banks should follow RBI's extant guidelines on capital market exposures on margin, ceiling on overall exposure to the capital market, risk management and internal control systems, surveillance and monitoring by the Audit Committee of the Board, valuation and disclosure, etc. (cf. RBI circular No. DBOD.BP.BC.119/ 21.04.137 /2000-01 dated May 11, 2001).

### 2.3.18.3 Stipulation of lock-in period for shares

- i) Banks should, while deciding to extend finance to the borrowers who participate in the PSU disinvestment programme, advise such borrowers to execute an agreement whereby they undertake to:
  - (a) Produce the letter of waiver by the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period, or
  - (b) Include a specific provision in the documentation with the Government permitting the pledgee to liquidate the shares during the lock-in period, in case of shortfall in margin requirement or default by the borrower.
- (ii) Banks may extend finance to the successful bidders even though the shares of the disinvested company acquired/ to be acquired by the successful bidder are subjected to a lock-in period/ other such restrictions which affect their liquidity, subject to fulfillment of following conditions:
  - (a) The documentation between the Government of India and the successful bidder should contain a specific provision permitting the pledgee to liquidate the shares even during lock-in period that may be prescribed in respect of such disinvestments, in case of shortfall in margin requirements or default by the borrower.

(b) If the documentation does not contain such a specific provision, the borrower (successful bidder) should obtain waiver from the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period.

2.3.18.4 As per the terms and conditions of the PSU disinvestments by the Government of India, the pledgee bank will not be allowed to invoke the pledge during the first year of the lock-in period. During the second and third year of the lock-in period, in case of inability of the borrower to restore the margin prescribed for the purpose by way of additional security or non-performance of the payment obligations as per the repayment schedule agreed upon between the bank and the borrower, the bank would have the right to invoke the pledge. The pledgee bank's right to invoke the pledge during the second and third years of the lock-in period, would be subject to the terms and conditions of the documentation between Government and the successful bidder, which might also cast certain responsibilities on the pledgee banks.

2.3.18.5 It is clarified that the concerned bank must make a proper appraisal and exercise due caution about creditworthiness of the borrower and the financial viability of the proposal. The bank must also satisfy itself that the proposed documentation, relating to the disposal of shares pledged with the bank, are fully acceptable to the bank and do not involve unacceptable risks on the part of the bank.

2.3.18.6 In terms of IECD Circular No. 10/ 08.12.01/ 2000- 2001 dated 8 January 2001, banks are precluded from financing investments of NBFCs in other companies and inter-corporate loans / deposits to/ in other companies. The position has been reviewed and banks are advised that SPVs which comply with the following conditions would not be treated as investment companies and therefore would not be considered as NBFCs:

- a. They function as holding companies, special purpose vehicles, etc. with not less than 90 per cent of their total assets as investment in securities held for the purpose of holding ownership stake,
- b. They do not trade in these securities except for block sale,
- c. They do not undertake any other financial activities, and
- d. They do not hold/accept public deposits

2.3.18.7 SPVs, which satisfy the above conditions, would be eligible for bank finance for PSU disinvestments of Government of India.

2.3.18.8 In this context, it may be mentioned that Government of India, Ministry of Finance (DEA), Investment Division, vide its Press Note dated July 8, 2002, on guidelines for Euro issues, has permitted an Indian company utilizing ADR/GDR/ECB proceeds for financing disinvestment programme of the Government of India, including the subsequent open offer. Banks may, therefore, take into account proceeds from such ADR/GDR/ECB issues, for extending bank finance to successful bidders of the PSU disinvestment programme.

### **2.3.19 Grant of Loans for acquisition of Kisan Vikas Patras (KVPs)**

(i) Certain instances have come to notice where banks have sanctioned loans to individuals (mostly High Networth Individuals-HNIs) for acquisition of Kisan Vikas

Patras (KVPs). The HNIs were first required to bring in 10% of the total face value of the proposed investment in the KVPs as margin and the remaining 90% of the investment was treated as loan and funded by the bank for acquisition of the KVPs. Once the KVPs were acquired in the borrower's name, the same were pledged thereafter to the bank.

(ii) The sanction of loans as described above is not in conformity with the objectives of small savings schemes. The basic objective of small savings schemes is to provide a secure avenue of savings for small savers and promote savings, as well as to inculcate the habit of thrift among the people. The grant of loans for acquiring/investing in KVPs does not promote fresh savings and, rather, channelises the existing savings in the form of bank deposits to small savings instruments and thereby defeats the very purpose of such schemes. Banks should therefore ensure that no loans are sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.

#### **2.3.20 7% Savings Bonds 2002, 6.5% Savings Bonds 2003 ( Non-taxable) & 8% Savings ( Taxable ) Bonds 2003-Collateral facility**

It has been decided by the Government of India to allow pledge or hypothecation or lien of the bonds issued under the captioned schemes as collateral for obtaining loans from scheduled banks. Accordingly, the holders of the said bonds will be entitled to create pledge or hypothecation or lien in favour of scheduled banks in accordance with section 28 of the Government Securities Act, 2006 (the G S Act) and regulations 21 and 22 of the Government Securities Regulations, 2007 (the G S Regulations). A copy each of the amending notification numbers No. F.4(13)-W & M/2002 dated August 19, 2008 for 7% Savings Bonds, 2002, No. F.4(9)-W & M/2003 dated August 19, 2008 for 6.5% Savings Bonds, 2003 (Non-taxable), and No. F.4(10)-W & M/2003 dated August 19, 2008 for 8% Savings (Taxable) Bonds, 2003 issued by the Government of India is enclosed with RBI circular [DBOD. No. Dir.BC.66/13.03.00/2008-09 dated October 24, 2008](#). In view of the above amendments, banks are advised to facilitate extension of collateral facility through pledge or hypothecation or lien as per the procedure laid down in Section 28 of the GS Act and Regulations 21 and 22 of the GS Regulations. Relevant extracts of the Act / Regulations along with the forms and the relative press release issued by the Government of India are also enclosed in the above circular. for ready reference. It may be noted that collateral facility is available only for the loans extended to the holders of the bonds and, as such, **the facility is not available in respect of the loans extended to third parties.**

#### **2.3.21 Guidelines on Settlement of Non Performing Assets- Obtaining Consent Decree from Court**

The Debt Recovery Tribunal, Ernakulam has observed in a case that although the bank and the defendant borrowers had reached a settlement under the compromise Settlement Scheme, the bank had not only failed to obtain the consent decree from the DRT, but had also suppressed from the DRT the fact of settlement for more than two and half years thereby violating the aforesaid RBI guidelines and causing the Tribunal to unnecessarily waste its valuable time. Banks are, therefore, advised to invariably ensure that once a case is filed before a Court / DRT / BIFR, any settlement arrived at with the borrower is subject to obtaining a consent decree from the Court / DRT / BIFR concerned.

#### **2.3.22 Project Finance Portfolio of Banks**

2.3.22.1 At the time of financing projects banks generally adopt one of the following methodologies as far as determining the level of promoters' equity is concerned.

- 1) Promoters bring their entire contribution upfront before the bank starts disbursing its commitment.
- 2) Promoters bring certain percentage of their equity (40% – 50%) upfront and balance is brought in stages.
- 3) Promoters agree, ab initio, that they will bring in equity funds proportionately as the banks finance the debt portion.

2.3.22.2 While it is appreciated that such decisions are to be taken by the boards of the respective banks, it has been observed that the last method has greater equity funding risk. In order to contain this risk, banks are advised in their own interest to have a clear policy regarding the Debt Equity Ratio (DER) and to ensure that the infusion of equity/fund by promoters should be such that the stipulated level of DER is maintained at all times. Further they may adopt funding sequences so that possibility of equity funding by banks is obviated.

### **2.3.23 Bridge Loans against receivables from Government**

Banks should not extend bridge loans against amounts receivable from Central/State Governments by way of subsidies, refunds, reimbursements, capital contributions, etc. The following exemptions are, however, made:

- a.) Banks may continue to finance subsidy receivable under the normal Retention Price Scheme (RPS) for periods upto 60 days in case of fertilizer industry. It is clarified that the facility is being allowed as a purely temporary measure and the fertilizer companies should strengthen their financial position gradually so that they do not depend on the banks for finance against subsidy. No other subsidy receivables such as, those in respect of claims raised by units on the basis of expected revision in retention price because of escalation in costs of inputs and in respect of freight, etc. , should be financed by the banks.
- b.) Banks may continue to grant finance against receivables from Government by exporters (viz. Duty Draw Back and IPRS) to the extent covered by the existing instructions.

## **2.4. Guidelines on Fair Practices Code for Lenders**

2.4.1. On the basis of the recommendations of the Working Group on Lenders' Liability Laws constituted by the Government of India, the feasibility of introducing the Fair Practices Code for Lenders was examined in consultation with Government, select banks and financial institutions. The guidelines have since been finalised and banks/ all India Financial Institutions are advised to adopt the following broad guidelines and frame the Fair Practices Code duly approved by their Board of Directors.

### **2.4.2 Guidelines**

#### **(i) Applications for loans and their processing**

(a) Loan application forms in respect of all categories of loans irrespective of the amount of loan sought by the borrower should be comprehensive. It should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non acceptance of application, pre-payment options and any other matter which affects the interest of the borrower,

so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.

It has come to our notice that some banks levy in addition to a processing fee, certain charges which are not initially disclosed to the borrower. It may be mentioned that levying such charges subsequently without disclosing the same to the borrower is an unfair practice.

Banks/FIs should ensure that all information relating to charges/fees for processing are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charges with other sources of finance.

(b) Banks and financial institutions should devise a system of giving acknowledgement for receipt of all loan applications. Time frame within which loan applications up to Rs.2 lakhs will be disposed of should also be indicated in acknowledgement of such applications.

(c) Banks / financial institutions should verify the loan applications within a reasonable period of time. If additional details / documents are required, they should intimate the borrowers immediately.

(d) In case of all categories of loans irrespective of any threshold limits, including credit card applications, the lenders should convey in writing, the main reason/reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications within stipulated time.

(ii) Loan appraisal and terms/conditions

a) Lenders should ensure that there is proper assessment of credit application by borrowers. They should not use margin and security stipulation as a substitute for due diligence on credit worthiness of the borrower.

b) The lender should convey to the borrower the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.

c) Terms and conditions and other caveats governing credit facilities given by banks/ financial institutions arrived at after negotiation by lending institution and the borrower should be reduced in writing and duly certified by the authorised official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower. It is reiterated that banks should invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

d) As far as possible, the loan agreement should clearly stipulate credit facilities that are solely at the discretion of lenders. These may include approval or disallowance of facilities, such as, drawings beyond the sanctioned limits, honouring cheques issued for the purpose other than specifically agreed to in the credit sanction, and disallowing drawing on a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. It may also be specifically stated that the lender does not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.



e) In the case of lending under consortium arrangement, the participating lenders should evolve procedures to complete appraisal of proposals in the time bound manner to the extent feasible, and communicate their decisions on financing or otherwise within a reasonable time.

(iii) Disbursement of loans including changes in terms and conditions

Lenders should ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction. Lenders should give notice of any change in the terms and conditions including interest rates, service charges etc. Lenders should also ensure that changes in interest rates and charges are effected only prospectively.

(iv) Post disbursement supervision

a) Post disbursement supervision by lenders, particularly in respect of loans up to Rs.2 lakh, should be constructive with a view to taking care of "any" lender-related" genuine difficulty that the borrower may face.

b) Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, lenders should give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exists in the loan agreement.

c) Lenders should release all securities on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim lenders may have against borrowers. If such right of set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the documents under which lenders are entitled to retain the securities till the relevant claim is settled/paid.

(v) General

a) Lenders should restrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).

b) Lenders must not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude lenders from participating in credit-linked schemes framed for weaker sections of the society.

c) In the matter of recovery of loans, the lenders should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

d) In case of receipt of request for transfer of borrowal account, either from the borrower or from a bank/financial institution, which proposes to take-over the account, the consent or otherwise i.e, objection of the lender, if any, should be conveyed within 21 days from the date of receipt of request.

2.4.3. Fair Practices Code based on the guidelines outlined in the paragraph 2.4.2 above should be put in place in respect of all lending. Banks and financial

institutions will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. For this purpose, the Boards of banks and financial institutions should lay down a clear policy.

- 2.4.4 The Board of Directors should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of controlling offices. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.
- 2.4.5. The adoption of the Code, printing of necessary loan application forms and circulation thereof among the branches and controlling offices should also be duly completed. The Fair Practices Code, which may be adopted by banks and financial institutions, should also be put on their website and given wide publicity. A copy may also be forwarded to the Reserve Bank of India.

**List of Controlled Substances**  
**(paragraph 2.2.3.1)**

Group	Substance	Ozone Depleting Potential *
<b>Group I</b>		
CFCl <sub>3</sub>	(CFC-11)	1.0
CF <sub>2</sub> Cl <sub>2</sub>	(CFC-12)	1.0
C <sub>2</sub> F <sub>3</sub> Cl <sub>3</sub>	(CFC-113)	0.8
C <sub>2</sub> F <sub>4</sub> Cl <sub>2</sub>	(CFC-114)	1.0
Cl	(CFC-115)	0.6
<b>Group II</b>		
CF <sub>2</sub> BrCl	(halon-1211)	3.0
CF <sub>3</sub> Br	(halon-1301)	10.0
C <sub>2</sub> F <sub>4</sub> Br <sub>2</sub>	(halon-2402)	6.0
* These ozone depleting potentials are estimated based on existing knowledge and will be reviewed and revised periodically.		

**List of Controlled Substances  
(paragraph 2.2.3.1)**

Group	Substance	Ozone Depleting Potential
<b>Group I</b>		
CF <sub>3</sub> Cl	(CFC-13)	1.0
CF <sub>2</sub> Cl <sub>5</sub>	(CFC-111)	1.0
C <sub>2</sub> F <sub>2</sub> Cl <sub>4</sub>	(CFC-112)	1.0
C <sub>2</sub> FCl <sub>7</sub>	(CFC-211)	1.0
C <sub>2</sub> F <sub>2</sub> Cl <sub>6</sub>	(CFC-212)	1.0
C <sub>3</sub> F <sub>3</sub> Cl <sub>5</sub>	(CFC-213)	1.0
C <sub>3</sub> F <sub>4</sub> Cl <sub>4</sub>	(CFC-214)	1.0
C <sub>3</sub> F <sub>5</sub> Cl <sub>3</sub>	(CFC-215)	1.0
C <sub>3</sub> F <sub>6</sub> Cl <sub>2</sub>	(CFC-216)	1.0
C <sub>3</sub> F <sub>7</sub> Cl	(CFC-217)	1.0
<b>Group II</b>		
CCl <sub>4</sub>	Carbon Tetrachloride	1.1
<b>Group III</b>		
C <sub>2</sub> H <sub>3</sub> Cl <sub>3</sub> *	1,1,1 - trichloroethane (methyl chloroform)	0.1
* This formula does not refer to 1,1,2 - trichloroethane.		

**Selective Credit Control**  
**Other Operational Stipulations**

**[paragraph 2.2.4.4 (iv)]**

1. Banks should not allow the customers dealing in Selective Credit Control commodities any credit facilities which would directly or indirectly defeat the purpose of the directive. Advances against book debts/receivables and collateral securities like LIC policies, shares and stocks and real estate should not be considered in favour of such borrowers.
2. Although advances against security of or by way of purchase of demand documentary bills drawn in connection with the movement of the Selective Credit Control commodities are exempted, the bank should ensure that the bills offered have arisen out of actual movement of goods by verifying the relative invoices as also the receipts issued by transport operators, etc.
3. Usance bills arising out of sale of Selective Credit Control commodities should not be discounted except to the extent specifically permitted in the directives issued.
4. Clean Telegraphic Transfer Purchase facility may be allowed to a reasonable extent on certain conditions specified in the directives.
5. Priority sector advances are also covered by/under Selective Credit Control directives.
6. Where credit limits have been sanctioned against the security of more than one commodity and/or any other type of security, the credit limits against each commodity should be segregated and the restrictions contained in the directives made applicable to each of such segregated limit.
7. Banks are free to determine the rate of interest in respect of advances covered under Selective Credit Control directives.
8. Banks could grant loans to borrowers dealing in Selective Credit Control commodities, provided the term loans are used for the purpose of acquiring block assets like plant & machinery and normal appraisal and other criteria are followed by the banks.
9. Reserve Bank of India authorises limits to the Food Corporation of India and State Governments for procurement of foodgrains; at prices fixed by the Government of India, for the Central Pool and for the distribution of the same under the Public Distribution System (PDS). As the limits are authorised without margin, credit cannot be drawn against credit sales, book debts, Government subsidies, etc.
10. Banks should refer to the directives on Selective Credit Control measures issued by RBI from time to time.

**List of banks nominated to import Gold  
(paragraph 2.3.12.1)**

1.	Allahabad Bank
2.	Axis Bank Ltd
3.	Bank of Baroda
4.	Bank of India
5.	Bank of Nova Scotia
6.	Canara Bank
7.	Corporation Bank
8.	Federal Bank Ltd.
9.	ICICI Bank Ltd.
10.	Indian Overseas Bank
11.	IndusInd Bank Ltd.
12.	Kotak Mahindra Bank Ltd
13.	HDFC Bank Ltd.
14.	Indian Bank
15.	Oriental Bank of Commerce
16.	Punjab National Bank
17.	State Bank of India
18.	Syndicate Bank
19.	Union Bank of India
20.	Central Bank of India
21.	State Bank of Patiala
22.	Standard Chartered Bank
23.	Andhra Bank

**List of Circulars consolidated in the Master Circular on  
'Loans and Advances - Statutory and other Restrictions'**

1.	DBOD.BP. BC	<a href="#">110/08.12.001/2008-09</a>	10.02.2009
2.	DBOD.BP. BC	<a href="#">94/08.12.001/2008-09</a>	08.12.2008
3.	DBOD.Leg.No. BC.	<a href="#">86/09.07.005/2008-09</a>	25.11.2008
4.	DBOD.Dir.BC	<a href="#">66/13.03.00/2008-09</a>	24.10.2008
5.	DBOD.BP. BC	<a href="#">65/21.06.001/2008-09</a>	20.10.2008
6.	DBOD.BP. BC	<a href="#">59/21.03.009/2008-09</a>	14.10.2008
7.	DBOD.BP. BC	<a href="#">46/08.12.001/2008-09</a>	19.09.2008
8.	DBOD.BP. BC	<a href="#">30/08.12.14/2008-09</a>	06.08.2008
9.	DBOD. Dir. BC.	<a href="#">17/13.03.00/2008-09</a>	01.07.2008