



Exposure Norms & Guidelines on Loans & Advances

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Outline of presentation

- Introduction
- Exposure ceilings – definitions
- Other restrictions
- Working capital finance
- Credit administration
- Priority sector lending
- Other issues



Introduction

- Why exposure norms?
- To diversify lending so as to avoid concentration risk
- Regulation of diversification
- Ceilings prescribed for
 - Single borrower
 - Group of borrowers
 - Certain sectors
 - Unsecured advances & guarantees



Exposure ceilings

- Exposure to a single borrower not to exceed 15% of bank's capital funds
- Exposure to a group of borrowers not to exceed 40% of capital funds
- Exercise at HO, with Board approval, after finalisation of accounts
- Also permitted as on September 30



Definitions

- Capital funds – as defined under Capital Adequacy norms
- Exposure includes both credit & investment exposures (non-SLR)
- Credit exposure
 - Funded & non-funded
 - Ad-hoc limits
 - Higher of limit or outstanding is taken*
 - Loans against bank's term deposits excluded



Definitions ... Contd.

- Investment exposure
 - Non-SLR debt securities
 - Not exceeding 10% of deposits as on March 31 of previous year
 - Exposure to a single issuer to be within single borrower limit for advances
- Concept of Group & identification of group left to individual banks



Other restrictions

- Loans to real estate sector
- To fix prudential limits on ceiling on amount of such loans
- Bank credit not to be utilised for speculative activities
- PCBs may utilise up to 15 per cent of their total deposit resources to provide housing loans and commercial real estate loans. This limit may be exceeded to the extent of funds obtained for the purpose from higher financing agencies and refinance from the National Housing Bank
- Limits on unsecured advances for
 - Scheduled & non-scheduled Gr 1 banks
 - Banks in lower grades
 - Without security for 30 days



Ceiling for a single party / connected group- with surety

Unsecured Advances	Non scheduled PCBs with DTL		Sch UCBs
Grade I Bks	Less than 10 cr	Rs 10 cr or more	200000
	50000	100000	
Grade II/ III/ IV	25000	50000	50000



Unsecured advances in respect of purchase / discount / withdrawal against third party cheques for a temporary period of 30 days- without surety

Category of bank	Grade III/ IV	Grade I/ II
Scheduled	25000	50000
Unscheduled	10000	20000



Other restrictions ... Contd.

- Aggregate of total unsecured advances with and without surety not to exceed 15%* of DTL
- Banks cannot lend against security of own shares
- Cannot remit, on its own, any dues from past & present directors
- Loans to Directors – ban since October 1, 2003. However there have been some relaxations allowed.



Relaxations in respect of loans to Directors

- Regular employee-related loans to staff directors on the board of UCBs / Managing Directors on the board of multi-state co-op banks/ Directors on the board of salary earners banks; loan to directors/ relatives against FDRs and LIC policies standing in their own name.



Other restrictions ... Contd.

- Loans to nominal members
 - Banks with deposits up to Rs.50 cr – Rs.50,000/- per borrower
 - Banks with deposits above Rs.50 cr – Rs.1,00,000/- per borrower
- Banks to desist from making loans against term deposits of other banks



Loans against shares / debentures

- Facility not to stock-brokers
- Loan amount Rs.5 / Rs.10 lakh
- Margin of 50%
- Aggregate of all such loans not to exceed 20% of bank's owned funds
- Loans to stock-brokers, if any, to be called back & reported to RO
- All approved proposals to be put up to ACB one in 2 months
- Proper internal control measures
- UCBs not to collect A/C cheques for any person other than payee



Limit on Bank Guarantees

- Total volume should not exceed 10% of paid up capital, reserves and deposits
- Unsecured guarantees not to exceed one fourth of paid up capital and reserves ; or
- One fourth of total guarantees outstanding, whichever is less



Assessment of Working Capital

- For borrowers with WC requirement up to Rs.1 cr & SSI borrowers with WC requirement up to Rs.5 cr – turnover method
- For borrowers with WC requirement of above Rs.1 cr – any method at discretion of banks
- More operational freedom to banks



Assessment of Working ... Contd.

- Ad-hoc limits on commercial judgement & on merits
- Prescribed exposure norms not to be exceeded
- Levy of Commitment charges & formation of consortium not mandatory



Credit administration

- NOC / concurrence from existing banker before financing / opening CA
- Certification of accounts by CAs of non-corporate large borrowers
- Defaults in payment of statutory dues
- Sanction beyond discretionary power or without proper appraisal
- Oral sanction



Credit administration ... Contd.

- Monitoring operations to detect diversion
- Post-sanction supervision & follow-up
- Responsibility of management for preventing misuse of funds
- Annual review of accounts to assess quality of loan as also the need-based character of the limits



Other guidelines

- Disclosure of information on defaulting borrowers by scheduled UCBs - a/cs classified as doubtful or loss or suit-filed with o/s aggregating Rs 1 cr & above
- Defaulters from banks / FIs not to be entertained by scheduled UCBs



Other guidelines ... Contd.

- Scheduled UCBs to report all cases of wilful default covering all NPA a/cs aggregating Rs 25 lakh or above
- Wilful default by group
- Filing of suits against wilful defaulters



Financing agricultural activities

- UCBs allowed to finance subject to
- Only direct finance to members, not through any other agency
- No dues certificate from other agencies
- Should follow scale of finance & NABARD guidelines to obtain security



Lending to NBFCs

- UCBs, with working funds of Rs.25 cr & above are allowed to lend to only EL & HP companies
- The limits
- The maximum limit has to be within the overall ceiling of borrowing of NBFCs, up to ten times of their NOF from all sources
- Certain activities not permitted



Scheduled UCBs & NBFCs

- Can rediscount bills discounted by NBFCs
- Can lend to NBFCs eligible for bank finance for on-lending to
 - SRWTOs
 - Agriculture, &
 - Food & agro-processing units in the tiny sector



Housing finance by UCBs

- Eligible borrowers
- Individuals & co-op. / group housing societies
- Housing boards undertaking schemes for EWS, LIG & MIG
- Owners of houses / flats for extension, up-gradation / repairs



- Tier I Banks may grant housing loans up to a maximum of Rs 25 lakh and Tier II banks can grant housing loans upto Rs 50 lakh per beneficiary of a dwelling unit .Single & Group borrower exposure norms to be followed. However only loans given upto Rs 20 lakh will be reckoned for priority sector lending.
- Finance for construction / purchase of house / flat & for repair, addition
- Housing & hostels for SCs / STs



- Slum clearance schemes - may be provided directly to slum dwellers on Govt. guarantee or indirectly through statutory bodies established for the purpose
- Security & margin -UCBs may secure housing loans either by mortgage of property or Govt. guarantee, if forthcoming or both



- Where this is not feasible, banks may accept security of adequate value - LIC policies, Govt. securities, gold ornaments, stock etc
- Banks free to decide margin with Board approval
- Interest & repayment- UCBs free to determine rate of interest on the basis of the size of dwelling, degree of risk & other relevant factors



- Loans repayable within maximum 15 years, including moratorium
- Instalments to be fixed realistically taking into account repaying capacity
- Ceiling on loans for repairs, addition, alteration raised from Rs 50000 to Rs 1 lakh in rural / semi-urban areas & Rs 2 lakh in urban areas respectively



NBC

- Adherence to National Building Code issued by BIS to be incorporated in the loan policies.
- NBC specifies administrative regulations, general building requirements, fire safety , materials, design& construction including plumbing requirements which must be adhered to.



Recent Guidelines

- Delhi High Court orders
- Banks to check whether the loan sought for is for authorized structure or an unauthorized structure
- Banks to obtain an undertaking on an affidavit from the borrowers that the building is constructed as per sanctioned building plans.
- Sanctioned building plans to be attached with the undertaking.



Finance to IT & Software

- Banks to consider request for WC irrespective of age of unit / turnover
- Track record of promoters, their group affiliation, management team, marketing / infrastructure available may be considered
- Up to Rs 10 cr, facility may be sanctioned by way of CC / OD



Finance to IT & ... Contd.

- Banks to set up IT financing cells where IT / SW firms proliferate
- Committee approach for sanction
- Consultation with industry
- Monitor progress
- Nodal point for clearance at HO