

Loans and advances to directors, relatives and firms /concerns in which they are interested

BPD.Cir.50/13.05.00/2002-03

April 29, 2003

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

Dear Sir/Madam,

Loans and advances to directors, relatives and firms /concerns in which they are interested

Please refer to our Directives No. UBD. DS. PCB.DIR. 5/ 13.05.00/1993-94 dated May 26, 1994 and No.UBD.DS.DIR.3/13.05.00/2002-03 dated December 4, 2002 in terms of which the overall ceiling for loans and advances (both secured and unsecured) to all directors, their relatives and concerns in which they are interested has been brought down from the earlier ceiling of 10 per cent of the bank's demand and time liabilities (DTL) to 5 per cent of its DTL.

2. A number of instances have come to the notice of the RBI, where, because of the concentrated exposures built up by urban co-operative banks to the directors, their relatives or firms in which they are interested, the banks have run into financial problems on account of such accounts becoming NPAs. In this context, the Joint Parliamentary Committee (JPC) which enquired into the stock market scam and matters relating thereto in paragraph 5.66 of its report (extracts enclosed) has made various recommendations. It has recommended that in order to prevent irregularities of the type which surfaced in the case of some of the cooperative banks examined by it, a full ban should be imposed on granting of loans and advances to the directors, their relatives and concerns in which they are interested.

3. In line with the above recommendations of the JPC, the Reserve Bank has announced its policy in paragraph 116 of the Monetary and Credit Policy for the year 2003-04 (copy of the paragraph enclosed). Accordingly, primary (urban) cooperative banks are prohibited from extending any loans and advances (both secured and unsecured) to the directors, their relatives and the firms/concerns/companies in which they are interested, with immediate effect. The existing advances extended prior to April 29, 2003 may be allowed to continue up to the date when they are due. The advances should not be renewed or extended further. The other instructions contained in the above directive remain unchanged.

4. Accordingly, an amending directive UBD.NO.DS.DIR. 5/13.05.00/ 2002-03 dated April 29, 2003 is enclosed. This repeals Clause (iii) of paragraph 1 of our cited directive dated May 26, 1994, since renumbered as Clause (ii) vide our directive No.UBD.DS.PCB.DIR.18/13.05.00/95-96 dated January 16, 1995.

5. Please acknowledge receipt of the circular to the concerned Regional Office.

Yours faithfully,

(K.V.Rajan)
Chief General Manager

**Extract of Para 116 of the Statement on
Monetary and Credit Policy for the year 2003-04**

(f) Loans and Advances by UCBs to their Directors

116. In regard to loans and advances or other financial accommodation by UCBs to their directors, the JPC has recommended that:

"In order to prevent irregularities of the type surfaced in the case of some of the cooperative banks which were examined by the Committee, they are of the view that full ban on granting of loans and advances to the directors and their relatives, or the concerns in which they are interested needs to be imposed. Appropriate legal procedures may be initiated to ensure that there is no conflict of interest in the grant of loans and advances to the directors and their relatives and the concerns in which they are interested".

- In line with the above recommendation of the JPC, UCBs, with immediate effect, should not grant loans and advances (both secured and unsecured) to directors, their relatives and firms/concerns/ companies in which they are interested.

Existing advances extended prior to April 29, 2003 may be allowed to continue up to the date when they are due. These advances should not be renewed or extended further.

Extract of Para 5.66 (iii) of the Recommendations of the Joint Parliamentary Committee (JPC) - Total ban on granting of loans and advances to directors and their relatives and the concerns in which they are interest

The Joint Parliamentary Committee vide paragraph 5.66 (iii) of its report, has recommended as under :

"In order to prevent irregularities of the type surfaced in the case of some of the cooperative banks which were examined by the Committee, they are of the view that full ban on granting of loans and advances to the directors and their relatives, or the concerns in which they are interested needs to be imposed. Appropriate legal procedures may be initiated to ensure that there is no conflict of interest in the grant of loans and advances to the directors and their relatives and the concerns in which they are interested".

BPD.Dir. 5 /13.05.00/2002-03

April 29, 2003

Ban on loans and advances to directors and their relatives
and firms/concerns in which they are interested

In exercise of the powers conferred under Section 21 and Section 35A read with Section 56 of the Banking Regulation Act, 1949, and in supersession of Clause (iii) of paragraph 1 of the Directive UBD (PCB) DIR 5/13.05.00/93-94 dated May 26, 1994 as amended from time to time, since renumbered as Clause (ii) vide Directive No.UBD.DS.PCB.DIR.18/13.05.00/95-96 dated January 16, 1995, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest and in the interest of depositors to do so, hereby directs that :

No primary co-operative bank shall make, provide, or renew either secured or unsecured loans and advances or any other financial accommodation to its directors and their relatives, and the firms/companies/concerns in which they are interested.

2. The terms 'any other financial accommodation' and 'relative', as used above, shall have the meaning indicated in the Annex hereto.

(N.Sadasivan)
Executive Director

ANNEX

Definitions

The words 'any other financial accommodation' referred to in this directive shall include funded and non-funded credit limits and underwritings and similar commitments, as under :-

(a) The funded limits shall include loans and advances by way of bills purchase/discounting, pre-shipment and post-shipment credit facilities and deferred payment guarantee limits extended for any purpose including purchase of capital equipment and acceptance limits in connection therewith sanctioned to borrowers and guarantees by issue of which a bank undertakes financial obligation to enable its constituents to acquire capital assets.

(b) The non-funded limits shall include letters of credit, guarantees other than those referred to in paragraph (a) above, and underwritings and similar commitments.

Definition of a "relative"

A person shall be deemed to be relative of another, if and only if, :-

- a) they are members of a Hindu Undivided Family; or
- b) they are husband and wife; or
- c) the one is related to the other in the manner indicated below :

List of relatives

1. Father.
2. Mother including step-mother
3. Son including step-son
4. Son's wife
5. Daughter including step-daughter,
6. Daughter's husband.
7. Brother (including step-brother)
8. Brother's wife
9. Sister (including step-sister)
10. Sister's husband unj/Sen/DIR-Ban on Loan to Directors