**CAIIB: Advanced Bank Management**

**RBI Notifications during the period**

**1st July 2020 to 31st Dec 2020**

**Co-Lending by Banks and NBFCs to Priority Sector**

RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21

November 05, 2020

The Chairman / Managing Director/Chief Executive Officer

All Scheduled Commercial Banks (Excluding SFBs, RRBs, UCBs and LABs); All Registered Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to the circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 on co-origination of loans by banks and NBFCs for lending to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

2. Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, it has been decided to provide greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. The primary focus of the revised scheme, rechristened as “Co-Lending Model” (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. Detailed features of the CLM are furnished in the Annex.

3. In terms of the CLM, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

4. The banks and NBFCs shall formulate Board approved policies for entering into the CLM and place the approved policies on their websites. Based on their Board approved policies, a Master Agreement may be entered into between the two partner institutions which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues, as detailed in the Annex.

5. The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified in the Annex.

6. The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

7. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

8. This circular supersedes the circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11991&Mode=0>

**Distressed Assets Fund - Subordinate Debt for Stressed MSMEs**

RBI/2020-21/09 DoR.BP.BC.No.01/21.04.048/2020-21

July 1, 2020

All Scheduled Commercial Banks (including Scheduled RRBs)

Please refer to the circular No.170/2020-21 dated June 24, 2020 issued by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) regarding the captioned scheme. As the credit facilities extended under the above scheme are backed by a guarantee from CGTMSE, as a special dispensation, it has been decided to permit the banks to reckon the funds infused by the promoters in their MSME units through loans availed under the captioned scheme as equity/quasi equity from the promoters for debt-equity computation.

**Credit flow to Micro, Small and Medium Enterprises Sector**

RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21

July 2, 2020

The Chairman/ Managing Director/Chief Executive Officer

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks / District Central Co-operative Banks/ All-India Financial Institutions /All Non-Banking Financial Companies

Please refer to our circular RPCD.PLNFS.BC.No.63/06.02.31/2006-07 dated April 4, 2007 containing definition of Micro, Small and Medium Enterprises as per Section 7 (I) of the Micro Small and Medium Enterprises Development Act, 2006.

2. In this connection, we inform that Government of India (GoI), vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020. The details are as under:

**2.1 Classification of enterprises**

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

1. a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
2. a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
3. a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

**2.2 Composite criteria of investment and turnover for classification**

1. A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
2. If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
3. All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

**2.3 Calculation of investment in plant and machinery or equipment**

1. The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
2. In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
3. The expression ‘’plant and machinery or equipment’’ of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
4. The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
5. The cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.

**2.4 Calculation of turnover**

1. Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
2. Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
3. The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.

2.5 In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place. Other aspects relating to registration of enterprises, grievance redressal, etc. are mentioned in the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

3. The above instructions supersedes our earlier guidelines dated April 4, 2007, except paragraph 6 relating to delayed payment to micro and small enterprises.

4. We advise you to initiate necessary action for reclassification of enterprises as per the new definition w.e.f July 1, 2020 and issue necessary instructions to your branches/ controlling offices in this regard, at the earliest.

**Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances**

RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21

August 6, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/ All All-India Financial Institutions /All Non-Banking Financial Companies

Please refer to the circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020 on the subject.

2. In view of the continued need to support the viable MSME entities on account of the fallout of Covid19 and to align these guidelines with the Resolution Framework for COVID 19 – related Stress announced for other advances, it has been decided to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

1. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
2. The borrower’s account was a ‘standard asset’ as on March 1, 2020.
3. The restructuring of the borrower account is implemented by March 31, 2021.
4. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.
5. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as ‘standard asset’, as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.
6. As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them.

3. All other instructions specified in the circular dated February 11, 2020 shall remain applicable.

**New Definition of Micro, Small and Medium Enterprises – clarifications**

RBI/2020-2021/26 FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21

August 21, 2020

The Chairman/ Managing Director/Chief Executive Officer

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)/ All Primary (Urban) Co-operative Banks/State Co-operative Banks

/ District Central Co-operative Banks /All-India Financial Institutions /All Non-Banking Financial Companies

Please refer to the circular FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020 on ‘Credit flow to Micro, Small and Medium Enterprises Sector’.

2. In view of the representations from IBA and banks regarding applicability of certain aspects contained in the Gazette notification No. S.O. 2119(E) dated June 26, 2020 on new criteria for classifying the enterprises as micro, small and medium enterprises, the Ministry of MSME, vide their Office Memorandum (OM) No.2/1(5)/2019 – P & G/Policy (pt. IV) dated August 6, 2020 and letter F.No.5/2(2)/2020 - P & G/Policy dated August 13, 2020 has, inter alia, clarified the following:

**2.1 Classification of Enterprises as per new definition**

1. Classification / re-classification of MSMEs is the statutory responsibility of the GoI, Ministry of MSME, as per the provisions of the MSMED Act, 2006.
2. As per para 2 of the said Gazette notification all enterprises are required to register online and obtain ‘Udyam Registration Certificate’. All lenders may, therefore, obtain ‘Udyam Registration Certificate ’from the entrepreneurs.

**2.2 Validity of EM Part II and UAMs issued till June 30, 2020**

1. The existing Entrepreneurs Memorandum (EM) Part II and Udyog Aadhaar Memorandum (UAMs) of the MSMEs obtained till June 30, 2020 shall remain valid till March 31, 2021. Further, all enterprises registered till June 30, 2020, shall file new registration in the Udyam Registration Portal well before March 31, 2021.
2. ‘Udyam Registration Certificate’ issued on self-declaration basis for enterprises exempted from filing GSTR and / or ITR returns will be valid for the time being, upto March 31, 2021.

**2.3 Value of Plant and Machinery or Equipment**

The online form for Udyam Registration captures depreciated cost as on 31st March each year of the relevant previous year. Therefore, the value of Plant and Machinery or Equipment for all purposes of the Notification No. S.O. 2119(E) dated June 26, 2020 and for all the enterprises shall mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not cost of acquisition or original price, which was applicable in the context of the earlier classification criteria.

3. In view of the above, instructions contained in circular FIDD.MSME & NFS.BC.No.10/ 06.02.31/2017-18 dated July 13, 2017 on ‘Investment in plant and machinery for the purpose of classification as Micro, Small and Medium Enterprises – documents to be relied upon’ are superseded.

4. Further, other instructions contained in circular FIDD.MSME & NFS.BC.No.3/ 06.02.31/ 2020-21 dated July 2, 2020 remains the same.

**Resolution Framework for COVID-19-related Stress**

RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21

August 6, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) /All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/All All-India Financial Institutions /All Non-Banking Financial Companies (including Housing Finance Companies)

The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 (“Prudential Framework”) provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under guidelines of “Prudential Framework”1 which involves granting of any concession on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained as or upgraded to Standard, subject to the prescribed conditions.

2. The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

3. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, it has been decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The details of the facility are given in the Annex.

4. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in this Annex. Towards this end, each lending institution shall put in place a Board approved policy detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

5. Accounts which do not fulfill the required eligibility conditions to be considered for resolution under this framework may continue to be considered for resolution under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

6. While the Prudential Framework is otherwise not applicable to certain categories of lending institutions to which this circular is addressed, exposures of these lending institutions shall also be included for any resolution under this facility. Consequently, without prejudice to the specific conditions applicable to this facility, all the norms applicable to implementation of a resolution plan, including the mandatory requirement of Inter-Creditor Agreements (ICA) and specific implementation conditions, as laid out in the Prudential Framework shall be applicable to all lending institutions for any resolution plan implemented under this facility. Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0>

**Resolution Framework for COVID-19-related Stress – Financial Parameters**

RBI/2020-21/34 DOR.No.BP.BC/13/21.04.048/2020-21

September 7, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)/ All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/All All-India Financial Institutions/All Non-Banking Financial Companies (including Housing Finance Companies)

Please refer to Paragraphs 23 and 24 of the Annex to the circular DOR.No.BP.BC/3/ 21.04.048/2020-21 dated August 6, 2020 (“Resolution Framework”) which envisages constitution of an Expert Committee by the Reserve Bank to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters to be factored in the resolution plans in respect of borrowers eligible under Part B of the Annex to the Resolution Framework.

2. The Reserve Bank had accordingly set up an Expert Committee with Shri K. V. Kamath as the Chairperson, as announced in the press release dated August 7, 2020. The Expert Committee has since submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank.

3. Accordingly, all lending institutions shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11961&Mode=0>

**Ad-hoc/Short Review/Renewal of Credit Facilities**

RBI/2020-21/27 DoS.CO.PPG.BC.1/11.01.005/2020-21

August 21, 2020

All Scheduled Commercial Banks (excluding RRBs) / All Small Finance Banks /All Urban Cooperative Banks

In terms of circular DBOD.No.BP.(SC).BC.98/21.04.103/99 dated October 7, 1999 on Risk Management System in Banks, Scheduled Commercial Banks (SCBs) are required to put in place a board approved credit policy, which, inter alia, should prescribe the periodicity and methodology of review/renewal of credit facilities. The policy should also prescribe differential time schedules for review/renewal of borrower limits so that lower rated borrowers whose financials show signs of problems are subjected to renewal control more frequently. The Master Circular for Urban Cooperative Banks (UCBs) on Management of Advances – UCBs dated July 1, 2015, requires all UCBs to lay down policy guidelines for periodic review of the working capital limits.

2. Further, in terms of the Master Circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and the Master Circular DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 dated July 1, 2015 on Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs as applicable to SCBs and UCBs respectively, an account where the regular/ad-hoc credit limits have not been reviewed/renewed within the prescribed timeline from the due date/date of ad-hoc sanction will be treated as Non-Performing Asset.

3. Banks are, therefore, expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

4. However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

5. In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons. Banks are also advised to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

6. We advise that all banks should follow above instructions in letter and spirit.

**Master Directions – Priority Sector Lending (PSL) – Targets and Classification**

RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21

September 04, 2020

The Chairman / Managing Director/ Chief Executive Officer

[All Commercial Banks including Regional Rural Banks, Small Finance Banks, Local Area Banks and Primary (Urban) Co-operative Banks other than Salary Earners’ Banks]

The Priority Sector Lending (PSL) guidelines issued by Reserve Bank of India were last reviewed for Commercial Banks in April 2015 and for UCBs in May 2018 respectively. With an objective to harmonise various instructions issued to Commercial Banks, SFBs, RRBs, UCBs and LABs; align these guidelines with emerging national priorities and bring sharper focus on inclusive development, it was decided to comprehensively review the PSL guidelines. The revised guidelines also aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs). This review also took into account the recommendations made by the ‘Expert Committee on Micro, Small and Medium Enterprises (Chairman: Shri U.K. Sinha) and the ‘Internal Working Group to Review Agriculture Credit’ (Chairman: Shri M. K. Jain) apart from discussions with all stakeholders. Further, these Master Directions encompass the revised guidelines on PSL for all Commercial banks, RRBs, SFBs, UCBs and LABs and, accordingly, supersede the earlier Master Directions on PSL issued separately for Scheduled Commercial Banks, RRBs, SFBs and guidelines issued for UCBs, respectively.

The list of circulars consolidated in these Master Directions is indicated in the Appendix.

The Master Directions have been placed on the RBI website [www.rbi.org.in](http://www.rbi.org.in).

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0>

**Automation of Income Recognition, Asset Classification and Provisioning processes in banks**

RBI/2020-21/37 Ref. No. DoS.CO.PPG./SEC.03/11.01.005/2020-21

September 14, 2020

The Chairman / Managing Director / Chief Executive Officer

All Scheduled Commercial Banks (Excluding RRBs) and All Small Finance Banks

We invite a reference to our circular DBS.CO.PPD.No.1950/11.01.005/2011-12 dated August 04, 2011, in terms of which banks were advised, inter alia, to have appropriate IT system in place for identification of Non-Performing Assets (NPA) and generation of related data/returns, both for regulatory reporting and bank’s own MIS requirements. It is, however, observed that the processes for NPA identification, income recognition, provisioning and generation of related returns in many banks are not yet fully automated. Banks are still found to be resorting to manual identification of NPA and also over-riding the system generated asset classification by manual intervention in a routine manner.

2. In order to ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their upgradation), Provisioning calculation and Income Recognition processes, banks are advised to put in place / upgrade their systems to conform to the following guidelines latest by June 30, 2021.

Link for Detailed Circular:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11964&Mode=0>

**Regulatory Retail Portfolio – Revised Limit for Risk Weight**

RBI/2020-21/53 DOR.No.BP.BC.23/21.06.201/2020-21

October 12, 2020

All Scheduled Commercial Banks (Including Small Finance Banks, Excluding Local Area Banks and Regional Rural Banks)

Please refer to paragraph 5 of the Statement on Developmental and Regulatory Policies dated October 9, 2020 on the limit for regulatory retail portfolio.

2. In terms of para 5.9 on “Claims included in the Regulatory Retail Portfolios” of the Master circular No.DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on Basel III Capital Regulations, claims (including both fund-based and non-fund based) that meet all the four criteria listed in paragraph 5.9.3 of the above Master Circular may be considered as retail claims for regulatory capital purposes and included in a regulatory retail portfolio. Claims included in this portfolio shall be assigned a risk-weight of 75 per cent, except as provided in paragraph 5.12 of above Master Circular for non-performing assets. ‘Low value of individual exposures’ is one of the four qualifying criteria which prescribed that the maximum aggregated retail exposure to one counterparty shall not exceed the absolute threshold limit of ₹ 5 crore.

3. In order to reduce the cost of credit for this segment consisting of individuals and small businesses (i.e. with turnover of upto ₹ 50 crore), and also to harmonise with the Basel guidelines, it has been decided that the above threshold limit of ₹ 5 crore for aggregated retail exposure to a counterparty shall stand increased to ₹ 7.5 crore from the date of this circular. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks upto the revised limit of ₹ 7.5 crore. The other exposures shall continue to attract the normal risk weights as per the extant guidelines. Illustrations are given in the Annex.

4. All other instructions applicable in terms of the Master Circular dated July 1, 2015 remain unchanged

**Annex**

**Illustrations of revised instructions on Regulatory Retail**

Scenario 1 : As on October 12, 2020, a bank has an exposure of ₹ 4 crore to borrower A which qualifies for classification as ‘regulatory retail’ in terms of Paragraph 5.9 of the Master Circular – Basel III Capital Regulations – DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. Accordingly, it attracts 75% risk weight.

If the bank takes an additional exposure to borrower A upto ₹ 7.5 crore and which continues to satisfy all other eligibility criteria of para 5.9 of the above-mentioned circular, the entire revised exposure shall qualify for classification as ‘regulatory retail’ and attract 75% risk weight.

Scenario 2 : As on October 12, 2020, a bank has an exposure of ₹ 6 crore to borrower B. After October 12, 2020, if the bank takes an additional exposure to borrower B, upto ₹ 7.5 crore and which otherwise satisfies all other eligibility criteria of para 5.9 of the above-mentioned circular, the entire revised exposure shall qualify for classification as ‘regulatory retail’ and attract 75% risk weight. However, if no additional exposure is taken after October 12, 2020, then the existing exposure shall continue to attract risk weight as applicable earlier. The illustrations are tabulated below.

|  |  |  |  |
| --- | --- | --- | --- |
|   | **Borrower** | **A** | **B** |
|   | **Scenarios** | **1** | **2** | **3** | **4** |
| A | Existing Exposure (in ₹ crore) as on October 12, 2020 | 4.0 | 4.0 | 6.0 | 6.0 |
| B | Existing risk weight | 75% | 75% | 100% | 100% |
| C | Additional exposure taken on or after October 12, 2020 (in ₹ crore) | 0 | 1.5 | 0 | 1.5 |
| D | Total exposure on or after October 12, 2020 (in ₹ crore) | 4.0 | 5.5 | 6 | 7.5 |
| E | Applicable risk weight on D | 75% | 75% | 100% | 75% |

**Individual Housing Loans – Rationalisation of Risk Weights**

RBI/2020-21/56 DOR.No.BP.BC.24/08.12.015/2020-21

October 16, 2020

All Scheduled Commercial Banks (Including Small Finance Banks, Excluding Local Area Banks and Regional Rural Banks)

Please refer to paragraph 6 of the Statement on Developmental and Regulatory Policies dated October 9, 2020 on rationalization of risk weights on Individual Housing Loans.

2. In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017, the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV).

3. As a countercyclical measure, it has been decided to rationalise the risk weights, irrespective of the amount. The risk weights for all new housing loans to be sanctioned on or after the date of this circular and upto March 31, 2022 shall be as under:

|  |  |
| --- | --- |
| **LTV Ratio (%)** | **Risk Weight (%)** |
| ≤ 80 | 35 |
| > 80 and ≤ 90 | 50 |

4. The requirement of standard asset provision of 0.25% shall continue to apply on all such loans.

5. The LTV ratios, Risk Weights and Standard Asset Provision for all loans sanctioned prior to the date of this circular shall continue to be as prescribed in terms of the circular dated June 7, 2017.

6. All other instructions applicable in terms of the circular dated June 7, 2017 remain unchanged.

**FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020)**

Link for FAQ:

<https://www.rbi.org.in/scripts/FAQView.aspx?Id=137>