MASTER CIRCULAR- PRIORITY SECTOR LENDING-TARGETS AND CLASIFICATION

I. Categories under priority sector

(i) Agriculture

(ii) Micro, Small and Medium Enterprises

(iii) Export Credit

(iv) Education

(v) Housing

(vi) Social Infrastructure

(vii) Renewable Energy

(viii) Others

The details of eligible activities under the above categories are specified in paragraph III.

II. Targets /Sub-targets for Priority sector

(i) The targets and sub-targets set under priority sector lending for all scheduled commercial banks operating in India are furnished below:

Categories	Domestic scheduled commercial banks and Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Total Priority Sector	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher; to be achieved in a phased manner by 2020 as indicated in sub paragraph (ii) below.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner *i.e.,* **7 per cent by March 2016 and 8 per cent by March 2017.**	Not applicable

	Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI. The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017.	
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner i.e. **7 per cent by March 2016 and 7.5 per cent by March 2017.** The sub-target for Micro Enterprises for foreign banks with 20 branches and above would be made applicable post 2018 after a review in 2017.	Not Applicable
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Weaker Sections Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	Not Applicable

(ii) The Total Priority Sector target of 40 percent for foreign banks with less than 20 branches has to be achieved in a phased manner as under:-

Financial Year	The Total Priority Sector as percentage of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher
2015-16	32
2016-17	34
2017-18	36
2018-19	38
2019-20	40

The additional priority sector lending target of 2 percent of ANBC each year from 2016-17 to 2019-20 has to be achieved by lending to sectors other than exports. The sub targets for these banks, if to be made applicable post 2020, would be decided in due course.

(iii) The computation of priority sector targets/sub-targets achievement will be based on the ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposures, whichever is higher, as on the corresponding date of the preceding year. For the purpose of priority sector lending, ANBC denotes the outstanding Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934] minus bills rediscounted with RBI and other approved Financial Institutions plus permitted non SLR bonds/debentures under Held to Maturity (HTM) category plus other investments eligible to be treated as part of priority sector lending (e.g. investments in securitised assets). The outstanding deposits under RIDF and other funds with NABARD, NHB, SIDBI and MUDRA Ltd. in lieu of non-achievement of priority sector lending targets/sub-targets will form part of ANBC. Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, as per the Reserve Bank's circulars DBOD.No.Ret.BC.36/12.01.001/2013-14 dated August 14, 2013 read with DBOD.No.Ret.BC.93/12.01.001/2013-14 dated January 31, 2014 and DBOD mailbox clarification issued on February 6, 2014 will be excluded from the ANBC for computation of priority sector lending targets, till their repayment. The eligible amount for exemption on account of issuance of long-term bonds for infrastructure and affordable housing as per Reserve Bank's circular DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014 will also be excluded from the ANBC for computation of priority sector lending targets. For the purpose of calculation of Credit Equivalent Amount of Off-Balance Sheet Exposures, banks may be guided by the Master Circular on Exposure Norms issued by our Department of Banking Regulation.

Computation of Adjusted Net Bank Credit (ANBC)

Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934].	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)*	III (I-II)
Bonds/debentures in Non-SLR categories under HTM category+ other investments eligible to be treated as priority sector +Outstanding Deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and MUDRA Ltd. on account of priority sector shortfall + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing as per circular DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014.	V
Eligible advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements.	VI
ANBC	III+IV-V-VI

* For the purpose of priority sector computation only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC. It has been observed that some banks are subtracting prudential write off at Corporate/Head Office level while reporting Bank Credit as above. In such cases it must be ensured that bank credit to priority sector and all other sub-sectors so written off should also be subtracted category wise from priority sector and sub-target achievement.

All types of loans, investments or any other items which are treated as eligible for classification under priority sector target/sub-target achievement should also form part of Adjusted Net Bank Credit.

III. Description of the eligible categories under priority sector

1. Agriculture

The lending to agriculture sector has been defined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A list of eligible activities under the three sub-categories is indicated below:

1.1 Farm credit	A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, *viz.*, dairy, fishery,

	animal husbandry, poultry, bee-keeping and sericulture. This will include: (i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities. (ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g.* purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.) (iii) Loans to farmers for pre and post-harvest activities, *viz*., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce. (iv) Loans to farmers up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months. (v) Loans to distressed farmers indebted to non-institutional lenders. (vi) Loans to farmers under the Kisan Credit Card Scheme. (vii) Loans to small and marginal farmers for purchase of land for agricultural purposes. B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, *viz*., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower. This will include: (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities. (ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g.* purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.) (iii) Loans to farmers for pre and post-harvest activities, *viz*., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce. (iv) Loans up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
1.2. Agriculture infrastructure	i) Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location. ii) Soil conservation and watershed development. iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting. For the above loans, an aggregate sanctioned limit of ₹100 crore per borrower from the banking system, will apply.
1.3.Ancillary activities	(i) Loans up to ₹5 crore to co-operative societies of farmers for disposing of the produce of members. (ii) Loans for setting up of Agriclinics and Agribusiness Centres.

	(iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system. (iv) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis. (v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture. (vi) Loans sanctioned by banks to MFIs for on-lending to agriculture sector as per the conditions specified in paragraph IX of this circular (vii) Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

For the purpose of computation of 7 percent/ 8 percent target, Small and Marginal Farmers will include the following:-

- Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare and upto 2 hectares are considered as Small Farmers.
- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within the limits prescribed for small and marginal farmers.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), *i.e.* groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.
- Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

2. Micro, Small and Medium Enterprises (MSMEs)

2.1. The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 are as under:-

Manufacturing Sector	
Enterprises	**Investment in plant and machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:

2.2. Manufacturing Enterprises

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

2.3. Service Enterprises

Bank loans up to ₹5 crore per unit to Micro and Small Enterprises and ₹10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

2.4. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent /7.5 percent prescribed for Micro Enterprises under priority sector.

2.5. Other Finance to MSMEs

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in paragraph IX of this circular.

(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

(v) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

2.6. Considering that the MSMED Act, 2006 does not provide for any sub-categorization within the definition of micro enterprises and that the sub-target for lending to micro enterprises has been fixed, the current sub-categorization within the definition of micro enterprises in the existing guidelines is dispensed with.

2.7. To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.

3. Export Credit

The Export Credit extended as per the details below would be classified as priority sector.

Domestic banks	**Foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**
Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit up to ₹25 crore per borrower to units having turnover of up to ₹100 crore.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2017 (As per their approved plans, foreign banks with 20 branches and above are allowed to count certain percentage of export credit limit as priority sector till March 2017).	Export credit will be allowed up to 32 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Export credit includes pre-shipment and post shipment export credit (excluding off-balance sheet items) as defined in Master Circular on Rupee / Foreign Currency Export Credit and Customer Service to Exporters issued by our Department of Banking Regulation.

4. Education

Loans to individuals for educational purposes including vocational courses upto ₹10 lakh irrespective of the sanctioned amount will be considered as eligible for priority sector.

5. Housing

(i) Loans to individuals up to ₹28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ₹20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed ₹35 lakh and ₹25 lakh respectively. The housing loans to banks' own employees will be excluded. As housing loans which are backed by long term bonds are exempted from ANBC, banks should either include such housing loans to individuals up to ₹28 lakh in metropolitan centres and ₹20 lakh in other centres under priority sector or take benefit of exemption from ANBC, but not both.

(ii) Loans for repairs to damaged dwelling units of families up to ₹5 lakh in metropolitan centres and up to ₹2 lakh in other centres.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ₹10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed ₹10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of ₹2 lakh per annum, irrespective of the location, is prescribed.

(v) Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹10 lakh per borrower. The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

(vi) Outstanding deposits with NHB on account of priority sector shortfall.

6. Social infrastructure

Bank loans up to a limit of ₹5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

7. Renewable Energy

Bank loans up to a limit of ₹15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities *viz.* street lighting systems, and remote village electrification. For individual households, the loan limit will be ₹10 lakh per borrower.

8. Others

8.1. Loans not exceeding ₹50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed ₹100,000/- and for non-rural areas it does not exceed ₹1,60,000/-.

8.2. Loans to distressed persons [other than farmers already included under III (1.1) A (v)] not exceeding ₹100,000/- per borrower to prepay their debt to non-institutional lenders.

8.3. Overdrafts extended by banks upto ₹5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts provided the borrowers household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas.

8.4. Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

IV. Weaker Sections

Priority sector loans to the following borrowers will be considered under Weaker Sections category:-

No.	Category
1.	Small and Marginal Farmers
2.	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
3.	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4.	Scheduled Castes and Scheduled Tribes
5.	Beneficiaries of Differential Rate of Interest (DRI) scheme
6.	Self Help Groups
7.	Distressed farmers indebted to non-institutional lenders
8.	Distressed persons other than farmers, with loan amount not exceeding₹1 lakh per borrower to prepay their debt to non-institutional lenders
9.	Individual women beneficiaries up to ₹1 lakh per borrower
10.	Persons with disabilities
11.	Overdrafts upto ₹5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas
12.	Minority communities as may be notified by Government of India from time to time.

In States, where one of the minority communities notified is, in fact, in majority, item (12) will cover only the other notified minorities. These States/ Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

V. Investments by banks in securitised assets

(i) Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector depending on the underlying assets provided:

(a) the securitised assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitisation and fulfil the Reserve Bank of India guidelines on securitisation.

(b) the all inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the investing bank plus 8 percent per annum.

The investments in securitised assets originated by MFIs, which comply with the guidelines in Paragraph IX of this circular are exempted from this interest cap as there are separate caps on margin and interest rate.

(ii) Investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

VI. Transfer of Assets through Direct Assignment /Outright purchases

(i) Assignments/Outright purchases of pool of assets by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector provided:

(a) the assets are originated by banks and financial institutions which are eligible to be classified as priority sector advances prior to the purchase and fulfil the Reserve Bank of India guidelines on outright purchase/assignment.

(b) the eligible loan assets so purchased should not be disposed of other than by way of repayment.

(c) the all inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the purchasing bank plus 8 percent per annum.

The Assignments/Outright purchases of eligible priority sector loans from MFIs, which comply with the guidelines in Paragraph IX of this circular are exempted from this interest rate cap as there are separate caps on margin and interest rate.

(ii) When the banks undertake outright purchase of loan assets from banks/ financial institutions to be classified under priority sector, they must report the nominal amount actually disbursed to end priority sector borrowers and not the premium embedded amount paid to the sellers.

(iii) Purchase/ assignment/investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

VII. Inter Bank Participation Certificates

Inter Bank Participation Certificates (IBPCs) bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines on IBPCs.

VIII. Priority Sector Lending Certificates

The outstanding priority sector lending certificates (after the guidelines are issued in this regard by the Reserve Bank of India) bought by the banks will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, and are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on priority sector lending certificates.

IX. Bank loans to MFIs for on-lending

(a) Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, and 'Others', provided not less than 85 percent of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of “qualifying assets”. In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 percent of the total loans given by MFIs.

(b) A “qualifying asset” shall mean a loan disbursed by MFI, which satisfies the following criteria:

(i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed ₹1,00,000/- while for non-rural areas it should not exceed ₹1,60,000/-.

(ii) Loan does not exceed ₹60,000/- in the first cycle and ₹100,000/- in the subsequent cycles.

(iii) Total indebtedness of the borrower does not exceed ₹1,00,000/-.

(iv) Tenure of loan is not less than 24 months when loan amount exceeds ₹15,000/- with right to borrower of prepayment without penalty.

(v) The loan is without collateral.

(vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

(c) Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other ‘pricing guidelines’, to be eligible to classify these loans as priority sector loans.

(i) Margin cap: The margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding ₹100 crore and 12 percent for others. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

(ii) Interest cap on individual loans: With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

(iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1 percent of the gross loan amount, (b) the interest charge and (c) the insurance premium.

(iv) The processing fee is not to be included in the margin cap or the interest cap.

(v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges may be recovered as per IRDA guidelines.

(vi) There should not be any penalty for delayed payment.

(vii) No Security Deposit/ Margin are to be taken.

(d) The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that the criteria on (i) qualifying assets, (ii) the aggregate amount of loan, extended for income generation activity, and (iii) pricing guidelines are followed.

X. Monitoring of Priority Sector Lending targets

To ensure continuous flow of credit to priority sector, the compliance of banks will be monitored on 'quarterly' basis. The data on priority sector advances has to be furnished by banks at quarterly and annual intervals as per revised reporting formats.

XI. Non-achievement of Priority Sector targets

Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD/NHB/SIDBI/ MUDRA Ltd. , as decided by the Reserve Bank from time to time. For the year 2015-16, the shortfall in achieving priority sector target/sub-targets will be assessed based on the position as on March 31, 2016. From financial year 2016-17 onwards, the achievement will be arrived at the end of financial year based on the average of priority sector target /sub-target achievement as at the end of each quarter.

The interest rates on banks' contribution to RIDF or any other Funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.

The misclassifications reported by the Reserve Bank's Department of Banking Supervision would be adjusted/ reduced from the achievement of that year, to which the amount of declassification/ misclassification pertains, for allocation to various funds in subsequent years.

Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

XII. Common guidelines for priority sector loans

Banks should comply with the following common guidelines for all categories of advances under the priority sector.

1. Rate of interest

The rates of interest on bank loans will be as per directives issued by our Department of Banking Regulation from time to time.

2. Service charges

No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to ₹25,000.

3. Receipt, Sanction/Rejection/Disbursement Register

A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

4. Issue of Acknowledgement of Loan Applications

Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

XIII. Amendments

These guidelines are subject to any further instructions that may be issued by the RBI from time to time.

XIV. Definitions/Clarifications

1. On-lending: Loans sanctioned by banks to eligible intermediaries for onward lending only for creation of priority sector assets. The average maturity of priority sector assets thus created should be broadly co-terminus with maturity of the bank loan.

2. Contingent liabilities/off-balance sheet items do not form part of priority sector target achievement. However, foreign banks with less than 20 branches have an option to reckon the credit equivalent of off-balance sheet items, extended to borrowers for eligible priority sector activities, along with priority sector loans for the purpose of computation of priority sector target achievement. In that case, the credit equivalent of all off-balance sheet items (both priority sector and non-priority sector excluding interbank) should be added to the ANBC in the denominator for computation of Priority Sector Lending targets.

3. Off-balance sheet interbank exposures are excluded for computing Credit Equivalent of Off -Balance Sheet Exposures for the priority sector targets.

4. The term “all inclusive interest” includes interest (effective annual interest), processing fees and service charges.

5. Banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard.