



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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**Reserve Bank of India (Urban Co-operative Banks – Credit Risk Management)**  
**Directions, 2025**

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## **Introduction**

Urban Co-operative Banks (UCBs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of UCBs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of UCBs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

Accordingly, in exercise of the powers conferred by Sections 20, 21 and 35A read with Section 56 of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues these Directions hereinafter specified.

## **Chapter I - Preliminary**

### **A. Short title and Commencement**

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks – Credit Risk Management) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

### **B. Applicability**

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs ' and individually as an 'UCB ').

*In this context, urban co-operative banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.*



## C. Definitions

4. 1) In these Directions, unless the context otherwise requires,
- (i) 'Bank Guarantee' shall mean financial and performance guarantees issued by banks on behalf of their clients. A financial guarantee assures payment of money in the event of non-fulfilment of contractual obligations by the client. A performance guarantee provides assurance of compensation if there is delayed or inadequate performance on a contract. A deferred payment guarantee assures payment of instalments due to a supplier of goods.
  - (ii) 'Bills Purchased and Discounted' shall mean negotiable instruments that give the holder the right to receive stated fixed sums on demand or at a fixed or determinable future time. When a bank negotiates a bill payable on demand (sight bill) and provides funds to the holder, at a fee/ interest, the facility is referred to as bill purchase. When a bank negotiates bill payable after a usance i.e., at a fixed or determinable future time (usance bill) and provides funds to the holder, at a discount, the facility is referred to as bill discounting. Bills purchased and discounted can be Inland Bills and Foreign Bills. Inland Bills are Bills of Exchange drawn in India and paid in India to a person in India.
  - (iii) 'Cash credit' shall mean a facility, under which a customer is allowed an advance up to the credit limit against the security by way of hypothecation / pledge of goods, book debts, standing crops, etc. The facility is a running account and 'Drawing Power - DP' is periodically determined with reference to the value of the eligible current assets. The outstanding amount is repayable on demand.
  - (iv) 'Current Account' shall mean a form of demand deposit account wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings nor Term deposit account.
  - (v) 'Major shareholder' shall mean a person holding 10 per cent or more of the paid-up share capital.



- (vi) 'Overdraft' shall mean a facility, under which a customer is allowed to draw an agreed sum (credit limit) in excess of credit balance in their account. The overdraft facility may be secured (against fixed / term deposits and other securities, like small saving instruments, surrender value of insurance policies, etc.) or clean (*i.e.* without any security). The overdraft facility might be granted on their current account, savings deposits account or temporary overdraft on credit accounts.
- (vii) A person shall be deemed to be a 'relative' of another, if and only if:
- a) They are members of the same Hindu Undivided Family (HUF); or
  - b) They are husband and wife; or
  - c) The one is related to the other (or *vice versa*) in the manner indicated below:
    - Father (including step-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
- (viii) 'Revaluation Reserve' shall mean a reserve created on the revaluation of assets or net assets represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.
- (ix) 'Substantial interest' shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, or the Reserve Bank of India



Act, 1934 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank or Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.



## Chapter II - Board Approved Policies

5. A UCB shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, *inter alia*, cover aspects related to valuation of properties including empanelment of valuers, and review/ renewal of credit facilities. The aforementioned specific aspects and other areas of concern which need to be addressed in such policies are also detailed in the relevant paragraphs of these Directions.
6. A UCB is expected to lay down, with the approval of their boards, transparent policies and guidelines for credit dispensation, in respect of each broad category of economic activity, keeping in view the credit exposure norms and various other guidelines issued by the Reserve Bank from time to time.

*In order to ensure that the loan policy of the bank reflects approved internal risk appetite and remains in alignment with the extant regulations, it shall be reviewed by the Board at least once in a financial year.*



### **Chapter III - Statutory Restrictions**

7. Consequent upon amendment of Banking Regulation Act (BR Act), 1949 by the Banking Regulation (Amendment) Act, 2020, Section 20 of the principal Act has become applicable to UCBs.
8. Advances against Bank's Own Shares  
In terms of Section 20(1)(a) read with Section 56 of the BR Act, 1949, a UCB cannot grant loans and advances on the security of its own shares.
9. Restrictions on Power to Remit Debts  
(1) Section 20A(1) read with Section 56 of the BR Act, 1949 stipulates that a UCB shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -
  - (i) any of its past or present directors, or
  - (ii) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
  - (iii) any individual, if any of its directors is their partner or guarantor.
10. In terms of Section 20A(2) read with Section 56 of the BR Act, 1949, any remission made in contravention of the provisions of sub-section (1) above shall be void and of no effect.



## Chapter IV - Regulatory Restrictions

### A. Granting Loans and Advances to Directors and their Relatives

11. A UCB shall not make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms / companies / concerns in which the directors or their relatives are interested (collectively called as 'Director related loans'). Further, the directors or their relatives or the firms / companies / concerns in which the directors or their relatives are interested shall also not stand as surety / guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs. 'Advances' for the purpose shall include all types of funded / working capital limits such as cash credits, overdrafts, credit cards, etc.
12. The following categories of Director related loans are exempted from the purview of the above instructions:
  - (1) Regular employee-related loans to staff Directors, if any, on the Boards of UCBs;
  - (2) Normal loans, as applicable to members, to the Directors on the Boards of Salary Earners' UCBs;
  - (3) Normal employee-related loans to Managing Directors / Chief Executive Officers of UCBs;
  - (4) Loans to directors and their relatives against Government Securities, Fixed Deposits and Life Insurance policies standing in their own name.
13. *Explanation:* For the purpose of paragraph 11 and 12 –
  - (1) The term 'any other financial accommodation' shall include funded and non-funded credit limits and underwritings and similar commitments, as under:
    - (i) The funded limits shall include loans and advances by way of bill / cheque 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. It shall also include investments which are in the nature of / in lieu of credit.

- (ii) The non-funded limits shall include letters of credit, guarantees other than those referred to in sub-paragraph (i) above, underwritings, and similar commitments. It shall also include off-balance sheet exposure in the form of derivatives.
- (2) The word 'interested' shall mean the director of a UCB or their relative, as the case may be, being a director, managing agent, manager, employee, proprietor, partner, coparcener or guarantor, as the case may be, of the firm / company / concern [including HUF]:

*Provided* that a Director of a UCB or their relative shall also be deemed to be interested in a company, being the subsidiary or holding company, if they are a Director, Managing Agent, Manager, employee or guarantor of the respective holding or subsidiary company:

*Provided further that* a director of a UCB shall also be deemed to be interested in a company / firm if they hold substantial interest in or are in control of the company / firm or in a company, being the subsidiary or holding company, if they hold substantial interest in or is in control of the respective holding or subsidiary company:

*Provided further that* a relative of a director of a UCB shall also be deemed to be interested in a company / firm if they are a major shareholder or are in control of the company / firm or in a company, being the subsidiary or holding company, if they are a major shareholder or is in control of the respective holding or subsidiary company.

- (3) The term 'control' shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements



or voting agreements or in another manner.

14. A UCB shall be guided by [Master Direction – Reserve Bank of India \(Filing of Supervisory Returns\) Directions – 2024 dated February 27, 2024](#), as amended from time to time, for submission of return regarding Director-related loans.

#### **B. Restriction on Advances to Defaulters of Statutory Dues**

15. According to the law, any provident fund contributions that have been deducted from employees' wages but remain unpaid to the Commissioner for more than six months will have the highest priority as a first charge on the assets of the employer, in the event that the borrowing employer becomes insolvent or is being wound up. In the circumstances, a UCB shall safeguard their interest *vis-à-vis* such statutory dues.
16. Therefore, a UCB shall satisfy themselves that there are no arrears of Provident Fund and other statutory dues of the borrowers by obtaining a declaration from them that all such dues have been duly paid. Proof in this regard may be called for only in cases where banks have reason to doubt the borrowers' declaration. Even where a proof is required, it is not necessary to insist on a certificate from the Regional Provident Fund Commissioner; production of a receipt evidencing the payment of the dues or a certificate from the auditors of the borrower or any other similar proof may be considered sufficient. In the case of stressed borrowers where there are arrears for reasons beyond the control of the borrowers, banks may continue to consider such cases on merits.

#### **C. Defaults in Payment of Statutory Dues by Borrowers**

17. A UCB shall ensure that borrowers enjoying credit facilities, pay the provident fund payments and similar other statutory dues promptly. The non-payment of statutory dues by the borrowers is one of the symptoms of incipient sickness of an industrial unit. Therefore, it is in the interest of both the lender and borrower to give high priority to the clearance of these dues. Apart from insisting on the borrowers to indicate a definite programme for clearance of arrears, a UCB shall consider suitable restrictions on the outflow of funds. A UCB shall incorporate an appropriate declaration in their



application forms for grant / renewal / enhancement of credit facilities so as to ensure that the position regarding the statutory dues is disclosed therein. In respect of the corporate borrowers and non-corporate borrowers, the amount of statutory dues shall normally be reflected in their audited annual accounts. In case audited accounts do not indicate the position clearly, a certificate shall be obtained from the Chartered Accountant for this purpose.



## **Chapter V - Credit Administration**

### **A. No Objection Certificate**

18. A UCB shall not finance a borrower already availing credit facility from another bank without obtaining a 'No Objection Certificate' from the existing financing bank.

### **B. Opening of Current Account**

19. Keeping in view the importance of credit discipline, at the time of opening of current accounts, a UCB shall:
- (1) insist on a declaration from the account holder to the effect that they are not enjoying any credit facility with any other commercial bank or obtain a declaration giving particulars of credit facilities enjoyed by them with any other commercial bank(s).
  - (2) ascertain whether they are a member of any other co-operative society / bank; if so, the full details thereof such as name of the society / bank, number of shares held, details of credit facilities, such as nature, quantum, outstanding, due dates etc. shall be obtained.
20. In case the borrower is already enjoying any credit facility from any other commercial / co- operative bank, a UCB opening a current account shall duly inform the lenders concerned and also specifically insist on obtaining a 'No Objection Certificate' from them. In case of a prospective customer who is a corporate or large borrower enjoying credit facilities from more than one lender, the banks may inform the consortium leader, if under consortium, and the lenders concerned, if under multiple banking arrangement. In case a facility has been availed from a co- operative bank / society, it is essential for the UCB to comply with the requirements of the Co- operative Societies Act / Rules of the state concerned in regard to membership and borrowings.
21. A UCB may open current accounts of prospective customers in case no response is received from the existing bankers after a minimum waiting period of a



fortnight. If a response is received within a fortnight, the UCB shall assess the situation with reference to information provided on the prospective customer by the bank concerned and are not required to solicit a formal no objection, consistent with true freedom to the customer of banks as well as needed due diligence on the customer by the bank.

### **C. Certification of Accounts of Non-Corporate Borrowers by Chartered Accountants**

22. As per the Income Tax Act, 1961, filing of audited balance sheet and Profit & Loss Account is mandatory for certain types of non-corporate entities. Therefore, a UCB shall insist on the audited financial statements from the borrowers enjoying large limits; since such borrowers would, in any case, be submitting audit certificate to the income-tax authorities, based on audit of their books of accounts by a Chartered Accountant.

### **D. Sanction of Advances**

#### **D.1 Irregularities / Deficiencies in Credit Sanction**

23. A UCB shall take suitable precautions to avoid irregular practices such as sanctioning advances beyond discretionary powers and / or without proper credit appraisal in order to minimise chances of frauds.

#### **D.2 Delegation of Powers**

24. (1) The Board of Directors shall delegate specific powers to the Branch Managers and other functionaries at the Head Office level as also to the Chairman in the matter of sanction of advances and expenditure. A system shall also be introduced to ensure that powers are exercised within the limits prescribed and any transgressions are immediately reported to Head Office.
- (2) The internal inspectors shall examine during the course of inspection of branches whether powers have been exercised properly and any unauthorised exercise of powers shall immediately be brought to the notice of Head Office.



Similarly, sanctions beyond discretionary powers by the Chairman, Chief Executive Officer and other executives at the Head Office shall also be reported to the Board of Directors.

### **D.3 Oral Sanction**

25. The higher authorities at various levels shall desist from the unhealthy practice of conveying sanction of advances orally or on telephone.

### **D.4 Proper Record of Deviations**

26. (1) Only in exigencies, where sanctions are made on telephone / oral instructions of higher functionaries or sanctions beyond discretionary powers have to be resorted to, the following steps shall be taken:

- (i) Record of such instructions / sanctions shall be maintained by the sanctioning / disbursing authorities explaining the circumstances under which sanctions were made.
- (ii) Written confirmation of the competent sanctioning authority shall be obtained by the disbursing authority / official within a week / fortnight.
- (iii) Sanctions within discretionary powers shall also be reported to Head Office within a stipulated time and Head Office shall meticulously follow up receipt of such returns.
- (iv) Head Office shall diligently scrutinise the statements / returns and shall initiate stringent action against erring functionary(s) if they are found to have indulged in unauthorised sanctioning.

(2) Officials shall exercise powers delegated to them judiciously and shall not exceed their discretionary powers for granting loans and advances. Violations, if any, in this regard shall be viewed seriously and the guilty shall be punished suitably.

### **E. Monitoring Operations in Loan Accounts**

27. Post-Sanction Monitoring

- (1) It is the primary responsibility of UCBs to be vigilant and ensure proper end use of bank funds / monitor the funds flow. It is, therefore, necessary for UCBs



to evolve such arrangements as considered necessary to ensure that drawals from cash credit / overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them.

- (2) Post sanction follow-up of loans and advances shall be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge, etc. are not tampered with in any manner and are adequate.
- (3) Accounts showing sign of turning into NPAs: A UCB shall put in place more stringent safeguards, especially where accounts show sign of turning into NPAs. In such cases, the UCB shall strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds are routed through the borrower's accounts maintained with the UCB and insisting on pledge of the stock in place of hypothecation.
- (4) Drawals against clearing cheques shall be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need therefore shall be subjected to thorough scrutiny and periodic review. A UCB shall not issue banker's cheques / pay orders / demand drafts against instruments presented for clearing, (unless the proceeds thereof are collected and credited to the account of the party) or to borrowers whose accounts are already overdrawn or likely to be overdrawn with the issue of such instruments.
- (5) Drawals against clearing instruments shall be normally confined to bank drafts and Government cheques and only to a limited extent against third party cheques.
- (6) Cheques against which drawals are allowed, shall represent genuine trade transactions and strict vigilance shall be observed against assisting kite-flying operations.

## 28. Responsibility



- (1) The primary responsibility for preventing misuse of funds rests with the management of UCBs. A UCB shall, therefore, take appropriate steps to review and tighten their internal administration and control measures so as to eliminate the scope for misuse / diversion of funds and malpractices.
- (2) A UCB shall take serious view of instances of misuse of power, corruption and other malpractices indulged by the members of staff and erring staff members shall be given punishments befitting the seriousness of the irregularity. Quick disposal of enquiries by the banks and award of deterrent punishment would be necessary in all such cases.

#### **F. Annual Review of Advances**

29. For an effective monitoring of the advances, it is imperative for a UCB to undertake an exercise for review of the advances on a regular basis. Apart from the usual objective of such a review of assessing the quality of operation, safety of funds, etc. the review shall specifically attempt to make an assessment of the working capital requirements of the borrower based on the latest data available, whether limits continue to be within the need-based requirements and according to the UCB's prescribed lending norms.

#### **G. Diversion of Funds**

30. A UCB shall have a mechanism for proper monitoring of the end use of funds. Wherever diversion is observed, it shall take appropriate action including recalling the loans, reduction of sanctioned limits, imposing penal charges etc. to protect its interest. A UCB shall keep a proper vigil over requests of their clients for cash withdrawals from their accounts for large amounts. Whenever stocks under hypothecation to cash credit and other loan accounts are found to have been sold but the proceeds thereof not credited to the loan account, such action shall normally be treated as a fraud. In such cases, the UCB shall take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security as also other action as warranted.





31. Diversion of funds would be construed to include any one of the under-noted occurrences:

- (1) Utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanctions;
- (2) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- (3) transferring funds to the subsidiaries / group companies or other corporates by whatever modalities;
- (4) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;
- (5) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;
- (6) shortfall in deployment of funds *vis-à-vis* the amounts disbursed / drawn, and the difference not being accounted for.

32. Siphoning of funds shall be construed to have occurred if any funds borrowed are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgement of the lenders based on objective facts and circumstances of the case.

#### **H. End-use of Funds**

33. In cases of project financing, a UCB shall seek to ensure end use of funds by, *inter alia*, obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate / clean loans, such an approach ought to be supplemented by 'due diligence' on the part of lenders themselves, and to the extent possible, such loans shall be limited to only those borrowers whose integrity and reliability were above board. A UCB, therefore, shall not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the



quality of their loan portfolio. Needless to say, ensuring end-use of funds by a UCB shall form a part of their loan policy document for which appropriate measures shall be put in place.

34. The following are the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds:

- (1) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers;
- (2) Regular inspection of borrowers' assets charged to the lenders as security;
- (3) Periodic scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;
- (4) Periodic visits to the assisted units;
- (5) System of periodical stock audit, in case of working capital finance;
- (6) Periodic comprehensive management audit of the 'Credit' function of the lenders, so as to identify the systemic weaknesses in the credit-administration.

#### **I. Implementation of Best Practices**

35. A UCB may, at its discretion, implement the following illustrative best practices observed in well-managed banks regarding Management of NPAs and may put in place any other practices which would result in better customer service and business development:

- (1) Frame reasonably well documented loan policy and rules;
- (2) Establish sound credit appraisal on well-settled banking norms;
- (3) Prepare detailed and comprehensive format for credit appraisal report for facilitating sound credit granting decisions and post disbursement supervision and follow up;
- (4) Diversify loan portfolio in terms of number of borrowers so as to avoid concentration risk;
- (5) Encourage small borrowers in view of lower credit risk and consequent higher profitability;
- (6) Adopt system of market intelligence for deciding the credibility of the borrowers while considering loan proposals;



- (7) Factor in quality of credit appraisal while giving ex-gratia incentives to employees annually;
- (8) Put in place internal credit rating system for borrowers enjoying fund based credit facilities of ₹10 lakh and above for objective credit pricing on an on-going basis;
- (9) Review position of overdue accounts on a weekly basis to arrest slippage of fresh accounts to NPA category;
- (10) Follow up chronic NPA accounts at Head Office level directly in addition to the efforts of the branches;
- (11) Constitute a Committee at Head Office, to review irregular accounts;
- (12) Obtain half-yearly balance confirmation certificates from borrowers regularly;
- (13) Emphasise reduction in Gross NPAs rather than the Net NPAs;
- (14) Create separate loan review and audit department, by an independent set of personnel to review the sanctioned loans so as to set right irregularities observed;
- (15) Create a separate 'Recovery Department' with Special Recovery Officer appointed by the RCS;
- (16) Conduct vigorous recovery drive to not allow stress assets to accumulate;
- (17) Follow-up irregular borrowal accounts vigorously;
- (18) Vest one of the employees of the bank with the powers of Sales / Recovery Officer for execution proceedings;
- (19) Hold officers, on whose recommendations loans are sanctioned, personally responsible;
- (20) Start recovery efforts from the first month of default and take prompt legal and seizure action;
- (21) Scrutinize news items appearing in the newspapers for sale of property to ascertain whether defaulters intend to dispose of property mortgaged with the bank;
- (22) Use unique ways to inform the customer that the loan is overdue, like



inviting delinquent borrowers to the branch for tea; Word the letter like an invitation and gradually bring up the issue of non-payment of dues when the borrower arrives;

- (23) Paste sale notice / wall posters on the houses pledged as security;
- (24) Undertake recovery action under 'Transfer of Properties Act' by entrusting the work to private auctioneers;
- (25) Organize employees into groups and assign each group a set of borrowers for monitoring or recovery to pick up early warning signals and follow them up closely; and
- (26) Extend recovery competition system among staff members and felicitate the one recovering the highest amount;



## Chapter VI - Legal Entity Identifier (LEI) for Borrowers

36. The Legal Entity Identifier code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide.
37. It is advised that a UCB shall ensure that non-individual borrowers with aggregate exposure of ₹5 crore and above from banks (Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks, and Primary (Urban) Co-operative Banks) and Financial Institutions (All India Financial Institutions and NBFCs (including HFCs)) obtain LEI codes.

*Explanation:* 'Exposure' for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks / FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders shall ascertain the position of aggregate exposure based on information available either with them, or Central Repository of Information on Large Credits (CRILC database or declaration obtained from the borrower).

38. Borrowers who fail to obtain LEI codes from an authorised Local Operating Unit (LOU) shall not be sanctioned any new exposure nor shall they be granted renewal / enhancement of any existing exposure. However, Departments / Agencies of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

*Explanation:* A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc.

39. A UCB shall encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.
40. Entities can obtain LEI from any of the LOUs accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and



use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

41. The rules, procedure and documentation requirements maybe ascertained from [LEIIL](#).
42. After obtaining LEI code, a UCB shall also ensure that borrowers renew the codes as per GLEIF guidelines.



## Chapter VII - Valuation of Properties - Empanelment of Valuers

43. A UCB shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

44. Policy for valuation of properties

- (1) A UCB shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
- (2) The valuation shall be done by professionally qualified independent valuers *i.e.* the valuer shall not have a direct or indirect interest.
- (3) A UCB shall obtain minimum two Independent Valuation Reports for properties valued at ₹50 crore or above.

45. Revaluation of bank's own properties

In addition to the above, a UCB may keep the following aspects in view while formulating policy for revaluation of their own properties:

- (1) As a UCB is permitted to include revaluation reserves as part of Capital in terms of [Reserve Bank of India \(Urban Co-operative Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#), it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy shall *inter alia* cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy shall also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.
- (2) As the revaluation shall reflect the change in the fair value of the fixed asset, the frequency of revaluation shall be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the



method of depreciation shall reflect the change in the expected pattern of consumption of the future economic benefits of the assets. A UCB shall adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation for a particular class of asset and shall make proper disclosures in this regard.

46. Policy for Empanelment of Independent valuers

- (1) A UCB shall have a procedure for empanelment of professional valuers and maintain a register / record of 'approved list of valuers'.
- (2) A UCB may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, a UCB shall take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

47. A UCB shall also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.





## **Chapter VIII - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI**

48. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 8 of the Companies Act 2013 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
49. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act, every transaction of security interest is required to be filed with the Registry.
50. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:
- (1) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
  - (2) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
  - (3) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature.



(4) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or instrument other than mortgage.

51. A UCB is advised to file the charges relating to all current transactions with CERSAI on an ongoing basis.



## Chapter IX - Loan System for Delivery of Bank Credit

52. In the case of borrowers enjoying working capital credit limits of ₹10 crore and above from the banking system, the loan component shall normally be 80 per cent and the remaining Cash Credit component. UCBs have been given freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent or increase the loan component beyond 80 per cent, as the case may be, if they so desire. A UCB shall 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.
53. In the case of borrowers with working capital (fund based) credit limit of less than ₹10 crore, a UCB shall 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 shall be settled by the UCB with its borrower clients.

### A. Ad hoc Credit Limit

54. The release of ad hoc / additional credit for meeting temporary requirements shall be considered by the financing UCB only after the borrower has fully utilised / exhausted the existing limit. As certain concerns were observed with regard to practices followed by banks in this regard, it has been reiterated *vide* circular DoS.CO.PPG.BC.1/11.01.005/2020-21 dated August 21, 2020, that UCBs are 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. Further, timely and comprehensive review / renewal of credit facilities shall be an integral part of the Board approved loan policy and credit risk management framework, and a UCB shall avoid frequent and repeated ad-hoc / short review / renewal of credit facilities without justifiable reasons. A UCB is 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 / Reserve Bank. Moreover, the processes governing review / renewal of credit facilities shall be brought under the scope of concurrent / internal audit / internal control mechanism of the UCB with immediate effect.

### **B. Sharing of Working Capital Finance**

55. In respect of consortium lending, the level of individual bank's share in Cash Credit and Loan Component shall be governed by the norm for single / group borrowers' credit exposure.

### **C. Rate of Interest**

56. A UCB is allowed to fix separate lending rates for 'loan component' and 'cash credit component'.

### **D. Period of Loan**

57. The minimum period of the loan for working capital purposes shall be fixed by a UCB in consultation with borrowers. A UCB shall decide to split the loan component according to the need of the borrower with different maturity bases for each segment and allow roll over.

### **E. Export Credit**

58. In respect of borrowers enjoying export credit limit, the bifurcation of the working capital limit into loan and cash credit components, would be effected after excluding the export credit limits (pre- shipment and post-shipment).

### **F. Bills Limit**

59. Bills limit for inland sales shall be fully carved out of the 'loan component'. Bills limit also includes limits for purchase of third party (outstation) cheques / bank drafts. A UCB shall satisfy themselves that the bills limit is not mis-utilised.
60. A UCB shall lay down policy guidelines for periodic review of the working capital limit and the same shall be scrupulously adhered to.



## **Chapter X - Repeal and other provisions**

### **A. Repeal and saving**

61. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to UCBs stands repealed, as communicated *vide* [circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions and guidelines already repealed shall continue to remain repealed.
62. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
  - (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
  - (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

### **B. Application of other laws not barred**

63. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

### **C. Interpretations**

64. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these



Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

(Vaibhav Chaturvedi)  
Chief General Manager