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RESERVE BANK OF INDIA

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

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Introduction

Rural Co-operative Banks (RCBs), 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 RCBs 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 RCBs 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 (Rural 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 Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as a 'RCB').

In this context, rural co-operative banks shall mean State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs), as defined in the National Bank for Agriculture and Rural Development Act, 1981.

C. Definitions

4. All 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. An RCB 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 opening of current accounts and CC / OD accounts. The afore-mentioned 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.



Chapter III - Statutory Restrictions

6. 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 RCBs with effect from April 1, 2021.

7. Advances against Bank's Own Shares

In terms of Section 20(1)(a) read with Section 56 of the BR Act, 1949, an RCB cannot grant loans and advances on the security of its own shares.

8. Advances to Banks' Directors

In terms of Section 20(1)(b) read with Section 56 of the BR Act, an RCB shall not enter into any commitment for granting any loan or advance to or on behalf of –

(1) any of its directors,

(2) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or

(3) any company not being a subsidiary of the RCB or a company registered under Section 8 of the Companies Act, 2013, or a Government company of which or the subsidiary or the holding company of which any of the directors of the RCB is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

(4) any individual in respect of whom any of its directors is a partner or guarantor.

9. Restrictions on Power to Remit Debts

Section 20A(1) read with Section 56 of the BR Act, 1949 stipulates that an RCB shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

(1) any of its past or present directors, or

(2) any firm or company in which any of its directors is interested as director,

partner, managing agent or guarantor, or
(3)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 Act *ibid*, 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. Financing Units with Negative Net worth / other irregularities

11. An RCB shall insist that borrower Units with Negative Net worth / other irregularities draw and implement a time-bound realistic plan for bringing themselves back to normalcy / viability in operations. RCBs shall monitor such plans closely, and pending such revival, any fresh finance shall be subject to closer scrutiny and case by case review/approval by the Board / Competent Authority. Further, any credit facility to such units shall be subject to obtention of Government Default Guarantee for non-credit cooperative societies /Government owned units, and against adequate collateral security for the units outside the co-operative fold.

B. State Government Default Guarantee

12. In respect of sugar mill having negative net worth, the condition of State Government's irrevocable default guarantee in favour of the financing bank would have to be adhered to strictly, since negative net worth is a sign of weak financial position of the sugar mills and denotes complete erosion of owned funds of such units. As a result, these sugar mills are not in a position to provide requisite margin on pledge/hypothecation limits. In order to safeguard the interest of the financing bank, collateral security in the form of State Government guarantee is considered essential, besides the primary security in the form of sugar stock. This would also signify intention of continuing involvement of the State Government in the well-being of such units.

C. Credit Dispensation to Certain Activities

13. Considering their resource pattern, priorities and the expertise available, an RCB shall not grant credit facilities for certain activities / institutions, such as real estate, housing (except to the extent permitted by Reserve Bank), infrastructure, power schemes / projects especially where State Government's budgetary support is available, and NBFCs.
14. An RCB, in view of their primary role of lending for activities related to agriculture

and rural development, shall desist from financing the commercial real estate (CRE) sector. As regards the credit facilities already extended to this sector, it should be ensured that such exposures are well secured and adequate provisioning made, wherever required, as per the existing prudential guidelines. It may also be ensured that the credit facilities are not renewed. However, RCBs are allowed to finance CRE-RH (CRE – Residential Housing) in terms of [Reserve Bank of India \(Rural Co-operative Banks – Credit Facilities\) Directions, 2025](#), subject to limits prescribed in [Reserve Bank of India \(Rural Co-operative Banks – Concentration Risk Management\) Directions, 2025](#).

15. An RCB shall not extend any financial assistance (including working capital funds) to NBFCs.

D. Review of large advances by Board

16. An RCB shall continue to review the quality of their lending to non-credit cooperative societies / units outside the cooperative fold and individuals, on a quarterly basis and submit a Memorandum thereon to their Board. Such a review may cover, *inter alia*, details of sectoral / sub-sectoral credit limits / loans sanctioned, comments on operations on the major accounts on adequacy of margin, utilisation of the limit, end use of credit, irregularities, if any, in the operations of the unit or any other problems faced by the unit, etc., together with the RCB's sectoral exposure and any other relevant issue. A copy of such review notes may be submitted to the relevant Regional Office of NABARD. In the case of the CCBs, a copy may also be given to the concerned StCB.

Chapter V - Valuation of Properties - Empanelment of Valuers

17. An RCB shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

18. Policy for valuation of properties

- (1) An RCB 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) An RCB shall obtain minimum two Independent Valuation Reports for properties valued at ₹50 crore or above.

19. Revaluation of bank's own properties

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

- (1) As an RCB is permitted to include revaluation reserves as part of Capital in terms of [Reserve Bank of India \(Rural Cooperative Banks - Prudential Norms on Capital Adequacy\) 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.
- (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. An RCB shall adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation.

20. Policy for Empanelment of Independent valuers

- (1) An RCB shall have a procedure for empanelment of professional valuers and maintain a register / record of 'approved list of valuers'.
- (2) An RCB 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, an RCB shall take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

21. An RCB shall also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.

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

22. 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).
23. 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.
24. 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.

25. RCBs are advised to file the charges relating to all current transactions with CERSAI on an ongoing basis.

Chapter VII- Repeal and other provisions

A. Repeal and saving

26. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to credit risk management as applicable to Rural Cooperative Banks, stand 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.
27. 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

28. 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

29. 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)
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