JYOTINDRA MEHTA
PRESIDENT

NAFCUB

Azadi Ka Amrit Mahotsav

Ref. No. NF/R&D/2022-23/1590 **Date: 22nd February 2023**

For immediate consideration

Respected Governor Sh.Shaktikanta Dasji,

Sub: Revised PSL targets & compulsion to invest shortfall amount in SIDBI bonds for UCBs

I invite your kind attention to the RBI circular letter CO.FIDD.PCDNo.S1739/04-09-067/2022-23 dated February 22, 2023 addressed to all urban cooperative banks (copy attached) on the subject of allocation towards MSE Refinance Fund (MRF) of FY 2022-23 on account of PSL shortfall advising banks to make immediate investment as demand of SIDBI failing which it would be treated as serious violation of Master Direction on PSL.

Sir, the problems of compelling UCBs, which are going concerns and not new ones, to fall in line with revised PSL limits of 75% (enhanced from 40%) as well as to have minimum composition of 50% of loan amount to accounts of not exceeding Rs 25 lacs or 0.2 per cent of their Tier I capital up to a maximum of Rs 1 Cr., as prescribed for SFBs as their licensing condition, have been discussed at length at the 35th meeting of SAC held on 6th Jan. 2023. It was argued from our side that the imposing change composition of loan portfolio of running bank to the extent of 75% from 40% that too in just 3 years was not fair, and to further punish it for not complying, with imposition of loss making investment, was also not desirable. It was a relief for the sector that the chair agreed for review of the instructions on new PSL norms and loan limits norms. The minutes clearly state that RBI will revisit the issues.

As a follow up of SAC meeting, we had sent a letter dated Jan.12, 2023 to the Deputy Governor requesting him that pending review of the issue by RBI, the instructions by them and also demand of SIDBI to invest in bonds within 15 days the shortfall in PSL, be not implemented. Even prior to the SAC meeting, we had also made a submission on the issue to your good self.

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Accordingly we have assumed that the requirements of reaching PSL of 50% in 2022, 60% in 2023 and 75% in 2024 will not insisted upon, till the issue is revisited and the earlier 40% norm restored. The requirement of investing in SIDBI bonds also would also consequently be required only on shortfall in attaining the 40% figure, and not in 50 or 60 percent.

Now we are surprised that RBI has issued the above circular letter threatening to act if the banks do not comply with the instructions, ignoring the discussions held in the SAC and the genuine problems being faced by banks.

From what we gather, the adverse impact of compulsory investment of amount of shortfall in low yielding SIDBI bonds could well affect a couple of hundred banks across many states. We fear that banks may get sucked into a downward spiral that may ultimately lead to their demise.

Sir, we have been submitting that compelling Urban Banks which are otherwise being run satisfactorily to completely alter the profile of their loan portfolio within 3 years just to fall in line with norms of loan portfolio of SFBs, even if they get into serious stress because of it, does not seem to stand to any reason.

As it is, to reach the PSL figure of 40%. by UCBs without lending to Agriculture and Export/Import having limited scope for giving loans to weaker section in urban centres and without having branches rural centres, is itself a difficult task So it is very unfair to them to be asked to hike it up to 75% in the first place and on top of it to be penalised for shortfall, with compulsory investments in low yielding bonds that actually result in loss for every rupee invested.

As you may kindly be aware that the sector has had huge setbacks in the form of Madhavapura Bank crisis in 2001-02 which took more than a decade to recover as the RBI put stifling regulations and prevented normal growth by not permitting opening of branches for over 10 years, and then the PMC bank episode, besides getting severely hit in 2019-20 on account of Covid-19 pandemic that crippled those segments of economy wherein UCBs had their main exposure. It is our

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humble submission that, the sector does not want to go into a tailspin once again, this time for no fault of its. The sector has lost over 600 banks in the last 2 decades and we do not want any further closures UCBs has been in the past and will continue in future to be bankers to those who find it difficult to be accepted by commercial banks on account of their small size and their being in the informal sector, without requiring support from the new norms. Predominantly a very large proportion of loan accounts of UCBs are already of extremely small value. Large borrower accounts outstanding with non-scheduled banks numbering 1462 out of 1514 UCBs, are much less than 10 per cent of their total loan portfolio.

So, it begs to ask a question, why is it necessary or so sacrosanct for UCBs to fall in line with the provisions prescribed for SFBs. In view of the difference in character between SFBs and UCBs. The SFB norms are redundant for UCBs.

We feel that increase in PSL limit for UCBs from 40% that was common with all the exiting types of banks, to 75% to align with prescription for new class of banks, is nether just nor equitable. Justice can be done only by reversal to earlier norms and we are confident that it will be done.

This is our humble submission.

With kind regards,

Yours Sincerely,

Jyotindra

Jyotindra Mehta

Sh.Shaktikanta Das,
Governor,
Reserve Bank of India,
Mumbai

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

आज़ादी का अमृत महोत्सव

Azadi Ka Amrit Mahotsav

CO.FIDD.PCD.No. S1739 /04-09-067/2022-2023 February 22, 2023

The MD & CEO
All Urban Cooperative Banks (incurring PSL shortfall during FY 2020-21 and/or FY 2021-22)

Madam/Dear Sir,

Allocation towards MSE Refinance Fund (MRF) of FY2022-23 on account of PSL shortfall

Please refer to Para 28 (ii) of Master Direction: Priority Sector Lending (PSL) – Targets and Classification (updated from time to time) pertaining to Non-achievement of Priority Sector targets and our letter regarding the captioned subject sent to you in December 2022.

2. In this connection, it has been observed that your bank is yet to deposit the PSL shortfall contribution for FY 2020-21 and/or FY 2021-22 (as applicable) to SIDBI. Accordingly, it is stated that the matter has been viewed seriously as it is violation of para 28 (ii) of Master Direction on Priority Sector Lending. Hence, you are directed to immediately deposit the shortfall as per the demand raised by SIDBI, without further delay.

Yours sincerely,

(Rodney Valentine)
Assistant General Manager

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