

(Annex )

**Typical reasons observed for the divergence in asset classification during Supervisory Cycle 2023-24 (FY 2022-23) for UCBs were:**

**1) Debiting of Minimal Balance charges:**

- (i) In few UCBs, where default occurred in maintenance of minimum balance / average minimum balance as agreed with the customer, the bank deducted minimum balance charges. This was done without informing the customers which is in contravention to para 5.6.(i) of RBI circular on "Maintenance of Deposit accounts" dated July 01, 2015. This has led to inflation of net profit, Net Worth and CRAR.
- (ii) In few UCB, the bank had levied minimum balance charges on inoperative accounts which was in non-adherence to Para 5.5(xv) of RBI circular on "Maintenance of Deposit accounts" dated July 01, 2015, leading to inflation of Net profit, Net Worth and CRAR.

**2) Sanction of fresh loans to clear existing overdues in loan accounts**

- (i) In few UCBs, it is observed that fresh loan has been sanctioned by the UCBs to regularise the account. It tantamount to regularisation by way of new sanction of loans and hence is treated as NPA as per Para 2.2.1 (ii) of the Master Circular - Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs (DOR.STR.REC.5/21.04.048/2022-23) dated April 01, 2022.
- (ii) In some cases, the account of the borrower has been regularized twice in two different financial years by repayment of entire overdue amount through sanction of additional facilities. The account showed inherent weakness based on the total income made by the firm which was assessed based on IT returns of firm and income earned by the proprietor as per appraisal.

**3) Divergence in provision of Doubtful Assets**

In some UCBs, it is observed that the provisions has not been made based on the 'realisable value of underlying security' for NPAs classified under 'Doubtful' (secured) category in violation of Para 5.1.2 (ii) of Master Circular - Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs (DOR.STR.REC.5/21.04.048/2022-23) dated April 01, 2022.

#### **4) Non-adherence to provisioning of Security Receipts**

In a few cases, the UCB had failed to make provision for Security Receipts (SRs) on an ongoing basis as required in terms of Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021.

#### **5) Upgradation of Non-Performing Assets (NPAs) to Standard assets without clearing entire overdues**

In some UCBs, it is observed that the NPA accounts has been upgraded to Standard by the UCB by bringing overdues to less than 90 days past due. The same was in non-adherence to extant guidelines which stated that any NPA account can be upgraded only after all the overdues have been cleared.

#### **6) Non down gradation of accounts to NPA**

(i) In few UCBs, it is observed that the account has not been downgraded by the UCB when satisfactory performance (no payment should remain overdue for a period of more than 90 days) was not observed during the specified period after restructuring as per the extant guidelines (para 2.2.7.5 of the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 01, 2022. Asset classification was required to be governed by pre-restructuring schedule.

(ii) In a few cases, the bank had not downgraded the cash credit accounts even when there were no sufficient credits to cover interest debits for past 90 days or the account was out of order for more than 90 days.

(iii) The account of the borrower has been regularized by repayment of entire overdue amount through solitary credits near the balance sheet date. The account showed no other customer induced entries in the account till March 31, 2023. The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA.

7) In some UCBs, classification of accounts was not based on ageing of NPA.

8) NPA classification facility wise instead of borrower wise.

- 9) The Term Loan sanctioned is classified as NPA as EMI remained overdue for a period of more than 90 days
- 10) In some UCBs, non-renewal of CC limit beyond 90 days from the due date of renewal was observed.
- 11) The CC account of the borrower has a solitary credit in the account and credits thereafter by the borrower.
- 12) Asset classified as Doubtful-II instead of Sub-standard as it remained NPA for than 2 years.
- 13) Asset classified as Doubtful-III instead of Doubtful-I as it remained NPA for than 3 years.
- 14) Doubtful-II NPA account upon restructuring was categorised as Sub-standard instead of Doubtful-III.
- 15) The OD account was out of order i.e. outstanding balance in the OD account remained continuously in excess of the sanctioned limit for more than 90 days.
- 16) Few UCBs had failed to debit interest in the account on monthly basis because of which overdues were nil. With correct application of interest, entire overdues would not have cleared.
- 17) In some cases, repayment was not ensured as per terms of sanction.
- 18) 'Repeatedly restructured' accounts are ineligible for special regulatory treatment (SRT) (An account will not deteriorate in asset classification upon restructuring if it qualifies for SRT) and asset classification need to be downgraded upon restructuring.

\*\*\*\*\*