Statutory audit of bank branches

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The Institute of Chartered accountants of India, New Delhi**

Audit of Agricultural and other priority sector advances

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Why priority sector ?

1. Focus on rural development by the government
2. Channel resources to areas that are deemed national priorities
3. Inclusion of poor in the economic growth of the country
4. Synchronize the bank lending account to national importance

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- Objective

- Objective of priority sector lending program is to ensure adequate fund flows to some of the vulnerable sectors of the economy, which may not be attractive for the banks from the point of view of profitability.

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Salient features of the revised guidelines

TARGET

1. Target for lending to total priority sector and weaker section will continue as 40 per cent and 10 per cent, respectively, of Adjusted Net Bank Credit (ANBC) or credit equivalent of off-balance sheet exposure, whichever is higher, as hitherto.
2. Agriculture: Distinction between direct and indirect agriculture is dispensed with.

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3. Bank loans to food and agro processing units will form part of Agriculture.
4. Medium Enterprises, Social Infrastructure and Renewable Energy will form part of priority sector.
5. A target of 7.5 per cent of ANBC or credit equivalent of off-balance sheet exposure, whichever is higher, has been prescribed for **Micro Enterprises**.
6. Education:Distinction between loans for education in India and abroad is dispensed with.

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7. Micro Credit ceases to be a separate category under priority sector.

8. Loan limits for housing loans qualifying under priority sector have been revised.

9. Priority Sector assessment will be monitored through *quarterly* and *annual* statements.

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- Priority Sector includes the following categories:
- (i) Agriculture
  (ii) Micro, Small and Medium Enterprises
  (iii) Export Credit
  (iv) Education
  (v) Affordable Housing
  (vi) Social Infrastructure
  (vii) Renewable Energy
  (viii) Others

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- Total Priority Sector

- 40 percent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
- Foreign banks with less than 20 branches have to achieve the Total Priority Sector.
- RRBs and Small Finance banks should have a target of 75% each of ANBC

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- UCBs to increase their target as under:

Existing target	40%
March 31, 2021	**45%**
March 31, 2022	**50%**
March 31, 2023	60%
March 31, 2024	**75**%

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Categories	Domestic commercial banks / Foreign banks with 20 and above branches (As on 01.07.2020)	RRBs and Micro finance banks
Total Priority Sector	40%	75%
Total Agriculture	18% out of which 10% for Micro and small farmers	18% out of which 10% for small and marginal farmers
Total Micro Enterprises	8%	8 %
Advances to Weaker Sections	10%	15%.for RRBs and 12% for MFB

The percentage of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

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- Categories under 'Agriculture'?

- The activities covered under Agriculture are classified under three sub-categories

  viz.
- 1.Farm credit,
- 2. Agriculture infrastructure and
- 3. Ancillary activities

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- Farm Credit – Individual farmers
- 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] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and **sericulture**. This will include

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- **Farm Credit:**

  (i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities. Traditional crops include:

  (a) Food **Crops** (Wheat, Maize, Rice, Millets and Pulses etc.)

  (b) Cash **Crops** (Sugarcane, Tobacco, Cotton, Jute and Oilseeds etc.)

  (c) Plantation **Crops** (Coffee, Coconut, Tea, and Rubber etc.)

  (d) Horticulture **crops** (Fruits and Vegetables)

  (e) Zaid **crops** includes (Watermelon. Muskmelon. Cucumber. Bitter gourd. Fodder crops.)

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- Costliest crop is ***saffron*** and the present value is US $ 5000 per KG **(Rs 375000)**

- **Non-traditional crops** are commonly thought of as low acreage, niche **crops** such as ethnic fruits and vegetables, culinary and medicinal herbs, and plants for industrial uses (e.g. fibre hemp), sunflower. ..

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ii. Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation etc.)

(iii)Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, transporting their own farm produce.

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(iv) Loans to distressed farmers indebted to non-institutional lenders.

(v) Loans to farmers under the Kisan Credit Card Scheme.

(vi) Loans to small and marginal farmers for purchase of land for agricultural purposes.

(vii) Loans against pledge/hypothecation of agricultural produce (including warehouse receipt1) for a period not exceeding 12 months subject to a limit up to ₹50 lakh.

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(viii) Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.

(ix) Loans to farmers for installation of solar power plants on barren/fallow land or in stilt fashion on agriculture land owned by farmer.

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- Agriculture infrastructure

  (a) Loans for the following activities will be subject to an aggregate limit of Rs. 2 crore per borrowing entity:

  (b) Loans up to Rs. 50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

  (c) UCBs are not permitted to lend to co-operatives of farmers

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- (d) Loans up to Rs. 5 crore per borrowing entity to Farmers Producers Organisation/ companies (FPOs) /FPCs undertaking farming with assured marketing of their produce at a pre-determined price.
- **Agriculture Infrastructure**
- Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of Rs. 100 crore per borrower from the **banking system.**

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- Small and Marginal Farmers (SMFs)
- For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include the following:
- i. Farmers with landholding of up to 1 hectare (Marginal Farmers).
- ii. Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).

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- iii. Landless agricultural labourers, tenant farmers, oral lessees and share-croppers whose share of landholding is within the limits prescribed for SMFs.

- **Sharecropping** is a legal arrangement with regard to agricultural land in which a landowner allows a tenant to use the land in return for a share of the crops produced on that land.

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- iv. Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual SMFs directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.
- v. Loans up to Rs. 2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria.

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- vi. Loans to FPOs/FPC of individual farmers and co-operatives of farmers directly engaged in Agriculture and Allied Activities where the land-holding share of SMFs is not less than 75 per cent, subject to loan limits prescribed time to time.
- UCBs are not permitted to lend to co-operatives of farmers.

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- Non Performing Assets
- **Short duration crops:** Loan outstanding for more than two crop seasons
- **Long duration crops**: Loan outstanding for more than one crop season
- Supreme court Intervention:
- **Supreme Court has stayed the declaration of NPA accounts by banks due to Covid 19 pandemic in** *Gajendrasing Sharma vs Union of India .*

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- The honourable Supreme Court has passed an interim order on September 03, 2020 w.r.t. writ petition 825/2020 as ‘the accounts which were not declared NPA till 31.08.2020 shall not be declared NPA till further orders’. The RBI has not issued any notification / circular related to the said interim order.

- In the view of the said interim order, if a bank does not classify any account as NPA subsequent to August 31, 2020, which otherwise would have been classified as NPA, the auditor should ensure that suitable disclosure is given and such accounts in terms of value and quantum along with reference to the said interim order of Supreme Court;

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- 2. In the accounts which are not marked as NPA by a bank, (which otherwise would have been required to be marked as NPA as per IRAC norms), the income recognition and provisions norms would be continued to be applied as if such accounts are marked as NPA, i.e., income on such account would be recognised on cash basis and a provision would also be made as would have required to be made had this account been marked as NPA.

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- **Restructuring of loans**
- In case of Natural calamities, the banks may decide their own relief measures like conversion of short term facility into a term loan or re-schedulement of repayment period. In all these cases, the account is not treated as NPA.
- Covid 19 loans with Central Government guarantee have been sanctioned or old loans have been restructured. Such loans will be PA.

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- COVID19 Regulatory Package

- The RBI issued COVID19 Regulatory package vide circular RBI/2019-20/186 DOR.No.BP. BC. 47/ 21.04.048/2019-20 dated March 27, 2020 granting relief to borrowers, which was further followed by another circular RBI/2019-20/220 DOR.No.BP. BC. 63/21.04.048/2019-20 dated April 17, 2020 on COVID 19 Regulatory Package – Asset Classification and Provisioning, granting relief w.r.t. Asset Classification and Provisioning.

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- The RBI also issued circular RBI/2019-20/219 DOR.No.BP. BC.62/21.04.048/2019-20 dated April 17, 2020 on COVID 19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets.

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- Resolution Framework for COVID19 related Stress
- The RBI issued circular RBI/2020-21/16 DOR.No.BP. BC/3/ 21.04.048/2020-21 dated August 06, 2020 providing window under Prudential Framework to enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership and personal loans, while classifying such exposures as Standard, subject to certain conditions, enabling to retain the class of assets.

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- **Government guaranteed advances**
- The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.

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- Verification:
- a) Visits
- b) Verification of history of borrower and guarantors
- c) How to read 7/12 extract and 8A extract
- d) Inspection reports
- e) Compliance of terms and sanction
- d) Operation of account with special reference to payments and receipts

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What is 7/12 Extract:

- The **7/12 extract** is **named** after the two forms that are used to collect the information for the **extract**: Village Form VII where it records the entire details of owner and owner rights. Village Form XII which records the agricultural aspects of the land

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What extract 12 means?

- Record of Land Rights
- The7/12 document or 'Record of Land Rights' is used for looking up the ownership of ancestral land in a village.
- This also helps in checking for any past disputes or any litigation orders passed affecting the land.

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What is 8A document?

- 8A is a Record of land ownership or your land is recorded in government record along with details such as Village, Taluka, District, Account Number, Total area of land. 8 A certificate is required with 7/12 certificate for various applications in government sector or private.

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- How To Read 7/12 extract: (Illustrative)
- 1)*Gaav*: (गाव) Village name where the land is located
- 2) *Tahsil*: (तहशील)Sub-division of the district
- *3) **Bhumapan Kramank**: (भू-मापन क्रमांक)* Survey number as provided by the revenue authorities of the state under Rule 3 of Maharashtra Land Revenue Rules, 1969
- *4)**Bhumapan Kramankancha Upbhivaag**: (भू-मापन क्रमांकाचा उपविभाग)* Sub-division of survey number
- 5. *Hissa::* (हिस्सा किंवा पोट हिस्सा) It deals with portion in percentage of land owning

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- *6) **Bhudharana Paddhiti**: (भू-धारणा पद्धती)* This denotes the type of occupancy (भोगवटाधारकाची मालकी) It is an important column to be taken note of. There are two types of occupants–
- Class 1 and
- Class 2.
- Occupant Class 1 is of owners who own the land through ancestral rights or purchase and hence can transfer the agricultural land without the collector's approval.

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- Occupant Class 2 are the lands given by government to small and marginal farmers or landless laborers or farmers

- This category also includes those lands which have been given by government to farmers, tenants or others who have purchased the land under Bombay Tenancy Act, 1948 or has been assigned by government on such terms and conditions or duration or for a specific purpose as may have decided.

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- Violation of these terms and conditions may result into withdrawing land so given by government.
- The lands falling in the category of **'Inam'** or **'vatan'** fall in this category.
- Such owners cannot transfer the land by way of sale, exchange, rent out, mortgage, gift, donate, lease, without the permission of the collector

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- *7) **Bhogvatacharache Naav**.* (भोगवटाधारकाचे नाव) Name of the occupant.
- 8) ***Khate Kramank** (खाते क्रमांक)*– This is an account number from *Khate Pustika* issued under MLR. Every landowner is provided with an account number which states the amount of tax the owner has to pay. Updated every generally 10 years
- 9) ***Kulanche Naav*** –(कुळाचे नाव) Name of the tenant and their class– contractual tenant or deemed tenant

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- *10) **Shetache Sthanik Naav**– (शेताचे स्थानिक नाव)* Farmers give names to their field considering its shape or location. For eg. *Khachar (खाचर) or valukhaach (वाळू खाच) etc*
- 11) ***Lagvadi Yogaya Kshetra** – (लागवडीयोग्य क्षेत्र)*Total area fit for cultivation. Whether it is Jirayati, bagayati, Rice paddy is specified. The area is specified in Hectors and Aars or Acres and Gunthas
- 12. ***Pad : (पड)*** No cultivation in the land
- 13. ***Peek : (पीक पाणी)*** Crop details.

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- 14). (   ) When the name goes in bracket, either the person is not owner or dead or otherwise has disposed of the land. When the land is transferred, a bracket has been put on the name of the previous owner and new name has been inserted, who will be regarded as present owner. Some times there is an entry in circle with number next to the name of land owner, which is called as Ferfaar "फेरफार' which gives detailed information about the change.
- Some times there are pencil entries, which are considered as changes of temporary nature.

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15)*Potkharabaa:(पो. ख.)*Uncultivable portion of land

This is elaborated by explaing how much portion of the uncultivable land is uncultivaable or barren

Part A talks about शेतातील बांध/नाले/खाणी which means space occupied for water storage/stoppage, canal water route within land, occupied by stone or other quarries, if any

Part B talks about space occupied by roads, lake, shet taale (शेत-तळे), canal routes or reservation for any other work, which makes the land uncultivable.

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- Just below पो.ख. or पोट खराबा the word Akaar (आकार) is specified that denotes the amount of land less which is written in rupees.
- To the right of Form 7, account no of the said land with the name of the possessor (कुळ वहिवाटदार) is written. If it is given by way of a rent, name of the tenant (कुळ) is also written along with amount of rent payable by tenant

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- Other rights
- The names of the persons whose interest in the said land is specified. This includes amount of loan raised or charge created on this property and information about the fact as to whether loan has been repaid or not.
- Some times the entire land is not bought by purchase but a fragment is purchased out of such land. Such portion of land is called as fragment or *तुकडा*

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- If it has been written on the form as fragmentation not allowed i.e. 'तुकडेबंदी', and if such land is agriculture land then the same is not allowed to be sold out by fragmenting the land into pieces or no one can buy such land in fragmented form under Fragmentation act.
- If the land is acquired for Roads, dams etc by the government and to rehabilitate the farmers affected by such acquisition, certain lands are reserved for rehabiltation purposes

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- ('पुनर्वसनासाठी संपादित') and is remarked accordingly. If such remark is there on the form, such land can not be transferred.

- If certificate under section 32M has not been ensured or certificate under section 32M has been ensured but ten years have not elapsed from the date of such certificate, such land if marked with a restrictive remark under section 43 of that nature, then such land can not be transferred

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- If restriction is stipulated on land under Section 84 of the tenancy law, and such agriculture land is used for agriculture purpose, then such land can be purchased only and only by Farmer or agriculturist and not by others, If the purchaser is not a farmer, permission from collector is required.

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- What are mortgage loans ?

- Section 58 (a) of the TRANSFER OF PROPERTY ACT, 1882, defines mortgage as, “A mortgage is the **transfer of an interest** in **specific immovable property** for the purpose of **securing the payment of money advanced** or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability.
- *“The bold letters signifies the essential elements for the creation of valid mortgage in favor of the lender over the immoveable property.*

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- **1.Simple Mortgage**: It has following characteristics:-
- i) That the mortgagor must have bound himself personally to repay the loan
- ii) That to secure the loan he has transferred to the mortgagee the right to have the specific immovable property sold in the event of his having failed to repay
- iii) That the possession of the property is not delivered to the lender

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- 2. Mortgage by Conditional Sale:
- It's defined as a situation, where the mortgagor ostensibly sells the mortgaged property –
- i) on the condition that on default of payment of the mortgage money (loan) on a certain date the sale shall become absolute or
- ii) on condition that on such payment being made the sale shall become void or,
- iii) on the condition that in such payment being made the buyer shall transfer the property to the seller,

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- PROVIDED that no such transaction shall be deemed to be a mortgage, unless the condition is embodied in the document which affects or purports to affect the sale
- This kind of mortgage came into vogue in India during Muslim rule and was given legal recognition in the Bengal Regulation Act, 1978

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- 3.**Unsufructuary Mortgage**: It has following characteristics:-

i) That the possession of the property is delivered to the mortgagee;

ii) That the mortgagee is to get rents and profits in lieu of the interest or principal or both;

iii) That no personal liability is incurred by the mortgagor and

iv) The mortgagee cannot foreclose or sue for sale

v) That no time limit can be fixed expressly during which the mortgage is to subsist. This is not prevalent in India

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- 4. English Mortgage: It has below characteristics:-
- i) That the mortgagor should bind himself to repay the mortgage money/loan on a certain day;
- ii) That the mortgaged property should be transferred absolutely to the mortgagee ; and
- iii) That such absolute transfer should be made subject to a proviso that the mortgagee will recover the property to the mortgagor, upon the payment by him of the mortgage money on the appointed day
- The difference between the mortgage by conditional sale and English mortgage is that in English mortgage, the mortgagor binds him personally to repay the money

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- 5. Mortgage by Deposit of Title Deeds:

- In England and popularly in India, this mortgage is called the equitable mortgage. Under the definition under Section 58 (f) of Transfer of Property Act, 1882, the essential requisites of such mortgage are:
- i) a debt should be there
  ii) deposit of the title deed with the lender (most essential)
  iii) said deposit is with intention that the said title deed shall be security for the debt.

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- 6. Anamolous Mortgage:

- A mortgage which is not a simple mortgage, a mortgage by conditional sale, an usufructuary, an English mortgage or a mortgage by deposit of title deeds within the meaning of Section 58 of Transfer of Property Act is an Anomalous mortgage.

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- Section 96 of the Transfer of Property Act, 1882 places mortgages by deposit of title deeds on the same footings as simple mortgages.
- As such, the security can, like a simple mortgage can be enforced by a suit for sale of mortgaged property, of course, by the process of the law.
- And this kind of mortgage does not require registration and is at par with any other legal mortgage.

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- Limitation

- Mortgage enforceable only up to 12 years
- Mortgage of land mortgage and development banks is enforeceable up to 30 years
- Adverse possession 12 years for general category and 30 years for government lands
- SARFESI law not applicable to farmers and agriculture lands

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- Interest subvention:
- From 2006-07 the Government had decided to ensure that farmers receive short term credit at 7% with an upper limit of Rs. 3.00 lakh on the principal amount. The policy came into force with effect from Kharif 2006-07.
- The amount of subvention was to be calculated on the *amount of crop loan* from the date of disbursement up to the actual date of repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a **maximum period of one year**.

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- Interest subvention is offered by NABARD and RBI
- The rate is 2% uniform till 2019-20 except FY 2010-11 it was reduced to 1.5%
- Difference between Subsidy and subvention
- **Subsidy** is the "English" word. **Subvention** is a word used in Latin languages such as French and Spanish, that has "crossed over" into (uncommon) English usage

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- **Subvention** refers to a grant of money in aid or support, **mostly** by the government. **Subsidy** is a transfer of money from the government to an entity.
- The *subvention* scheme is different from a *subsidy* and **does not offer anything free.**
- In a *subsidy*, the government gives **grants in order to boost** production and consumption and pays a part of the cost of production of any goods or services. Meanwhile, in *subvention* schemes, the government **offers relief in the loan burden** of the buyer.

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- Relief to farmers

  To provide relief to farmers affected by natural calamities, Interest Subvention of 2% has been made available to banks for the first year on restructured amount of crop loans. Such restructured loans will attract normal rate of interest from the second year onwards as per the policy laid down by the RBI.

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- Interest Subvention to Small and Marginal Farmers against Negotiable Warehouse Receipts
- The benefit of 2% interest subvention will be available to banks on their own funds involved for extending credit support up to Rs 3.00 lakh at 7% interest per annum to Small and Marginal farmers (SF/MF) having Kisan Credit Card for a further period of up to six months post the harvest of the crop against Negotiable Warehouse Receipts issued on the produce stored in warehouses accredited with Warehousing Development Regulatory Authority. *SF/MF, who have not availed crop loans through banking system, would not be eligible.*

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- Interest subvention on working capital to Animal Husbandry and Fisheries
- GoI has extended the Interest subvention Scheme on KCC issued to crop loan farmers to the KCC issued to Animal Husbandry and Fisheries farmers from 2018-19.
- Interest subvention of 2% to banks and 3% to farmers towards Prompt Repayment incentive is extended on short term loans up to Rs. 2 lakh to animal husbandry and fisheries farmers apart from the existing KCC for crop loans, provided the loans are extended by banks @7% per annum.

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- In case of farmers possessing KCC for raising crops and involved in activities related to Animal Husbandry and/ or Fisheries, the Interest Subvention on short term loan is available on an overall limit of Rs.3 lakh per annum.
- Incentive to farmers on prompt repayments
- Since the year 2009-10, Government of India introduced additional incentive for farmers who promptly repay the loans on or before the due date or the date fixed by the bank, subject to a maximum period of one year.
- Year-wise rate of incentive to prompt-paying farmers was 3%

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- **Withdrawal of Interest subvention on other than KCC accounts**
- Govt. of India has issued instruction that Interest Subvention to Banks and Prompt Repayment Incentive to farmers will be available only against KCCs from 01.04.2020.
- In view of the lockdown to combat the coronavirus pandemic, the government has decided to continue the facility of interest subvention of 2 per cent and prompt repayment incentive of 3 per cent to farmers till August 31, 2020

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- Provisioning norms:
- 1. Standard assets :
- (a) Farm Credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;
- (b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;
- (c) advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent
- (d) housing loans extended at teaser rates and restructured advances as indicated
- (e) all other loans and advances not included in (a) (b) and (c) above at 0.40 per cent

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- 2. Sub-standard assets:

  (i) A general provision of 15 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

  (ii) The ‘unsecured exposures’ which are identified as ‘substandard’ would attract additional provision of 10 per cent, i.e., a total of 25 per cent on the outstanding balance.

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- 3. Doubtful assets :In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:
  - Up-to one year : 25%
  - One to three years : 40%
  - More than three years : 100%

  100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis

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- (4) Loss assets
- Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.
- Full 100% provision is required irrespective secured portion, needs to be noted down.
- Provisioning stated above is a standard procedure. However, auditor can recommend provision as he deems fit.

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- ‘Out of Order’ status
- An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of

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- Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

- ‘Overdue’

- Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

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- LFAR
- Previously, the accounts selected for the purpose of auditing were forming part of our documentations and working papers. However, now LFAR expects us to list the accounts selected, which increase our responsibility manifold as the answers to the question in LFAR are expected with reference to the selection.

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- Where any of the comments made by the auditors in their LFAR is adverse, auditor should consider whether a qualification in their main report is necessary.

- Format of LFAR speaks about policies of the bank are in conformity with RBI master directions

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- Limits prescribed for bank loans to Micro, Small and Medium Enterprises engaged in the manufacture or production of goods:
- The manufacturing enterprises are defined in terms of investment in plant and machinery under MSME Act, 2006.
- Bank loans up to Rs. 5 crore per unit to Micro and Small Enterprises and Rs. 10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSME Act, 2006 are eligible for classification under priority sector.

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MSEs:

Definition of Micro, small, medium enterprises as per Section 7(1) of Micro, small, medium enterprises Development act 2006. ***Definition effective from 1-7-2020***

- Manufacturing or service Enterprises :
  - **Micro enterprises** – Investment in plant & machinery or equipments does not exceed Rs 1 crore and turnover does not exceed Rs 5 crores irrespective of the location

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- **Small enterprises** – Investment in plant & machinery or equipments does not exceed Rs 10 crores and turnover does not exceed Rs 50 crores irrespective of the location

- **Medium Enterprises**:
  - Investment in plant & machinery or equipments does not exceed Rs 50 crore and turnover does not exceed Rs 250 crores irrespective of the location

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- **Notes:**
- If the turnover or investment exceeds the parameter, the enterprise will be placed in the higher category but not vice versa.
- One PAN one turnover.
- Investment to be linked with figure appearing in previous ITR filed
- If new entrant with no ITR filed, the value will finalised on the basis of self declaration but without GST
- Plant and machinery to include all tangible assets except land, building , furniture & fittings

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- Bank loans to micro and small enterprises (both manufacturing and service) are eligible to be classified under PS (Priority sector).

- The small and micro (service) enterprises include
  - small road & water transport operators
  - small business
  - professional & self-employed persons
  - Retail trade
  - Consultancy services

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MSME Sector –

- Restructuring of Advances The RBI issued circular RBI/2020-21/17 DOR.No.BP. BC/4/21 .04.048/2020-21 dated August 06, in continuation of earlier circular 2020RBI/2019-20/160 DOR. No.BP. BC.34/21.04.048/2019-20 dated February 11, 2020 extending the one-time restructuring of MSME advances classified as 'standard' without a downgrade in the asset classification and aligning the guidelines with the Resolution Framework for COVID19 – related Stress announced for other advances, with amended conditions as specified in the said circular

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- **Other Finance to MSMEs**
- (i) Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME.
- (ii) Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries.

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- (iii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries (Not applicable for UCBs).
- (iv) Loans sanctioned by banks to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised SRO for the sector for on-lending to MSME sector
- (v) Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises

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- **(vi)** 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).
- **(vii)** Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits prescribed by Department of Financial Services, MoF will qualify as achievement of the target for lending to Micro Enterprises.

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- Export Credit (not applicable to RRBs and LABs)
- Export credit under agriculture and MSME sectors are allowed to be classified as PSL in the respective categories viz. agriculture and MSME. Export Credit (other than in agriculture and MSME) will be allowed to be classified as priority sector
- Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to Rs. 40 crore per borrower.

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- 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 Department of Regulation,

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- Education
- Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh will be considered as eligible for priority sector classification. Loans currently classified as priority sector will continue till maturity.

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Housing

1.Loans to Individuals for 'purchase/ construction'

- Rs. 35 lakhs in Metropolitan centres where house value should not be more than Rs 45 lakhs
- Rs. 25 lakhs in other area where house value should not be more than Rs 45 lakhs 30 lakhs

2. Loans for 'repairs'

- Rs. 10 lakhs in Metropolitan centres
- Rs. 6 lakhs in others

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- Housing loans to banks' own employees will not be eligible for classification under the priority sector.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- Bank loans for affordable housing projects using at least 50% of FSI for dwelling units with carpet area of not more than 60 sq.m.

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Criteria	EWS/LIG	Revised EWS/LIG	MIG-I	MIG-II
Woman ownership	Yes	Yes	N/A	N/A
Annual Household Income	EWS-Up to Rs 3 Lakh LIG- Rs 3 Lakh to Rs 6 Lakh	EWS-Up to Rs 3 Lakh LIG- Rs 3 Lakh to Rs 6 Lakh	Rs 6.01 Lakh- Rs 12 Lakh	Rs 12.01 Lakh to Rs 18 Lakh
Maximum Loan Amount for Subsidy	Up to Rs 6 Lakh	Up to Rs 6 Lakh	Up to Rs 9 Lakh	Up to Rs 12 Lakh

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Subsidy %	6.50%	6.50%	4%	3%
Maximum Subsidy Amount	Rs 2.20 Lakh	Rs 2.67 Lakh	Rs 2.35 Lakh	Rs 2.30 Lakh
NPV	9%	9%	9%	9%
Maximum Term of loan on which subsidy will be calculated	15 Years	20 Years	20 Years	20 Years

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- Central registry of mortgaged houses (NABARD & CIBIL)
- Mortgage valid for 12 years
- AOD every after three years
- Frauds
- If in society, recording of charge
- Disbursement of subsidy

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- Social Infrastructure
- Bank loans to social infrastructure sector as per limits prescribed below are eligible for priority sector classification
- Bank loans up to a limit of Rs. 5 cr. per borrower for
- 1. setting up schools,
- 2. drinking water facilities

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- 3. sanitation facilities including construction / refurbishment of household toilets and water improvements at household level, etc. and
- **4. loans up to a limit of Rs. 10 crore per borrower for *building health care* facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres.**

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- Renewable Energy
- Bank loans up to a limit of Rs. 30 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 etc., will be eligible for Priority Sector classification. For individual households, the loan limit will be* Rs. *10 lakh per borrower.*

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- Bank loans to 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 a ceiling as may be specified by RBI per dwelling unit.
- The all inclusive interest rate charged to the ultimate borrower should not exceed the lowest lending rate of the lending bank for HLs + 2% per annum

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- Others (eligible for priority sector classification)
- Loans not exceeding ***Rs. 1.00*** lakh per borrower provided directly by banks to individuals and individual members of SHG/JLG, provided the individual borrower's household annual income in **rural areas** does not exceed ***Rs. 1.00 lakh*** and
- for **non-rural areas** it does not exceed ***Rs. 1.60 lakh***, and loans not exceeding ***Rs. 2.00 lakh*** provided directly by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs.

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- Loans to distressed persons [other than distressed farmers indebted to non-institutional lenders] not exceeding Rs.1.00 lakh per borrower to prepay their debt to non-institutional lenders.

- 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.

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- Loans up to Rs. 50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

Weaker Sections

- Priority sector loans to the following borrowers will be considered as lending under Weaker Sections category:
- 1. Small and Marginal Farmers

  2. Artisans, village and cottage industries where individual credit limits do not exceed Rs.1 lakh

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- 3. Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood 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

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- 7.Distressed farmers indebted to non-institutional lenders
- 8. Distressed persons other than farmers, with loan amount not exceeding Rs. 1 lakh per borrower to prepay their debt to non-institutional lenders
- 9. Individual women beneficiaries up to Rs. 1 lakh per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
- 10. Persons with disabilities
- 11. Minority communities as may be notified by Government of India from time to time.

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Thank you learned participants