



RESERVE BANK OF INDIA

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RBI/2008-09/436

UBD.PCB.BPD.Cir.No. 60 /13.05.000 / 2008-09

April 20, 2009

The Chief Executive Officers of
All Primary (Urban) Cooperative Banks

Dear Sir / Madam,

Prudential Guidelines on Restructuring of Advances by UCBs

Please refer to the Prudential Guidelines on Restructuring of Advances by UCBs enclosed to our [circular RBI / 2008-09 / 403 UBD.PCB.BPD.No. 53 / 13.05.000 / 2008-09](#) dated March 6, 2009.

2. It has been decided to amend paragraph 5.2 (i) as under :

"The erosion in the fair value of the advance should be computed as the difference between the fair value of the loan **before** and **after** restructuring. *Fair value of the loan before restructuring* will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". *Fair value of the loan after restructuring* will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring".

3. It may please be noted that the above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently in future. No request for changing the same, particularly for reversion to the present formula, will be entertained in future.

4. Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

5. It is also re-emphasised that the modifications effected to the guidelines on restructuring of advances by RBI are aimed at providing an opportunity to banks and borrowers to preserve the economic value of the units and should not be looked at as a means to evergreen the advances.

6. In their published annual Balance Sheets for the year ending March 2009, in addition to the disclosures regarding restructured loans required in terms of paragraph 9 of the guidelines enclosed to circular dated March 6, 2009 referred to above, banks should also disclose the amount and number of accounts in respect of which applications for restructuring are under process, but the restructuring packages have not yet been approved.

Yours faithfully,

(Uma Shankar)
Chief General Manager

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