The Chairman and Managing Directors/Chief Executive Officers of All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir/Madam,

Grant of Loans and Advances and Award of Contracts to Directors of Banks and their Relatives

Please refer to instructions contained in our circulars DBOD.No.GC.BC.34/C.408C(59)S-84 dated April 12, 1984 read with DBOD.No.BC.110/21.01.001/94 dated October 10, 1994 and DBOD.No.BP.BC.23/21.01.001/96 dated March 1, 1996 on the above subject.

2. We have come across an instance, where loans and advances have been sanctioned to the relative of a Director of a bank, at a concessional rate of interest, thereby circumventing the spirit of the restrictions contained under Section 20 of the Banking Regulation Act, 1949. The matter has, therefore, been examined by us and it has been decided that the restrictions as contained in Section 20 of the Act would apply to grant of loans and advances to spouse and minor/dependent children of the Directors of banks. However, banks may grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his/her own independent source of income arising out of his/her employment or profession and the facility so granted is based on standard procedures and norms for assessing the creditworthiness of the borrower. Such facility should be extended on commercial terms. As mentioned in the circular dated March 1, 1996, all credit proposals for Rs. 25 lakhs and above should be sanctioned by the bank’s Board of Directors/Management Committee of the Board. The proposals for less than Rs. 25 lakhs may be sanctioned by the appropriate authority in banks in terms of the powers delegated to them.

3. The above norms relating to grant of loans and advances will be equally applicable to award of contracts.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge