# CREDIT DELIVERY

## 📌 4.2 TYPES OF CREDIT FACILITIES 🏢

✔ Banks provide different types of credit facilities based on borrower requirements.

✔ These facilities are classified as basic types & variations.

### 📜 Categories of Credit Facilities

| 🔢 Basic Type | 📜 Variations |
|---|---|
| 1️⃣ Cash Credits (CC) | Lines of Credit |
| 2️⃣ Overdrafts (OD) | Bill Finance |
| 3️⃣ Demand Loans | Working Capital Demand Loans (WCDL) |
| 4️⃣ Term Loans | Working Capital Term Loans (WCTL), Deferred Payment Guarantees (DPG) |

| 🔢 Basic Type | 📜 Variations |
| --- | --- |
| 5️⃣ Letter of Credit (LC) | Standby Letter of Credit (SBLC) |
| 6️⃣ Bank Guarantees (BG) | Commercial Papers (CP) |

📌 **Key Point:**

- **Cash Credit (CC) & Overdraft (OD) provide flexible working capital financing.**
- **Demand Loans & Term Loans are structured with fixed repayment schedules.**
- **LCs & BGs are non-fund-based credit facilities (guarantees rather than cash loans).**

## 4.2.1 LOAN SYSTEM FOR DELIVERY OF BANK CREDIT

- To ensure **better credit discipline for big borrowers**, the Reserve Bank of India (RBI) has set a rule for companies that take large working capital loans from banks.
- This rule applies to businesses that have a total **fund-based working capital limit** of **Rs. 150 crore or more**.
- According to this rule, at least **60% of the total working capital limit** must be taken as a **loan component** (Working Capital Loan). This means:
  - If a company has a sanctioned working capital limit of Rs. 150 crore, at least **Rs. 90 crore (60%)** must be in the form of a loan.
  - The remaining **40%** can be taken as a **cash credit facility**, which allows more flexible withdrawals.

### Key RBI Guidelines:

- **Minimum Loan Component:** At least **60% of the sanctioned fund-based working capital limit** must be in the form of a **term loan**.

- **Remaining 40% can be Cash Credit (CC) limits** to meet fluctuating working capital needs.
- **Banks' investment in Commercial Papers (CPs) issued by the borrower counts toward the loan component.**
- **Exclusions:**
  - **Export credit limits (pre-shipment & post-shipment).**
  - **Bills finance for domestic sales.**

📌 **Objective of Loan Component System:**

- **Ensure borrowers utilize funds prudently.**
- **Reduce over-dependence on cash-credit facilities.**
- **Enhance financial discipline in working capital management.**

## 📜 4.2.2 GUIDELINES ON ENHANCING CREDIT SUPPLY FOR LARGE BORROWERS THROUGH MARKET MECHANISM 🏢

### 📌 RBI Guidelines for Large Borrowers 📄

✔ **To reduce over-reliance on bank credit, RBI has introduced the Normally Permitted Lending Limit (NPLL) for large**

**borrowers.**

✔ **Encourages large corporate borrowers to raise funds through market instruments (bonds, debentures, etc.) instead of relying solely on banks.**

📌 **Key Definition:**

- **Specified Borrower**: A borrower with total fund-based credit limits of **₹10,000 crore+ from the banking system** (Commercial Banks, RRBs, Co-operative Banks, & Indian banks abroad).

📌 **NPLL Requirement:**

- **In the financial year (FY) after becoming a "Specified Borrower", only 50% of incremental borrowing can be from banks.**
- **Remaining 50% must be raised through market instruments** like:
    - Bonds
    - Debentures
    - Redeemable Preference Shares
    - Non-credit liabilities (except equity)

💡 **Example:**

- **XYZ Ltd. had an ASCL of ₹10,500 crore in FY 2024.**
- **In FY 2025, it plans to borrow an additional ₹2,000 crore.**
- **Only ₹1,000 crore (50%) can be taken as bank loans, the remaining ₹1,000 crore must come from bonds or other instruments.**

## 📌 Penalty for Exceeding NPLL 🚨

✔ **If banks lend beyond the prescribed NPLL limit, they face additional regulatory charges:**

| 🔢 Risk Factor | 📜 Additional Regulatory Requirement |
|---|---|
| 1️⃣Higher Risk Weight 🚨 | 0.75% additional risk weight on the excess lending |
| 2️⃣Additional Provision Requirement 💰 | 3% additional provisioning on the excess lending |

💡 **Impact on Banks:**

- **Increased capital allocation for high-exposure lending.**
- **Discourages excessive dependence on bank loans for large borrowers.**

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## 📜 4.3 MODES OF CREDIT DELIVERY IN BANKING 🏢

### 📌 Types of Banking Credit Arrangements

✔ **Banks deliver credit through different arrangements based on the borrower's needs & risk assessment.**

✔ **There are four major credit delivery mechanisms:**

| 🔢 Mode of Credit Delivery | 📜 Description | 📌 Key Features |
| --- | --- | --- |
| 1️⃣ Sole Banking | Single bank meets all credit needs | Best for small & medium borrowers |

| 🔢 **Mode of Credit Delivery** | 📜 **Description** | 📌 **Key Features** |
|---|---|---|
| **2️⃣ Multiple Banking** | Borrower independently takes loans from multiple banks | No contractual relationship between banks |
| **3️⃣ Consortium Lending** | Group of banks collectively finance a large credit requirement | Common appraisal & shared risk |
| **4️⃣ Joint Lending Arrangement (JLA)** | Multiple banks lend together, especially for **₹150 crore+ loans** | Common terms, pricing, & lead bank coordination |

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## 📌 (a) Sole Banking Arrangement 🏢

✔ Only one bank provides the entire credit requirement of a borrower.

✔ Usually for small & medium businesses with good credit ratings.

✔ Bank exposure is limited based on RBI's Large Exposure Framework.

📌 Pros & Cons:

| ✅ Advantages | ❌ Disadvantages |
|---|---|
| Simpler & faster approvals | Bank faces higher risk (no shared risk) |
| Lower documentation & compliance | Limited credit availability due to exposure limits |

## 📌 (b) Multiple Banking System 🏢🏢🏢

✔ **Borrower takes loans from multiple banks separately.**

✔ **No contractual relationship between banks.**

✔ **Each bank assesses the borrower independently.**

📌 **Key Features:**

- Borrower **negotiates terms separately** with each bank.
- **No shared security** – each bank holds its own collateral.
- **Banks have no obligation to share borrower information** (leading to fraud risks).

📌 **RBI Guidelines (Sept 19, 2008):**

- Borrowers must **declare all existing credit facilities at the time of fresh loan applications.**
- Banks **must exchange borrower information quarterly** to prevent fraud.
- A **Due Diligence Report** from a professional (preferably a **Company Secretary**) must be obtained.

📌 **Pros & Cons:**

| ☑ Advantages | ✕ Disadvantages |
|---|---|
| More funding options for borrower | High fraud risk (no shared tracking) |
| Flexible loan terms from different banks | Higher documentation requirements |

📌 **(c) Consortium Lending** 🏢🔄🏢

✔ A group of banks jointly finance a large borrower.

✔ One bank acts as the "Lead Bank" & coordinates loan disbursal, monitoring, & recovery.

✔ Common terms, conditions, & shared risk among banks.

📌 Key Features:

- Better risk distribution among banks.
- Common appraisal & monitoring mechanism.
- Lead Bank manages documentation, inspections & loan approvals.
- Joint security arrangement (all banks share collateral).

📌 **RBI Guidelines on Consortium Lending:**

- **Asset classification should be based on individual bank records of recovery.**
- **If lead bank fails to distribute recovery proceeds to members, the loan can be classified as NPA for others.**

📌 **Pros & Cons:**

| ☑ Advantages | ✕ Disadvantages |
|---|---|
| Shared risk among banks | Decision-making is slow (multiple banks involved) |
| Standardized loan terms & documentation | Lead bank has no extra authority over members |

📌 **(d) Joint Lending Arrangement (JLA)** 🏢🤝🏢

✔ **Mandatory for large credit limits (₹150 crore+), involving multiple public sector banks.**

✔ **Minimum participation: ₹100 crore per bank (for loans of ₹1,000 crore+).**

✔ **Common loan terms & pricing across all member banks.**

📌 **Key Features:**

- **One Lead Bank** coordinates & monitors the loan.
- **Uniform terms & conditions** across all banks.
- **No bank can unilaterally change margin or waive penal interest.**
- **Mandatory for public sector banks when lending ₹150 crore+ to a single borrower.**

📌 **Pros & Cons:**

| ☑ **Advantages** | ✖ **Disadvantages** |
|---|---|
| **Ensures disciplined credit monitoring** | **Borrower cannot negotiate different terms with different banks** |

| ☑ Advantages | ✕ Disadvantages |
|---|---|
| Faster decision-making vs. consortium lending | Minimum bank participation rules make it less flexible |

## 📜 4.3.1 RBI Guidelines on Opening of Cash Credit/Overdraft Facilities 🏢

📌 RBI Guidelines for Opening CC/OD Accounts

✔ **RBI regulates how banks open & manage Cash Credit (CC) & Overdraft (OD) facilities to ensure financial discipline.**

✔ **Rules depend on the total exposure of the banking system to a borrower.**

📌 **Case 1: When Borrower's Total Bank Credit Exposure is Less than ₹5 Crore 💰**

- **No restrictions on opening CC/OD facilities.**

- **Bank must obtain an undertaking from the borrower that they will inform the bank if their credit exposure crosses ₹5 crore.**

**📌 Case 2: When Borrower's Total Bank Credit Exposure is ₹5 Crore or More 💰💰**

- **Different rules apply based on the bank's share in the borrower's total credit.**

| **Bank's Share in Total Exposure** | **RBI Guidelines for CC/OD Facility** |
|---|---|
| **Bank has 10% or more share** | **✅ Can provide CC/OD freely, no restrictions.** |
| **No bank has 10%+ exposure** | **✅ Bank with the highest exposure among CC/OD providing banks can offer CC/OD freely.** |

| Bank's Share in Total Exposure | RBI Guidelines for CC/OD Facility |
|---|---|
| Bank has less than 10% exposure | ✕ Debits from CC/OD can only go to CC/OD account with a bank having 10%+ exposure. |

📌 **Other Conditions:**

✔ **Credit balances in such CC/OD accounts cannot be used for repaying other loans, margin, or collateral.**

✔ **Banks can charge interest & fees before transferring funds to the borrower's main CC/OD account.**

✔ **Banks with less than 10% exposure can provide alternative loans like Working Capital Demand Loans (WCDL) or Working Capital Term Loans (WCTL).**

## 📜 4.3.2 Syndication Lending (Large Loan Financing) 🌍💰

✔ **Syndication is a method used to finance large projects or corporate acquisitions where a single bank cannot provide the entire loan.**

✔ **A group of banks (syndicate) collectively provide funds under a common loan agreement.**

✔ **One bank acts as a "Lead Manager" to coordinate the loan.**

📌 **Key Features:**

- Used for **large corporate loans, infrastructure projects, & international finance.**
- Helps **spread risk among multiple lenders.**
- **Borrowers get better pricing & flexibility.**
- **Lead Manager negotiates loan terms & ensures all lenders agree on documentation.**

📌 **Down-Selling:**

- **Lead bank may later sell part of its loan to other banks (reducing its exposure).**

- **Usually, down-selling is restricted until the project is fully implemented.**

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## 📌 Types of Syndicated Loans 📄

| 🔢 Syndication Type | 📜 Description | 📌 Key Features |
|---|---|---|
| **1️⃣ Best Effort Syndication** | Lead Bank tries to arrange the loan but does not guarantee full amount. | Common in the **USA**, loan size may be reduced if demand is low. |
| **2️⃣ Club Deal** | Small group of banks jointly provide a loan without a Lead Bank. | All banks share equal rights & fees. |
| **3️⃣ Firm Commitment / Underwritten Deal** | Lead Bank guarantees full loan amount & absorbs shortfall if lenders don't subscribe. | Common in **Europe**, higher fees due to risk. |

| 🔢 Syndication Type | 📜 Description | 📌 Key Features |
| --- | --- | --- |
| **4️⃣ Domestic vs. International Syndication** | **Domestic Loan:** Borrower & lenders are from the same country. **International Loan:** Loan currency differs from the borrower's country. | **Used in cross-border financing & large infrastructure projects.** |

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## 📌 Parties in a Syndicated Loan 🤝

✔ **Borrower** – Company or government seeking the loan.

✔ **Arranger/Syndicator** – Bank responsible for arranging the loan.

✔ **Lead Manager** – Main bank handling documentation & negotiations.

✔ **Participating Banks** – Lenders providing funds under the syndicate.

✔ **Agent Bank / Facility Manager** – Manages loan



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disbursements & repayments.

✔ **Guarantor** – Provides additional credit support if needed.

## 📜 4.4 CREDIT THRUST & PRIORITIES 📌

### ◈ 4.4.1 Credit Thrust Areas 🚀

✔ Credit Thrust Areas refer to **specific sectors or industries that banks and financial institutions prioritize for lending** to promote economic growth, social development, or financial inclusion.

✔ **Banks are required to lend to Priority Sector Lending (PSL) as per RBI guidelines.**

✔ **This ensures that vital sectors of the economy receive adequate credit flow.**

**Priority Sector Lending (PSL) Targets (as % of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher):**

## PRIORITY SECTOR LENDING NORMS

| | |
|---|---|
| **Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above** | |
| **Total Priority Sector** | 40 per cent of ANBC or CEOBE whichever is higher |
| **Agriculture** | 18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 per cent is prescribed for Small and Marginal Farmers (SMFs) |
| **Micro Enterprises** | 7.5 per cent of ANBC or CEOBE, whichever is higher |
| **Advances to Weaker Sections** | 12 per cent of ANBC or CEOBE, whichever is higher |
| **Foreign banks with less than 20 branches** | |

| | |
|---|---|
| **Total Priority Sector** | 40 per cent of per cent of ANBC or CEOBE whichever is higher; out of which up to 32 higher; However, per cent can be in the form of lending to exports and not less than 8 per cent can be to any other priority sector |
| **Agriculture** | Not applicable |
| **Micro Enterprises** | Not applicable |
| **Advances to Weaker Sections** | Not applicable |

| | |
|---|---|
| | **Regional Rural Banks** |
| **Total Priority Sector** | 75 percent of ANBC or CEOBE whichever is higher. |
| **Agriculture** | 18 per cent of ANBC or CEOBE, whichever is higher; out of which a target **of 10 percent is prescribed for SMFs** |
| **Micro Enterprises** | 7.5 per cent of ANBC or CEOBE, whichever is higher |

| | |
|---|---|
| **Advances to Weaker Sections** | 12 per cent of ANBC or CEOBE, whichever is higher |

| **Small Finance Banks** | |
|---|---|
| **Total Priority Sector** | 75 percent of ANBC or CEOBE whichever is higher. |
| **Agriculture** | 18 percent of ANBC or CEOBE whichever is higher, out of which a target of 10 percent is prescribed for SMFs |
| **Micro Enterprises** | 7.5 per cent of ANBC or CEOBE, whichever is higher |
| **Advances to Weaker Sections** | 12 per cent of ANBC or CEOBE, whichever is higher |

## 📌 Other Priority Sector Areas:

- ✔ **Export Credit** 📦
- ✔ **Housing Loans** 🏠 (Target fixed by RBI)
- ✔ **Education Loans** 🎓

✔ **Government-sponsored schemes (KVIC, SIDBI, etc.)** 🏢

✔ **Kisan Credit Cards (KCC)** 🌾 – Encouraged for faster loan disbursement.

✔ **Area-based lending schemes** 📍 – To support agriculture & allied activities.

🔶 **4.4.2 Credit Priorities** 🎯

✔ **Banks prioritize credit based on two key factors:**

**1️⃣Credit Quality (Risk Rating)**

**2️⃣Loan Pricing (Interest Rate & Profitability Potential)**

💡 **Example:**

- **AAA-rated loans = Low Risk, Low Interest Rate (Low Profit Margin).**
- **Lower-rated loans = Higher Risk, Higher Interest Rate (Higher Profit).**

📌 **Credit Portfolio Strategy:**

✔ Mix of different credit risk levels to balance profit & risk.

✔ Strict internal policies (hurdle ratings) to filter loan applicants.

✔ Lower-rated borrowers may be approved only for secured loans (e.g., Gold Loans, Financial Securities).

## 🔶 4.4.3 Tenure of Credit ⏳

✔ Banks primarily deal in short-to-medium-term loans.

✔ Longer-tenure loans carry higher risks (e.g., market fluctuations, inflation, credit risk).

✔ Asset Liability Committee (ALCO) monitors the term exposure of banks.

📌 **Typical Loan Tenures:**

| Loan Type | Typical Tenure |
|---|---|
| **Short-term Loans** | 3 months - 3 years |

| Loan Type | Typical Tenure |
|---|---|
| **Medium-term Loans** | 3 years - 7 years |
| **Long-term Loans** | 7 years - 15 years (Mostly for Infrastructure Loans) |

📌 **Key Considerations for Loan Tenure:**

✔ **Longer loans = Higher uncertainty & risk.**

✔ **Commercial banks focus on short-term loans.**

✔ **Infrastructure loans (long tenure) require special risk assessment.**

✔ **Term loan exposure limits are set in the bank's Credit Policy.**

## 📜 4.5 CREDIT ACQUISITIONS & REGULATORY RESTRICTIONS 📌

### ◈ 4.5 CREDIT ACQUISITIONS 🏢

✔ Credit acquisition refers to the process of acquiring loan assets (borrowers) by a bank.

✔ This can happen in two ways:

1️⃣ Primary Acquisitions (Organic Growth) 🌱

2️⃣ Secondary Acquisitions (Inorganic Growth) 🚀

### 📌 4.5.1 Primary Acquisitions (Organic Growth) 🌱

✔ New customer onboarding & loan disbursement through:

- Sole banking arrangements 🏢
- Consortium lending 🤝
- Multiple banking arrangements 🏢🏢
- Loan syndication 📜

## 📌 4.5.2 Secondary Acquisitions (Inorganic Growth) 🚀

✔ This involves acquiring existing loan accounts from other banks.

✔ This is common when customers switch banks for better terms.

📌 RBI Guidelines on Loan Takeover 🔍

✔ Banks must have a Board-approved policy for loan takeovers.

✔ Policy should include:

- Types of accounts that can be taken over
- Approval authority levels
- Monitoring mechanism
- Staff accountability (for quick mortality cases)
- Periodic review by Board/Top Management

✔ Before taking over an account, the new bank (transferee bank) must obtain:

- Credit information from the old bank (transferor bank).

- Irregularity reports in the borrower's account.

## 📌 4.5.2.1 RBI's Master Direction on Loan Transfers (2021) 🏢📜

✔ RBI issued a new framework for loan transfers on September 24, 2021.

✔ Key points:

- Banks must have a Board-approved policy for loan transfers.
- Clear due diligence & valuation guidelines required.
- Strong IT systems must be in place for loan tracking.
- Independent risk management team must oversee acquisitions.
- Board-level oversight on all loan transfer decisions.

## 💠 4.6 STATUTORY & REGULATORY RESTRICTIONS 📜

✔ Banks must comply with RBI & other regulatory restrictions when granting loans.

✔ **A few key restrictions include:**

📌 **1️⃣ Lending Limits on a Single Borrower & Group Borrowers:**

- **Single borrower exposure limit = 20% of bank's Tier 1 capital.**
- **Group borrower exposure limit = 25% of bank's Tier 1 capital.**

📌 **2️⃣ Loans to Directors & Relatives Prohibited:**

- **Banks cannot lend to their own directors & relatives.**

📌 **3️⃣ Restriction on Loans Against Bank Shares:**

- **Banks cannot give loans against their own shares.**

📌 **4️⃣ Priority Sector Lending (PSL) Requirements:**

- **Banks must lend a certain % of loans to Agriculture, MSMEs, Weaker Sections.**

📌 **5️⃣ Statutory Liquidity Ratio (SLR) & Cash Reserve Ratio (CRR):**

- **Banks must maintain a portion of their deposits in liquid assets (SLR) & cash reserves (CRR).**