

January 21, 2009

Chief Executive Officer  
All Primary Urban Co-operative Banks  
(As per List)

Dear Sir,

**Lending under Consortium Arrangement / Multiple Banking Arrangements**

As you are aware, various regulatory prescriptions regarding conduct of consortium / multiple banking / syndicate arrangements were withdrawn by Reserve Bank of India in October 1996 with a view to introducing flexibility in the credit delivery system and to facilitate smooth flow of credit. However, Central Vigilance Commission, Government of India, in the light of frauds involving consortium / multiple banking arrangements which have taken place recently, has expressed concerns on the working of Consortium Lending and Multiple Banking Arrangements in the banking system. The Commission has attributed the incidence of frauds mainly to the lack of effective sharing of information about the credit history and the conduct of the account of the borrowers among various banks.

2. The matter has been examined by us in consultation with the Indian Banks Association who are of the opinion that there is need for improving the sharing / dissemination of information among the banks about the status of the borrowers enjoying credit facilities from more than one bank. Accordingly, the banks are encouraged to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks as under:

(i) At the time of granting fresh facilities, banks may obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks in Annex I. In the case of existing lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of Rs.5.00 crore and above or wherever, it is in their knowledge that their borrowers are availing credit facilities from other banks, and introduce a system of exchange of information with other banks as indicated above.

(ii) Subsequently, banks should exchange information about the conduct of the borrowers' accounts with other banks in the format given in Annex II at least at quarterly intervals.

(iii) Obtain regular certification by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in Annex III.

(iv) Make greater use of credit reports available from CIBIL.

(v) The banks should incorporate suitable clauses in the loan agreements in future (at the time of next renewal in the case of existing facilities) regarding exchange of credit information so as to address confidentiality issues.

3. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

(A.K.Khound)  
Chief General Manager-in-Charge

Annex - I

**Minimum Information to be Declared by Borrowing Entities to Banks while Approaching for Finance under Multiple Banking Arrangement**

**A. Details of borrowing arrangements from other banks (institution wise)**

I.	Name and address of bank / institution	
II.	Purpose for which borrowed	
III.	Limit sanctioned (full details to be given, e.g. working capital / demand loan / term loan / short term loan) / foreign currency loan, corporate loan / line of credit / Channel financing contingent facilities like LC, BG, DPG (I & F) etc. Also, state L/C bills discounting / project wise finance availed)	
IV.	Date of sanction	
V.	Present outstanding	
VI.	Overdues position, if any	
VII.	Repayment terms (for demand loans, term loans, corporate loans, project - wise finance)	
VIII.	Security offered (complete details of security both primary and collateral including specific cash flows assigned to project wise finance / loan raised & personal / corporate guarantee, to be furnished)	
IX.	Requests for facilities which are under process	
[The information to be given for domestic and overseas borrowings from commercial banks, Financial Institutions and NBFCs]		

**B. Miscellaneous Details**

I.	CPs raised during the year and current outstanding	
II.	Details of financing outside banking system e.g. L/C Bills discounting	
III.	Main and allied activities with locations	
IV.	Territory of sales and market share	
V.	Details of financial aspects incl. DSCR Projections wherever applicable as per requirement of bank - Imp. Financial covenants, if any, agreed to / accepted with other lenders.	
VI.	CID A/cs, within / outside financing banks, being operated, if any	
VII.	Demands by statutory authorities / current status thereof	
VIII.	Pending litigations	
IX.	A declaration authorizing the bank to share information with other financing banks	

**Revised Format under Multiple Banking Arrangement Credit Information Exchange**

Part - I

**(Bio Data)**

I.	Borrowing party's name and address	
II.	Constitution	
III.	Names of Directors / Partners	
IV.	Business activity	
	* Main	
	* Allied	
V.	Names of other financing banks	
VI.	Net worth of Directors / Partners	
VII.	Group affiliation, if any	
VIII.	Date on associate concerns, if banking with the same bank	
IX.	Changes in shareholding and management from the previous report, if any	

Part - II

**(Financial)**

I.	IRAC Classification	
II.	Internal Credit rating with narration	
III.	External Credit rating, if any	
V.	Latest available Annual Report of the borrower	As on -----

Part - III

**(Exposure Details)**

I.	Type of credit facilities, e.g. working capital loan / demand loan / term loan / short term loan / foreign currency loan, corporate loan / line of credit / Channel financing, contingent facilities like LC, BG & DPG (I & F) etc. Also, state L/C bills discounting / project wise finance availed).	
II.	Purpose of loan	
III.	Date of loan facilities (including temporary facilities)	
IV.	Amount sanctioned (facility wise)	
V.	Balance outstanding (facility wise)	
VI.	Repayment terms	
VII.	Security offered	
	* Primary	
	* Collateral	
	* Personal / Corporate Guarantees	
	* Extent of control over cash flow	
VIII.	Defaults in term commitments / lease rentals / others	
IX.	Any other special information like court cases, statutory dues, major defaults, adverse internal / external audit observations	

Part - IV

**(Experience)(\*)**

I.	Conduct of funded facilities (based on cash management / tendency to overdraw)	
II.	Conduct of contingent facilities (based on payment history)	
III.	Compliance with financial covenants	
IV.	Company's internal systems & procedures	
V.	Quality of management	
VI.	Overall Assessment	
(The above to be rated as good, satisfactory or below par only)		
(*) Broad guidelines for incorporating comments under this head is furnished in the next page		

**Broad Guidelines for Incorporating Comments under Part - IV  
(Experience) of the Credit Information Report**

		Good	Satisfactory	Below Par
<b>I.</b>	<b>Conduct of funded facilities</b>			
*	Overdrawings (No. of times)	Upto 4 times	5 to 6 times	Above 6 times
*	Average period of adjustment	Within 1 month	Within 2 months	Beyond 2 months
*	Extent of overdrawings (% of limit)	Upto 10%	10 to 20%	Above 20%
<b>II.</b>	<b>Conduct of contingent facilities</b>			
*	No. of Defaults	Upto 2 times	3 to 4 times	Above 4 times
*	Average period of adjustment	Within 1 week	Within 2 weeks	Beyond 2 weeks
<b>III.</b>	<b>Compliance with financial covenants</b>			
*	Stock statement / Financial data	Timely	Delay upto 15 days	Delay over 15 days
*	Creation of charge	Prompt	Delay upto 2 months	Delay over 2 months
<b>IV.</b>	<b>Company's internal systems and procedures</b>			
*	Inventory Management	Adequate systems are in place	Adequate systems are in place but not adhered	Adequate systems are not in place
*	Receivables Management	- do -	- do -	- do -
*	Resource Allocation	- do -	- do -	- do -
*	Control over Information	- do -	- do -	- do -
<b>V.</b>	<b>Quality of management</b>			

	*	Integrity	Reliable	Nothing adverse	Cannot be categorized in previous columns
	*	Expertise Competence / Commitments	Professional & visionary	Have necessary experience	-do-
	*	Tract Record	Timely	Executions /	-do-

Annex - III

Part - I

**Diligence Report**

To, The Manager,  
 \_\_\_\_\_ (Name of the Bank)

I / We have examined the registers, records, books and papers of \_\_\_\_\_ Limited (the Company) as required to be maintained under the Companies Act, 1956 (the Act) and the rules made thereunder, the provisions of various statutes, wherever applicable, the provisions contained in the Memorandum and Articles of Association of the Company as well as the provisions contained in the Listing Agreement/s, if any, entered into by the Company with the recognized stock exchange/s, as may be applicable for the half year ended on \_\_\_\_\_. In my / our opinion and to the best of my / our information and according to the examination carried out by me / us and explanations furnished to me / us by the Company, its officers and agents. I / We report that in respect of the aforesaid period :

1. the management of the Company is carried out by the Board of Directors comprising the following persons :

During the period under review the following changes took place :

2. the shareholding pattern of the company is as under :

During the period under review the following changes took place :

3. the company has altered the following provisions of
  - (i) the Memorandum of Association during the period under review and has complied with the provisions of the Act.
  - (ii) the following Articles of Association during the period under review and has complied with the provisions of the Act.

4. the company has during the period under review, entered into the following transactions with business entities in which directors are interested.



5. the company has during the period under review, advanced loans, given guarantees and provided securities amounting to Rs. \_\_\_\_\_ to its directors and / or persons or firms or companies in which directors are interested.
6. the Company has during the period under review, made loans and investments; or given guarantees or provided securities to other business entities as under :
7. the amount borrowed by the Company from directors, members, public, financial institutions, banks and others during the period under review is / are within the borrowing limits of the Company. The break up of the company's borrowings are as under :
8. the Company has during the period under review, not defaulted in the repayment of any public deposits or unsecured loans and the Company or its Directors are not under the Defaulter's list of Reserve Bank of India or in the Specific Approval List of ECGC.
9. the Company has during the period under review, created, modified or satisfied charges on the assets of the company as under :
10. the Forex exposure and Overseas Borrowings of the company are as under"
11. the Company has issued, offered and allotted all the securities to the persons entitled thereto and has also issued letters, coupons, warrants and certificates thereof to the concerned persons and also redeemed its preference shares / debentures and bought back its shares (wherever applicable) in compliance with the specified procedures and within the stipulated time.
12. the Company has insured all its secured assets.
13. the Company has complied with the terms and conditions, set forth by the lending institution at the time of availing the facility and also during the currency of the loan and has utilized the funds for the purposes for which these were borrowed.
14. the Company has declared and paid dividends to its shareholders as per the provisions of the Companies Act, 1956.
15. the Company has insured fully all its assets.
16. the Company / Directors are not in the willful defaulters' list of RBI.
17. the Company / Directors are not in the Specific Approval List of ECGC.
18. the Company has paid all its Statutory dues and that there are no arrears.
19. the Company has complied with the terms and conditions, set forth by the lending institution at the time of availing any facility and also during the currency of the loan.
20. the Company has used the funds for the purpose for which it borrowed.
21. the Company has declared and paid dividends to its shareholders, as per the provisions of the Companies Act.

22. the Company has complied with the provisions stipulated in Section 372 A of the Companies Act in respect of its Inter Corporate loans and Investments.

23. the Company has complied with the applicable and mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

24. the Company has credited and paid to the Investor Education and Protection Fund all the unpaid dividends and other amounts required to be so credited.

25. a list of prosecutions initiated against or show cause notices received by the Company for alleged offences under the Act and also the fines and penalties or any other punishment imposed on the Company in such cases is attached.

26. the Company has complied with the various clauses of the Listing Agreement, if applicable.

27. the Company has deposited both Employees' and Employer's contribution to Provident Fund with the prescribed authorities.

**Note** : The qualification, reservation or adverse remarks, if any, may be stated at the relevant place(s).

Place :  
Date :

Signature :  
Name of Company Secretary :  
C.P. No.:

Part - II

**Certification of Borrowal Companies by Chartered Accountants / Company Secretaries**

- i. Terms of reference for stock audit are to be spelt out clearly by the Banks, so that the Chartered Accountants can give focused attention to such areas.
- ii. End-use verification of funds lent, if certified by Statutory Auditors, will be a good comfort to the Banks.
- iii. As Banks quite often deal with unlisted companies, disclosure requirements for such companies above a specific turnover may be made akin to those for listed companies, viz. consolidated balance sheet, segmental reporting etc. Information on large shareholding also will be useful.
- iv. Further, the following additional certification either from Chartered Accountant or Company Secretary may also be thought of :-
  - (a) Company Directors not figuring in defaulters list (RBI / ECGC) / willful defaulters list etc.)
  - (b) Details of litigation above a specified cut off limit.
  - (c) A specific certificate, probably from the Company Secretary, regarding compliance with Sec. 372 (a) of the Companies Act.
  - (d) Details of creation / modification / satisfaction of charges on the assets of the company, position regarding insurance, show cause notices received, finds and penalties awarded.
- v. As regards rotation of Auditors, for the sake of operational convenience, it is suggested they may be changed once every 5 years instead of every 3 years.
- vi. In order to avoid concentration, group companies may have different Statutory / Internal Auditors in case group turnover exceeds Rs.100 crores.