

F.No.3/45/2011-AC
Government of India
Ministry of Finance
Department of Financial Services
(AC Section)

*Jeevan Deep Building, Parliament Street,
New Delhi, dated 17th November, 2011*

To

1. CMDs of All Public Sectors Banks
2. CEOs/MDs of ICICI Bank, HDFC Bank, Axis Bank and Yes Bank
3. Chairman, NABARD, HO: Mumbai

Subject: Cash Credit Limit to SHGs

As per Master Circular No.RPCD.CO.Plan.BC 10/04.09.01/2011-12 dated 1st July,2011 of the Reserve Bank of India, SHGs are a means to facilitate Financial Inclusion and access of banking credit to the poor. It has been brought to the notice that, at present, most of the funding to Self Help Groups (SHGs) is done by way of project based term loans.

2. *Keeping the guidelines of the Reserve Bank of India in view and to give a major thrust to formation and linkage of SHGs, following has been decided:-*

(a) Credit to SHGs

(i) The present practice of giving term loans has a cost to the bank because of high number of transactions and documentation required for it. That takes away lot of precious time of the staff of the branch. Similarly, it costs time and inconvenience to the group members as they have to come repeatedly to the branch for documentation and also save to keep separate accounts for repaying each loan.

(ii) Keeping the above in mind, it has been decided that henceforth all SHGs will be sanctioned only cash credit limit. The groups will extend loans to their members as per the guidelines of the RBI and NABARD. The SHGs shall ensure that they make payments of interest for this cash credit limit each month.

(iii) This measure will also reduce average cost of money to SHGs as they would be able to deposit surplus money in the bank as and when they have.

(iv) In so far as existing SHGs are concerned, their term loans shall be converted into cash credit limit by 31st December,2011.

(v) NABARD will ensure that their DDMs work closely with the Nodal Officer of the Lead Bank in each district and ensure compliance of the same.

(b) Amount of Sanction

(i) The guidelines laid down by the RBI permits sanction of credit in the ratio of 1:4. To simplify procedures, the banks will sanction cash credit limit for the amount which a Group will be entitled to have in the ratio of 1:4 after savings of 5 years. However, disbursement limit would be sanctioned after six months and thereafter reviewed each year in the ratio of savings as prescribed by the RBI. This will help to avoid repeated documentation which involves lot of activity for the Group as well as for the branch of the bank.

(ii) NABARD will ensure that this is discussed and conveyed to all bank branches in all districts of India immediately and in case of existing accounts, the same procedure will be followed.

(iii) Wherever internal guidelines of the bank permits to go beyond the ratio of 1:4, the same will be applied in all cases-existing and new.

3. All banks and NABARD are advised to issue internal guidelines accordingly.

Yours faithfully,

Sd-

(M.S.Azad)

Under Secretary(AC)

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