

# STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...  
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September 2017

Theme 310

**PRIORITY SECTOR LENDING CERTIFICATES**

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SIB PRESENTS

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**Theme No: 310: Priority Sector Lending Certificates**

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A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the “Forum”. This month the topic for discussion is “Priority Sector Lending Certificates”.

**1. What is Priority Sector Lending Certificates (PSLC)?**

The Scheduled Commercial banks, Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks and Urban Co-operative Banks who have originated PSL eligible category loans subject to such regulations as may be issued by the RBI may issue ‘Priority Sector Lending Certificates’ (PSLC) for the amount of these loans. Normally PSLC will be issued against the underlying assets. Banks to self – certify the certificates subject to periodic random monitoring of issuance of such certificates from the authority. There will be no transfer of risks or loan assets. The PSL certificates so issued can be bought by the other banks who find the shortfall in fulfilling the Priority Sector Lending (PSL) targets / sub-targets. The fee income received on sale of PSLC incentivize the surplus banks, thereby enhancing lending to the categories under priority sector.

**2. How the limit for issuance of each category of PSLC is decided?**

The PSL certificates are issued in four different categories:-

- i. PSLC Agriculture: Counting for achievement towards the total agriculture lending target.
- ii. PSLC SF/MF: Counting for achievement towards the sub-target for lending to Small and Marginal Farmers.
- iii. PSLC Micro Enterprises: Counting for achievement towards the sub target for lending to Micro Enterprises.
- iv. PSLC General: Counting for achievement towards the overall priority sector target.

The targets and sub-targets set under priority sector lending for all scheduled commercial banks and foreign banks operating in India are furnished below:

<b>Categories</b>	<b>Domestic scheduled commercial banks and Foreign banks with 20 branches and above</b>	<b>Foreign banks with less than 20 branches</b>
Total Priority Sector	40 per cent of Adjusted Net Bank Credit (ANBC). Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018.	40 per cent of Adjusted Net Bank Credit in a phased manner by 2020.
Agriculture	18 per cent of ANBC. Within the 18 per cent target for agriculture, a sub-target of 8 per cent of ANBC is prescribed for Small and Marginal Farmers. Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018.	Not applicable
Micro Enterprises	7.5 percent of ANBC. The sub-target for Micro Enterprises for foreign banks with 20 branches and above would be made applicable post 2018.	Not Applicable
Advances to Weaker Sections	10 per cent of ANBC. Foreign banks with 20 branches and above have to achieve the Weaker Sections Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018.	Not Applicable
Export Credit	Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC subject to a sanctioned limit of up to ₹ 25 crore per borrower to units having turnover of up to ₹ 100 crore. For Foreign banks with 20 branches and above the incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC.	Export credit will be allowed up to 32 per cent of ANBC

The PSLC certificates will have a standard lot size of ₹ 25 lakh and multiples thereof. The banks can buy specific category of PSLCs to the extent of deficit in target / sub-target to be achieved by them as mentioned above.

### **3. How the PSLC transactions are computed for determination of PSL target / sub-targets?**

The PSLC instruments of different categories would be traded at PSLC market through e-kuber portal of RBI. The face value of PSLC would denote the equivalent of the PSL that would get deducted from the PSL portfolio of the seller and added to the PSL portfolio

of the buyer. The buyer would pay a fee to the seller which will be market determined. The fee paid for purchase of the PSLC would be treated as an 'Expense' by the buyer and the fee received for the sale of PSLCs would be treated as 'Miscellaneous Income' by the seller.

Both the buyers and sellers of the PSLCs shall submit the report, having the details of sum of outstanding priority sector advance in their books, the position of PSLCs bought and sold as of the reporting date to Reserve Bank of India towards fulfillment of their targets. Both seller and buyer shall report the amount of PSLCs (category-wise) sold and purchased during the year in the 'Disclosures to the Balance Sheet'.

The computation will be done separately where sub targets are prescribed as on the reporting date. In case of any shortfall is experienced after trading of PSLCs in achieving the targets or sub-targets, such banks are required to cover the extent of shortfall by investing in RIDF and other funds as hither to.

#### **4. Whether the loan assets or risks of loan defaults are transferred alongside the selling of PSLCs?**

The PSLCs are traded without transferring either the risks or the loan assets to the buyers. The loans would still be on the books of the original lender. No loss would be passed on to the buyer of the certificate in case of loan defaults.

#### **5. Is there any expiry date to PSLCs issued by a bank?**

All PSLCs will expire by March 31st and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold. For example, PSLC purchased by a bank on 30<sup>th</sup> March is valid only up to 31<sup>st</sup> March of that year. On 1<sup>st</sup> of April, the original priority sector lending position of the bank will be back to square as addition / deletion of PSLC amount to the original lending shown on reporting date 31<sup>st</sup> March, will be removed. Let us understand this with two illustrations:

- a) Bank A sell PSLCs with a nominal value of Rs 100 crores to Bank B on July 15, 2016. Bank B will reckon Rs 100 crore towards its priority sector achievement as on the reporting dates of September 30, 2016, December 31, 2016 & March 31, 2017, while Bank A will subtract the same from its achievement figures for the respective reporting dates. The PSLC will expire by March 31, 2017.
- b) Bank C buy Rs 100 crore PSLC on March 30, 2017 from Bank D. Bank D will subtract Rs 100 crore from its PSL reporting on March 31, 2017 while Bank C will reckon the same towards its achievement. The PSLC will expire by March 31, 2017.

#### **6. How scheme is beneficial to the original lender who sells PSLCs?**

The scheme allows the efficient lenders who has surplus after achieving the target in certain category of PSL, to sell such surplus lending in the form of PSLCs at a market determined fee. The fee so collected from selling the PSLC is an extra income to the original lender in addition to usual interest income from the loans. The PSLCs sold would

expire on the last day of the financial year (31<sup>st</sup> March). The lender of Priority sector loans are eligible to issue fresh PSLCs in the next financial year to the extent of 50 per cent of their PSL achievements in the previous year without having the underlying assets in its books. However, as on the reporting date, the bank must have met the priority sector target by way of the sum of outstanding priority sector lending portfolio and net of PSLCs issued and purchased.

**7. Whether PSLC – Weaker Sections or PSLC – Export Credit can be traded?**

There are only four eligible categories of PSLCs i.e. PSLC General, PSLC Small and Marginal Farmer, PSLC Agriculture & PSLC Micro Enterprises.

**8. If a particular PSLC which has been traded by the bank, is identified as ineligible then in that case what provisions are available?**

The misclassifications if any, will have to be reduced from the achievement of PSLC seller bank only. There will be no counterparty risk for the PSLC buyer even if, the underlying asset of the traded PSLC gets misclassified.

**9. Whether Export Credit form a part of PSLC ‘General’ and whether banks’ surplus in Export Credit can be sold as PSLC ‘General’? Can foreign banks with less than 20 branches reckon PSLC General towards the incremental target for lending to sectors other than exports beyond the overall target of 32 per cent?**

‘Export Credit’ forms a part of underlying assets against the PSLC - General. However, any bank issuing PSLC-General against ‘Export Credit’ shall ensure that the underlying ‘Export Credit’ portfolio is also eligible for priority sector classification by domestic banks.

Foreign banks with less than 20 branches are not allowed to reckon PSLC General towards fulfilment of their incremental target for lending to sectors other than exports beyond the overall target of 32 per cent. However, such banks are allowed to reckon PSLC Agriculture, PSLC Micro Enterprises and PSLC SF / MF for the same.

**10. How the charges/commission shall be paid through E-Kuber portal or separate RTGS is required to be made?**

There will be real time settlement of the matched premium and respective current accounts of the participating banks with RBI will be debited/ credited to the extent of matched premium accordingly.

**11. Will there be automatic matching of trades or can the buyer/seller select the counterparty? Will partial matching also happen?**

The order matching will be done on anonymous basis through the portal and the buyer/ seller cannot select the counterparty. Partial matching will happen depending on the matching of premium and availability of category wise PSLC lots for sale and purchase.





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