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RESERVE BANK OF INDIA

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Reserve Bank of India (Rural Co-operative Banks - Concentration Risk Management) Directions, 2026 – Draft for comments

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Introduction

The concentration of a bank's exposures to its counterparties and different sectors of the economy poses significant risks to it and its depositors. Concentration of exposures of Rural Co-operative Banks (RCBs) are subject to prudential norms issued from time to time under Credit Monitoring Arrangements (CMA) and other regulatory instructions. It has been decided to review these norms in the backdrop of evolution in the activities of RCBs and the need to have broader alignment of their regulation with those of other regulated entities. The revised norms are contained in these Directions.

In exercise of the powers conferred by Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India (RBI) in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

1. Short Title and Commencement

(1) These Directions shall be called the Reserve Bank of India (Rural Co-operative Banks - Concentration Risk Management) Directions, 2026.

(2) These Directions shall come into effect on April 1, 2027.

2. Applicability

These Directions shall be applicable to Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as 'RCB').

In this context, rural co-operative banks shall mean State Co-operative Banks and Central Co-operative Banks, as defined in the National Bank for Agriculture and Rural Development Act, 1981.

3. Definitions

(1) In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them in the ensuing paragraphs.

(i) "**Central co-operative bank**" and "**State co-operative bank**" shall have the same meanings assigned to them as in the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981).

(ii) **Commercial Real Estate-Residential Housing (CRE-RH) loans** for the purpose of these Directions shall mean loans to builders / developers for residential housing projects (except for captive consumption). Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10 per cent of the total Floor Space Index (FSI) of the project. CRE-RH loans will also include loans to co-operative / group housing societies for their redevelopment.

(iii) "**Credit Exposure**" shall comprise of higher of sanctioned limit or outstanding amount of funded and non-funded credit facilities and underwriting and similar commitments. This shall also include any loan granted by an RCB out of the refinance assistance availed by it from its higher financing agencies (except where specifically excluded). Further, in case of fully drawn term loans, where there is no scope of re-drawal of any portion of the sanctioned limit, a RCB may reckon the outstanding for arriving at credit exposure limit. In respect of non-funded credit limit, 100 per cent of such limit or outstanding, whichever is higher, need be taken into account for the purpose.

(iv) "**Exposure**" for the purpose of these directions shall mean the sum of credit exposure and investment exposure.

(v) **"Group of counterparties"** shall mean counterparties belonging to a group as specified by the internal policies of an RCB.

Explanation: RCBs shall define a group of counterparties as per their Board-approved policy, taking into account the following principle:

Entities having one or more of the following attributes (non-exhaustive list) may be considered as part of a group:

(1) Common ownership and management
(2) One entity has effective control on the other
(3) The different partnership firms with one or more common partners engaged in the same line of business, viz., manufacturing, processing, trading activity, etc.
(4) Business of one entity is dependent on other
(5) Multiple persons / entities having loans guaranteed by the same person

(vi) **"Investment Exposure"** shall include non-SLR securities as prescribed under Chapter VII "Investments in non-SLR Securities" of the Reserve Bank of India (Rural Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

(vii) **Real Estate Sector Exposure** for the purpose of these Directions shall comprise of (a) housing loans to individuals for Construction / purchase of houses / flats; (b) loans to individuals for repairs, alternations and additions to houses / flats; (c) CRE-RH loans; (d) Loans for housing schemes to eligible borrowers as per para 61 and 62 of the Reserve Bank of India (Rural Cooperative Banks – Credit Facilities) Directions, 2025; and (e) Investment exposure to real estate sector.

(viii) "**Tier-I Capital**" as on March 31 of the preceding financial year shall be reckoned for the purpose of fixing the exposure limits. "Tier-I capital" for the purpose will be the same as that prescribed under Chapter II of the Reserve Bank of India (Rural Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

(ix) **“Unsecured Advances”** shall mean loans and advances, or a portion thereof, not covered by the realisable value of a security (primary as well as collateral) to which the UCB has a valid recourse.

Explanation 1: The realisable value of security shall be estimated on a realistic basis.

Explanation 2: Clean overdrafts; loans against personal guarantee; clean bills purchased or discounted; cheques purchased; and drawals allowed against cheques sent for collection shall be treated as unsecured advances.

Explanation 3: Advances granted to salaried employees against their personal guarantee may be treated as secured advances, if the RCB has a legally enforceable agreement with the borrower and the employer of the borrower which ensures deduction of periodic loan instalments by the employer out of the employee's salary / wages to meet the RCB's claims.

Explanation 4: Advances against receivables shall be treated as secured advances provided that such receivables ab initio have a tenure of not more than 180 days.

(2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II - Exposure Norms

4. Role of the Board

An RCB shall put in place a comprehensive Board-approved policy, which shall include *inter-alia* the aspects specified below. The specific aspects to be addressed in this policy are detailed in the relevant paragraphs of these Directions.

(1) Exposure limits to a single counterparty or group of counterparties within the prescribed prudential limits.

(2) Guidelines for determining a group of counterparties.

(3) Exposure limits for specific sectors along with specification of sectors.

5. Exposure limit to a single or group counterparty

(1) The sum of all exposures of an RCB to a single counterparty and a group of counterparties shall not be higher than 20 per cent and 25 per cent, respectively of its Tier-I capital.

Provided that exposure of an RCB to a single Primary Agricultural Credit Society (PACS) shall not exceed 30 per cent of its Tier-I capital, subject to relevant provisions of State Co-operative Society Act.

Provided further that an RCB may prescribe a lower limit within the above exposure limits in its Board approved policy.

(2) Following exposures shall be exempted from the limits specified in sub-paragraph (1):

(i) exposures towards food credit through food credit consortium

(ii) loans and advances granted against the security of an RCB’s own term deposits with sufficient margin availability

(3) Exposures which are in breach of the limits specified in sub-paragraph (1) above as on April 1, 2027 shall be subject to the following conditions:

(i) No fresh limits shall be sanctioned to such borrowers till the exposures are brought within the exposure ceilings specified in sub-paragraph (1).

(ii) Notwithstanding Sl. No. (i) above, outstanding term loans and non-fund-based facilities in respect of such borrowers may run-off till maturity as per the originally sanctioned terms and conditions / repayment schedule.

(iii) Limits on cash credit or revolving facilities of similar nature already sanctioned, may be allowed to be utilised. However, such limits may be rationalised with a view to meet the prescribed exposure limit in a time bound manner, which shall not in any case exceed three years from the date of applicability of these Directions, in consultation with the borrower.

6. Sectoral Exposure Limits

(1) An RCB shall identify and specify various sectors and sub-sectors to which it takes exposures or plans to take exposure as per its business model. Such sectors may be specified on the basis of segments of economy, homogenous borrower groups, homogenous economic activity or any other rational criteria.

(2) RCBs shall fix internal limits for their aggregate exposure to specific sectors and sub-sectors, if any, to contain the sectoral concentration concerns. These sectoral limits shall be fixed based on the RCB's assessment of sectoral performance and associated risk perceptions.

(3) Exposure limits towards real estate sector shall be within the prudential limits prescribed in paragraph 7 of these Directions.

7. Aggregate limit for Exposure towards Real Estate Sector

(1) The aggregate exposure of an RCB to real estate sector shall not exceed 15 per cent of its total loans and advances.

Provided that aggregate exposure to real estate sector other than housing loans to individuals shall not exceed 5 per cent of the total loans and advances.

(2) Exemptions from Aggregate exposure limits:

(i) The above aggregate limits may be exceeded to the extent of funds obtained for the purpose from the higher financing agency and refinance from the National Housing Bank.

(ii) Housing loans extended by an RCB to its own staff, which are fully covered by superannuation benefits and mortgage of flat / house, may be excluded while calculating aggregate exposure to real estate sector.

(3) For the purpose of sub-paragraph (1), the total loans and advances shall be reckoned based on the audited balance sheet as on March 31 of the preceding financial year.

(4) An RCB, in view of its primary role of lending for activities related to agriculture and rural development, shall desist from extending any real estate exposures apart from those specifically permitted in these Directions.

(5) The treatment of exposures to real estate sector as on April 1, 2027 which are in breach of the requirements of paragraph 7 (1) shall be as per sub-paragraph (3) of paragraph 5.

8. Aggregate limit on unsecured advances

The aggregate unsecured advances granted by an RCB shall not exceed 15 per cent of its total loans and advances. The total loans and advances shall be reckoned based on the audited balance sheet as on March 31 of the preceding financial year. The treatment of unsecured advances as on April 1, 2027 which are in breach of the requirements of this paragraph shall be as per sub-paragraph (3) of paragraph 5.

9. Inter - bank deposit

The deposits maintained by an RCB with any single bank shall not exceed 25 per cent of its Tier-I capital.

Provided that the deposits maintained by a Central co-operative bank with the State co-operative bank of the state concerned shall be exempted from above limits.

Chapter III - Repeal and other provisions

10. Repeal and saving

(1) With the commencement of these Directions, the Reserve Bank of India (Rural Co-operative Banks – Concentration Risk Management) Directions, 2025 stand repealed.

(2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

(i) any right, obligation or liability acquired, accrued, or incurred thereunder;

(ii) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

(iii) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

11. Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

12. Interpretations

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

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