

Draft Reserve Bank of India (Urban Co-operative Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025

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Reserve Bank of India (Urban Co-operative Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025

Table of Contents

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Chapter I - Preliminary | 2 |
| Chapter II - Function of Board | 9 |
| Chapter III - Treatment of wilful defaulters | 10 |
| Chapter IV - Reporting of Wilful Defaulters and Large Defaulters | 16 |
| Chapter V - Preventive Measures and Role of Auditors..... | 20 |
| Chapter VI - Repeal and Other Provisions | 23 |
| Annex I - Format for submission of List of Large Defaulters of ₹1 crore and above (suit- filed and non-suit filed accounts) to all CICs on monthly basis. | 24 |
| Annex II - Format for submission of data on cases of wilful default (suit-filed and non-suit filed accounts) to all CICs on a monthly basis. | 27 |

Introduction

The objective of these Directions is to provide for a non-discriminatory and transparent procedure, having regard to the principles of natural justice, for classifying a borrower as a wilful defaulter by UCBs. The directions also aim to put in place a system to disseminate credit information about wilful defaulters for cautioning lenders to ensure that further institutional finance is not made available to them.

Accordingly, in exercise of the powers conferred by the Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949; and Section 11 of the Credit Information Companies (Regulation) Act, 2005, the Reserve Bank, being satisfied that it is necessary and expedient in public interest to do so, hereby, issues these Directions hereinafter specified.

Chapter I - Preliminary

1. Short title and commencement

- (1) These directions shall be called the Reserve Bank of India (Urban Co-operative Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025.
- (2) These directions shall come into force with immediate effect.

2. Applicability

- (1) These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

In this context, urban co-operative banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

Provided (i) The provisions regarding wilful defaulters contained in these Directions shall be applicable to a Scheduled UCB, as well as a non - Scheduled UCB falling under Tier 3 and 4 in terms of the specifications contained in the Reserve Bank of India (Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025.

(ii) The restrictions on further financial accommodation to wilful defaulters and provisions regarding large defaulters contained in these Directions, shall apply to all

entities regulated by the Reserve Bank, including Tier 1 and 2 UCBs, irrespective of whether they fall within the definition of 'lender' as provided in these Directions or not.

3. Definitions

(1) In these Directions, the following definitions shall apply, unless the context otherwise requires:

- (i) "*borrower*" shall mean one who has availed credit facility from a UCB;
- (ii) "*credit facility*" shall mean any fund based or non-fund-based facility, including off- balance sheet items like derivatives, guarantees and letters of credit, which a UCB has extended to the borrower.
- (iii) "*credit information company*" (CIC) shall mean a company that has been granted a certificate of registration under Section 5 of the Credit Information Companies (Regulation) Act, 2005.
- (iv) "*default*" shall have the same meaning assigned to it in the Reserve Bank of India ([Urban Co-operative Banks – Resolution of Stressed Assets](#)) Directions, 2025
- (v) "*director*" shall mean the director of a company which was classified as a large defaulter / wilful defaulter and who was associated with the company at the time when the acts of omission or commission by the company / its directors led to the default.
- (vi) "*director identification number (DIN)*" shall have the meaning assigned to it under the Companies Act, 2013.
- (vii) "*diversion of funds*" shall mean and includes the under- noted occurrences:
 - (a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction of credit facility;
 - (b) deploying funds availed using credit facility for the creation of assets other than those for which the credit was sanctioned;

- (c) transferring funds availed using credit facility to the subsidiaries / group companies or other entities, by whatever modality, without approval of the UCB / all the lenders in the consortium;
- (d) routing of funds through any lender other than the UCB or members of consortium without prior written permission of the UCB or all the lenders of consortium;
- (e) investing funds availed using credit facility in other companies / entities by way of acquiring equities/debt instruments without the approval of the UCB or all the lenders of consortium; and
- (f) shortfall in the deployment of funds vis-à-vis the amounts disbursed / drawn under the credit facility and the difference not being accounted for.

(viii) “*guarantor*” shall mean a person / entity who has guaranteed the credit facility.

(ix) “*identification committee*” shall mean the committee constituted by a UCB for identifying a wilful defaulter and shall comprise of an officer not more than one rank below the MD/ CEO as chairperson and two senior officials, not more than two ranks below the chairperson of the committee, as members.

(x) “*independent director*” shall have the meaning assigned to it under the Companies Act, 2013.

(xi) “*large defaulter*” shall mean a defaulter with an outstanding amount of ₹1 crore and above, and -

- (a) where suit has been filed; or
- (b) whose account has been classified as doubtful or loss (in accordance with the instructions issued by the Reserve Bank from time to time).

(xii) “*lender*” shall mean any of the following entities which has granted a credit facility to the borrower:

- (a) a commercial bank as defined under sub-sections (c), (da), and (nc) of section 5 of the Banking Regulation Act, 1949, including a Small Finance Bank, a Regional Rural Bank, and a Local Area Bank, but excluding a Payments Bank;

- (b) a Scheduled Primary (Urban) Co-operative Bank;
- (c) a non - Scheduled Primary (Urban) Co-operative Bank falling under Tier 3 and 4 in terms of the specifications contained in the Reserve Bank of India ([Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification](#)) Guidelines, 2025;
- (d) an All India Financial Institution, viz., Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) Small Industries Development Bank of India (SIDBI), or National Bank for Financing Infrastructure and Development (NaBFID);
- (e) a Non-Banking Financial Company (NBFC) falling under NBFC-Middle Layer (NBFC-ML) and above layers in terms of the specifications contained in the Reserve Bank of India ([Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation](#)) Guidelines, 2025.

(xiii) "*nominee director*" shall mean a director nominated by a lender, a regulatory authority, or the Central or a State Government.

(xiv) "*professional director*" shall mean a director of a Primary (Urban) Co-operative Bank as referred to in Reserve Bank of India ([Urban Co-operative Banks – Governance](#)) Directions, 2025.

(xv) "*promoter*" shall mean a person who has been named as such in a prospectus or is identified by the company in the annual return, and

- (a) has control over the affairs of the company, directly or indirectly, whether as a shareholder, director or otherwise; and / or
- (b) in accordance with whose advice, directions or instructions, the Board of Directors of the company is accustomed to act.

(xvi) "*review committee*" shall mean the committee constituted by a UCB for the purpose of reviewing the proposal of the Identification Committee and shall comprise of the MD/ CEO as the chairperson, and two professional directors as members.

Explanation: The Review Committee shall not be comprised of members who are part of the Identification Committee.

- (xvii) "*siphoning of funds*" shall be construed to have occurred if any funds availed using credit facility from UCB are utilised for purposes unrelated to the operations of the borrower.
- (xviii) "*suit filed account*" shall mean an account in respect of which one or more entities regulated by Reserve Bank have approached courts or tribunals (including under Insolvency and Bankruptcy Code, 2016) for recovery of their dues, and proceedings are pending.

Explanation 1: An account shall be treated as suit filed if any application, appeal or execution is pending in continuation of the original recovery proceedings.

Explanation 2: Suit filed accounts shall be deemed to include accounts in which proceedings under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 or any other proceedings for recovery of the dues from the borrower or any other person liable to make payment of a debt under Acts governing co-operative societies are initiated and pending, and shall include the account of a debtor against whom resolution or liquidation proceedings have been initiated and are continuing.

- (xix) "*wilful default*"
 - (A) by a borrower shall be deemed to have occurred when the borrower defaults in meeting payment / repayment obligations to the lender and any one or more of the following features are noticed:
 - (a) the borrower has the capacity to honour the said obligations;
 - (b) the borrower has diverted the funds availed under the credit facility from lender;
 - (c) the borrower has siphoned off the funds availed under the credit facility from lender;
 - (d) the borrower has disposed of immovable or movable assets

provided for the purpose of securing the credit facility without the approval of the lender;

(e) the borrower or the promoter has failed in its commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment and other covenants and conditions.

(B) by a guarantor shall be deemed to have occurred if the guarantor does not honour the guarantee when invoked by the lender, despite having sufficient means to make payment of the dues or has disposed of immovable or movable assets provided for the purpose of securing the credit facility, without the approval of the lender or has failed in commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment.

(xx) "*wilful defaulter*" shall mean:

- (a) a borrower or a guarantor who has committed wilful default and the outstanding amount is ₹25 lakh and above, or as may be notified by Reserve Bank of India from time to time, and
- (b) where the borrower or a guarantor committing the wilful default is a company, its promoters and the director (s), subject to the provisions of Paragraph 5(14), or
- (c) in case of an entity (other than a company), persons who are in charge and responsible for the management of the affairs of the entity.

(2) Transfer of a loan shall mean a transfer undertaken in terms of the Reserve Bank of India ([Urban Co-operative Banks – Transfer and Distribution of Credit Risk](#)) Directions, 2025 and hence, the terms "*transfer*", "*transferor*" and "*transferee*" shall have the same meaning assigned therein.

(3) 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 the Credit Information Companies (Regulation) Act, 2005, or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

Chapter II - Function of Board

4. Policy for Implementation of these Directions

(1) A UCB shall frame a Board approved policy for the implementation of these Directions, which shall *inter alia* include the following:

- (i) guidelines on designating rank of the official, who would issue the show cause notice and serve written order on behalf of the Identification Committee and Review Committee respectively.
- (ii) periodicity for re-examination of accounts where 'wilful default' was not observed during the initial examination;
- (iii) non-discriminatory criteria based on which the photographs of persons classified and declared as wilful defaulter shall be published;
- (iv) requirements and related appropriate measures in ensuring the end-use of funds.
- (v) threshold for outstanding in an account to commission forensic audits as provided in Paragraph 20(6).

Chapter III - Treatment of wilful defaulters

5. Mechanism for Identification and Classification of Wilful Defaulters

- (1) A UCB shall identify and classify a person as a 'wilful defaulter' by following the procedure enumerated in these Directions. The identification of the wilful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions / incidents.
- (2) The default to be categorised as wilful must be intentional, deliberate, calculated and meeting the conditions set out in paragraph 3 (1) (xix) above.
- (3) The evidence of wilful default shall be examined by an Identification Committee.
- (4) If the Identification Committee is satisfied that an event of wilful default has occurred, it shall issue a show-cause notice to borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity, and call for the submissions from them within 21 days of issuance of show cause notice. The UCB shall disclose to them all materials and information on which show cause notice is based.

Explanation: Director (s) / persons who are in charge and responsible for the management of the affairs of the entity means who were associated with the company / entity at the time when the acts of omission or commission by the company / entity led to the default.

- (5) After considering the submissions and where satisfied, the Identification Committee shall make a proposal to the Review Committee for classification as a wilful defaulter by explaining the reasons in writing.

Explanation: If the Identification Committee concludes that the borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity, do not qualify for classification as a wilful defaulter, such cases need not be referred to the Review Committee.

- (6) The borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity shall thereafter be suitably advised about the proposal to classify them as wilful defaulter along with the reasons therefor.

(7) An opportunity shall be provided to borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity for making a written representation to Review Committee within 15 days of such a proposal from the Identification Committee.

(8) The proposal of the Identification Committee along with the written representation received shall be considered by the Review Committee.

(9) The Review Committee shall provide an opportunity for a personal hearing also to the borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity. However, if the opportunity is not availed or if the personal hearing is not attended by the borrower / guarantor / promoter / director / persons who are in charge and responsible for the management of the affairs of the entity, the Review Committee shall, after assessing the facts or material on record, including written representation, if any, consider the proposal of the Identification Committee and take a decision.

(10) As the above classification process is an in-house proceeding, the borrower / guarantor / promoter / director / persons in charge and responsible for the management of affairs shall not have the right to be represented by a lawyer.

(11) The Review Committee shall pass a reasoned order and the same shall be communicated to the wilful defaulter.

(12) The designated official shall issue the show cause notice and serve written order on behalf of the Identification Committee and Review Committee respectively.

(13) The show-cause notice and the order served by the designated official shall clearly state that this has the approval of the competent authority, i.e., Identification/ Review Committee and must identify its members.

(14) A director other than whole-time director, including an independent director / nominee director, shall not be considered as wilful defaulter unless it is conclusively established that:

- (i) the wilful default by the borrower or the guarantor has taken place with their consent or connivance or

(ii) they were aware of the fact of wilful default by the borrower or the guarantor, as revealed from the proceedings recorded in the minutes of the meeting of the Board or a Committee of the Board, but have not recorded their objections to the same.

(15) The name of a non-whole-time director / independent director / nominee director who has been classified as a wilful defaulter shall be reported in [Annex II](#) indicating that they are a non-whole-time director / independent director / nominee director.

6. Review of accounts for identification of wilful default

(1) A UCB shall examine the 'wilful default' aspect in all Non-Performing Assets (NPA) accounts with outstanding amount of ₹25 lakh and above or as may be notified by Reserve Bank of India from time to time.

(2) If wilful default is observed in the internal preliminary screening, a UCB shall complete the process of classification/ declaring the borrower as a wilful defaulter by following the mechanism set out in Paragraph 5, within six months of the account being classified as NPA in accordance with the instructions regarding asset classification contained in the Reserve Bank of India ([Urban Co-operative Banks – Income Recognition, Asset Classification and Provisioning](#)) Directions, 2025.

(3) In respect of accounts where 'wilful default' was not observed during the initial examination as mentioned at sub-paragraphs (1) and (2), the aspects regarding 'wilful default' shall be subsequently re-examined in terms of the Board approved policy of the UCB at a periodicity as may be specified by the Board.

7. Specific measures against wilful defaulters

(1) Initiation of criminal proceedings by the UCB

(i) Based on the facts and circumstances of each case, a UCB can examine whether initiation of criminal proceedings against wilful defaulters under the provisions of the applicable law, is warranted.

(ii) In cases where criminal proceedings have been initiated, removal of the name of a wilful defaulter from the List of Wilful Defaulters (LWD) shall be without prejudice to the continuation of criminal proceedings against the

wilful defaulter.

(2) Publishing of photographs of wilful defaulters – A UCB shall formulate a non-discriminatory board-approved policy that clearly sets out the criteria based on which the photographs of persons classified and declared as wilful defaulter shall be published.

(3) Penal and other measures against wilful defaulters – The penal measures mentioned below shall be implemented by a UCB in the case of any person / entity classified as wilful defaulter by any lender:

- (i) No additional credit facility shall be granted by the UCB to the wilful defaulter or any entity with which the wilful defaulter is associated.
- (ii) The bar on additional credit facility to the wilful defaulter or any entity with which the wilful defaulter is associated shall be effective for a period of one year after the name of the wilful defaulter has been removed from the List of Wilful Defaulters by the lenders.
- (iii) No credit facility shall be granted by the UCB for floating of new ventures to the wilful defaulter or any entity with which the wilful defaulter is associated for a period of five years after the name of wilful defaulter has been removed from the List of Wilful Defaulters by the lenders.
- (iv) The restructuring of wilful defaulters or any entity with which a wilful defaulter is associated shall be as per the stipulations contained in the Reserve Bank of India ([Urban Co-operative Banks – Resolution of Stressed Assets](#)) Directions, 2025.

Provided that the penal provisions mentioned above shall cease to be applicable on the associated entities when they are no longer associated with the wilful defaulters.

Explanation 1: If the wilful defaulter is a company, another company will be deemed to be associated with it, if that company is –

- i. a 'subsidiary company' as defined under clause 2 (87) of the Companies Act, 2013.
- ii. falls within the definition of a 'joint venture' or an 'associate company' under

clause (6) of section 2 of the Companies Act, 2013.

Explanation 2: If the wilful defaulter is a natural person, all entities in which he is associated as promoter, or director, or as one in charge and responsible for the management of the affairs of the entity shall be deemed to be associated.

(4) Incorporation of covenant

- (i) A UCB shall incorporate a covenant in the agreement while extending credit facility to a borrower that it shall not induct a person whose name appears in the LWD on its board or as a person in charge and responsible for the management of the affairs of the entity.
- (ii) In case such a person is found to be on its board or as a person in charge and responsible for the management of the affairs of the entity, the borrower would take expeditious and effective steps for removal of such a person from the board or from being in charge of its management.
- (iii) Under no circumstances shall a UCB renew / enhance / provide fresh credit facilities or restructure existing facilities provided to such a borrower so long as the name of its promoter and / or the director (s) and / or the person in charge and responsible for the management of the affairs of the entity remains in the LWD.

(5) Initiation of legal action – A UCB shall, wherever warranted, initiate legal action against the borrowers / guarantors for foreclosure / recovery of dues expeditiously.

8. Provision for a transparent mechanism

A UCB shall put in place a transparent mechanism for the entire process of identification of wilful defaulters so that the penal provisions are applied in a fair manner and the scope for discretion is obviated.

9. Role of Internal Audit

- (1) A UCB shall require their internal auditors to specifically look into adherence to instructions for classifying a borrower as a wilful defaulter.
- (2) The Audit Committee of the UCB shall periodically review the cases of wilful

default and recommend steps to be taken to prevent such occurrences and their early detection should these occur. The review shall focus on identifying root causes of wilful default and addressing deficiencies, if any, in the wilful defaulter classification process adopted by the UCB.

10. Liability of a Guarantor

- (1) As per Section 128 of the Indian Contract Act, 1872, the liability of the guarantor is coextensive with that of the principal debtor unless it is otherwise provided by the contract.
- (2) When a default happens in making payment / repayment by the principal debtor, a UCB shall be able to proceed against the guarantor even without exhausting the remedies against the principal debtor.
- (3) Where a UCB has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate.
- (4) In case the said guarantor refuses to comply with the demand made by the UCB, such guarantor shall also be considered for classification as a wilful defaulter by following the mechanism as set out in Paragraphs 5 and 6.
- (5) While dealing with the wilful default of a single borrowing company in a Group, a UCB shall consider the track record of the individual company, with reference to its repayment performance to the UCB. In cases where guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by the UCB, such Group companies should also be considered for classification as willful defaulter by following the mechanism set out in Paragraphs 5 and 6.

Chapter IV - Reporting of Wilful Defaulters and Large Defaulters

11. Reporting and Dissemination of Credit Information on Large Defaulters

(1) A UCB shall submit information in [Annex I](#) to all credit information companies (CICs) in respect of the large defaulters at monthly intervals:

- (i) a list of suit filed accounts of large defaulters; and
- (ii) a list of non-suit filed accounts of large defaulters whose account has been classified as doubtful or loss (in accordance with the instructions issued by the Reserve Bank from time to time).

(2) For calculating the threshold of ₹1 crore, the unapplied interest, if any, shall also be included. In the case of suit-filed accounts, the threshold shall relate to the amount for which the suits have been filed.

12. Reporting and Dissemination of Credit Information on Wilful Defaulters

(1) A UCB shall submit at monthly intervals, information in [Annex II](#) to all credit information companies in respect of the wilful defaulters:

- (i) a list of wilful defaulters (LWD) in respect of suit filed accounts
- (ii) a LWD in respect of non-suit filed accounts

(2) The UCB shall inform all credit information companies the removal of the name of the wilful defaulter from the LWD, promptly and not later than thirty days, from the date when the outstanding amount falls below the threshold of ₹25 lakh or as notified by Reserve Bank of India from time to time, subject to Paragraph 13(2).

(3) In the event a Non-Scheduled UCB falling under Tier 3 or 4 is reclassified during a subsequent review as a Non-Scheduled UCB under Tier 1 or 2, such UCB shall no longer be eligible to classify their borrowers as wilful defaulters. However, such UCB shall continue to furnish updates pertaining to historical data submitted by them to the CICs.

13. Treatment of compromise settlements

(1) Any account included in LWD, where the UCB has entered into a compromise settlement with the borrower, shall be removed from the LWD only

when the borrower has fully paid the compromise amount.

(2) Till such time as only part payment is made, name of the borrower shall not be removed from the LWD even if the outstanding amount becomes less than the threshold of ₹25 lakh or as notified by Reserve Bank of India from time to time.

(3) The compromise settlement with the wilful defaulter shall satisfy the requirements contained in the Reserve Bank of India ([Urban Co-operative Banks – Resolution of Stressed Assets](#)) Directions, 2025.

(4) In cases where a UCB decides to cancel a compromise settlement due to non-adherence to the terms of the settlement and revises the amount payable by the borrower, the reporting shall be with reference to the revised amount.

14. Treatment of defaulted loans transferred

(1) Before transferring a defaulted loan with outstanding of ₹25 lakh and above, irrespective of its classification as NPA, to other transferees, a UCB shall internally conduct a comprehensive investigation from a wilful default perspective. This process need not necessarily involve a two-stage committee but should ensure a thorough examination of wilful default aspects for each defaulted loan.

(2) In a case where wilful default is observed, the UCB shall complete the process of classification of the borrower as wilful defaulter as per mechanism set out in Paragraph 5, and report it in the LWD to credit information companies, before transferring the asset to the transferee(s).

(3) The details of the reporting done must be conveyed to the transferee(s), and they shall be responsible for reporting it to the credit information companies thereafter.

(4) Transfer of the defaulted loan shall not be treated as recovery for the purpose of calculating the threshold limit for classification as wilful defaulter and reporting to credit information companies, as the loan amount is not yet fully recovered.

(5) A UCB, which is a transferee in case of a loan in which wilful default has been observed, shall continue to report the account as a wilful defaulter until the balance remaining to be recovered in their account plus the amount written off by

the transferor falls below the threshold of ₹25 lakh or as notified by Reserve Bank of India from time to time, subject to the provisions contained in Paragraph 13.

15. Treatment of accounts where resolution is done under Insolvency and Bankruptcy Code (IBC) / resolution framework Directions issued by the Reserve Bank

- (1) In case an account which is included in LWD and has subsequently undergone liquidation or where the resolution under IBC results in a change in the management and control of the entity / business enterprise, the name of such a borrower or guarantor who were classified as wilful defaulter [which includes in case of a company, its promoters and the director (s), and in case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity], shall be removed from the LWD after implementation of the resolution plan under IBC.
- (2) The penal measures as detailed in Paragraph 7(3) shall not be applicable to such entities / business enterprises after implementation of the resolution plan involving change in ownership under the IBC or the resolution framework Directions issued by the Reserve Bank.

Explanation: The resolution framework Directions issued by the Reserve Bank shall mean any of the following Directions:

- (i) Reserve Bank of India ([Commercial Banks – Resolution of Stressed Assets](#)) Directions
- (ii) Reserve Bank of India ([Small Finance Banks – Resolution of Stressed Assets](#)) Directions
- (iii) Reserve Bank of India ([All India Financial Institutions – Resolution of Stressed Assets](#)) Directions
- (iv) Reserve Bank of India ([Non-Banking Financial Companies – Resolution of Stressed Assets](#)) Directions.

- (3) The penal measures detailed in Paragraph 7 (3) (ii) and (iii) shall continue to apply to the erstwhile promoter(s) / director(s) / guarantor(s) / persons who were in charge and responsible for the management of the affairs of the entity /

business enterprise, and to the entities they are associated as a promoter or director or as one in charge and responsible for its management.

16. Responsibility for Correct Reporting

- (1) The responsibility for reporting correct information and also ensuring the accuracy of facts and figures rests with the reporting UCB.
- (2) A UCB, while furnishing information to credit information companies, shall ensure the accuracy of the particulars of the directors, and wherever possible, by cross-checking with the database maintained by the Registrar of Companies.

17. Reporting of Guarantors

A UCB shall report to credit information companies the details of guarantors who have failed to honour the commitments thereunder when invoked, as large defaulters / wilful defaulters, as the case may be. The details shall be reported as per [Annex I](#) and [II](#).

18. Reporting of Directors

- (1) In case of business enterprises registered as companies under the Companies Act, 2013, a UCB shall also report in the Director column of [Annex I](#) and [II](#), the full names of the directors to facilitate better identity of persons concerned, subject to the provisions of these Directions.
- (2) To ensure that directors are correctly identified and in no case, persons whose names appear to be similar to the names of directors appearing in the LWD are wrongfully denied credit facilities on such grounds, the UCB shall include the Director Identification Number (DIN) as one of the fields in the data submitted in [Annex I](#) and [II](#), by them to credit information companies.

Chapter V - Preventive Measures and Role of Auditors

19. Preventive Measures

(1) Credit appraisal

- (i) While carrying out the credit appraisal, a UCB shall verify as to whether the name of any of the directors of a company / guarantors / persons in charge of the management of affairs of the entity appears in the list of large defaulters / LWD by way of reference to DIN / PAN, etc.
- (ii) In case of any doubt arising on account of identical names, the UCB shall use independent sources for confirmation of the identity of directors rather than seeking a declaration from the borrowing company.

(2) Monitoring End Use of Funds

- (i) A UCB shall closely monitor the end-use of funds and obtain certificates from borrowers certifying that the funds have been utilised for the purpose for which they were obtained. In case of the wrong certification by the borrowers, the UCB shall consider initiating appropriate legal proceedings, including criminal proceedings wherever necessary, against the borrowers.
- (ii) The requirements and related appropriate measures in ensuring the end-use of funds by a UCB shall form a part of its loan policy document. An illustrative list of measures for monitoring and ensuring end-use of funds by a UCB are:
 - (a) Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers;
 - (b) Regular inspection of borrowers' assets charged to the UCB as security;
 - (c) Periodic scrutiny of borrowers' books of accounts and the 'no-lien' accounts maintained with other lenders;
 - (d) Periodic visits to the assisted units;
 - (e) System of periodic stock audit, in case of working capital finance;
 - (f) Periodic comprehensive management audit of the 'credit' function of the UCB, so as to identify the systemic weaknesses in their credit administration.

(iii) In cases of project financing, a UCB should ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. A UCB must not just depend on the certificates issued by the Chartered Accountants for ensuring end use of funds but also strengthen their credit risk management system and internal controls to enhance the quality of their loan portfolio. Further, in all cases, especially in the case of short-term corporate / clean loans, such an approach must be supplemented by 'due diligence' on the part of the UCB itself, and to the extent possible, such loans must be limited only to those borrowers whose integrity and reliability are above board.

20. Role of Statutory Auditors

(1) In case any falsification of accounts on the part of the borrowers is observed by a UCB, and the auditors are found to be negligent or deficient in conducting the audit, the UCB shall consider lodging a formal complaint against the statutory auditors of the borrowers with the National Financial Reporting Authority (NFRA) / Institute of Chartered Accountants of India (ICAI) to enable them to examine and fix accountability of the auditor.

(2) Pending disciplinary action by NFRA / ICAI, the complaints shall be forwarded to the Reserve Bank (Department of Supervision, Central Office) and Indian Banks' Association (IBA). Before reporting to the Reserve Bank and IBA, a UCB shall satisfy itself of the involvement of concerned auditors and also provide them with an opportunity of being heard. In this regard, the UCB should follow normal procedures and processes, which shall be suitably recorded.

(3) Based on such information received from a UCB, IBA shall, in turn, prepare a caution list of such auditors for circulation among the lenders, who shall consider this aspect before assigning any work to them.

(4) With a view to monitoring the end-use of funds, if the UCB desires a specific certification from the borrowers' auditors regarding diversion / siphoning of funds by the borrowers, the UCB should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors, the UCB shall ensure that appropriate covenants in the loan agreements are incorporated to enable the award of such a mandate by the UCB to the auditor.

(5) In addition to the above and with a view to preventing diversion / siphoning of funds by the borrowers, a UCB is free to engage their own auditors for such specific certification without relying on certification given by borrowers' auditor.

(6) Depending upon the nature of the borrowers' acts underlying the wilful default and the quality of evidence available with the UCB in the normal course, a UCB shall consider commissioning a forensic audit of the affairs of the borrowers and their books of accounts, in respect of accounts with an outstanding above a threshold fixed by the board approved policy of the UCB.

21. Role of third parties

(1) As prescribed in Paragraph 4.2 of the [Reserve Bank of India \(Fraud Risk Management in UCBs / StCBs / CCBs\) Directions, 2024](#) (as updated from time to time), in case of wilful defaults also there should be some accountability for the third parties engaged by a UCB, if they have played a vital role in credit sanction / disbursement and are found negligent or deficient in their work or have facilitated the wilful default by the borrower.

(2) A UCB shall forward the details of these third parties to the Indian Banks' Association (IBA) for records, regardless of the membership status of the UCB with the IBA. Based on such information, IBA shall, in turn, prepare caution lists of such third parties and circulate to all the regulated entities of Reserve Bank who shall consider this aspect before assigning any work to them.

(3) Before reporting to IBA, a UCB shall satisfy itself of the involvement of concerned third parties and also provide them with an opportunity of being heard. In this regard, a UCB shall follow due process, which shall be suitably recorded.

Chapter VI - Repeal and Other Provisions

22. Repeal and saving

- (1) With the issue of these Directions, the existing directions, instructions, and guidelines relating Treatment of Wilful Defaulters and Large Defaulters as applicable to Urban Co-operative Banks stands repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.
- (2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines 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.

23. Application of other laws not barred

- (1) 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.

24. Interpretations

- (1) 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 Reserve Bank 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 Reserve Bank shall be final and binding.

Annex I - Format for submission of List of Large Defaulters of ₹1 crore and above (suit- filed and non-suit filed accounts) to all CICs on monthly basis.

| Field | Field Name | Type | Max Field Length | Description | Remarks |
|-------|--------------------|---------------|------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 1. | Reporting Cycle | Alpha Numeric | 5 | Month for which the data is reported | The reporting cycle data for month of January 2024, should be filled as 'JAN24' |
| 2. | Member ID | Alpha Numeric | 10 | The field is required to include Reporting Member Code as assigned by CICs. | Contains ID of the member reporting the data |
| 3. | Member Name | Character | 200 | Name of the member | Must contain the name of the member who is reporting the data. |
| 4. | Member Branch | Character | 30 | Branch name of the member | Name of the branch should be fed. |
| 5. | STATE | Character | 35 | Name of state | Name of state in which branch is situated. |
| 6. | Borrower Name | Alpha Numeric | 1000 | Minimum length of the Name should be 2 characters for individual borrowers and 4 characters for non-individual. | The legal name of the borrower to be reported. |
| 7. | Borrower PAN | Alpha Numeric | 10 | Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter. | Permanent Account Number (PAN) as defined by the Income Tax Department |
| 8. | Borrower Address | Alpha Numeric | 1000 | Permanent Address / Registered address of the borrower | |
| 9. | Outstanding Amount | Numeric | 8 | Should be a Numeric Value | Outstanding amount in ₹ lakh (rounded- off) |

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|-----|---------------------------|---------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 10. | Suit Status | Numeric | 2 | Valid Values 01 - Suit filed – Non-Suit Filed | Indicates whether suit has been filed or not. |
| 11. | Asset Classification | Character | 5 | Valid Values For Non-Suit Filed Accounts. 'DOUBT' for doubtful accounts. 'LOSS' for loss accounts. For Suit Filed Accounts 'DOUBT' for doubtful accounts. 'LOSS' for loss accounts. 'SUBST' for substandard accounts. 'STD' for standard accounts. | Asset classification |
| 12. | Asset Classification Date | Alpha Numeric | 5 | Month in which the account was Classified as 'DOUBT/LOSS/ SUBSTD/STD' in The format 'mmmyy' where mmm stand for the first 3 characters of the month. The date of classification 'march 2000' should be filled up as 'MAR00'. | Indicates the date of asset classification |
| 13. | Other Member | Character | 1000 | The names may be fed in abbreviated form e.g., BOB for Bank of Baroda, SBI for State Bank of India etc. | The names of other lenders from whom the borrower has availed credit facility should be indicated. |
| 14. | Director/ Promoter Name | Character | 1000 | Minimum length of name should be 2 characters | Name of Director/Promoter. |
| 15. | Director/ Promoter DIN | Alpha Numeric | 8 | DIN Number length should be 8 | DIN of the Director/ Promoter. |
| 16. | Director/ Promoter PAN | Alpha Numeric | 10 | Must be a minimum of 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter. | PAN of the Director/Promoter. |

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|-----|----------------------|---------------|------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| 17. | Guarantor Name | Character | 1000 | Minimum length of name should be 2 characters | Full name of the Guarantor should be indicated. |
| 18. | Guarantor CIN | Alpha numeric | 21 | Corporate identification number of guarantor entity | Only in case of legal entities |
| 19. | Guarantor PAN | Alpha Numeric | 10 | Must be a minimum of 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter. | In case of individual /legal entities |

NOTE:

- Reporting structure of the data would be row level, which would enable members/lenders to report multiple directors and guarantors of the borrower.
- A director other than whole-time director, including an independent director/ nominee director shall not be included.
- In case of Government undertakings, instead of giving names of Chairman/Director, etc., a legend 'Govt. of _____ undertaking' should be mentioned.
- Separate files for suit filed and non-suit filed accounts shall be submitted.

Annex II - Format for submission of data on cases of wilful default (suit-filed and non-suit filed accounts) to all CICs on a monthly basis.

| Field | Field Name | Type | Max Field Length | Description | Remarks |
|-------|--------------------|---------------|------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 1. | Reporting Cycle | Alpha Numeric | 5 | Month for which the data is reported | The reporting cycle data for month of January 2024, should be filled as 'JAN24'. |
| 2. | Member ID | Alpha Numeric | 10 | The field is required to include Reporting Member Code as assigned by CICs. | Contains ID of the member reporting the data. |
| 3. | Member Name | Character | 200 | Name of member | Must contain the name of the member who is reporting the data. |
| 4. | Member Branch | Character | 30 | Branch name of the member | Name of the branch of the member to be fed. |
| 5. | STATE | Character | 35 | Name of state | Name of state in which member branch is situated. |
| 6. | Borrower Name | Alpha Numeric | 1000 | Minimum length of the Name should be 2 characters for individual borrowers and 4 characters for non-individual. | The legal name of the borrower to be reported. |
| 7. | Borrower PAN | Alpha Numeric | 10 | Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter. | Permanent Account Number (PAN) as defined by the Income Tax Department |
| 8. | Borrower Address | Alpha Numeric | 1000 | Permanent Address / Registered address of the borrower | |
| 9. | Outstanding Amount | Numeric | 8 | Should be a Numeric Value | Outstanding amount in ₹lakh (Rounded off) |

| | | | | | |
|-----|-------------------------|---------------|------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 10. | Suit Status | Numeric | 02 | Valid Values 01 - Suit filed 02 – Non-Suit Filed | Indicates whether suit has been filed or not. |
| 11. | Other Member | Character | 1000 | The names may be fed in abbreviated form e.g., BOB for Bank of Baroda, SBI for State Bank of India etc. | The names of other lenders from whom the borrower has availed credit facility should be indicated. |
| 12. | Director/ Promoter Name | Character | 1000 | Minimum length of name should be 2 characters. | Full name of Director/ Promoter should be indicated. |
| 13. | Director/ Promoter DIN | Alpha Numeric | 8 | DIN Number length should be 8 | 8-digit Director/ Promoter Identification Number of the Director. |
| 14. | Director/ Promoter PAN | Alpha Numeric | 10 | Must be 10 characters. The first five characters must be letters, followed by four numbers, and followed by a letter. | PAN of the Director /Promoter. |
| 15. | Guarantor Name | Character | 1000 | Minimum length of name should be 2 characters | Full name of guarantor |
| 16. | Guarantor CIN | Alpha Numeric | 21 | Corporate identification number of guarantor entity | Only in case of legal entities |
| 18. | Guarantor PAN | Alpha Numeric | 10 | Permanent account number | In case of individual / legal entities |

NOTE:

- Reporting structure of the data would be row level, which would enable members/ lenders to report multiple directors and guarantors of the borrower.
- The data / information should be submitted through Secure File Transfer Protocol (SFTP).
- Separate files for suit filed and non-suit filed accounts shall be submitted.