

COMMON GUIDELINES OF RESERVE BANK OF INDIA FOR PRIORITY SECTOR ADVANCES

1 Banks should follow the following common guidelines prescribed by the Reserve Bank for all categories of advances under the priority sector.

2 PROCESSING OF APPLICATIONS

2.1 Completion of Application Forms

In case of Government sponsored schemes such as SGSY, the concerned project authorities like DRDAs, DICs, etc. should arrange for completion of application forms received from borrowers. In other areas, the bank staff should help the borrowers for this purpose.

2.2 Issue of Acknowledgement of Loan Applications

Banks should give acknowledgement for loan applications received from weaker sections. Towards this purpose, it may be ensured that all loan application forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms which do not have a perforated portion for acknowledgement separately given, care should be taken to ensure that the serial number given on the acknowledgement is also recorded on the main application. The loan applications should have a check list of documents required for guidance of the prospective borrowers.

2.3 Disposal of Applications

(i) All loan applications up to a credit limit of Rs. 25,000 should be disposed of within a fortnight and those for over Rs. 25,000, within 8 to 9 weeks.

(ii) All loan applications for Micro and Small Enterprises up to a credit limit of Rs. 25,000 should be disposed of within 2 weeks and those up to Rs. 5 lakh within 4 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'.

2.4 Rejection of Proposals

Branch Managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager.

2.5 Register of Rejected Applications

A register should be maintained at the branch, wherein the date of receipt, sanction/ rejection/ disbursement with reasons therefor, etc., should be recorded. The register should be made available to all inspecting agencies.

3 MODE OF DISBURSEMENT OF LOAN

With a view to providing farmers wider choice as also eliminating undesirable practices, banks may disburse all loans for agricultural purposes in cash which will facilitate dealer choice to borrowers and foster an environment of trust. However, banks may continue the practice of obtaining receipts from borrowers.

4 REPAYMENT SCHEDULE

4.1 Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an "ad hoc" manner. In respect of composite loans, repayment schedule may be fixed for term loan component only.

4.2 As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, the benefits such as restructuring of existing loans, etc. as envisaged under our circular RPCD.CO.PLFS.NO. BC 16/05.04.02/2006- 07 dated August 9, 2006 may be extended to the affected borrowers.

5 RATES OF INTEREST

5.1 The rates of interest on various categories of priority sector advances will be as per RBI directives issued from time to time.

5.2 (a) In respect of direct agricultural advances, banks should not compound the interest in the case of current dues, i.e. crop loans and instalments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops.

(b) When crop loans or instalments under term loans become overdue, banks can add interest to the principal.

(c) Where the default is due to genuine reasons banks should extend the period of loan or reschedule the instalments under term loan. Once such a relief has been extended, the overdues become current dues and banks should not compound interest.

(d) Banks should charge interest on agricultural advances in respect of long duration crops, at annual rests instead of quarterly or longer rests, and could compound the interest, if the loan/instalment becomes overdue.

6 PENAL INTEREST

6.1.1 The issue of charging penal interests that should be levied for reasons such as default in repayment, non-submission of financial statements, etc. has been left to the Board of each bank. Banks have been advised to formulate policy for charging such penal interest with the approval of their Boards, to be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to difficulties of customers.

6.1.2 No penal interest should be charged by banks for loans under priority sector up to Rs 25,000 as hitherto. However, banks will be free to levy penal interest for loans exceeding Rs 25,000 in terms of the above guidelines.

7 SERVICE CHARGES / INSPECTION CHARGES

7.1.1 No service charges/inspection charges should be levied on priority sector loans up to

Rs. 25,000.

- 7.1.2** For loans above Rs. 25,000/- banks will be free to prescribe service charges with the prior approval of their Boards, in terms of circular No. DBOD.Dir.BC.86/03.01.00/99-2000 dated September 7, 1999.