



FINANCE (PUBLIC UNDERTAKINGS-A) DEPARTMENT

No. 31/99/Fin., Thiruvananthapuram 6th May 1999

Sub.- Public Sector Undertakings/Co-operative Societies/Autonomous Bodies/Other Institutions etc.-Loans granted by the State Government-Rates of Interest and terms and conditions-Revised Rates-Instructions-Issued.

Ref.- 1. Circular No. 58/92/Fin., dated 27th November 1992.
2. Office Memorandum No. F. 5 (4)--PD/98, dated 18nd June 1998 from the Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi.

In modification of the instructions issued in the Circular cited, the rates of interest and terms and conditions on State Government loans to Public Sector Undertakings/Statutory Corporations/Boards/Co-operative Societies/Autonomous Bodies/Other Institutions are hereby revised w. e. f. 01.04.1999 as detailed below:

(i) In respect of Public Sector Undertaking and Co-operative Societies, Educational and other Institutions with equity less than Rupees One Crore.

	<i>Period of Loan</i>	<i>Rate of Interest per annum</i>
(a)	Upto 5 years	10%
(b)	Exceeding 5 years but not exceeding 10 years	10.5%
(c)	Exceeding 10 years but not exceeding 15 years	11%

(ii) For Industrial and Commercial Undertakings in the Public Sector, Co-operative Societies etc. having equity exceeding Rupees One Crore.

	<i>Rate of Interest</i>	
<i>Period of loan</i>	<i>Investment loan</i>	<i>Working Capital loan</i>
From 5 years to 10 years	14.5 %	18.5%

2. The loans to State Electricity Board for renovation and modernisation will carry interest @ 12.5%.

3. The interest rates prescribed above assume timely repayment of principal and payment of the interest and hence no further rebate in rates will be allowed for timely payments.

4. In case of default, in repayment of principal and payment of interest, penal interest @ 2.75% will be charged in addition to the normal rate of interest.

5. All the Heads of Departments and concerned Administrative Departments are requested to observe the following procedures while sanctioning loans.

(i) The orders sanctioning loan should be accompanied by a statement in the Proforma given in the Annexure-I.

(ii) All loan sanctioning authorities should keep a close watch on timely repayment of loans advanced by them and recovery of interest thereon. Notices should be sent to the borrower a month in advance of the due date regarding repayment of the principal and payment of interest in the form given in Annexure-III.

(iii) All loan sanctioning Heads of Departments/Administrative Departments should send monthly reports in the form given in the Annexure-II on the default of repayment of loan by Public Sector Undertakings/Co-operative Societies to Finance Department.

(iv) The loan sanctioning authorities should review, at least quarterly, repayments/interest payments due from the loanees and in defaulted cases, a fresh notice in the form given in Annexure-IV should be served on the borrower to arrange payment with penal interest/higher rate of interest.

6. The instructions issued from time to time on repayment period, per clause, default in payment etc., have been reviewed by the Central Government in the Office Memorandum read as 2nd paper above and are reproduced with suitable modifications as Annexure-V to this Circular for reference and scrupulous adherence by all loan sanctioning authorities.

VINOD RAI

Principal Secretary (Finance)

ANNEXURE I

LOANS AND ADVANCES BY STATE GOVERNMENT

1. Name of the Borrower :
2. Amount sanctioned (in words and figures) :
3. Sanction valid upto :
4. The purpose of loan :
5. Payable in cash or by adjustment :
6. Plan/Non-plan
(in the case of Plan, category of Plan) :
7. Head of Account to which amount sanctioned
is debitable :
8. Progressive amount of loan sanctioned to the
borrower to date in the financial year :
9. Period of loan :
10. Moratorium towards repayment, if any :
11. Date from which repayment is to commence :
12. Mode of repayment :
13. Interest:
 - (a) Normal rate :
 - (b) Penal rate of interest in event of default
in repayment/interest payment :
 - (c) Mode of recovery of interest :
14. Others :

Signature:

(Seal of the Sanctioning Authority)

ANNEXURE II

MONTHLY REPORT

Defaults in Repayment of Loans and Payment of Interest

<i>Organisation Defaults upto the previous year</i>	<i>Repayment of Loans</i>			<i>Payment of Interest</i>				
	<i>Dues for the current year</i>	<i>Total dues upto the end of the month</i>	<i>Actual repayment upto the month year</i>	<i>Defaults upto the previous</i>	<i>Dues for the current year</i>	<i>Total dues upto the end of the month</i>	<i>Actual repayment upto the month</i>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

PUBLIC SECTOR UNDERTAKINGS*

OTHER PARTIES*

* Public Sector Undertakings OR Other Parties where the cumulative defaults exceed Rupees One Crore may be identified separately.

Others may be grouped.

Remarks. - Resons for default anaction taken may be indicated.

Santioning Authority.

ANNEXURE III

NOTICE

No.....

Office of the/Department of.....

Place.....

Dated the.....

To

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.....

.....

Sub.- Repayment of loan and payment of interest

.....

.....

Sir/Madam,

According to the terms of the loan of Rs..... sanctioned to you vide this Government Department..... Order No..... Dated..... the repayment of instalment of principal/payment of interest thereon as detailed below will become due on.....

(i) Repayment of principalRs.....
(in words and figures)

(ii) Payment of interestRs.....
(in words and figures)

2. Please arrange the payment by the due date. It should be noted that the amount of interest has been calculated on the assumption that payment will be arranged promptly; otherwise penal interest will have to be paid in accordance with the terms of the loan.

3. The amounts due should be rendered on or before the due date and credited to the Government account in cash or by cheque or draft drawn on any Commercial Bank in favour of the payable at The payment should be accompanied by a memorandum of chalan, in duplicate, giving the following details:

- (i) Name of the Department :
- (ii) Name of the Borrower :
- (iii) No. and date of the loan sanction
with the loan amount sanctioned :
- (iv) Amount due for payment separately
for interest and principal :
- (v) Due date of payment :

The head of account indicated below to which the amounts will be adjusted in Government should be included in the chalan:

HEAD OF ACCOUNT:

- (i) Instalment of Principal
- (ii) Interest

4. Separate cheque/draft and chalan should be submitted for payment of principal and interest.

5. For outstation loanees, payment of dues together with memorandum/chalan is to be arranged through their bank by the due date.

Yours faithfully,

(Sanctioning Authority)

ANNEXURE IV
IMPORTANT NOTICE

No.....

Office of the/Department

To

.....

.....

.....

Sub.- Repayment of loan and payment of interest

.....

Sir/Madam,

I am to state that the payment of Rs..... and Rs.....
(as detailed below) representing principal and interest respectively, which fell due on
in the respect of loan mentioned there against, has not so far been paid by you.

Loan Sanction No. and Date

(i) Principal .. Rs.....

(ii) Interest .. Rs.....

2. Please arrange to deposit the aforesaid amount to the account of the Government within 10 days of the issue of this letter, failing which other measures would be initiated. In case the payment in question has already been made to the Government, particulars of the cheque/demand draft and the date of deposit at the* may be intimated immediately.

Yours faithfully,

(Sanctioning Authority)

* Name of the Treasury/Bank with Branch.

ANNEXURE V

GENERAL INSTRUCTIONS CONCERNING REPAYMENT PERIOD, PENAL CAUSE, DEFAULTS IN PAYMENTS ETC.

Repayment Period

A. (i) The period for repayment of loans for all parties should be fixed with due regard to the purpose for which they are advanced and it should be restricted to the minimum possible. Normally, no loan should be granted for a period exceeding 10 years. Where a longer period for repayment is sought, prior concurrence of the Finance Department will be necessary for fixing the period.

(ii) The repayment of a loan should normally commence from the first anniversary date of its drawl or on expiry of the period of moratorium, as the case may be. The recovery of principal should ordinarily be effected in annual equal installments.

(iii) The period of repayment of working capital loans should preferably be restricted to two or three years. In no case, however, the period of these loans should exceed 5 years.

B. Moratorium- Subject to exceptions made in respect for public sector projects, a suitable period of moratorium towards repayment might be agreed to in individual cases having regard to the project of which the loans are to be utilised. However, no moratorium should ordinarily be allowed in respect of interest payment on loans. Government Departments may with the approval of their Finance Officers, allow moratorium on repayment of principal wherever considered necessary up to a maximum period of 2 years

C. Repayment before due date- Any installment paid before its due date may be taken entirely towards the principal provided it is accompanied by payment towards interest due up-to-date of actual payment installment; if not, the amount of the installment will first be adjusted towards the interest due for the proceeding and current periods and the balance, if any, will alone be applied towards the principal. Where the payment of the installment is in advance of the due date by 14 days or less, interest for the full period (half year or full year as the case may be) will be payable.

D. Penalty Clause- The loan sanctions/agreements should invariably include a penalty clause providing for levy of a penalty clause providing for levy of a penal rate of interest in the event of default in repayment of installment (s) of principal and upon or interest. The rate of penal interest should not be less than 2.75 per cent above the normal rate of interest at which a loan is sanctioned.

E. Defaults in repayment interest payment- (i) The penal rate of interest is chargeable on the overdue installments of principal and /or interest from the due date of their payment to the date proceeding the date of actual payment.

(ii) Whenever a fresh loan is to be sanctioned to a borrower who has earlier defaulted, the loan sanctioning authority must consider the question recovery of defaulted , the loan sectioning authority must consider the question of recovery of defaulted dues, where, for any special reasons, recover of defaulted dues is not proposed to be enforced, the reasons must be

recorded in writing and in important cases, the Finance Officer should bring them to the notice of Secretary (Expenditure), Department of Finance, before sanctioning any fresh loan.

F. Requests for modification of terms of loans- (i) Borrowers are required to adhere strictly to the terms settled for loans made to them and modifications of these terms can be made subsequently only for very special reasons. Requests for modification of these terms may relate to increase in the period of a loan or of initial moratorium period towards repayment. Cases involving other modifications in repayment terms should be considered in consultation with the Finance Department. In referring such cases, the impact of the modifications on the estimate of repayment/ interest which have gone into the Budget and Government's resources position should be succinctly brought out by the Administrative Department.

(ii) In examining proposals for modification of the period of the loan, the interest rate at which the loan was sanctioned should also be reviewed.

In the case of a loan of which repayment has already commenced the revised rate of interest should be applied only to residuary portion of the loan outstanding on the date of extension of its period.

G. Loans Sanctioned at Concessional Rates- (i) In cases where loans are to be sanctioned at a concessional rate, the instructions contained in Article 234 of Kerala Financial Code Volume I have to be observed. In such cases, payment of subsidy (to cover the concession viz. difference between normal rate and concessional rate) should be made conditional upon prompt repayment of principal and payment of interest thereon by the borrower.

(ii) In cases where loans are sanctioned interest free, prompt repayment should be made a condition for the grant of interest free loan. That is to say, the sanction letter in such cases should provide that in the event of any default in repayments, interest at rates prescribed by Government from time to time will be chargeable on the loans.

(iii) Similarly in the case of interest free loans where subsidy is also provided, the sanction letter should stipulate that in the event of any default in repayment, the defaulted dues would be recovered out of the subsidy payable.

H. Miscellaneous- A standard form prescribed for issue of loan sanction (Annexure I) should ordinarily be followed.

(i) The date of drawal of a loan by the borrower will be date on which he received cash, cheque or bank draft from the drawing and disbursing officer. It should be ensured that the time lag between the date of obtaining the cash/cheque/bank draft and its disbursement/delivery /despatch to the payee is reduced to the minimum. Where the cheque or bank draft is sent through post, the date of posting should be treated as the date of disbursement of the loan. The drawing and disbursing officer should invariably intimate the date of payment to his Accounts Officer to enable the latter to make a suitable note in his records.

(ii) The borrower should render the amounts due on or before the due date, at the Treasury/Department, which sanctions the loan, in cash or by cheque or draft drawn on any Commercial Bank in favour of the loan sanctioning authority/Government Department. The payment should be accompanied by a memorandum or chalan in duplicate indicating (a) name of the loan sanctioning authority/ department, (b) number and date of the loan sanction order, (c) amount due for pay-

ment separately for interest and principal and the head (s) of account to which the dues are to be credited to the Government Accounts, and (d) due date of payment. The borrower should be asked to render separate cheques/drafts and chalans for payment of principal and interest.

Outstation loanees are required to arrange the dues through their bank ensuring that the Memorandum/Chalan and the cheque/draft reaches the Treasury/Loan Sanctioning Authority by the due date.

(iii) All loan sanctioning authorities/departments are required to keep close watch on timely repayments of loans advanced by them and recovery of interest thereon. Article 234 (3), Kerala Financial Code Vol. I Provides for a notice to be given to the borrowers a month in advance of the due date of payment of installment of the Principal and/or interest thereon. Such notices may be sent in the form given in Annexure II. The borrower should not however be given any advantage in the event of non receipt of such a notice.

Repayments/interest payments due from the loanees should also be reviewed at least quarterly, and where any default has occurred, a fresh notice should be served on the borrower to arrange payment with penal/higher rate of interest in the form set out in Annexure III.

(iv) Individual cases relating to terms and conditions of loans need not be referred to the Department of Finance unless it is proposed to deviate from those laid down in this Circular.