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APPENDIX III

GUIDELINES FOR PRIORITY SECTOR LENDING

In order to have uniformity and smooth functioning, the Reserve Bank of India issues guidelines, from time to time, regarding various aspects of lending to priority sector. Similar guidelines in respect of bank lending to other sectors and beneficiaries are not issued by the Reserve Bank of India. The present position of important guidelines can be summarized as under :

Completion of application forms

In specific schemes like IRDP, the completion of application forms should be arranged by the concerned project authorities like DRDAs, DICs, etc. In areas not covered by specific schemes, bank staff should help the borrowers in filling up the application forms.

Disposal of applications

All loan applications upto a credit limit of Rs 25,000/- should be disposed of within a fortnight and those applications which are for over Rs 25,000/- should be disposed of within 8 to 9 weeks.

Discretionary powers for sanction of loans

In order to have quick disposal of loan applications, it is necessary that all branch managers of banks may be vested with discretionary power to sanction proposals from weaker sections without reference to any higher authorities. If there are difficulties in extending such power to all the

branch managers, such powers should exist at least at the district level and arrangements may be made to ensure that credit proposals from weaker sections are cleared promptly.

Rejection of proposals

Branch managers may reject applications except in respect to scheduled castes/tribes provided the cases of rejection are verified subsequently by Divisional/Regional Managers. In case of proposals from scheduled caste/tribes rejection may be done at a level higher than that of branch manager.

Register of application of rejected

A register should be maintained at branches in which the date of applications received, sanction/rejection, the reasons for rejection, etc. should be recorded. The register should be made available to all inspecting agencies. It will help the Divisional/Regional Managers to verify the rejection cases.

Rate of interest

At present, the rate of interest to be charged by commercial banks (including Regional Rural Banks) on their advances to different segments of priority sector are as under :

Details of advances to priority sector

	Rate of interest (% per annum)
1. AGRICULTURE	
(i) Short term loans	
(a) upto Rs 5,000/-	11.5
(b) over Rs 5,000/- and upto Rs 10,000/-	12.5
(c) over Rs 10,000/- and upto Rs 25,000/-	Not exceeding 14.0
(d) above Rs 25,000/-	Not exceeding 16.5
(ii) Term loans for not less than 3 years	
(a) Minor irrigation and land development	10.0
(b) Non-conventional sources of energy	10.0
(c) Other purposes	
(i) small farmers	10.0
(ii) Other farmers	12.5
2. SMALL SCALE INDUSTRIES	
Composite loans upto Rs 25,000/-	
(a) Backward area	10.0
(b) Other area	12.0
Short term advances	
(a) upto and inclusive of	

Rs 2.00 lakhs	Not exceeding 14.0
(b) Over Rs 2 lakhs and upto Rs 25 lakhs	Not exceeding 16.5
(c) Above Rs 25 lakhs	Not exceeding 17.5
Term loans of not less than 3 years	
(a) Backward areas	12.5
(b) Other areas	13.5
3. Advances to retail traders for distribution of fertilizers	
(a) upto Rs 5,000/-	11.5
(b) Over Rs 5,000/- and upto Rs 25,000/-	Not exceeding 14.0
(c) Over Rs 25,000/-	Not exceeding 16.5
4. Other Retail trade	
(a) Limits upto and inclusive of Rs 5,000/-	12.5
(b) Over Rs 5,000/- and upto Rs 25,000/-	Not exceeding 15.0
(c) Above Rs 25,000/-	Not exceeding 17.5
5. Advances to professionals and self employed persons belonging to SC/ST and women entrepreneurs	
(a) Advance by way of loans (other than term loans)	14.0
(b) Term loan	13.5
6. Educational advances	
(a) Indigent students for	Not less than

purpose of higher education in India	Bank Rate
(b) Other educational advances	14 - 16.5
7. Housing	
(a) Loan to SC/St upto and inclusive of Rs 5,000/-	4.0
(b) Loans to other weaker sections upto and inclusive of Rs 5,000/-	12.5
8. Road Transport Operators	
(a) Upto two vehicles	12.5
(b) More than two vehicles	15.0
9. Priority Sectors not otherwise specified	
Short term loans	Not exceeding 16.5
All other term loans	15.0
10. Advances to State Level	
Corporations for purchase and supply of inputs to artisans, village and cottage industries and/or marketing their output	12.5
11. Advances to State Sponsored	
scheduled caste/tribe development Corporation for purchase and supply of inputs to and marketing of outputs	

Note : (a) Beneficiaries satisfying eligibility criteria laid down under DRI Scheme could be given loan at 4 % annum.

(b) The rate of interest to be charged on IRDP loans is 10 % annum.

Penal interest

(i) No penal interest should be charged for loans upto Rs 25,000/- (ii) For limits over Rs 25,000, the penal rate may vary from 1 % to 2.5 % over and above the normal rates of interest. The policy of levying penal interest should be implemented with discrimination and selectivity. In order to avoid indiscriminate levy of penal rate, the decisions on penal rate should be taken at a fairly high level in each bank. In the case of short-term agricultural advances, the total interest debited to an account should not exceed the principal amount in respect of small and marginal farmers.

Guarantee Premium

(i) The guarantee premium payable to DIGGC on advances granted to the 'Weaker Sections' in the priority sector should be borne by the banks should not be recovered from the borrowers.

(ii) In case of other borrowers, the guarantee premium maybe passed on to the borrowers. However, it should ensue that the interest charged by the bank together with the guarantee premium does not exceed ceiling of 17.5 per cent.

Inspection charges

No inspection charges should be levied on advances up to Rs. 5000/-. For advances above Rs. 5000/- but up to Rs. 25,000/-, inspection charges may be levied at the flat rate of Rs. 2.50 per inspection per borrower. However, these charges should not exceed Rs. 10/- per borrower. For loans above Rs. 25,000, reasonable inspection charges may be levied. It should be ensured that the inspection charges on advances to the weaker section in the priority sector are lower than the rates framed for such inspection charges in other cases.

Other Charges

Bank should not levy any other service charges except by way of reimbursement of reasonable out-of-pocket expenses.

Photographs of Borrowers

Banks may take photographs of the borrowers for the purpose of identification. However, banks themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers coming in the category of weaker sections. It should also be ensured that the photographs are taken in time and disbursement of loan is not delayed on account of photographs.

Insurance against Fire and Other Risks

(i) The requirement of insurance against fire may be waived in respect of finance given for purchase of any equipment provided the amount of credit does not exceed Rs. 10,000/-

and it is covered under the DIGGS's guarantee scheme. For other risks, the insurance cover may be waived for advances upto Rs.5,000/- provided they are covered under DICGC's schemes.

(ii) There is also no objection to a bank waiving requirement of insurance cover against fire risk for the following three types of advances upto Rs. 25,000/- granted to small scale industries and covered under the Credit Guarantee Scheme:

- (a) Composite loans of Rs.25,000/- sanctioned to artisans, village and cottage industries,
- (b) All term loans,
- (c) All working capital advances where they are against non-hazardous goods.

(iii) In other cases, the requirement of insurance maybe waived to the extent of Rs.10,000/- in respect of advances granted to small scale industries and covered under the credit guarantee scheme.

(iv) It may be noted that if requirement of insurance of a vehicle or machinery or other equipment is compulsory under the provision of any law, it should not exceed Rs.10,000 / Rs,25,000.

Mode of Disbursement of Loan

As far as possible, disbursement of loan amount should be made directly to the suppliers of input/assets, such as fertilizers, raw materials, implements, trucks, machinery, etc.

Repayments Schedule

(i) Repayment schedule for term loans should be fixed taking into account the sustenance requirement, surplus generating capacity, life of the assets etc. and not in an adhoc manner.

(ii) NABARD has stipulated the range of term loan repayment period including the gestation period required to be given to small farmers. The banks have the discretion of varying the loan repayment periods within the range indicated on the basis of a case by case appraisal, but the period so stipulated should not be less than the minimum suggested by the NABARD. The gestation period indicated by NABARD should also be provided in all cases.

(iii) The repayment period of loans given under IRDP should not be less than 3 years.

(iv) In case of default on account of natural calamities like floods, drought etc., crop loans may be converted into medium-term loans of 3 to 5 years and extension/rephasing may be allowed in the case of term loans.

(v) In the case of other borrowers affected by nature calamities, banks may convert drawings in excess of the value of security into a term loan repayable over a reasonable period of time and may also provide further working capital and extend/rephase installments due under term loans.

Margin money and security norms

The requirements of margin money and security norms depend upon the purpose and quantum of loan. These requirements are

given separately for agriculture, small scale industries and other borrowers in the priority sector while discussing about them in a subsequent part.