



GOVERNMENT OF KERALA
FINANCE (PUBLIC UNDERTAKINGS - A) DEPARTMENT

No. 31/2011/Fin.

Dated, Thiruvananthapuram, 31/05/2011

C I R C U L A R

Sub:- State Public Sector Undertakings/ Co-operative Societies/ Autonomous Bodies/ Other Institutions controlled by Government - Loans advanced by the State Government - Rate of Interest and terms and conditions - Revised - Instructions - Issued.

*Ref:- 1. Circular No. 4/2007/Fin. dated, 18-01-2007.
2. Office Memorandum No. F.5(3)-B(PD)/2010 dated, 31-12-2010 of the Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi.*

The Government of India, vide Office Memorandum referred to as 2nd above, have revised the rate of interest for loans and advances. In pursuance of the same, Government of Kerala hereby revise the rate of interest of loans advanced by Government of Kerala.

2. In modification of the instructions issued in the Circular read as 1st paper above, the rate of interest and terms and conditions on loans advanced by Government of Kerala to Public Sector Undertakings / Statutory Corporations / Boards / Co-operative Societies / Autonomous Bodies under the control of Government of Kerala / Other Institutions are hereby revised with effect from 01-04-2010 as detailed below:

| <u>Type of Loan</u> | <u>Interest (per year)</u> |
|--|----------------------------|
| (i) Investment loans | 11.50% |
| (ii) Working Capital loans and loans to meet cash losses | 13.50% |
| (iii) Loans for implementation of VRS in Sick PSUs | 11.50% |

3. The loans to State Electricity Board for renovation and modernization will carry interest @ 9% p.a.

4. The interest rates prescribed above assume timely repayment of the principal and payment of the interest and hence no further rebate in rates will be allowed under any circumstances, including timely repayments.

5. In case of default in repayment of principal and of interest, penal interest @ 2.50% will be charged in addition to the applicable rate of interest.

6. The Administrative Departments and all Heads of Departments are requested to observe the following procedures while sanctioning loans:-

- i. The terms and conditions of the loan shall be fixed and incorporated in the order sanctioning the loan, vide Annex-I. A copy of the Government Order sanctioning loan should invariably be marked and furnished to the Fin (GMC) Department.
- ii. All loan sanctioning authorities should keep a close watch on timely repayment of loans advanced by them and recovery of interest thereon. Notice 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 Annex-III.
- iii. All loan sanctioning Heads of Departments/Administrative Departments should send monthly report in the form given in the Annex-II on the default of repayment of loan by Public Sector Undertakings/Co-operative Societies etc., to Finance (GMC) 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 Annex-IV should be served on the borrower for security payment with penal interest.


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

A.K.DUBEY
PRINCIPAL SECRETARY (FINANCE)

To

The Accountant General (A&E/Audit), Kerala, Thiruvananthapuram
All Departments and Sections of Secretariat
All Public Sector Undertakings / Heads of Departments
The Stock File / Office Copy.
✓ Nodel Officer www.finance.kerala.gov.in

Forwarded / By Order


Section Officer

ANNEX - I
LOANS AND ADVANCES BY STATE GOVERNMENT

01. Name of the Borrower :
02. Amount sanctioned :
(in words and figures)
03. Sanction valid upto :
04. The purpose of loan :
05. Payable in cash or by adjustment :
06. Plan/Non-Plan :
(in the case of Plan, category of Plan)
07. Head of Account to which amount :
sanctioned is debitible
- 08 Progressive amount of loan sanctioned to :
the borrower to date in the financial year
09. 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)

ANNEX - II**MONTHLY REPORT****Defaults in Repayment of Loans and Payment of Interest**

| Organisation | Repayment of Loans | | | | Payment of Interest | | | |
|------------------------------|----------------------------------|---------------------------|---------------------------------------|----------------------------------|----------------------------------|---------------------------|---------------------------------------|----------------------------------|
| | Defaults up to the previous year | Dues for the current year | Total Dues up to the end of the month | Actual repayment up to the month | Defaults up to the previous year | Dues for the current year | Total Dues up to the end of the month | Actual repayment up to the month |
| (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:- Reasons for default and action taken may be indicated.

ANNEX - III

NOTICE

No.....

Office of the/Department of

Place :

Dated the

To

.....
.....
.....

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 Principal
Rs. (in words and figures)

(ii) Payment of interest
Rs. (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 tendered 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 accounts 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,

ANNEX - IV
IMPORTANT NOTICE

No.

Office of the Department.....

To

.....
.....
.....

Sir/Madam,

Sub:- Repayment of loan and payment of interest

.....

I am to state that the payment of Rs. and
Rs. (as detailed below) representing principal and
interest respectively, which fell due on in 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.

ANNEX - VGENERAL INSTRUCTIONS CONCERNING REPAYMENT PERIOD,
PENAL CLAUSE, DEFAULT 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 drawal or on expiry of the period of moratorium, as the case may be. The recovery of principal should be effected in equal quarterly instalments.

(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 of public sector projects, a suitable period of moratorium towards repayment might be agreed to in individual cases having regard to the project for which the loans are to be utilized. However, no moratorium should ordinarily be allowed in respect of interest payment on loans.

C. Repayment before due date:- Any instalment paid before its due date may be taken entirely towards the principal provided it is accompanied by payment towards interest dues up-to-date of actual payment of instalment; if not, the amount of the instalment will first be adjusted towards the interest due for the preceding and current periods and the balance, if any, will alone be applied towards the principal. Where the payment of the instalment 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 penal rate of interest in the event of default in repayment of instalment(s) of principal and/or interest. The rate of penal interest should not be less than 2.50% 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 instalments of principal and/or interest from the due date of their payment to the date preceding 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 of recovery of defaulted dues, where, for any special reasons, recovery 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 , Finance Department 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 modification of these terms can be made subsequently only for very special reasons. Requests for modification of 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.

(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 the 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 repayment, interest at rates prescribed by Government from time to time will be chargeable on the loans.

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

(i) The date of drawal of loan by the borrower will be the 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 tender 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 Scheduled 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 payment 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 tender 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/Loans 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 Volume-I provides for a notice to be given to the borrowers a month in advance of the due date of payment of instalment 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 Finance Department unless it is proposed to deviate from those laid down in this Circular.