

**Credit Control and other Measures  
March 2002**

**Selected circular issued by the Reserve Bank of India during March 2002 reproduced below.**

Ref.No.DS.PCB.Cir. 38/13.04.00/2001-02 dated March 30, 2002.

**The Chief Executive Officers of all Primary (Urban) Co-operative Banks**

**Adoption of 90 days' norm for recognition of loan impairment – Application of interest at monthly rests**

Please refer to our Circular BSD.I. PCB. 12/12.05/ 2001-2002 dated October 5, 2001 wherein banks have been, *inter-alia*, advised that with a view to moving towards international best practices and to ensure greater transparency in repayment of loans, banks should adopt 90 days' norm for recognition of loan impairment from the year ending March 31, 2004. As a facilitating measure, banks were advised to move over to charging of interest at monthly rests by April 1, 2002.

2. As you may be aware, in terms of paragraph 1 of our Directive UBD. No. PCB. 85/DC.HG. 9/90-91 dated May 23, 1991, banks should charge interest at specified rates on loans/advances/cash credits/overdrafts or any other financial accommodation granted/provided/renewed by them at quarterly or longer rests. It has now been decided that, in partial modification of the aforesaid paragraph, banks may move over to charging of interest on loans/advances at monthly rests with effect from April 1, 2002, subject to following conditions:

- I. Interest at monthly rests will not be applicable to agricultural advances and banks will continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons.
- II. Application of interest on monthly rests shall be applicable to Cash Credit and Overdraft accounts with effect from April 1, 2002.
- III. In the case of existing loans of longer/fixed tenor, banks may move over to application of interest at monthly rests at the time of review or renewal of such loan accounts.
- IV. In the case of new term loans and other loans of longer/fixed tenor, banks may apply interest at monthly rests.
- V. At the time of changing over to monthly rests, banks may obtain consent letter/supplemental agreement from the borrowers for the purpose of documentation.

**Interest Rates on Advances**

Ref.No.UBD. No. Dir 5 /13.04.00/2001-2002 dated March 30, 2002.

In exercise of the powers conferred by Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949, and in partial modification of paragraph 1 of its Directive UBD. No. PCB.85/DC. HG. 9/90-91 dated May 23, 1991, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, hereby directs that:

- i) With effect from April 1, 2002, banks shall move over to charging of interest on loans/advances at monthly rests. However, interest on monthly rests shall not be applicable to agricultural advances and banks shall continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons.
- ii) Application of interest on monthly rests shall be applicable to Cash Credit and Overdraft accounts with effect from April 1, 2002.
- iii) In the case of loans of longer/fixed tenor, banks shall move over to application of interest at monthly rests at the time of review or renewal of such loan accounts.
- iv) Interest at monthly rests shall be applied in case of all new term loans and other loans of longer/fixed tenor.

2. All other terms and conditions relating to interest rates on advances, as contained in directives issued from time to time, shall remain unaffected.