

**Charging of penal interest by banks on priority sector loans**

RPCD. Plan. BC. 15 / 04.09.01/ 2001-02

17 August 2001

The Chairman/ Managing Director /  
Chief Executive Officer  
[All scheduled commercial banks]  
(Excluding RRBs)

Dear Sir,

**Charging of penal interest by banks on priority sector loans**

Please refer to our circular letter RPCD. No. Plan. BC. 10/ PL-09.01/ 89-90 dated 27 July 1989 and Paragraph No. IV.7 of the Master Circular on Lending to Priority Sector regarding guidelines on charging of penal interest by banks in respect of priority sector loans.

2. In this connection, banks have been advised vide DBOD circular No. BP.BC. 31/ 21.04.048/ 2000-01 dated 10 October 2000, that 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.

3. The issue has been examined by us in the context of loans to borrowers under priority sector. It has been decided that while no penal interest should be charged by banks for loans under priority sector up to Rs 25,000 as hitherto, banks will be free to levy penal interest for loans exceeding Rs 25,000, in terms of circular of 10 October 2000 referred to above.

4. Please acknowledge receipt.

Yours faithfully,

(Deepali Pant Joshi)  
General Manager

Endt. No. RPCD. Plan. 112 / 04.09.01/ 2001-02 of date.

Copy for warded for information.

(As per mailing list)

Asst. General Manager