

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

DBOD No. Dir. BC. 73/13.03.00/2001-02

March 9, 2002
Phalguna 18, 1923 (S)

All Commercial Banks
(Excluding RRBs & LABs)

Dear Sir,

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

Please refer to paragraph **1.A.b** of our circular DBOD.No.BP.BC. 116/21.04.048/00-01 dated May 2, 2001 wherein banks have been, *inter-alia*, advised that with a view to moving towards international best practices and 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 should move over to charging of interest at monthly rests by April 1, 2002. In this connection, some of the banks have approached us for clarification on issues such as application of interest on agricultural advances at monthly intervals, options available for applying interest at longer rests etc. and requested us to issue detailed operational guidelines on documentation formalities.

2. As you may be aware, in terms of paragraph 1 of our Directive DBOD. No. Dir. BC. 106/13.03.00/2000-01 dated April 19, 2001 read with paragraph 1.1.1 and 1.1.2 of our Master Circular DBOD No. Dir. BC. 06/13.07.01/2001-02 dated August 9, 2001, 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. The matter was therefore examined by us in consultation with Indian Banks' Association (IBA). It has now been decided that in partial modification of paragraph 1 of our Directive DBOD.No. Dir.BC. 106/13.03.00/ 2000-01 dated April 19, 2001 and paragraph 1.1.1 and 1.1.2 of our Master Circular DBOD No. Dir. BC. 06/13.07.01/2001-02 dated August 9, 2001 and with effect from April 1, 2002, banks may move over to charging of interest on loans/advances at **monthly rests** 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 will be restricted to **Cash Credit and Overdraft accounts only**. At the time of changing over to monthly rests, banks may obtain consent letter/supplemental agreement from the borrowers for the purpose of documentation.
- iii.** In the case of 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.

2. An amending Directive DBOD. No. Dir. BC. 72/13.03.00/2001-02 dated March 9, 2002 is enclosed.

Yours faithfully,

(M.R. Srinivasan)
Chief General Manager-in-Charge