

**Levying of service charges and inspection charges
by banks in respect of priority sector loans**

RPCD. Plan. BC.53 / 04.09.01/ 2002-03

20 December 2002

The Chairman/ Managing Director/Chief Executive Officer
All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir/ Madam,

**Levying of service charges and inspection charges
by banks in respect of priority sector loans**

In terms of the guidelines on lending to priority sector issued to banks (as reproduced in the Master Circular on Lending to Priority Sector dated 11 November 2002), no service charges are to be levied on priority sector loans, except by way of reimbursement of reasonable out of pocket expenses. Banks can, however, levy inspection charges in the manner specified in the guidelines.

2. The issue of levying service charges and inspection charges in respect of priority sector loans has been reviewed by us in consultation with the Indian Banks' Association (IBA). It has been decided that no service charges or inspection charges should be levied by banks on priority sector loans up to Rs 25,000/-. In the case of loans above this limit, however, banks will be free to prescribe service charges with the prior approval of their Boards in terms of circular No. DBOD. Dir. BC. 86/ 03.01.00/ 99-2000 dated September 7, 1999.

3. In view of the above, Paragraphs IV.7 and IV.9 of the Master Circular on Lending to Priority Sector (RPCD. No. Plan. BC. 42A/ 04.09.01/ 2002-03 dated November 11, 2002) stand modified.

4. Please acknowledge receipt.

Yours faithfully,

(R. Sahadeva)
General Manager