

RBI/2004-2005/283

RPCD.PLFS.BC.No 60/05.02.02/2004-05

November 24,2004

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

Dear Sir,

Flow of Credit to Agriculture-Announcements made by the Union Finance Minister

Please refer to our circular RPCD.Plan.BC.92/04.09.01/2004-05 dated June 24, 2004 advising you certain measures announced by the Union Finance Minister for improving flow of credit to agriculture.

2. In terms of the above circular in the case of farmers in distress, banks may restructure crop loans and agricultural term loans only in respect of the overdue installments including interest thereon as on March 31, 2004. The farmers whose loans have been restructured as above will become eligible for fresh loans and the rescheduled/restructured loans as also the fresh loans to be issued to the farmers may be treated as current dues and need not be classified as NPA. While the fresh loans would be governed by the NPA norms as applicable to agricultural loans, the NPA norms would be applicable to the rescheduled/restructured loans only from the third year onwards, i.e. on completion of the initial moratorium period of two years.

3. According to the Master Circular on Income Recognition, Asset Classification and Provisioning (DBOD NO.BP.BC.10/21.04.048/2004-05 dated July 17, 2004) all facilities granted by a bank to a borrower will have to be treated as NPA even if one facility or part thereof has become irregular. In the light of this, some banks have sought clarification whether the guidelines on asset classification should be borrower-wise and not facility-wise in respect of the farmers in distress whose overdue loans were restructured due to natural calamities.

4. In this connection we advise that the guidelines relating to borrower-wise classification of NPA norms would not be applicable to restructuring of loans as on 31.3.2004 under natural calamities in terms of the Government's announcements on June 18, 2004. It is hereby clarified that the guidelines issued to banks vide our circular RPCD.Plan.BC.92/04.09.01/2004-05 dated June 24, 2004 were in the nature of a one-time measure allowing restructuring of debt outstanding as on 31.3.2004. As such, the provisions of the Master Circular on Income Recognition, Asset Classification and Provisioning will continue to apply on loan restructuring in the course of normal business. Hence no amendment to the Master Circular will be necessary in the matter.

Yours faithfully,

(Hauzel Thangzaman)
General Manager