

March 29, 2007

All Regional Rural Banks

Dear Sir

Grant of Loans for acquisition of Kisan Vikas Patras (KVPs)

We have recently come across certain instances where banks had sanctioned loans to individuals (mostly High Net worth Individuals-HNIs) for acquisition of Kisan Vikas Patras (KVPs). The HNIs were first required to bring in 10% of the total face value of the proposed investment in the KVPs as margin and the remaining 90% of the investment was treated as loan and funded by the bank for acquisition of the KVPs. Once the KVPs were acquired in the borrower's name, the same were pledged thereafter to the bank.

2. The sanction of loans as described above is not in conformity with the objectives of small savings schemes. As banks may be aware, the basic objective of small savings schemes is to provide a secure avenue of savings for small savers and promote savings, as well as to inculcate the habit of thrift among the people. The grant of loans for acquiring/investing in KVPs does not promote fresh savings and, rather, channelises the existing savings in the form of bank deposits to small savings instruments and thereby defeats the very purpose of such schemes. Banks may therefore ensure that no loans are sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.

3. Please acknowledge receipt to our Regional Office concerned.

Yours faithfully,

(C.S.Murthy)
Chief General Manager-in-Charge