

August 28, 2008

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

Dear Sir,

Simplified cyclical credit product for farmers

Please refer to paragraphs 138 and 139 of the Annual Policy Statement for the year 2008-09 (copy enclosed).

2. In the Mid-term Review of the Annual Policy 2007-08, it was proposed to constitute an Internal Working Group to examine the recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness that are relevant to the banking system in general and the Reserve Bank, in particular. The Radhakrishna Expert Group had stated that *liquidity constraints of farmers in rainfed areas should be mitigated through a cyclical credit system of treating crop loan as a weather cycle long intervention rather than an annual feature. It could be initiated on a pilot basis in a few rain-fed districts.* The Group had also stated that *banks should be directed to simplify procedures and help in providing small and marginal farmers with timely access to credit.*

3. In this connection, the Internal Working Group has recommended the introduction of a new simplified cyclical credit product for financing crop production while also ensuring year round liquidity for farmers, particularly in rain-fed areas of the country.

4. Accordingly, each commercial bank as also RRB may select one rain fed district for introduction, on a pilot basis, of a new product for financing crop production whereby (a) 80 per cent of the crop loan requirement of individual borrowers may be released through a short term production loan in conformity with the present norms / practices, and (b) the remaining 20 per cent representing the 'core component' (expenses for land preparation, pre-sowing operations etc. besides self labour/ consumption) may be sanctioned as a 'clean credit limit' to ensure year round liquidity.

5. Banks may allow drawings in this 'clean credit limit' on the pattern of operations in cash credit / over draft accounts as long as the farmers continue to service interest. *Asset classification norms as applicable to non-agricultural cash credit / over draft accounts would apply to this clean credit limit.*

6. Further, any rescheduling of the loans in terms of extant guidelines on relief measures to be provided in the event of natural calamities in these areas will warrant that balances outstanding in the clean credit account are clubbed with the outstanding in the loan account for rescheduling and a fresh 'clean credit limit' is again made available to the farmer.

7. It may, however, be noted that in the normal circumstances, the extant guidelines of borrower-wise asset classification would prevail in the case of this new product also, unless specifically dispensed with as in the case of restructuring in Natural Calamities. Rate of interest and periodicity of interest application in respect of the 'clean credit limit' would be as applicable to other agricultural advances.

8. The new system may be tried out in select branches with effect from the forthcoming crop season and a confirmation sent to our Regional Office under whose jurisdiction the head office of the bank functions, giving details of districts where it has been introduced.

Yours faithfully,

(B.P.Vijayendra)  
Chief General Manager

Paragraphs 138 and 139 of the Annual Policy Statement for the year 2008-09:

***(d) Simplification of Lending Procedures for Crop Loans***

138. The Working Group (Chairman: Shri C.P.Swarnkar) appointed by the Reserve Bank and the Committee on Agricultural Indebtedness (Chairman: Dr.R.Radhakrishna) appointed by the Government of India made several recommendations to address credit constraints faced by farmers, including the issue of availability of cash throughout the year for agricultural operations. The report of the Internal Working Group (Chairman: Shri V.S.Das), set up by the Reserve Bank to examine the recommendations of the Radhakrishna Committee, has been placed on the Reserve Bank's website for wider consultation.

139. While action on the recommendation of the Radhakrishna Committee will be finalised based on comments/responses received, it is proposed:

- to ask each domestic commercial bank, including RRBs, to select one district for introduction, on a pilot basis, of a simplified cyclical credit product for farmers to enable them to continuously utilise a core component of 20 per cent of the credit limit. This arrangement should ensure minimum year-round liquidity as long as the interest is serviced.