

**One Time Settlement of NPAs- Small Loan Accounts
with sanctioned limits upto RS.25,000/-**

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December 22, 2001

Chairmen and Managing Directors
of all public sector banks

Dear Sir,

**One Time Settlement of NPAs- Small Loan Accounts
with sanctioned limits upto RS.25,000/-**

The Hon'ble Finance Minister in his meeting with the CMDs of public sector banks held at New Delhi on November 12, 2001, has indicated that a suitable scheme should be evolved by the banks for recovery of dues pertaining to loans outstanding up to Rs.25,000. Accordingly, the Boards of public sector banks may formulate a policy for recovery of these NPAs, keeping the following parameters in view.

2. (i) Coverage

- a) The guidelines will cover all loan accounts with outstanding balance of up to Rs.25,000 principal amount (excluding any interest element) in all sectors irrespective of the nature of business or purpose, which have become NPAs as on March 31, 1998.
- b) The guidelines will also cover suit-filed and decreed debts. After the settlement is reached, the banks may take appropriate steps for closure of cases in respective courts.
- c) The scheme will not, however, cover cases of fraud, malfeasance and wilful defaults.
- d) The guidelines will be operative up to June 30, 2002.

(ii) Settlement Formula – Amount and cut-off date

The amount that should be recovered as settlement amount under these guidelines would be the balance outstanding towards principal in the loan account as on March 31, 1998. Any interest which is included in the outstanding amount as on March 31, 1998 or accrued on the balance outstanding after March 31, 1998 will be waived.

(iii) Payment

The amount of settlement arrived at as above, should normally be paid in one lump sum. In deserving cases, banks may consider recovering the settlement amount in installments with down payment of at least 25% to be received at the time of settlement. The balance amount should be recovered within one year from the date of settlement.

(iv) Sanctioning Authority

The decision on the compromise settlement would be vested with the branch manager. In case the loan had been sanctioned by the branch manager himself, the decision on compromise settlement for such cases, should be taken by the next higher authority.

(v) Non-discriminatory treatment

The banks should follow the above guidelines for compromise settlement of NPAs covered, without discrimination.

(vi) Formulation of Policy

The Board of Directors of the bank should frame policy on compromise settlement of NPAs covered under the guidelines. The banks can also devise their own accounting procedure for treatment of the outstanding amount subject to the one-time settlement.

(vii) Publicity

Banks should give adequate publicity of the scheme to all the eligible defaulting borrowers to avail of the opportunity of One Time Settlement Scheme of their outstanding dues in terms of these guidelines.

(viii) Review by the Board

A monthly report on the progress and details of settlement made should be submitted by the concerned authority to the next higher authority and the Head Office. The compromise settlement reached should be reviewed by the Board at monthly intervals.

3. Please acknowledge receipt.

Yours faithfully,

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