

September 3, 2005

The Chairman/Managing Director
All Public Sector Banks

Dear Sir,

Guidelines on One-Time Settlement Scheme for SME Accounts

Please refer to Paragraph No. 8 of our circular RPCD. PLNFS.BC. No. 31/06.02.31/2005-06 dated August 19, 2005 and accordingly, a one-time settlement scheme for recovery of NPAs below Rs.10 crore is proposed hereunder which is required to be implemented by all public sector banks. These guidelines will provide a simplified, non-discretionary and non-discriminatory mechanism for one-time settlement of chronic NPAs in the SME sector. All public sector banks shall uniformly implement these guidelines.

2. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance. Banks shall identify cases of wilful default, fraud and malfeasance and initiate prompt action. Accordingly, guidelines for one-time settlement of dues relating to NPAs of public sector banks in SME sector are given below:

(A) Guidelines for one-time settlement of chronic NPAs up to Rs. 10 crore

[i] Coverage

a) The revised guidelines will cover all NPAs in SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs.10 crore and below on the date on which the account was classified as doubtful.

b) The guidelines will also cover NPAs classified as sub-standard as on 31st March 2004, which have subsequently become doubtful or loss where the outstanding balance was Rs.10 crore and below on the date on which the account was classified as doubtful.

c) These guidelines will cover cases on which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.

d) Cases of wilful default, fraud and malfeasance will not be covered.

e) The last date for receipt of applications from borrowers will be as at the close of business on March 31, 2006. The processing under the revised guidelines shall be completed by June 30, 2006.

[ii] Settlement Formula – amount

a) NPAs classified as Doubtful or Loss as on March 31, 2004

The minimum amount that shall be recovered under the revised guidelines in respect of one-time settlement of NPAs classified as doubtful or loss as on March 31, 2004 will be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs.

b) NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently

The minimum amount that shall be recovered in respect of NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs, plus interest at existing Prime Lending Rate from April 1, 2004 till the date of final payment.

[iii] Payment

The amount of settlement arrived at in both the above cases, shall preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement shall be paid upfront and the balance amount of 75% should be recovered in instalments within a period of one year together with interest at the existing

Prime Lending Rate from the date of settlement up to the date of final payment.

[iv] Sanctioning Authority

The decision on the one-time settlement and consequent sanction of waiver or remission or write-off shall be taken by the competent authority under the delegated powers.

[v] Non-discretionary treatment

Banks shall follow the above guidelines for one-time settlement of all NPAs covered under the scheme, without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office. Banks may go for wide publicity and also give notice by January 31, 2006 to the eligible defaulting borrowers to avail of the opportunity for one-time settlement of their outstanding dues in terms of these guidelines. Adequate publicity to these guidelines through various means must be ensured.

[vi] Reporting to the Board

Banks shall submit a report on the progress in the one-time settlement of chronic NPAs under the revised guidelines every quarter to the Board of Directors. A copy of the quarterly progress report may also be sent to us.

3. The above guidelines may please be advised to your controlling offices and branches for immediate implementation. These guidelines may be displayed on the web site of your bank.

4. Any deviation from the above settlement guidelines for any borrower shall be made only by the Board of Directors.

5. Please acknowledge receipt.

Yours faithfully,
(G.Srinivasan)
Chief General Manager