GOVERNMENT OF ODISHA
FINANCE DEPARTMENT

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No. 23792 /F., Dated 30.08.2016

FIN-C&I-LOAN-0005/2016

OFFICE MEMORANDUM

Sub: **Loans and Advances given/sanctioned by the State Government - Interest rates and other terms and conditions.**

Ref: ***Finance Department O.M.No.38239/F, dtd.07.09.1993, Memo No.32445/F, dtd.06.08.1997, F.D.O.M. No.11010/F, dtd.24.3.2012, F.D.O.M. No.15672/F, dtd.26.4.2013 and F.D.D.M. No.13542/F, dtd.23.4.2014.***

Basing on the lending rate prescribed by the Central Government, applicable from 1st April, 2015, the rate of interest and terms and conditions of sanction of various category of loans and advances given by the State Govt. fixed vide F.D.O.M. No.13542/F, dated 23.04.2014 have been reviewed. Accordingly, the following rate of interest on different categories of loans and advances given by the State Govt. and other terms and conditions would be applicable from 1st April 2015 and till the time these are reviewed.

Sl. No.	Category of borrower & type of loan	Interest rate (per annum)	Remarks
I.	Industrial and Commercial Undertakings in the Public Sector and Cooperative Sector		100 basis points above the rate of interest prescribed by the Central Government under the category of Industrial and Commercial Undertakings in the Public Sector and Cooperatives for the year 2015-16.
	(i) Investment Loans	12.5%	
	(ii) Working Capital Loans	14.5%	
II.	Financial institutions in the Public Sector, State Cooperative Bank/OSCARD Bank/ Urban Local Bodies/Educational and Social Service Institutions/ Gram Panchayats	11.0%	Interest rate applicable for the year 2011-12, 2012-13, 2013-14 and 2014-15 will prevail and remain unchanged.
III.	PSUs in the Power Sector, State Housing Board/Development Authorities/ Special Planning Authorities/Regulated Marketing Committees/ other Cooperative Banks	12.5%	Interest rate applicable for the year 2011-12, 2012-13,2013-14 and 2014-15 will prevail and remain unchanged.

Sl. No.	Category of borrower & type of loan	Interest rate (per annum)	Remarks
	and State Cooperative Housing Corporation.		
IV.	Loans raised by the State Govt. from Government of India, L.I.C., NCDC etc intended for re-loaning to third parties for specific purposes.	-	1% (one) per cent more over the borrowing rates in each case in order to meet administrative and other incidental servicing expenses. In these cases the other terms and conditions of the loan including the repayment period shall be the same as those upon which loan is obtained by the State Government from the lending agencies concerned.

2. **(i)** The interest rates prescribed above, assume timely re-payment and interest payments and hence no further rebate in rates is to be allowed for timely payments.

(ii) These revised rates of interest will not be applicable to the loans and advances already sanctioned with specific terms and conditions. These revised terms and conditions are applicable to the loans and advances already sanctioned and to be sanctioned on or after 1st April, 2015.

(iii) These interest rates do not, however, apply to the loans and advances to Government servants and work advances to contractors for which interest rates are prescribed under separate orders.

3. In the event of default either in repayment of principal or interest, penal interest rate of 2.5% over and above the original rates will be levied.

4. Normally, loans should not be given to Private Sector Companies. In exceptional cases where such loans become necessary interest should be 1% to 2% higher than those prescribed for Public Sector.

5. **Other Terms and Conditions:** The instructions contained in Finance Department O.M. No. 6940/F, dated 20.3.2015 shall also be followed alongwith other terms and conditions while sanctioning loans and advances and its repayment etc. which are set out in the following paragraphs for facility of reference.

Public Sector Projects

(A) For new installations or expansion of existing institutions:

(a) The terms and conditions of loans should be fixed with reference to the financial picture resented in the approved project report. (Once the pattern is settled, there should be no change except with the specific concurrence of Finance Department for reasons to be stated in writing).

(b) The capital requirements of a project should include adequate provisions for interest payment on borrowings during the period of construction (as specified in the project report). The interest on loans due during the period of construction will be allowed to be capitalised to the extent of the provisions made for this purpose in the approved project report. In other words, while interest on loans advanced to an undertaking during the period of construction will be notionally recovered by allowing its capitalisation, the payment of interest should effectively commence after the construction period is over.

(c) The repayment of principal should ordinarily commence one year after the project commences production, the number of instalments being determined with reference to the financial projections and repaying capacity specified in the project report. Requests for further moratorium will be considered only in exceptional cases where the project report has specified any special circumstances that may necessitate a longer period of moratorium and has indicated clearly what staggering of repayment would be needed over the necessary break period. The period of loans sanctioned against capitalised interest during the period of construction may also be on the same terms and conditions as are applicable to loans provided for financing the project costs.

(d) A suitable period of moratorium subject to a maximum of five years from the date of drawal of the loans may be allowed for the repayment of instalments of principal, having regard to the nature of the project, the stage of construction etc. The period of moratorium should not, however, extend in any case, beyond two years from the date of project going into production, or in the case of programmes of expansion, beyond two years from the date of expanded project coming into operation.

(B) For meeting working capital requirements :

The undertakings are expected to obtain their cash credit requirements from the Banks by hypothecating their current assets (such as stock of stores, raw materials, finished goods, work-in-progress, etc.). Where the entire working capital requirements cannot be raised in this manner requests from Public Sector Undertakings for funds for meeting working capital requirements should be' considered only to the extent the same cannot be raised from the Banks.

6. General:

(A) Repayment Period

(i) The period for repayment of loans for all parties should be fixed with due regard to the purpose for which they are advanced and it should be restricted to the minimum possible. Normally, no loan should be granted for a period exceeding 12 (twelve) years. Where a longer period for repayment is sought, prior concurrence of the Finance Department will be necessary for fixing the period.

(ii) The repayment of a loan should normally commence from the first anniversary date of its drawal or on expiry of the period of moratorium, as the case may be. The recovery should ordinarily be effected in annual equal instalments of principal.

(iii) The period of repayment of working capital loans should preferably be restricted to two or three years. In no case, however, the period of these loans should exceed 5 (five) years.

(B) Moratorium:

Subject to exceptions made in respect of public sector projects, a suitable period of moratorium towards repayment might be agreed to in individual cases having regard to the project for which the loans are to be utilised. However, no moratorium should ordinarily be allowed in respect of interest payment on loans. Administrative Departments may with the approval of Finance Department allow moratorium on repayment of principal wherever considered necessary up to a maximum period of 2 (two) years.

(C) (i) <u>Repayment before due date</u> :

Any instalment paid before its due date may be taken entirely towards the principal provided it is accompanied by payment towards interest due up to date of actual payment of instalment; if not, the amount of the instalment will first be adjusted towards the interest due for the preceding and current periods and the balance, if any, will alone be applied towards the principal. Where the payment of the instalment is in advance of the due date by 14 days or less, interest for the full period *(half year or full year as the case may be)* wiII be payable.

(ii) **<u>Pre-payment premium</u> :** Prepayment premium of 0.25% on the loans with residual maturity of less than 10 years and 0.50% for the loans with residual maturity of 10 years and above, shall be charged.

(D) Defaults in re-payment/ interest payment:

(i) In the event of a default in repayment of loan/ interest payment, the recovery of interest at penal rate may not be waived unless there are special reasons justifying a waiver. However, a decision in this regard will be taken by the Finance Department. Even in such cases, a minimum of 0.25% should be recovered from the defaulting party as penalty.

(ii) The penal rate of interest is chargeable on the overdue instalments of principal and/ or interest from the due date of their payment to the date preceding the date of actual payment.

(iii) Whenever a fresh loan is to be sanctioned to a borrower who has earlier defaulted, the loan sanctioning authority must consider the question of recovery of defaulted dues. All releases to Public Sector Undertakings against budgeted outlays should be made only after adjusting the defaults, if any, pertaining to repayment of loans and interest. If for special and exceptional reasons such adjustments are not possible, specific concurrence of Finance Department should be obtained, before release of fresh loans.

However, no request for waiver/postponement of instalments on any ground whatsoever will be accepted, except in cases of companies referred to BIFR or in respect of those companies which have-incurred cash losses for last three years.

(E) Requests for modification of terms of loans:

(i) Borrowers are required to adhere strictly to the terms settled for loans made to them and modifications of these terms in their favour can be made subsequently only for very special reasons. Requests for modification of terms may relate to increase in the period of a loan or of initial moratorium period towards repayment, or waiver of penal interest or reduction in or waiver of normal rate of interest. These cases are to be considered in consultation with Finance Department. While referring such cases, the impact of the modifications on the estimates of repayment/ interest which have gone into the Budget and Government's resources position should be succinctly brought out by the Administrative Department.

(ii) In examining proposals for modification of the period of the loan, the interest rate at which the loan was sanctioned should also be reviewed.

In the case of a loan of which repayment has already commenced the revised rate of interest should be applied ab initio only to the residuary portion of the loan outstanding on the date of extension of its period.

(F) Loans sanctioned at concessional rates:

(i) The rate of interest to be charged is prescribed by the State Government as laid down under Rule 208 of Orissa General Financial Rules Vol.-I. The State Government in deserving cases may sanction loans at concessional rates or sanction interest free loans. In cases where loans are sanctioned at a concessional rate, it should be made conditional upon prompt repayment of principal and payment of interest thereon by the borrower. In case of default interest may be charged at the normal rate.

(ii) In cases where loans are sanctioned interest free, prompt repayment should be made a condition for the grant of interest free loans. That is to say, the sanction letter in such cases should provide that in the event of any default in repayment, interest at rates prescribed by Government from time-to-time will be chargeable on the loans.

(G) Miscellaneous :

A standard form prescribed for Issue of loan sanctions should ordinarily be followed.

(i) The date of drawal of a loan by the borrower will be date on which he received cash, cheque or bank draft from the Drawing and Disbursing Officer. It should be ensured that the time lag between the date of obtaining the cash/ cheque/ bank draft and its disbursement/ delivery/ despatch to the payee is reduced to the minimum. Where the cheque or bank draft is sent through post, the date of posting should be treated as the date of disbursement of the loan. **Disbursement of the loan may preferably be made electronically to the bank account of the borrowing organization/borrower so as to minimize the time lag between the date of drawal of the loan and its actual disbursement to the payee.** The Drawing and Disbursing Officer should invariably intimate the date of payment to the Accountant General (A&E), Odisha to enable the latter to make a suitable note in his records.

(ii) Departments are required to keep close watch on timely repayments of loans advanced by them and recovery of interest thereon. Notice to be given to the borrowers a month in advance of the due date of payment of instalment of the principal and/ or interest thereon. The borrower should not however be given any advantage in the event of non-receipt of such a notice.

(iii) Repayments/interest payments due from the loanees should also be reviewed at least quarterly, and where any default has occurred, a fresh notice should be served on the borrower to arrange payment with penal/ higher rate of interest.

By order of the Governor

Sd/-
(R. Balakrishnan)
Additional Chief Secretary, Finance