



Indian Banks' Association

Chief Executive

No.CE / 270 / 08

16th December, 2008

The Chairman & Managing Director
Public Sector Member Banks

Dear Sir,

Special Package from Public Sector Banks for Housing Loans and MSME Sector

Several measures have been announced recently by the Government and Reserve Bank of India for easing difficulties faced by the various small scale sectors and housing sector due to the current global conditions. In a scenario when both the Government and the RBI have been extremely proactive and forthcoming with relief in various forms to stimulate the economy, Chairmen of major Public Sector Banks, in their meeting held on 8th December 2008 at New Delhi, have come forward with the following measures to boost up the lending to Housing and MSME sectors. At a press meet held on 15th December 2008 at Mumbai, the Public Sector Bank Chairmen have also announced these schemes to the press and the larger public.

Special Schemes for Housing Loans:

The Public Sector Banks have decided to offer the following two schemes for home loan borrowers. The Schemes will be applicable to all new Housing Loans availed upto 30th June, 2009 and shall not apply to swapping of loans.

I. Loans up to Rs.5 lakh for a maximum period of 20 years

- (i) The interest rate will not exceed 8.5 % per annum for the first 5 years. Should there be a home loan product at a lesser rate, that bank will match this rate for products under their scheme. The rate of interest shall be reset after 5 years from the date of drawal of the first installment and the borrower will then have the option for going for a fixed rate or a floating rate of interest.
- (ii) A margin of 10% only will be required.
- (iii) There shall be no processing charges.
- (iv) There shall be no pre-payment charges/penalty.

- (v) Free Life Insurance cover for the entire amount of outstanding loan will be provided to the borrower.

II. Loan from Rs.5 lakh to Rs.20 lakh for a maximum period of 20 years

- (i) The interest rate will not exceed 9.25% per annum for the first 5 years. Should there be a home loan product at a lesser rate, that bank will match this rate for products under their scheme. The rate of interest shall be reset after 5 years from the date of drawal of the first installment and the borrower will then have the option for going for a fixed rate or a floating rate of interest.
- (ii) A margin of 15% only will be required.
- (iii) There shall be no processing charges.
- (iv) There shall be no pre-payment charges/penalty
- (v) Free Life Insurance cover for the entire amount of outstanding loan will be provided to the borrower.

Measures for the MSME Sector:

Public Sector Banks have decided to implement the following measures to meet the immediate needs of the MSME customers:

1. Public Sector Banks will grant need based adhoc Working Capital Demand Loans upto 20 percent of the existing fund based limits in respect of units having overall fund based credit facility up to Rs.10 crore. The loan will be repayable in one year with a provision of moratorium of six months during which only interest will have to be serviced.
2. In the current stretched shipment and receivables situation resulting in elongated operating cycle of business impacting working capital requirement needs, banks will be pro-active and forthcoming in sanctioning adequate increase in working capital limits.
3. Relief will be granted by reducing margin on receivables. Further, receivables up to six months will be reckoned for book debt financing.
4. Cash margins on letters of credit/guarantee will also be relaxed based on needs.
5. Moratorium period will be extended in respect of loans availed by MSMEs where project implementation has been delayed in the current scenario.
6. For units unable to repay term loan obligation on time, repayment will be rescheduled/rephased on a case-to-case basis within the overall loan policy of the respective banks.
7. Finance for purchase of gensets will be made available on soft terms.
8. Banks will take up a second restructuring of SME accounts on a case-to-case basis.
9. Interest rates for borrowings by Micro Industries will stand reduced by 100 basis points for all existing and new loans with immediate effect. In respect of Small and Medium Enterprises where banks have fund based exposures up to Rs.10 crore, interest rates will stand reduced by 50 basis points with immediate effect. The reduction in these rates of interest will be with reference to the rates of interest prevailing on 30.11.2008.

In addition to the above, each Public Sector Bank will also set up Regional MSME Care Centres to facilitate MSM Entrepreneurs for quick redressal of their grievances. The functioning of these Centers will be monitored directly by the Head Office and the list of these Centers will be posted on IBA portal and on the website of each public sector bank by 19.12.2008. These Care Centres would also be in close touch with the branches in their respective jurisdictions to ascertain the position on requests/presentations, in any form, as may be received from any MSME. **You are kindly requested to ensure that this matter is forthwith complied and the list of the centers be posted on your website by 19th December 2008 and such details be forwarded to us to enable us to host the same in the IBA portal immediately.**

We are also furnishing below, other measures announced by the Reserve Bank of India and the Government of India in respect of the MSME Sector, for your perusal:

The RBI has enhanced export credit refinance limit for scheduled commercial banks from 15 to 50 percent of the outstanding export credit eligible for refinance to export oriented units and advised banks to use the special refinance facility up to 1 percent of each bank's NDTL for the purpose of extending finance to Micro and Small Enterprises. The RBI has also extended the period of pre-shipment credit and post shipment credit at concessional rates to 270 days and 180 days respectively and indicated that –

- (a) The period of entitlement of first slab on pre-shipment of rupee export credit currently available at a concessional interest rate ceiling of BPLR – 2.5 percent stands increased from 180 days to 270 days for all exporters including exporters in the MSME sector.
- (b) The concessional interest rate on post shipment credit would be made available up to 180 days and even in respect of Bill which remain overdue for payment beyond 180 days, concessional interest rate, as is applicable to shorter periods will be made applicable.

In addition, RBI will be providing finance facility of Rs.7000 crore to SIDBI to support incremental lending either directly to MSEs or indirectly through banks, NBFCs and SFCs. This is in addition to Rs.3600 crore already allotted to SIDBI this year for refinance from the shortfall of scheduled commercial banks in the priority sector lending.

To boost collateral free lending, SIDBI has decided to extend the current guarantee cover under credit guarantee scheme for loans to micro and small entrepreneurs from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 percent. Further, SIDBI has also reduced the lock in period for invoking claims in respect of loans covered under credit guarantee scheme to 18 months from 24 months.

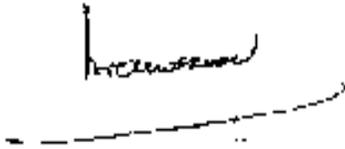
Government has announced w.e.f. 1.12.2008 interest subvention of 2 percent upto 31.03.2009 for all pre-shipment and post shipment export credit for select sectors including SME sector. Government is also issuing advisories to Central Public Sector Undertakings and requesting State Public Sector Enterprises to ensure prompt payment of bills to MSME.

Since the measures announced as above have implications for the banking industry, it is requested that the chairmen of banks personally ensure that the measures announced above are put to action with immediate effect. All the actionable points brought out herein above need to be implemented in a phased manner.

Kindly acknowledge receipt of this letter.

Thanking You

Yours faithfully,



K. Ramakrishnan

