

“VIABILITY OF THE DICCS FOR K.C.C. OF FARMERS”

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Invocation of Guarantee and Settlement of Claims:

As may be seen from Annex-I, the claims lodged were very low. Only 470 claims with aggregate amount of Rs. 39.15 crore were lodged during 2008-09. The position in respect of major public sector banks which lodged higher number of claims were analyzed (Table. 1) the data revealed that by June 30, 2009 of the total number of 4116 NPA accounts; claims were lodged only in 649 accounts which constituted 15.8% of these accounts. The reasons cited by banks for low level of invocation of guarantees were procedural hassle of filing suit in all cases as a precondition for lodging claims and due to the prescription of lock-in period of 18 months.

Table No.1

Extent of claims lodged

Bank	No. of Accounts covered under CGTMSE	No. of NPA accounts (of col.2)	Claims lodged (of the NPA accounts) in col. 3)	No. of accounts of Col. 3 where claims were not lodged (col. 3-col.4)
1	2	3	4	5
State Bank of India	25649	1668	99	1569
Bank of Baroda	2616	93	16	77
Canara Bank	21085	1983	425	1558
Bank of India	18400	372	109	263
Total	67750	4116	649	3467

Guarantee Fee

Guarantee Fee and Annual Service Fee:

(Cumulative up to June 30, 2009)

Source: CGTMSE

- i. One-time guarantee fee at specified rate (a) currently 1.00% in the case of credit facility up to Rs. 5 Lakh and 1.5% in the case of credit facility above Rs. 5 Lakh (b) 0.75% , in case of credit facilities up to Rs. 50 Lakh sanctioned to units in North Eastern Region including State of Sikkim) of the credit facility sanctioned (comprising term loan and/ or working capital facility) shall be paid upfront to the Trust by the institution availing of the guarantee within 30 days from the date of first disbursement of credit facility (no applicable for Working capital) or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is later or such date as specified by the Trust.
- ii. The annual service fee at specified rate (currently 0.50% in the case of credit facility up to Rs. 5 Lakh and 0.75% in the case of credit facility above Rs. 5 Lakh) on pro-rate basis for the first and last year and in full for the intervening years on the credit facility sanctioned (comprising term loan and/or working capital facility) shall be paid by the lending institution within 60 days i.e. on or before May 31, of every year. In the event of non-payment of annual service fee by May 31 of that year or any other specified date, the guarantee under the scheme shall not be available to the lending institution unless the Trust agrees for continuance of guarantee and the lending institution pays penal interest on the service fee due and unpaid, with effect from the subsequent June 01, at four per cent over Bank Rate, per annum, or at such rates specified by the Trust from time to time, for the period of delay.
- iii. Provided further that in the event of non-payment of annual service fee within the stipulated time or such extended time that may be agreed to by the Trust on such terms,

liability of the Trust to guarantee such credit facility would lapse in respect of those credit facility against which the service charges are due and not paid.

- iv. Provided further that, the Trust may consider renewal of guarantee cover for such of the credit facility upon such terms and conditions as the Trust may decide.
- v. In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee/annual service fee, such deficiency/shortfall shall be paid by the eligible lending institution to the Trust together with interest on such amount at a rate of four per cent over and above the Bank Rate, or as may be prescribed by the Trust from time to time. Any amount found to have been paid in excess would be refunded by the Trust. In the event of any representation made by the lending institution in this regard, the Trust shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.
- vi. The amount equivalent to the guarantee fee and / or service fee payable by the eligible lending institution may be recovered by it, at its discretion from the eligible borrower.

The guarantee fee and / or annual service fee once paid by lending institution to the Trust is non-refundable. Guarantee fee/ Annual Service Fee. Shall not be refunded, except under certain circumstances like -

- i. Excess remittance,
- ii. Remittance made more than once against the same credit application.
- iii. Guarantee Free & / or annual service fee not due.
- iv. Guarantee fee paid in advance but application not approved for guarantee cover under the scheme, etc.

Loan Recovery Process in Banks:

In India, the loan recovery process is complex but includes safeguards through the Know Your Customer Norms, by the RBI. As a future banker considering a bank course, or

just a consumer, it is important to know more about the loan recovery process and how that affects the economy.

Risks Associated With Bank Loans:

First, it is important to note that this process for loan recovery only is for loans taken by legitimate means and regulated banks. Of course, there are risks associated with taking loans for non-legal sources. However, some people find it difficult to take a loan from a bank.

The process is regulated by the RBI and it is becoming more common for individuals to contact layers when those hired to collect on a debt go outside the norms. In December 2013, it became apparent that the risks associated with bad loans by state banks can have a negative effect on the economy.

Loan Recovery Process:

Previously it has been seen that banks may end up writing off a large number of bad loans, but this puts banks and the economy at risk. For this reason, it is important to be aware of the process for loan recovery.

- Banks need to be aware of loans that are at risk of not being paid back (also known as going into default).
- Collections department of the bank will begin contacting the individual loan holder. They must notify of the amount owed and any interest accrued.
- Collections may also contact any guarantor of the loan.
- If it is secured loan, the bank may seize the asset.
- If it is personal loan without security, the bank may file a lawsuit.

References:

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