

RAJASTHAN FINANCIAL CORPORATION
(ARRC SECTION)

Ref.No.RFC/23FR/HO/Policy-03/1067

Dated : 15.09.09

CIRCULAR
(ARRC-168)

Reg : Policy with regard to stoppage of debiting interest from the date of takeover of possession of the fixed assets of Industrial units by other Participating Financial Institutions (PFIs) and other Govt. Departments

There is a long standing policy of the Corporation through which once a unit is taken-over into possession by a State Agency, charging / debiting of interest in the account is stopped. The Corporation stops debiting interest w.e.f. the date of take over of possession of the industrial unit by the OL / any other Govt. Deptt. causing physical possession resulting into closure of the unit and possession not remaining in the hands of the borrower.

However, the same effect of closure can be there when BIFR declares a unit fit for winding up. Normally, such units also close down operation after such decisions. But because, the winding up orders are to be confirmed by the Hon'ble High Courts and OL also to be appointed by them who then formally takeover the possession, there is a time lag between order of winding up by BIFR and formal taking over of possession. Usually this process on an average takes not less than three years. And all this time, because of these developments such units may actually be lying closed, but attracting accumulation of interest causing exaggerated liabilities.

Excessive inflation of account has several effects; first, grossly huge amount may deter the defaulter from at all coming to the negotiation table. Secondly, in such cases huge amount of likely sacrifice may discourage settlement on the part of management also. Nevertheless,

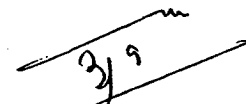
because settlement figures will always be conditioned and circumscribed by MRV- Irrespective of this high level of outstanding - reduced level thereof will never cause any lesser recovery.

Accordingly, a note was placed before the Board of Directors in its meeting held on 26.08.09 in which following decision was taken:-

"The Board considered the note in the background of the fact that there is a vast time gap between the orders of BIFR / AAIFR (recommending for winding-up of a company) and formal takeover of possession by the OL but all this time, because of these developments such units may actually be lying closed, yet at the same time attracting accumulation of interest causing exaggerated liabilities which deter the loanee to come to the settlement table as also likely sacrifice may discourage settlement on the part of management.

Considering the above the Board decided to charge interest at simple effective rate of interest (without penal); from the date of decision taken by BIFR / AAIFR (for recommending for winding-up) or from a later date of actual closure of the unit as a result of such recommendations; for settlement purposes. In any case, however, in order to take benefit of this scheme, it is necessary that the unit must have closed in the wake of BIFR/AAIFR orders. However, for the purpose of sharing of sale proceeds among participating financial Institutions or getting share from the OL, the outstanding will be arrived at by debiting interest as per the existing procedure."

All concerned are advised to make a note of the above and take action accordingly.



(ATUL KUMAR GARG)

CHAIRMAN & MANAGING DIRECTOR

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