

F.No.7/50/2012-BOA
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Sansad Marg, New Delhi
Dated, the 16th July, 2012

**The CEOs of
All Public Sector Banks**

Dear Sir,

It has been observed that Public Sector Banks (PSBs) have been granting short term loans to Corporate to meet their short term requirements. Most of these loans are unsecured and therefore create pressure on PSBs for keeping such account standard. A communication dated 16.03.2012 was sent to all PSBs seeking their comments on the issue. The comments of PSBs have been received in this Department. Since short term loans create pressure on the PSBs, it is felt that there is a need reduce this pressure by strengthening the process of sanction of such loans.

2. In this backdrop, the following guiding principles have been evolved in consultation with PSBs:

- (a) In future, any such sanction shall have to be placed before the Board and cannot be done through Circular Resolution. This applies to such loans which are being extended without any security and are of short term in nature.
- (b) All such loans shall either be phased out in the next six months time or collateral security will be created.
- (c) In case any such loans have become NPA, details of the cases shall be submitted to this Department.
- (d) Joint Lending Arrangements (JLA) shall be applicable to all such short term loans, wherever a threshold limit as stipulated in the JLA policy of the Bank is reached by a single borrower involving more than one Public Sector Bank.

3. In view of the above, you are requested to frame a Policy for sanctioning short term unsecured loans on the above lines and place the same before your Board for approval and implementation under intimation to this Department.

Yours faithfully

(Pravin Rawal)
Deputy Secretary to the Government of India
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Copy to all Govt. Nominee Directors on the Boards of PSBs