

F. No.7/23/2012-BOA
Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Parliament Street,
New Delhi, the 23rd March, 2012

The Chief Executives of
All Public Sector Banks, Financial Institutions & Insurance Companies

Sub: Lending to PSUs/ Central and State Government Corporate / Municipal Committees / Corporations etc.

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There have been instances where Banks have not followed principles of prudential lending while lending to Public Sector Undertakings (PSUs) / Central or State Govt. Corporate / Municipal Committee / Corporation etc. These undertakings / corporations many times have been permitted credit facilities with or without concessional rate of interest and other rebates / concessions without linking the price-risk of the credit facility and without undertaking cost-benefit analysis. The cases of recent past which have led to huge losses to banks are STCI, Power distribution companies, Air India, NAFED, ITI Limited and Hindustan Photo Print, etc.

2. This matter has also been looked at by the CVC and they have advised that FIs should not relax systems and procedures while financing to PSUs and State Government Undertakings and to ensure diligent monitoring. A copy of the communication dated 21.4.2011 as communicated to all Banks, Financial Institutions and Insurance Companies is attached.

3. The primary criteria for loan has to be based on the economic parameters applicable to evaluation of the project. Availability of Government guarantee should be reckoned only as risk mitigant and not as a statement of cash flow. It is, therefore, advised that in order to ensure that PSBs actually carry out the Credit Risk Assessment Exercise in case of all exposures including PSUs / Government Guaranteed Exposures, specific exemption favouring PSUs in the loan policy document should be dispensed with and normal credit appraisal should be done in cases of PSUs also. Further, it is reiterated that Central Vigilance Commission has observed that bankers become over-confident and complacent to financing to PSUs and State Government Undertaking and in the process, norms, rules and guidelines are not given due attention, losing sight of risk involved. As such financing normally is of considerable size, the eventual burden to the bank is also huge. Therefore, all banks have been advised by CVC not to relax systems and procedures while

financing to PSUs and State Government Undertaking and to ensure diligent monitoring.

4. The above advisory is effective with immediate effect. You are advised to bring this to the knowledge of your Board in the next meeting.

Your faithfully,



(M.M. Dawla)

Under Secretary to the Government of India

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Encls : as above.

To Govt members Director of Bells