Ref.No.KSFC/HO/MD/ED(F)/1784/08-09 Date : 31.01.2009

CIRCULAR No.848

Sub : (i) Method of computing surplus value of existing assets for taking towards collateral security requirements;
(ii) Modifications to the relaxation in collateral security requirements;
(iii) Modifications to the delegation of powers.

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I. Method of computation of surplus value in the existing secured assets:

Presently, there is no uniform policy in computation of surplus value available in respect of existing mortgaged / hypothecated assets for taking towards collateral security requirements for further loans. Some of the BOs are including the value of primary assets and some are not including the same while working out collateral security requirements. Therefore, in the Senior Officer's Meeting held on 30.01.2009, it was felt desirable to have uniform guidelines for working out the surplus value of existing assets available for taking towards collateral security requirements in respect of existing good customers who have approached the Corporation for additional loans. Hence the following guidelines are issued:-

The surplus value available in unit's land, building and the plant and machinery (even if it is financed by the Corporation and the loan is in currency) can be taken towards collateral security requirements of additional loan proposals from existing customers with good track record for more than three years and working on profitable lines. This is subject to the condition that minimum 30% of the earlier term loan is repaid. The surplus value of secured assets :

(a) *Primary assets*

i. 100% of value of land	xxxx
ii. 100% of value of building	xxxx
iii. 25% / 50% of value of machinery*	xxxx
(b) 100% of existing collateral security	xxxx
Total	xxxx
LESS : 100% of existing loan outstanding	xxxx
Surplus value available	xxxx

* The reputed make machinery with residual life of not less than 10-years can be taken at 50% and other machinery with residual life of more than 5-years can be taken at 25%. The machinery with residual life of less than 5-years and fast obsolesce rate shall not be taken for the above computation as detailed in the Lending Policy.

The surplus value of security available above can be taken towards the collateral security requirements of all types of further loans. The valuation of security shall be done as per the guidelines given in the prevailing Lending Policy.

ILLUSTRATION:

Firm "A" was sanctioned / disbursed a term loan of Rs.50.00 lakhs during March 2005 for acquisition of land and building (estimated to cost Rs.30.00 lakhs), plant and machinery (estimated to cost Rs.50.00 lakhs). The loan is secured by primary assets and collateral security of Rs.10.00 lakhs. The firm is working on profitable lines, prompt in repayment and the account is under Standard category. The present loan balance is Rs.30.00 lakhs. The present valuation of land and building is Rs.50.00 lakhs, plant and machinery – reputed make with residual life of 10 years and above is Rs.20.00 lakhs and other machinery with residual life of 5 years and above is Rs.5.00 lakhs, miscellaneous machinery with residual life of less than 5 years is Rs.3.00 lakhs. The computation of surplus security available is worked out as below:

	(Rs. in lakhs)
(a) Primary security (existing):	
i.Value of land and building	50.00
ii.Value of machinery	
a)Reputed make with residual life of more than 10 years (at 50%)	10.00
b)Other machinery with residual life of more than 5 years (at 25%)	1.25
(b) Collateral security (existing)	10.00
Total	71.25
LESS : 100% of existing loan outstanding	30.00
Surplus value available	41.25

II.<u>Relaxation in collateral security to the good entrepreneurs</u>:

In Circular No.824 dated 16.08.2008, detailed guidelines were issued for assessment of collateral requirements for existing good entrepreneurs. However, it is observed that the scheme has not really served the purpose of securing more business from the existing entrepreneurs. In this regard, a Committee was constituted to have a re-look into the above scheme and the report submitted by the Committee was discussed in the Senior Officer's meeting held on 30.01.2009. After detailed deliberations, it has been decided to extend the additional term loans to the existing entrepreneurs by relaxing the collateral security requirements without linking it to any special sector. That means, the benefit extended shall be entrepreneur specific and not industry sector specific as detailed in the Circular No.824 (methodology). Therefore, the following modifications are caused to the relaxation in the collateral requirements under the scheme (page no.8 of Circular No.824):

Sl.No.	*Particulars*	*Requirement of collateral security*	*Eligible additional term loan*
A	If the unit scores 80 and above	No collateral security be insisted for additional term loans	5 times of aggregate term loans disbursed
B	If the unit scores 70 and above but less than 79	50% of collateral requirements as stipulated in the lending policy	3 times of aggregate term loans disbursed
C	If the unit scores 60 and above but less than 69	75% of collateral requirements as stipulated in the lending policy	2 times of aggregate term loans disbursed

Note : Please note that this is applicable only for the additional term loans and not applicable to the

WCTL, Corporate Loans, PE loans and loans for real estate projects (apartments, commercial complex and community halls)

III. Modification to delegation of powers in loan sanctioning to the existing good customers:

In the Circular No.883 dated 16.08.2008 on Lending Policy for 2008-09 at para 12(a)- page no.39, delegation of powers in loan sanctioning for existing good customers is given. This matter was deliberated in the Senior Officer's meeting held on 30.01.2009. After detailed deliberations it was decided to remove the overall limit stipulated in sanctioning of corporate loan and privileged entrepreneur loans for the existing good customers to provide better and quick service at the field level. Hence the modified delegation in loan sanction for corporate loan and privileged entrepreneur loan is as below:

Sl.No	*Sanctioning Authority*	*Sanctioning powers (maximum amount)*	
		Corporate Loan	Privileged Entrepreneur loan
1	BMs of 'B' Grade Branch Offices	Rs.10.00 lakhs	Rs.10.00 lakhs
2	BMs of 'A' Grade Branch Offices	Rs.15.00 lakhs	Rs.15.00 lakhs
3	DGMs of Super 'A' Grade Branch Offices/ZMs	Rs.20.00 lakhs	Rs.20.00 lakhs
4	General Manager (NZ / SZ / Credits)	Rs.30.00 lakhs	Rs.30.00 lakhs
5	Executive Directors	Rs.50.00 lakhs	Rs.50.00 lakhs
6	Managing Director / CMD	Rs.250.00 lakhs	Rs.100.00 lakhs

IV. Flow of credit to MSME sector:

In the current economic scenario, the requirement for short term loan is on the increase. The policy of both RBI and SIDBI are in tune with this requirement and have liberalised the flow of short term credit to MSMEs. Accordingly, Banks have also taken measures to pump in more working capital to MSMEs. In tune with this, it is decided to encourage the flow of credits to MSME sector by the Corporation by providing quicker and timely service to these clients.

This will come into force with immediate effect.

Sd/-
MANAGING DIRECTOR

All BMs
All ZMs / DGMs of Super 'A' Branches / IA cells
All Principal Officers / Section Heads in HO
All General Managers
Library

EDs - for information.