

GOVERNMENT OF KERALA

Finance (PU-A) Department

CIRCULAR

No. 11/90/Fin.

Dated, Thiruvananthapuram, 14th , March, 1990.

Sub: Guarantee by the State Government in favour of HUDGO, HDFC, UTI, NCDC on behalf of State Sponsored bodies - Ceiling in interest rates fixed- Guidelines for providing guarantees in fresh cases- Regarding

Ref: 1. Letter No. SYD. PB/ 1372M.62-86/87 dated 24-9-1986
2. Letter No. SYDPB/3288/m-62-88/89 dated 5.1.1989.

At present Government are standing guarantee on behalf of Kerala, State Housing Board, Kerala State Electricity Board and other State Sponsored Bodies Under Housing and other sectors without any ceiling on interest rate on borrowings by these State Sponsored Bodies from HUDCO, HDFC, UTI NCDC, REC etc.

2. The Reserve Bank of India in the reference cited first (copy a appended has stated that Government guarantee need be provided only if the rate of interest is 11.5% per annum or less. In case of borrowing by State Sponsored bodies where interest rate is above the ceiling of 11.5% relaxation of ceiling will be considered by Reserve Bank of India case by case , in exceptional cases. Such relaxation will be for a period of one year and for a further period of one year on merits. During these periods the borrowing organizations would have to build up assets for creation of floating charges/ mortgages in favor of the lending organization. In cases involving relaxation of ceiling limit, the lending organization has to approach the Reserve Bank of India with full particulars. The State Government has also to inform the Reserve Bank of India that they have no objection to provide guarantee and that the borrowing organization would arrange replace the guarantee with mortgage/gloating charge on the assets created out of the loan within the stipulated period.

3. In the reference cited as 2nd paper above(copy append) Reserve Bank of India has further clarified that the loans from the Unit Trust of India and Housing Development Finance Corporation Limited to State Sponsored bodies will also be covered by the above instructions. Accordingly State Government should not guarantee loans from these two institutions if the rate of interest is more than 11.5% per annum.

4. In the light of the stand taken by Reserve Bank of India as detailed above, Government wish to clarify that:-

(1) For loans from HUDCO, HDFC, REG, UTI, HDFC etc., to be availed of by State Sponsored bodies, Government guarantee will be provided if the rate of borrowing is 11.5% per annum or below.

(2) For loan carrying interest above the ceiling of 11.5% the procedure indicated by Reserve Bank of India will have to be followed. The stipulations specified by Reserve Bank of India are to be adhered to while proposing and providing guarantees in future

(3) In case of loans from HUDCO, DHFC, ARAEC etc. in respect of continuing schemes for which loan have already been availed pf in installments, the present practice of Government providing guarantee without the restrictions on interest rates will continue.

(5) All state sponsored Bodies who are availing of loans from the above institutions will follow these guidelines scrupulously. The Administrative Department may also monitor the schemes accordingly.

(6) These guidelines will take effect from 1-4-1990.

R. NARAYANAN,
Commissioner and Secretary (Finance)

To

The Accountant General (A & E) (Audit), Kerala Thiruvananthapuram.
All Sections/Departments of Secretariat
All Heads of Departments.
All public Sector Undertaking/Autonomous Bodies etc.
The Stock File

Copy of letter No.SYD PB/1372M.62-86/87 dated 24-9-1986.. S.S. karumk, Joint Secretary, Reserve Bank of India, Central Office, Secretariat Department Bombay addressed to the Secretary to the Government, Finance Department.

Guarantee Extended by State Government

Please refer to our Circular letter No. SYD.P.B/4626/M.62-85/86 date March 10, 1986 regarding increase in ceiling rate from 8.50% per annum 10.50% per annum in respect of Government guaranteed loans from Run Electrification Corporation Limited, Housing and Urban Development Corporation and National Co-operative Development Corporation to State Sponsored bodies. It has now been decided, in consultation with Government of India that the existing ceiling rate of 10.50% per annum may be raised 11.50 per annum. Incase of lending by Housing and Urban Development Corporation to the State Governments direct, the ceiling rate of interest will 1025% per annum for Rural Housing and 11.00% per annum for Urban Housing. The revised rates interest have been effect from September 1986.

2. Normally, the ceiling rate of 11.50% per annum would cover a types of lending by Housing and Urban Development Corporation when Government guarantee is

required. However, in exceptional cases where higher rate of interest is involved we could consider, on a case by case base relaxation of the ceiling rate of interest for a limited period of one year (relax able for further period one year on merits). during which period the borrowing organizations would have built up assets for creation of floating charge mortgage in favour Housing and Urban Development Corporation. But such cases, it would not only be necessary for Housing and Urban Development Corporation to approach Reserve Bank Of India with full particulars, but the concerned State Government would also be required to write to us stating the it has no objection to its extending guarantee for the loan in question at the higher rate of interest and that the borrowing organizations would arrange replace the Government guarantee with mortgage/floating charge on the assets created out of the loan within the stipulated period.

Please acknowledge receipt.

Yours faithfully,
(sd.)
S.S. KARNIK,
Joint Secretary.

Copy of letter No. SYD. PB/ 3288/M.62-88/89 dated 5/1/1989 from A. Chandramauleeswaran, Joint secretary, Reserve Bank of India Central Office Secretary's Department, Central Office Building, Bombay addressed to Sri. R. Narayanan, Finance Commissioner & Secretary, Government of Kerala, A=Trivandrum

Guarantee extended by State Governments for loans State Sponsored bodies

Please refer to our Circular SYD. P.B. 1372/M.62-86/87 dated September 24, 1986 laying down guidelines regarding the ceiling rate of interest in respect of Government guaranteed loans from Rural Electrification Corporation Limited, Housing and Urban Development Corporation and National Co- operative Development Corporation to State Sponsored bodies. It is clarified that loans from Unit trust of India and Housing Development Finance Corporation Limited to state sponsored Bodies would also be covered by these instructions and accordingly State Governments should not guarantee loans from these two institutions to State sponsored bodies if the rate of interest is more than 11.5% per annum

Yours faithfully,
(sd.),
A CHANDRAMAULEESWARAN,
Joint Secretary.