

REVOLVING CREDIT SCHEME IN COMMERCIAL BANKS

Introduction

In Spring 2001, to facilitate the farming community / agricultural borrowers (owners, cultivators, tenants, lessee or allottee with recorded occupancy rights or farmer with ancestral / perpetual rights of cultivation), while revamping the Supervised Agricultural Credit Scheme, the Governor who is also Chairman of the Agricultural Credit Advisory Committee (ACAC) with a consensus of Commercial Banks allowed to introduce the Revolving Credit Scheme (Three years credit limit validity with one time documentation and automatic renewals) in Commercial Banks. In compliance to Circular No. ACD/1035-1039/PD (P)-08/2001 dated the 25th April 2001; the Scheme was implemented by the Commercial Banks immediately. Later on, while Standardizing / Simplifying the Agricultural Credit Documents, a continuity clause was also inducted in IB-7 Form. Following model has been prepared regarding modus operandi of the Revolving Credit Scheme, for uniform adoption by the Commercial Banks.

Applicability of the Scheme

The Model Revolving Credit Scheme detailed in the ensuing paragraphs is to be implemented by the Commercial Banks throughout

Pakistan. The Scheme provides broad guidelines to the banks for operationalising the Revolving Credit Scheme.

Objectives

The Scheme aims at adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner.

Eligibility

The Scheme primarily would cater to the requirements of the farmers and provide financing for working capital needs and for the production purposes to eligible farmers / growers.

Fixation of Credit Limit

- i) The credit extended under the Revolving Scheme would provide facility to the beneficiaries for any number of drawals and repayments (multiple operations), within the limit for a period of three years with once a year clean up from date of first withdrawal, with the consent of borrower. The Scheme would provide the much needed flexibility to the farmer in choosing the appropriate time to avail the loan or to repay his loan and reduce the mark-up burden besides being in a position to draw at any time under

the Scheme, for meeting his urgent credit requirements without any fresh documents at the time of withdrawals or renewals.

- ii) While fixing the limit, the bank may take into account the expected credit requirements for a period of three years of the farmer including the credit requirements of the farmer for the ancillary activities such as maintenance of agricultural machinery / implements, electricity charges etc. The credit limit could provide for allied activities and non-farm credit needs of the borrowers.
- iii) The credit limit under the Pass Book (issued by the Revenue Department) may be fixed on the basis of operational land holdings, cropping pattern and scales of finance under feasibility report prepared and approved by the bank. For fixation of credit limits, operational land holdings will include the leased inland and exclude leased out land.
- iv) Limits can also be fixed against two personal sureties acceptable to the bank but subject to the maximum of Rs. 100,000/- per borrower for a period of three years and the guarantee of one guarantor should not exceed Rs. 500,000/- as already prescribed under the Supervised Agricultural Credit Scheme.

Validity / Renewal

- i) The Revolving Credit shall be valid for three years with one-time documents, subject to repayment of principal and mark-up amount annually, on any date with the consent of borrower. On cleaning the account on any date during the entire one year period by the borrower, the limit shall automatically be renewed by the bank without any fresh document / request / application.
- ii) The review of the limit may result in continuation of the facility, enhancement of the limit or cancellation of limit / withdrawal of the facility, depending upon the performance of the borrower.
- iii) The aggregate outstanding into the account during the 12 months period should not at any point of time exceed the prescribed / sanctioned limit.
- iv) That no drawal in the account shall remain outstanding for more than 12 months.
- v) When the bank has granted extension and / or reschedulement of the period of repayment on account of natural calamities affecting the farmers, the period

for reckoning the status of operations satisfactory or otherwise would get extended together with the extended amount of limit. When proposed extension is beyond twelve months, it would be desirable to transfer the aggregate debts for which extension is granted to a separate term loan account with stipulation for repayment in installments.

- vi) A measure of incentive for the borrower with good performance, the bank may, at the time of review, enhance the credit limit suitably to take care of escalations in all his credit needs subject to appropriate margin / security / collaterals.

Security / Margin

Security / margin norms etc. should be in conformity with the Agricultural Purposes Act, 1973 and provisions of Prudential Regulations as well as instructions issued by the State Bank of Pakistan from time to time or any other collateral acceptable to bank.

Maintenance and Operations in the Account

- i) The Bank will open a Revolving Credit Chequing Account of the borrower as loan account, which allows to deposit and withdraw the amount freely / frequently, convenient

to borrower. Only the amount outstanding in debt balance will attract the mark-up.

- ii) Withdrawal from the account will be through withdrawal slips / cheques issued by the bank, in line with the limit sanctioned.

Rate of Mark-up

Banks may apply the rate of mark-up as are applicable to crop loans / production loans, or any other agreed rate as per bank's policy.

Application of Prudential Norms

The Revolving Credit facility being in the nature of cash credit accommodation for agricultural purposes, the prudential norms as applicable to such facilities would apply to the Revolving Credit Accounts.

An account will be treated as out of order in the following circumstances.

- i) The outstanding remains continuously in excess of the limit for more than twelve months.
- ii) The credits in the account are not sufficient even to cover the interest debited in respect of the account for

one year. The instructions issued by the State Bank of Pakistan vide Circular No. ACD/1035-1039/PD(P)-08/2001 dated the 25th April, 2001 would apply mutates-mutandis to the Revolving Credit Scheme. In this connection the following aspects may also be kept in view:

- a) The credit limits sanctioned / likely to be sanctioned to the borrowers under the Revolving Credit Scheme may be included in the Branch Credit Plan and reported under proper ledger.
- b) All debit entries (excluding those relating to charging of mark-up) may be reported in the ledger as and when such transactions take place.
- c) Renewal of existing limits would be treated as a fresh disbursement for the purpose of allocated credit targets of the bank concerned.

The End