

RURAL ELECTRIFICATION CORPORATION LIMITED

(A Govt. of India Enterprises)
Core-4, SCOPE Complex, Lodhi Road, New Delhi-110003.

COMPANY SECRETARY'S DIVISION

No. SEC-1/8(1)/2007

Dated: 23rd July, 2007

LOAN POLICY CIRCULAR – No.006/2007

Sub: Appraisal Policy of Medium Term Loans.

The Board of Directors in their 318th Meeting held on 10th July, 2007 have approved "Appraisal Policy of Medium Term Loans" based on the broad terms and conditions as detailed in the enclosed **Annexure**.

The Board has also authorized CMD to make any minor deviations in terms and conditions of the said policy and prescribe such documents as may be required.

Sd/-
(B.R. Raghunandan)
GM(Law) & C.S.

Encl: Annexure

POLICY FOR APPRAISAL OF MEDIUM TERM LOANS

At present, the product line of the Corporation comprises of Short Term and Long Term Loans only. Earlier, Short Term Loans (STLs) were being extended for 1 to 3 years, which now stands reduced to 1 year. The recently approved Short Term Loans policy further provides that now STLs can be considered only for meeting the working capital needs of the borrowers. Long Term Loans are being considered for a period of 13 years. Further, the Board of Directors in its 314th meeting held on April 17, 2007 while approving the Appraisal Policy of Short Term Loans, desired that REC may also explore the possibility of generating business for STL for 3-year period and formulate a draft Policy in this regard for consideration. In this regard, it is proposed to introduce a product of Medium Term Loan having a repayment period of 2 - 5 years.

General guidelines for such a product may be based on the following lines :-

1. Eligibility :

- ❖ SEBs, State Power Utilities, Power Departments of Governments, not in default to REC, shall only be eligible for grant of Medium Term Loans.

Default means that there should not be any overdues of interest and/or principal to the Corporation, except where overdue amount is on account of some issue remaining unresolved, as decided by the Competent Authority.

2. Purpose :

Medium Term Loans shall be extended to the borrowers for purchase of capital equipments, such as Transformers, System and Network maintenance, etc.

However, an undertaking would be taken from the borrower to the effect that the borrower shall not avail finance from any other Scheme of any other Bank/FI for such capital equipments.

3. Entity Appraisal :

As stated above, Medium Term Loans are proposed to be extended to SEBs, State Power Utilities and Power Departments of Governments. Presently, rating of these entities, regarding exposure & category, as carried out by Power Finance Corporation, on quarterly basis, are being adopted by us, till the same is done in-house. While appraising a

proposal for Medium Term Loan, the category awarded to a particular Entity is to be taken into account. The applicable rate of interest and the amount of exposure that can be taken on a particular Entity is also governed by the Rating Exercise.

4. Rate of Interest :

The rate of interest shall be that as prevailing for term loan schemes of T&D (with reset after 3 years option) as applicable on the date of disbursement.

5. Repayment Period :

The Medium Term Loans shall have a repayment period of 2 – 5 years depending upon the requirement of the borrower subject to approval of REC.

6. Mode of Repayment :

The borrower shall have the option to repay the principal in equal monthly or quarterly instalments repayable within the period of the loan. The interest shall be paid monthly on reducing balance basis. The monthly/quarterly date of payment of principal can be decided by the borrower.

7. Security :

The borrower may provide any of the following securities covering 110% of the loan amount.

- Hypothecation of material/assets
Or
- State Govt. Guarantee
Or
- Bank Guarantee
Or
- A mix of the above, as acceptable to REC.

In addition, suitable escrow cover acceptable to the Corporation shall also be provided unless the borrower opts to choose the option of providing Bank Guarantee covering full loan amount.

8. Pre-payment of Loan :

Normally, no pre-payment of the Medium Term Loan would be allowed. However, the Corporation may consider pre-payment of the loan, subject

to the payment of premium as per the policy of REC as may be applicable from time to time.

9. Exposure Norms :

The loan ceiling for any Power Utility/ State Govt., shall be within the maximum exposure permissible as per Prudential Norms of REC.

10. Other Conditions :

The prescribed procedure and modus operandi to be adopted for implementation of the above Scheme as approved by Director (Finance) will be followed, including loan documentation.

11. Monitoring Mechanism :

The borrower shall furnish to the Corporation a statement of proper utilization of Medium Term Loan. In addition, the borrower shall comply with any other condition that may be stipulated by REC to ensure and get satisfied that the loan amount granted is utilized only for the purpose for which it was intended.

12. Extent of Assistance :

Upto 90% of the requirement of funds for the eligible items. At the time of making request to REC for release of each tranche, the borrower shall indicate the purpose for which the amount is proposed to be used.

The loan may be released as advance, upto 90% of the sanctioned amount, after execution of loan documents and compliance of terms and conditions of sanction. The remaining 10% shall be released after receipt of the Utilisation Certificate for the advance released and verification of the same by REC Project Office.

The borrower shall furnish Utilisation Certificate for the amount released within 60 days from the date of disbursement.

13. Clarifications :

Any clarifications / interpretation required to the above policy shall be decided by the CMD. Further, CMD may make any minor deviation in terms and conditions of the said scheme and prescribe such documents as may be required.