

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)/2011

Dated: 20th January, 2011

LOAN POLICY CIRCULAR – No.002 / 2011

Sub: Policy Guidelines in respect of Premature Re-payment / Pre-payment of REC's Term Loans & Short Term Loans.

The Board of Directors of REC, in its 372nd Meeting held on 30th December, 2010 has approved the "Policy Guidelines in respect of Premature Re-payment / Pre-payment of REC's Term Loans & Short Term Loans", as detailed in the Annexure.

(B.R. Raghunandan)
ED & Company Secretary

Encls : Annexure

Policy Guidelines with respect to Premature Repayment of Rupee Loan(s)

(1) The Corporation shall charge a premium from the borrower(s) who opt for premature repayment of loan. The premium may be determined as under :-

(A) Rupee Term Loan (RTL)

(including loan(s) for Buyer's Line of Credit (BLC) / Bill Discounting / Equipment Manufacturing etc.)

**(i) Methodology of determination of Prepayment Premium for Loan/
Disbursements at Fixed Rate :**

Higher of the following :

Present Value of Cash Flow of differential interest calculated over the balance period of loan maturity.

(or)

0.75% of the loan/disbursement outstanding as on the date of prepayment

**(ii) Methodology of determination of Prepayment Premium for Loan/
Disbursements with Reset Option :**

The amount of premium shall depend upon the balance maturity period of the loan as follows :

Balance Maturity <i>(period to be counted from the date of Pre-payment)</i>	Premium
Upto 3 years	Higher of the following : Present Value (PV) of cash flow of differential interest calculated till date of forthcoming reset (or) 0.75% of the loan/disbursement outstanding as on the date of pre-payment
More than 3 Years & Upto 5 Years	Higher of the following :- Present Value (PV) of cash flow of differential interest calculated till date of forthcoming reset (or) 1.00% of the loan/disbursement outstanding as on the date of pre-payment.

Balance Maturity <i>(period to be counted from the date of Pre-payment)</i>	Premium
More than 5 Years & Upto 7 Years	Higher of the following :- Present Value (PV) of cash flow of differential interest calculated till date of forthcoming reset (or) 1.50% of the loan/disbursement outstanding as on the date of pre-payment.
More than 7 Years & Upto 9 Years	Higher of the following :- Present Value (PV) of cash flow of differential interest calculated till date of forthcoming reset (or) 2.00% of the loan/disbursement outstanding as on the date of pre-payment.
More than 9 Years	Higher of the following :- Present Value (PV) of cash flow of differential interest calculated till date of forthcoming reset (or) 2.50% of the loan/disbursement outstanding as on the date of pre-payment.

Notes :-

- a) The amount of Premium shall be the present discounted value of cash flow (*half yearly or quarterly or else as applicable in the given loan*) of the differential interest between the interest to be earned (*after timely payment rebate*) in the absence of repayment request and the interest amount calculated at the current interest rate (*after timely payment rebate*) applicable to the corresponding category of project/scheme.
- b) The differential interest shall be discounted at the minimum interest rate (*3 Year Reset rate irrespective of reset period of loan prepaid, after timely payment & COD rebates but without considering incentive/rebate on account of special schemes like volumes discount, JICA/KfW/ODA loans etc.*) applicable to State Sector borrowers for long term loans (*excluding loan at concessional rates of interest like studies*). However, in case of premature repayment of the loans at concessional, rates of interest like studies, the differential interest shall be discounted at the current minimum interest rate (*after timely payment rebate*) for State Sector borrowers for the same category of scheme.
- c) In case of loan having disbursement at fixed rate(s) as well as at reset rater(s), the minimum will be separately calculated for each of the portion as per the respective methodology.
- d) While calculating present value (PV), negative differential will be taken as Zero.

- (iii) The above methodology of calculation of premium (excluding minimum premium percentage) shall also be applicable for the purpose of calculation of premium in case of interest restructuring of loan(s)

(B) Short Term Loan (STL)

The amount of premium shall be the present discounted value of cash flow (*monthly or else as applicable in the given loan*) of the differential interest between the interest to be earned (*after timely payment rebate*) in the absence of repayment request and the interest amount calculated at the current lending rate for STL, (*after timely payment rebate*) applicable to the corresponding category of borrower over the balance period of maturity (or) 0.25% of the loan outstanding as on the date of prepayment, whichever is higher. The differential interest shall be discounted at the current minimum interest rate (*after timely payment rebate*) applicable for STL to State Sector borrowers. While calculating present value(PV), negative differential will be taken as zero.

- (2) Where the Corporation has agreed to the pre-payment of loan amount and a demand is raised (by Recovery Unit) to the borrower for payment of outstanding amount including premium as payable under this policy, the borrower shall have to clear all the dues within stipulated period. Till the dues are cleared the Corporation shall continue to raise the demands on due dates as per loan agreement.
- (3) Where the borrower remits the amount without intimation and prior consent of REC, such receipt shall be appropriated as per loan agreements.
- (4) On receipt of proposal of premature repayment of loans from borrower, the Corporation shall not consider any further disbursement under the relevant loan till proposal is accepted or rejected. On acceptance of premature closure of loans the balance undisguised loan amount, if any, shall stand cancelled automatically.
- (5) In no case, the loans covered under AG&SP may be accepted for premature repayment of loan due to implications of subsidy involved in such cases.
- (6) Pre-payment of a part of loan may not be accepted.
- (7) Estimated loss of tax benefit to the Corporation in respect of withdrawal of deduction/exemption of 10(23G) (*Benefit already passed on to the borrower by REC under terms of loan*), section 36(1)(viii) of Income Tax Act, 1961 and any other fresh taxes, as a result of premature repayment of loan(s) shall be payable by the Borrower.
- (8) Where the borrower requests to REC for prepayment of loan(s) which have already been restructured, the Corporation may agree to accept prepayment of such earlier restructured term loans provided the borrower agree to refund the amount of rebate given by the Corporation on debt restructuring of loans.
- (9) **CMD is authorized to approve any clarification/ interpretation required for the purpose of giving effect to the provisions of these policy guidelines and to consider any relaxation in line with the lead FI/Bank.**

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