



INSTRUCTION CIRCULAR
NUMBER.....072

SUBJECT
CHARGING OF HIGHER RATES OF
INTEREST ON ACCOUNTS HAVING
EXCESS OVER SANCTIONED/DRAWING
LIMITS

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QUERIES TO:	Central Credit Division, C.S.O.

Along with other terms of credit lines granted to borrowers, rate at which interest is to be charged is also determined. It should be clearly understood by branches that the rate of interest so fixed is applicable to the drawings made by the borrowers within the terms of the original sanction.

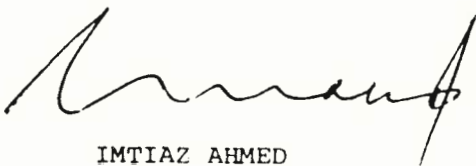
Where drawings over the sanctioned/drawing limits are allowed in cash credit and sanctioned overdraft accounts and in cases of overdue bills purchased, overdue acceptances, default in the repayment of loan instalment, temporary overdrafts accounts and all such advance accounts where drawings have exceeded the amount originally sanctioned, branches should charge the interest at a rate higher than the normal rate of interest agreed to in the terms of original sanction. Interest at higher rate should however be charged on the overdrawn balances and/or for the excess period for which the excess borrowings remain unpaid.

For example, in case of an overdraft account with a sanctioned limit of US\$100,000, if for some reason, balance up to US\$110,000 is permitted, say for 12 days, interest at a higher rate should be charged for 12 days on US\$10,000 (overdrawn balance) while interest at agreed rate will be charged on US\$100,000.

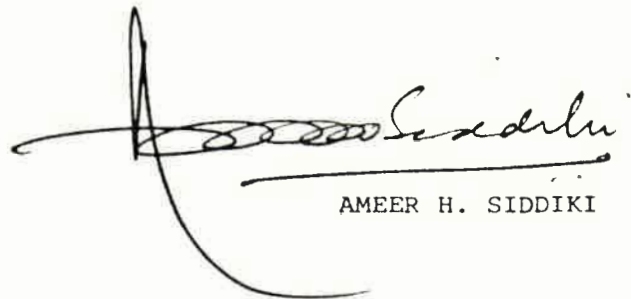
Similarly, if a 30 days' usance bill for US\$50,000 purchased by the branch, remains outstanding up to 35 days, interest at higher rate will be charged for 5 days on US\$50,000 while agreed rate of interest will be charged for 30 days.

The higher rate at which interest will be charged should be determined by the branches in consultation with their Regional Offices and only after obtaining clearance, interest at higher rate should be charged on excess drawings. Local banking practice in this regard should also be looked into.

Immediate implementation of the above guidelines, it is expected, will result in increased profits, besides instilling a discipline in the advance accounts.



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