

EDC LOAN COMPROMISE SETTLEMENT GUIDELINES (ELCSG).

I. Who is eligible?

- ❖ Accounts categorized as doubtful or loss as on 31/3/2014.
- ❖ Cases before Courts/ Tribunals/ District Recovery Officer/ BIFR/ Any other Courts, Forums and Local Authorities subject to filing of consent terms and obtaining consent decree in the matter.
- ❖ In case where the Corporation is of the opinion that it will be in the interest of the Corporation to settle the account justifying the reasons thereof.

II. Who is not eligible?

- ❖ Standard & sub-standard assets.
- ❖ Willful defaulters, fraud and malfeasance (evil doing). The definition of willful defaults, as given by RBI will broadly cover the following:
 - Deliberate non-payment of dues despite adequate cash flow and good net worth;
 - Improper utilisation of funds to the detriment of the defaulting unit;
 - Assets financed have either not been purchased or have been sold and proceeds have been misutilised;
 - Misrepresentation/falsification of records;
 - Disposal/removal of securities without Corporations knowledge;
 - Profit making concerns as evident from the financial statements in respect of accounts.

III. Compromise Settlement Guidelines:

1) Categorisation of assets:

The categorisation is as below :

CLASS – A: Loans disbursed prior to 01/04/2000 > 15 yrs
(including cases wherein main / collateral security is disposed off and action has been initiated for balance recovery)

CLASS – B: Loans disbursed between 01/04/2000 & 31/03/2010 - (5 to 15 yrs)

CLASS – C: Loans disbursed between 01/04/2010 and 31/03/2012 - (3 to 5 years)

The cases have been categorised depending upon the age of the loan and the loan amount disbursed. For the purpose of determining the age of loan, the date of last disbursement will be taken into account. Where borrower has more than one account, the date of last disbursement in the last account will be taken into consideration while determining the sub-categorisation of the assets. The amount of loan disbursed will mean the total amount disbursed to multiple accounts.

2) Assets belonging to doubtful & loss category as on 31/03/2014 and disbursed prior to 01/04/2012.

The Compromise Settlement will be decided on the basis of outstanding liabilities as on previous quarter of interest at the time of applying for Compromise Settlement. Say, if Compromise Settlement is being considered in the month of February, then the account position with interest debited upto 31st December will be considered.

3. Bench Mark for Cases where loan disbursed is more than Rs.10.00 lakhs

(A) Matrix I:

i) CLASS "A" – Loan disbursed prior to 01/04/2000 (including cases where main security disposed and proceeding for balance recovery irrespective of age of account)

Category of asset as of the end of previous Financial year	Bench Mark for Compromise Settlement amount
Doubtful – I, Doubtful-II, Doubtful-III & Loss	OSP + Int. tax + Expenses.

ii) CLASS "B" – Loans disbursed between 01/04/2000 and 31/03/2010

Category of asset as of the end of previous Financial year	Bench Mark for Compromise Settlement amount
Doubtful – I, Doubtful-II, Doubtful-III & Loss	OSP + 50% OSI + Int. tax + Expenses.

iii) CLASS "C" – Loans disbursed between 01/04/2010 and 31/03/2012

Category of asset as of the end of previous Financial year	Bench Mark for Compromise Settlement amount
Doubtful – I	OSP + 90% OSI + Int. tax + Expenses.
Doubtful – II & Doubtful-III	OSP + 60% OSI + Int. tax + Expenses
Loss	OSP + 50% OSI + Int. tax + Expenses.

OSP – Outstanding Principal

OSI – Outstanding Simple Interest

(B) Settlement amount:

The amount, thus calculated will be highest amount of the following for the cases other than main security disposed and proceeding for balance recovery.

- Calculated amount as per Matrix I (Bench mark)
- Financial capability of the borrower. This must be as per the information furnished at the time of filling the application form for COMPROMISE SETTLEMENT and verified by the Recovery Officer to ensure the financial capability of the borrower.
- Highest valid bid received where the assets are attached, if any.
- Settlement offer submitted by the party.
- Amount calculated as per RBI guidelines vide Circular DBOD.No.FIC.5/01-02.00/2005-06 dt. 22/11/2005.
- Amount received from auctions.

(C) Final Settlement Amount:

The settlement amount arrived at - 3 (B) shall then be compared with the valuation of tangible assets i.e. assets which are mortgaged/hypothecated to the Corporation as main security and collateral security and the final Compromise Settlement amount shall then be as under:

- If the valuation is more than 200% of the calculated amount, the final settlement amount shall be highest of principal balance plus 100% outstanding simple interest and amounts calculated as per- 3(B).

2. If the valuation is more than 125% of the calculated amount, the settlement amount shall be outstanding principal + 125% of interest component calculated as per - 3 (B) subject to maximum of OSP + OSI + Expenses.
3. If valuation is in the range of 75% to 125% of the calculated amount, the settlement amount shall be as per - 3 (B).
4. If valuation is less than 75% of the calculated amount, the settlement amount shall be Outstanding Principal + 50% of the interest component calculated as per 3 (B).
5. For the cases where main security has been disposed and proceeding for balance recovery, the final settlement amount shall be highest amount between the amount calculated as per - 3 (A) (i) + 10% of interest component calculated as per RBI guidelines and offer submitted by the borrower /guarantor.

Further the criterias namely valuation of assets, highest valid bid received and settlement offer submitted by the party to be considered for comparison to work out settlement amount shall not be earlier than six months prior to the date of application under the Scheme.

However no refund to be made in case the amount received from auctions is more than above worked out final settlement amount.

(D) Matrix II:

(Applicable for loan accounts with substantial payments equivalent to 1.25 times the amount disbursed)

Category of asset as of the end of previous Financial year	Bench Mark for Compromise Settlement amount
Doubtful – I, Doubtful II, Doubtful-III & Loss	AD + SI (at documentary rate or 15.5% whichever is lower since inception) + int. tax + expenses – receipt in account since inception subject to principal balance irrespective of valuation of the assets.

AD – Amount disbursed

SI – Simple Interest

Settlement amount will be lower of the Matrix I & II shown above.

4. As regards BIFR cases the settlement amount shall be as per the consensus reached among all financial institutions (parri passu charge holders). However sacrifice over and above stipulated guidelines, the same shall be with the approval of the Board.

5. Compromise Settlement guidelines for the Loans disbursed upto Rs.10.00 lakhs:

Settlement Formula - amount (As per RBI guidelines vide circular DBOD.No.FID.FIC.5/01-02.00/2005-06 dt. 22/11/05.)

(a) NPAs classified as Doubtful or Loss as on March 31, 2014

The minimum amount that shall be recovered under the revised guidelines of one time settlement of NPAs classified as doubtful or loss as on March 31, 2014 would be 100% of the outstanding balance in the account as on the date on which the account was categorized as doubtful NPAs.

(b) NPAs classified as sub-standard as on March 31, 2014 which became doubtful or loss subsequently.

The minimum amount that shall be recovered in respect of NPAs classified as sub-standard as on March 31, 2014 which became doubtful or loss subsequently would be 100% of outstanding balance in the account as on the date on which the account was categorized as doubtful NPAs, plus interest at existing rate applicable for loans below Rs.10.00 lakhs from date of doubtful NPA till the date of final payment.

(c) As regards the cases wherein the main security was attached and disposed off, the settlement amount shall be principal balance as on date of attachment + interest tax + expenses or the amount as per the settlement formula at 5 (a) or 5 (b) whichever is less.”

(d) As regards the case wherein the valuation of the main security is less than 50% of the principal balance the settlement amount in such cases shall be principal balance plus miscellaneous expenses or settlement amount as per RBI guidelines whichever is less.

(e) As regards the cases where the promoter/s expired or suffering from terminal disease/in capacitance and fulfilling the following conditions, Managing Director and Chairman are authorised to approve waiver of principal balance partly or fully up to Rs. 1.00 Lakh in addition to accrued interest in their account:

- i) The loan account is more than 8 years old.
- ii) The loan account/s wherein the main security is totally disposed OR in cases where the main security is not disposed, at least amount equal to market value of the assets will be recovered.
- iii) The surviving promoter/s/guarantor/legal heirs are not in a position to pay the dues partly or fully due to weak financial position.

6. Application fees & down payment:

The cases will be registered by charging following application fees and down payments. The applicants have to submit application for COMPROMISE SETTLEMENT in the prescribed format attached herewith.

Sr. No.	Type	Application Fees	Down payment (non-refundable)
1.	Disbursement upto Rs.2.00 lakhs	Rs.500.00	5% of OSP
2.	Disbursement from Rs.2.00 lakhs to Rs.10.00 lakhs	Rs.1000.00	5% of OSP
3.	Disbursement from Rs.10.00 lakhs to Rs.50.00 lakhs	Rs.2000.00	10% of OSP
4.	Disbursement above Rs.50.00 lakhs	Rs.5000.00	10% of OSP

7. Mode of Compromise Settlement payment:

- a. The down payment made by the borrower along with the application will be adjusted towards final settlement amount.
- b. The entire settlement amount should be paid within 30 days from date of issue of settlement letter. In such cases no interest will be charged on the settlement amount.

- c. If for some reason the promoter makes specific request for extension of time, then at least 25% of Compromise Settlement amount should be paid within 30 days and the balance amount shall be paid within further period of 6 months in suitable monthly installments. In such cases interest @14% p.a. on simple interest basis to be charged from the date of issue of settlement letter.
- d. At the expiry of the first extension, if party requests for further extension of time, then at least 50% of Compromise Settlement amount should be paid within 6 months and the balance Compromise Settlement amount shall be paid within further period of 3 months in suitable monthly installments (i.e. total period of 10 months from the date of settlement letter). Further in such cases the borrower shall have to pay interest @14.5% p.a. on the balance amount for further extended period.
- e. At the expiry of second extension the Corporation may extend time beyond 10 months if at least 75% of settlement amount is paid and subject to condition that the entire amount is paid within one year from issue of original offer. For extended period beyond 10 months the borrower shall have to pay interest @15% p.a. on the balance amount for further extended period.
- f. In case default in settling in the account with stipulated time/extended time, the Compromise Settlement offer should be withdrawn and the amount paid under Compromise Settlement to be adjusted against outstanding dues. Suitable conditions to be incorporated in the offer.
- g. In case of attached units where Compromise Settlement is sanctioned and requiring extension of time shall have to pay minimum 30% of the Compromise Settlement amount immediately after Compromise Settlement offer but not later than 30 days from the offer and take possession of the assets, if desired. The balance Compromise Settlement amount will carry interest at the stipulated rate of interest in such cases from the date of taking possession or from the date of extension of offer as the case may be in terms of the above said schedule of payment for extension.
- h. The above extensions shall be approved by Managing Director.

8. Competent Authority:

The loan accounts above Rs.10.00 lakhs shall be approved by the Board. The loan accounts below Rs.10.00 lakhs shall be approved by the Executive Committee headed by Managing Director and comprising of CGM, GMs and Dy.GM (Recovery) shall be Member Secretary. The loan accounts approved by the committee shall be reported to the Board periodically.

9. Assumptions – Cut-off date for attached cases:

- a) For attached/auctioned accounts and cases under Section 30/31 of SFC's Act, the cut-off date for working out settlement amount as per the matrix I & II will be the subsequent quarter from the date of last attachment.
- b) Any receipt in the account after the last attachment including sales proceeds, if any will be deducted from the settlement amount.

10. Other conditions:

- i) Conditionally refundable security deposit if any will not be refunded to the borrower.
- ii) In case subsidy from State Govt/Central Govt. is made available after sanction of Compromise Settlement offer, then the sacrifice in simple interest made by EDC be recovered from such subsidy amount.

- iii) In the event of default in payment of Compromise Settlement amount as per the schedule, the unit shall also have to pay penal/compound interest in the defaulted amount for the defaulted period.
- iv) EDC reserves the right to review its decision of Compromise Settlement in the event of any default in payment of Compromise Settlement dues at any stage and can cancel the Compromise Settlement arrangement.
- v) In the event it comes to the notice of EDC that the guarantors/Borrower have submitted any false information pertaining to valuation of their networth/ collateral security, balance sheet or have concealed any other information from EDC which could have a bearing on the Compromise Settlement decision, then irrespective of the payments made in Compromise Settlement, the Compromise Settlement arrangement would be cancelled outright and all payments under Compromise Settlement shall be adjusted against original loan dues and coercive action for recovery shall be taken.
- vi) The Compromise Settlement arrangement shall be for settlement of loan dues of EDC only. The Borrower shall have to settle on its own the loan dues or any other dues (if any) of other institutions/banks/authorities.
- vii) The concerned unit shall have to pay valuation fees on actuals before compromise settlement offer.
- viii) These guidelines shall be applicable only to fresh settlement cases.

11. These guidelines shall be applicable to all types of loans except VKRY/CMRY, Personnel Loans (Vehicle Loans, House Building Loans)

12. The right to reject any application without assigning reason shall be entirely at the discretion of EDC Ltd.

13. Any deviations under the guidelines shall be subject to Government approval.
