

**Sanctioning of loan to SPVs/ Public Sector units, EWS housing etc.
on the strength of state Government guarantees**

DBOD No. BC. 45/21.04.141/2003-2004

November 17, 2003

All Commercial Banks/ Specified Financial Institution

Dear Sir,

**Sanctioning of loan to SPVs/ Public Sector units, EWS housing etc.
on the strength of state Government guarantees**

Reserve Bank of India has been advising banks, from time to time, that while financing projects under taken by both public sector and private sector undertakings they should ensure that these are technically feasible, financially viable and bankable. In respect of financing of projects backed by state Government guarantees also, banks/Financial Institutions should exercise due diligence on the viability of the projects and State Government guarantees should not be taken as a substitute for satisfactory credit appraisal. Banks have been advised to ensure that the individual components of financing and returns on the project are well defined and assessed and appraisal requirements are not diluted on other considerations. In this connection we invite your attention to paragraph (4) of Annexure to our circular DBOD.No. BP. BC. 67/21.04.048/2002-2003 dated February 4, 2003, wherein the banks were advised in detail to adhere to the above norm while extending infrastructure finance to Government owned entities.

2. It has again been reported that requests for credit facilities to SPVs/ Public Sector units, EWS housing and urban infrastructure etc. backed by State Government guarantees received by banks/FIs are sometimes approved in order to meet social lending targets and solely based on the strength of State Government guarantees. The Government of India has expressed its concern over the incidence of such practices by banks/FIs, which result in build-up of State Government guarantees beyond sustainable levels of debt. A Committee constituted by Government of India to assess the fiscal impact of the State Government guarantees given in recent past has viewed unfavourably, the tendency of banks/FIs rolling over their defaults to unbankable projects on the strength of guarantees and has recommended that the banks/FIs should eschew such practices. The Government has accepted the recommendation of the Committee.

3. We, therefore, reiterate that that banks/FIs should appraise credit proposals received from SPVs/ Public Sector units, EWS housing and urban infrastructure etc. on commercial basis with respect to viability and in accordance with the credit policy laid down by the Board instead of relying solely on the strength of State Government guarantees.

Yours faithfully,

Sd/-

(C. R.Muralidharan)

Chief General Manager-in-charge