RESERVE BANK OF INDIA

Date: Jan 20, 2009

Collateral Free Loans - Micro and Small Enterprises

RBI/2008-09/352
RPCD.SME&NFS.BC**.**No 84A /06.02.31(P)/2008-09

January 20, 2009

The Chairman/Managing Director
All Scheduled Commercial Banks
(including RRBs & Local Area Banks)

Dear Sir,

Collateral Free Loans - Micro and Small Enterprises

As you are aware, the High Level Committee appointed by Reserve Bank to suggest measures for improving the delivery system and simplification of procedures for credit to the SSI sector (Chairman: Shri S.L.Kapur) had, inter alia, recommended that the exemption limit for obtention of collateral security/third party guarantee be raised from Rs 25,000 to Rs. 1 lakh. Accordingly instructions were issued to banks on October 5, 1999 raising the limits from Rs 25,000 to Rs. 1 lakh.

2. This exemption limit was further raised from Rs.1 lakh to Rs.5 lakh for the tiny sector, vide our circular RPCD/PLNFS/No.BC.65/06.02.31/99-2000 dated March 3, 2000. The benefit of collateral-free loans upto Rs. 5 lakh was later extended to all SSI units on January 23, 2002, vide our circular RPCD. PLNFS. BC.No.58/ 06.02.80/ 2001-02.

3. On September 21, 2007 banks were advised, vide our circular RPCD.PLNFS.No 3068 /06.02.31/2007-08, that they may extend collateral-free loans upto Rs. 5 lakh, to all new loans sanctioned to the units of MSE sector (both manufacturing and services enterprises) as defined under MSMED Act, 2006.

4. Notwithstanding the above, we have been receiving representations from various quarters that collateral security is being demanded from MSEs even for new loans upto Rs. 5 lakh.

5. We therefore reiterate that banks may extend collateral-free loans upto Rs. 5 lakh to all new loans to the MSE sector (both manufacturing and service enterprises).

6. You are requested to initiate necessary action and issue instructions to your branches/controlling offices in this regard at the earliest.

7. Please acknowledge receipt.

Yours faithfully,

(**B.P.Vijayendra**)
Chief General Manager