

February 27, 2004

The Chief Executive Officers of all  
Primary (Urban) Co-operative Banks

Dear Sir,

**Grant of advances against  
the security of Relief Bonds**

Please refer to our circular UBD.No.PCB.82/DC.(13.08.00)/92-93 dated June 2, 1993 advising banks that they may sanction advances against the security of 10% Relief Bonds 1993 on the terms mentioned in paragraph 2 thereof.

2. As you are aware, Government of India have from time to time issued Relief Bonds with different interest rates and maturities. The bonds are now issued in dematerialized form also, viz. Bond Ledger Account, by specified branches of 30 agency banks, as per the Annexure. We have been receiving queries as to whether banks can sanction advances against the security of these bonds also. We clarify that the bonds issued in different series as above would be eligible securities for sanction of loans subject to the terms as detailed in our above circular viz.,

contd.....

- i) The banks should satisfy themselves as to the acceptability of the purpose, genuineness of the credit need of the borrower and end-use of funds lent, and should not be guided solely by availability of Relief Bonds as security:
- ii) The rate of interest should be in accordance with the directives on interest rates issued by the Reserve Bank of India from time to time;
- iii) Adequate margin should be kept to cover defaults, if any, in repayment of the principal and interest at the appropriate rate.

3. It has been observed that many banks have not got these Bonds/Certificates transferred in their own names before disbursement of loans. They refer the matter to Public Debt Office of the Reserve Bank of India /specified branches of agency banks after a lapse of 2-3 years from the date of sanction of loan or after the bond has matured for repayment. Some of the banks have also reported that the Bonds pledged with them but not transferred in their name have been lost. A few instances of fake Bonds/Certificates have also come to our notice. Recently, we have come across a case where a person, reporting himself to be an agent of the Bond holder, had submitted a colour xerox copy of the Bond for signature verification of the Bond holder. Such practices, intentionally or unintentionally, may lead to frauds. There is an urgent need to introduce a control mechanism at your end so as to ensure that sanction of loans from different banks against the same bond is prevented.

4. The banks are, therefore, advised to exercise caution and keep the following aspects in view while sanctioning loans against Relief Bonds/Certificates :

- i) there is no provision to record a lien of the lending bank against a Government Security including Bond Ledger Account. In case the lending bank would like to have the Government Security as a collateral, it has to be got transferred in its name. In this connection, we further advise that as per extant instructions, Relief Bonds can be held by any banking company if the same are transferred in the name

of bank for the limited purpose of obtaining advances against the security of such bonds.

- ii) No third party loans can be sanctioned against Relief Bonds.
- iii) As per the Government of India Notification, Savings Bonds are not eligible for being held as security against loans.

UCBs are advised to be vigilant and put in place necessary safeguards to ensure that such irregularities do not take place in their banks.

5. Please acknowledge receipt to our Regional Office.

Yours faithfully,

(S. Karuppasamy )  
Chief General Manager-in-Charge

Encl : Annexure I

Government of India Relief/Savings Bonds Schemes –  
List of Agency Banks

No.	Sr.	Name of Agency Bank
1		State Bank of India
2		State Bank of Hyderabad
3		State Bank of Bikaner & Jaipur
4		State Bank of Mysore
5		State Bank of Patiala
6		State Bank of Saurashtra
7		State Bank of Travancore
8		State Bank of Indore
9		Allahabad Bank
10		Bank of Baroda
11		Bank of India
12		Bank of Maharashtra
13		Canara Bank
14		Central Bank of India
15		Corporation Bank
16		Dena Bank
17		Indian Bank
18		Indian Overseas Bank
19		Oriental Bank of Commerce
20		Punjab National Bank
21		Syndicate Bank
22		Union Bank of India
23		United Bank of India
24		United Commercial Bank
25		Vijaya Bank
26		UTI Bank Ltd.*
27		ICICI Bank Ltd.*
28		IDBI Bank Ltd.*
29		HDFC Bank Ltd.*
30		SHCIL Ltd.*

\* All India Operations centralized at Mumbai.