



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2010-11/474

RPCD.CO.RRB.BC No. 59/ 03.05.72/2010-11

April 11, 2011

The Chairman  
All Regional Rural Banks

The Chairman & Managing Director  
All Sponsor Banks

Dear Sir,

**Compounding of interest on Agriculture Loans**

Please refer to the instructions contained at para. 5. in [RBI Master circular RPCD. CO. Plan. BC. No. 10/ 04.09.01/ 2010-11 dated July 1, 2010](#) on Lending to Priority Sector, addressed to Scheduled Commercial Banks, together with the instructions contained in para. 2 of RPCD circular RRB. BC. No. 96/ 03.05.34/ 2001-02 dated May 27, 2002, read with para. 2 of the circular RRB. BC. No. 105/ 03.05.34/ 2001-02 dated June 11, 2002 addressed to the RRBs, on the captioned subject.

2. A recent study undertaken by Regional Offices of NABARD and RBI in select States has revealed that compounding of interest on quarterly/ half-yearly basis, and not as per cropping/ harvesting cycle/s on agricultural loans, was prevalent in some RRBs. In certain cases, NABARD has also observed that RRBs have been using the software package developed by their sponsor banks, which has no provision for segregating interest from principal before applying the interest for the next period. Wherever manual accounting was involved, the compounding was observed in a few cases attributed to human error.

3. It is, therefore, imperative that sponsor banks/ RRBs develop/ modify the software package to ensure that the process of compounding of interest on agricultural loans falls in line with the

extant instructions on the subject issued to them. Also, RRBs should re-examine the relevant cases and arrange to re-credit the excess interest wrongly charged in the accounts, under advice to our respective Regional Offices and to NABARD.

Yours faithfully,

Sd/-  
(C.D.Srinivasan)  
Chief General Manager