

**MICRO FINANCE DEPARTMENT**  
(Refinance Division)

**F A Qs - Mark up Rate Subsidy for Spinning Sector**

**Q.1. Is sight LC also qualify for payment subsidy?**

**Ans.** Yes.

**Q.2 . Para 2(i) & 2(vii) of MFD Circular No. 06 dated 30-10-07 seems same. What is the difference between these two Paras?**

**Ans:** In Para 2(vii) the procedure for calculation of subsidy payable has been explained in detail; while in Para 2(i) only eligibility criteria of loans outstanding for subject subsidy has been mentioned.

**Q. 3. Could the condition(s) of rescheduling / default mentioned in Para 2 (viii) of Circular No. 06 dated 30-10-07 be relaxed by the concerned bank/DFI?**

**Ans:** Where the bank/DFI has rightfully allowed the rescheduling it may not be considered as a disentitlement for a borrower to avail mark up subsidy on the full amount. However, to keep the subsidy amount as per budget, banks/DFIs should compute the subsidy amount as per repayment schedule prior to providing rescheduling facility for which they will have to compute notional outstanding balances.

**Q.4. Does the mark-up rate subsidy scheme for Spinning Sector apply on loans obtained from Banks / DFIs through Privately Placed TFCs?**

**Ans:** No

**Q.5. Does the markup rate subsidy scheme apply on a financing agreement under “Sale & Lease Buy Back” from a Modaraba Company?**

**Ans:** No

**Q.6. Whether the default by the borrower is not permissible after 01-07-2007 or any previous default prior to 01-07-2007 is also not permissible?**

**Ans:** Default by the borrowers in payment of scheduled installments would make them ineligible to claim subsidy for the period till the defaulted installment is either repaid to the bank or the bank approves rescheduling of the loan in which case the subsidy shall be paid in accordance with Question at 3 above.

**Q.7. Whether default by the borrower during the period of subsidy would make him eligible from mark up rate subsidy?**

**Ans:** As per criteria if the borrower has defaulted during July – December 2007 or January-June 2008, (where a borrower has availed subsidy for the first six months), the said borrower will not be entitled for the payment of subsidy under the Scheme to be paid in January and /or July 2008, unless rescheduling has been allowed by the bank as per the rules.

**Q. 8. What is the entitlement criterion for mark up rate subsidy?**

**Ans:** The entitlement for subsidy payment would be based on (C&F) value of foreign machinery imported against loan disbursed during July 1, 2003 to June 30, 2007 only (In case of usance LCs, this period would increase to cover retirements of LC till June 30, 2008. However in case a usance LC is retired on 30<sup>th</sup> June 2008 the borrower will be eligible for subsidy for only one day.) However, a new term loan availed by the borrower during this period to construct building, purchase locally manufactured machinery or repay loans availed from other bank(s) (availed for machinery import) would not qualify for markup rate subsidy.

**Q. 9. Whether the loans availed from DFIs qualify for mark up rate subsidy Scheme as they cannot establish import LCs?**

**Ans:** Loans availed from DFIs for which LC was established by other banks shall also qualify for mark up rate subsidy under the Scheme provided other terms and conditions of the Scheme are fulfilled.

**Q.10. Whether Long Term Financing availed in the form of Lease Facility is eligible for mark up subsidy?**

**Ans.** Yes – only if the financing through leasing as a mode of financing has been availed from the banks/ DFIs provided other terms and conditions of the Scheme are fulfilled.

**Q. 11. Will the mark up subsidy be available in cases where the LC established by one bank and documents retired through utilization of Term Finance / Lease Facility from another bank, other than the LC issuing bank?**

**Ans:** Yes. Banks will have to ensure that the facilities are not availed in duplication.

**Q. 12. Are mark up rate subsidy Scheme available to the entire chain of Spinning Sector?**

**Ans.** Yes, however, the six sub sectors of the spinning sector having availed LTF-EOP debt swap cannot avail this facility.

**Q. 13. Whether subsidy can be extended to borrowers who had availed funds from NBFCs under leasing or modaraba arrangements?**

**Ans.** No.

**Q. 14. Can mark up rate subsidy on long term loans, provided under Islamic modes of financing like Ijarah, be allowed under the present arrangements?**

**Ans.** Yes, only if the financing through Ijara or other Islamic modes of financing have been availed through Banks/DFIs and the banks can provide this benefit to its clients under shariah compliant mode.

**Q. 15. Who will claim subsidy, only the bank/DFI having already financed the loan or other bank/DFI as well?**

**Ans.** Only the banks / DFIs having financed the loan can claim the subsidy.

**Q. 16. Can a consortium leader bank / DFI avail entire amount of subsidy against outstanding long term loans on behalf of the entire consortium?**

**Ans.** No. The consortium leader can claim the reimbursement of subsidy to the extent of its own share in consortium financing.

**Q. 17. Can a borrower transfer its debt from one bank to another bank for the purpose of mark up rate subsidy?**

**Ans.** No.

**Q. 18. What is the mechanism for calculating amount of loan mark up rate subsidy?**

**Ans.** The amount of subsidy shall be calculated on reducing balance basis for scheduled repayments by the borrowers during each six monthly period ending 31<sup>st</sup> December, 2007 and 30<sup>th</sup> June 2008. For example, if a bank has outstanding loan of Rs 1,400 million against borrower 'A' as on 30<sup>th</sup> June 2007 and the borrower repays Rs 200 million (principal amount) to the bank, as per original repayment schedule on 1<sup>st</sup> October, 2007. Then the bank will calculate 3% mark up rate subsidy as under:-

<b>Calculation of subsidy for first six months (July – December 2007)</b>					Rs in million
Period ending as of: / Date of installment	Amount of installment	Principal outstanding	No. of Days involved	Calculation	Amount of subsidy
30-Sep-07	-	1,400.00	92	$1400 \times 3 \% \times 92/365$	10.586
01-Oct-07	200.00	1,200.00	92	$1200 \times 3 \% \times 92/365$	9.074
31-Dec-07	-				
<b>Total amount of mark up rate subsidy (to be paid during January 2008)</b>					<b>19.660</b>
<b>Calculation of subsidy for second six months (January – June 2008)</b>					
01-Jan-08	200.00	1,000.00	91	$1,000 \times 3 \% \times 91/365$	7.479
31-Mar-08	-				
01-Apr-08	200.00	800.00	91	$800 \times 3 \% \times 91/365$	5.984
30-Jun-08	-				
<b>Total amount of mark up rate subsidy (to be paid during July 2008)</b>					<b>13.463</b>

As already clarified in questions 3 & 6 that default by the borrowers in payment of scheduled installments would make them ineligible to claim subsidy for the period till the defaulted installment is either repaid to the bank or the bank approves rescheduling of the loan in which case the subsidy shall be computed on notional outstanding basis, keeping in view original repayment schedule. Thus in above case if the borrower fails to make payment of Rs 200 million due for payment on 1<sup>st</sup> April 2008 no subsidy shall be paid to him for the six months January – June 2008 unless the borrower clear the overdue installment or get it rescheduled during the month the subsidy is payable i.e. July 2008. Repayment of overdue installment of 1<sup>st</sup> April 2008 or its rescheduling beyond 31<sup>st</sup> July 2008 would not re-entitle the borrower to claim subsidy as the subsidy payment month i.e. July 2008 would have already lapsed.

**Q. 19 Are LCs retired through running/short term finance/own sources on temporary basis and eventually financed by long term finance eligible for subsidy?**

**Ans:** Yes; provided the underlining running/short term finance was disbursed for retirement of LC for import of spinning machinery and was converted to long term finance during the period 1<sup>st</sup> July 2003 to 30<sup>th</sup> June 2007.

**Q. 20 Is sight LC established during the period 1<sup>st</sup> July 2003 to 30<sup>th</sup> June 2007 for import of spinning machinery but retired during the period from 1<sup>st</sup> July 2007 to 30<sup>th</sup> June 2008 also qualify for payment subsidy?**

**Ans.** Yes.

**Q. 21 Can a borrower avail subsidy on term finance swapped by the banks before 30<sup>th</sup> June 2007 and outstanding as on 31-12-2007?**

**Ans:** Yes.