

Bankers seek interest subvention on investment loans to farmers

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Banks have sought from the government an interest subvention on loans given to farmers for investments, such as buying a piece of land or a tractor, in addition to the existing subvention on crop loans of up to Rs 3 lakh.

According to sources, bankers recently made a presentation to the parliamentary standing committee on agriculture, reiterating the long-held demand. Bankers say a subvention on loans for making investments in agriculture may help bring down the incidence of defaults in the space.

Crop loans are extended for the duration of the relevant cropping cycle. For example, a loan for planting paddy would typically have a tenure of 24 months. In contrast, an investment in land or machinery is likely to yield returns only over a period of five to seven years. Bankers say that in order to avail the benefit of the subvention, farmers sometimes do not disclose the purpose of the borrowing.

“They often mis-state the purpose of the loan when they actually intend to use it for an investment. Since a crop loan has a shorter tenure than an investment loan, they end up defaulting,” said an executive with a large public sector bank.

To ensure availability of agriculture credit at a reduced interest rate of 7% per annum to farmers, the department of agriculture cooperation and farmers' welfare implements an interest subvention scheme for short-term crop loans of up to Rs 3 lakh. The scheme provides an interest subvention of 2% per annum to banks on use of their own resources. Besides, an additional 3% incentive is given to the farmers for prompt repayment of the loan, thereby reducing the effective rate of interest to 4%.

The demand from banks gains relevance in the light of increased delinquencies in their agri-loan portfolios. In the last two years, demonetisation and a string of farm-loan waivers by some states have put pressure on repayments in this segment. In the June quarters of both FY18 and FY19, banks have reported a decline in the asset quality of their agri books.

In Q1FY19, HDFC Bank's agri NPAs rose 40% y-o-y to `2,100 crore, or 0.29% of its total advances. In the same quarter a year ago, State Bank of India had attributed slower repayments of agri loans as one of the contributors to higher slippages.