

Financing Purchase of Land for Agricultural Purposes

Genesis

The Hon'ble Union Finance Minister announced a package on 18 June 2004 to give a boost to agricultural credit and emphasized the need to double the agricultural credit in three year period. The agricultural policy of the Government of India envisages substantial credit flow to increase agricultural production and productivity. Banks provide term finance to farmers for development purposes and short term loans for production purposes. There is also a need to finance farmers for purchasing land to expand activities and make existing small and marginal units economically viable. This would enable farmers to diversify their present activities and take up allied activities.

Objectives

- To make the small and marginal holdings economically viable
- To bring fallow lands and waste lands under cultivation
- To step up agricultural production and productivity
- To finance the share croppers / tenant farmers to purchase land to enable them to increase income

Eligibility

(i) Small and marginal farmers i.e.. those who would own maximum of non-irrigated or irrigated land (including purchase of land under the scheme) as stipulated by NABARD, vide circular Ref No. NB.EAPD.1950 /SF-03-84 /84 / 85 dated 03 July 1984.

(ii) Share croppers / Tenant farmers

(vide, NABARD circular No.57/DPD-FS/8/2005 dated 29 March 2005)

Purpose

The objective of the Scheme is to finance the farmers to purchase, develop and cultivate agricultural and fallow/waste lands. Banks may also consider financing purchase of land to enable the farmers to diversify into other allied activities. Complete details of the project proposal of the farmer should be obtained by the bank while considering finance for purchase of land.

Margin

No margin is prescribed for loans upto Rs.50000. In case of higher loans, the margin will be minimum of 10%.(as against the earlier stipulation of 20%)Reduction in margin will enable small and marginal farmers to avail higher

quantum of loan as they may find it difficult to bring in higher margin money.

Security

The land purchased out of the bank loan and mortgaged in favour of the bank will form the security for the loan from borrowers.

Interest Rate

As per RBI directives on interest rates issued from time to time.

Valuation

For the purpose of valuation of the land for fixing the quantum of financial assistance, the price indicated by the farmer may be cross checked with the last 5 years' average registration value available with the Registrar / Sub-Registrar of the area and a view may be taken by the bank.

Quantum of loan

It will depend on the area of the land to be purchased and its valuation and also development cost.

Repayment period

Loan may be repaid in 7 - 12 years (as against the earlier stipulation of 7-10 years) in half yearly / yearly instalments including a maximum moratorium period of 24 months. The moratorium period may be fixed taking into account the gestation period of the project and cash flow. Increase in repayment period upto maximum of 12 years, will provide some relief to the small farmers towards repayment of loan.

Repaying Capacity

The financing bank should satisfy itself that the borrower/s would have adequate income surplus from their production activities on the land being purchased and other income to repay the bank loan with interest and the repayment period may be fixed accordingly.

Terms and Conditions for NABARD Refinance

NABARD would provide refinance to banks for the loans disbursed by them for purchase of land under the scheme broadly on the same terms and conditions as applicable to schematic finance.

The important conditions for refinance are as under :

i) Quantum of Refinance:-As may be decided by NABARD from time to time. The quantum of refinance to banks for financing purchase of land is as under:

Agency	Percentage refinance to bank loan
CBs/RRBs/SCBs	90%
SCARDBs	95%

ii) Rate of Interest on Refinance:- As may be decided by NABARD from time to time. The present rates of interest per annum are :

Size of Limit	CBs/PCBs/RRBs/SCBs/SCARDBs
Upto Rs.50000	6. 00
From Rs.50000 to Rs.200000	6. 25
Above Rs.200000	6. 25

In respect of North Eastern Region including Sikkim and A & N Islands, the rate of interest on refinance is 6% irrespective of the size of loan.

iii) Eligibility Norms:- Eligibility to draw refinance by banks will be determined as per instructions issued by NABARD from time to time.

iv) Mode of Refinance:- Refinance will be extended under both Automatic Refinance Facility (ARF) and pre-sanction procedure of NABARD depending upon the project cost and the amount of refinance involved.

General Terms

(i) The banks may adopt the scheme with minimum suitable modifications, if necessary, depending on local conditions. It should, however, be ensured that the land purchased should be used for agricultural purposes and the farmers take up the project implementation without delay.

(ii) The financing bank should satisfy itself that the borrower will have adequate surplus income from his production activities on the land being financed and other income to repay the bank loan with interest

(iii) Location of land holding

Applicant farmers may be encouraged to purchase the land at one place to the extent possible. However, in the case of any field level constraints / problems, farmer may be allowed to purchase land within the village boundary or in a radius of 3 to 5 kms from the existing piece of land owned by him keeping in view the manageability of such fragmented holdings by the farmers. The financing bank may satisfy itself about this aspect.

(iv) Whenever farmers avail themselves of loan for purchase of virgin lands, they must be encouraged to develop the land and put the same land under cultivation without any delay.

(v) Wherever land development involves digging of open wells/ drilling of bore wells, the possibility of getting electricity supply on priority basis may also be examined.

(vi) Whenever farmers are financed for purchase of unirrigated land, the farmers should be encouraged to go in for suitable crops like horticulture/ plantation crops depending upon the climatic conditions and also take up activities like dairy, poultry, etc.

(vii) The Scheme aims at boosting the production and productivity of land purchased. The finance provided by the bank should not result in acquisition of land for investment and encashing on rising prices of the land.

(viii) Project cost may include, besides cost of land, value of stamp duty, registration charges for sale / mortgage deed and other land development expenses.

(ix) During the period of the loan, the farmer is not expected to sell the land.

(x) In certain states /regions, state governments have imposed restrictions on sale/purchase of agricultural land (e.g. Tribal belt, SC/ST, hill areas etc.). Banks should take note of such instructions.

(xi) The banks should follow other usual banking norms and safeguards.

(xii) Empowering women through the scheme: Ownership rights of land to women would lead to their empowerment. Hence, financing banks may encourage purchase of land by women, giving preference to those in distress, widows, SHG members etc. The banks may earmark a definite percentage for financing women under the scheme. (New clause)