

SUBJECT NO.: II \_\_\_\_\_

Rc. No. 8908/05/F1

Sub: -U.D.A. – Visakhapatnam – Charging of penal interest on belated payments of site costs, house installments etc., - Reg.

**Agenda Note:**

VUDA has been developing housing colonies / layouts and allotting houses and sites to cater the needs of the general public. Previously the houses were being allotted on installment basis payable in 52/56 quarterly installments and the sites were being allotted on full cost basis payable within 3 or 4 monthly installments. While fixing quarterly installments in respect of houses, normal interest @ 9% to 14% p.a. was being charged and included in the installment.

The Government in G.O. Ms. No. 113 M.A. dt. 26-2-84 have approved the allotment regulations in respect of allotment of houses and sites. One of the conditions is that, penal interest on all belated payments shall be charged at one and half times over and above the normal interest. Accordingly penal interest on belated payments @ 30% p.a. was being charged up to 1987 by taking 12% as the normal rate of interest in some cases and in the old layouts i.e. S.Dhara etc., P.I. @ 16.25% was charged.

The allottees of houses and sites of some layouts have represented that the P.I. being charged by VUDA on belated payments is ranging from 16.25% to 30% which is on a higher side and requested to waive the penal interest or to reduce the penal interest.

There is a practice in all the banks / Co-Operative Sectors to collect P.I. on the belated payments. But the question for consideration is the percentage of P.I. to be charged on the late payments.

Hence the matter was examined in detail and placed before the VUDA Board for taking an appropriate decision. The VUDA Board in its Resolution No. 202 of 1987 has resolved to charge P.I. at a uniform rate of 18% p.a. on all belated payments. Accordingly P.I. @ 18% was being charged from 1987 to 31-8-03.

As huge amounts are due from allottees of houses in housing Schemes of Sagar Nagar, Kurmannapalem etc., towards interest and the banks have also reduced the rate of interest to 6.5% p.a. the issue was discussed with the Bank Officers and the Auditors of VUDA.



As huge amounts of arrears are to be collected and the facility of reducing the rates of interest by the Banks and taking into consideration of the suggestions of internal auditors of VUDA, the VUDA Board in its Resolution No. 112 dated 28-9-03, has resolved to reschedule the penal interest rates with effect from 1-9-03. The board resolution is as follows:

"To adopt normal rate of interest at 9% per annum on installments for the period of 5 years, and also 4% per annum (Penal Interest for normal interest 9% per annum) in the event of any allottees fails to adhere to the schedule of time. Further resolved to authorize the Vice-Chairman to waive the penal interest incase the allottee clear off the entire amount due to VUDA within a stipulated period of time i.e. before 31-12-2003. The restructuring of interest shall be adopted from 1-9-2003".

As per the above Board Resolution, the VUDA is charging 4% P.I. on all belated payments towards site cost / house cost etc., with effect from 1-9-03. The facility is extended to the allottees of houses and sites with a view that they would clear the arrears immediately. But since the rate of P.I. is reduced to 4% p.a. which is less than the Bank rate of interest, the defaulters are not showing any interest to pay the dues by obtaining loans from banks etc., and they are not paying the due amounts within the scheduled time as the P.I. is only 4% with effect from 1-9-2003. Of late, it was observed that the allottees will pay the dues as per the schedule of payment by obtaining loans from banks etc., if the P.I. is more than the bank rate of interest.

In this connection, it is brought to the notice of VUDA Board that the VUDA is taking up Major Mega Hosing projects with private participation, in Akkireddipalem, Madhurawada etc., and they are to be grounded shortly. The prospective allottees of the Mega Housing Schemes have to complete the full payment of the cost of the house before completion of the project, preferably by obtaining loan from banks, in which case, the banks will charge 8.5% to 9.5% interest on the loan amount. If we charge 4% P.I. on belated payments, the allottees may delay the payments, since the rate of interest is only 4% p.a. which is less than bank rate of interest.

Recently in 2003, the VUDA Board has fixed final costs for some layouts. Thus the allottees of these layouts have to pay the dues amounting to Rs. 5.00 Crores. They were given time up to 30-4-05 to pay the same without P.I. in addition to other benefits such as 2/3<sup>rd</sup> reduction in P.I. and 2% incentive on the principal due, if the due amount is fully cleared before 30-4-05. But they are not responding positively and they are not paying the dues, as the penal interest is only 4% with effect from 1-9-03. If VUDA continues to charge P.I. @ 4% they may not pay the differential costs immediately and they may take their own time for payment with 4% penal interest

The issue was also discussed with the Internal Auditors of VUDA and the Branch Manager. I.O.B. Visakhapatnam. They have also expressed their view that P.I. should not be less than the bank rate of interest and it should be more than the bank rate of interest, to achieve the desired result.

In view of the above position, the following proposals are placed before the Board for taking a policy decision.

1. To continue to charge 4% penal interest in addition to the Normal interest in respect of the old Housing Schemes as per VUDA Board Resolution No. 112 dt. 28-9-03, since normal rate of interest ranging from 9% to 14% is already included in the instalments. Hence forth Penal Interest for old Housing Schemes shall be charged @ 4% p.a. in addition to the existing Normal Interest of 9% to 14% so that the total Interest shall vary between 13% to 18% depending on the scheme.
2. To charge P.I. on belated payments at 18% instead of 4% in respect of sites with effect from 1-9-05 since no normal interest is included in the due amount.
3. To consider to charge P.I. @ 14% for all the future allotments made after 1-9-2005 in respect of housing schemes.

The matter is placed before VUDA Board for its approval.



**VUDA Resolution No.11, dated 16-12-2005**

Resolved to approve the proposals of charging penal interest on the belated payments of site costs/ house installments as per the following procedure.

- To charge 4% penal interest in addition to the Normal interest on belated payment in respect of the old Housing Schemes as per VUDA Board Resolution No.112 dt. 28-09-2003, since normal rate of interest ranging from 9% to 14% is already included in the installments. Henceforth Penal Interest for old Housing schemes shall be charged @ 4% p.a. in addition to the existing Normal Interest of 9% to 14% so that the total Interest shall vary between 13% to 18% depending on the scheme.
- To charge P.I. on belated payments at 18% in respect of sites with effect from 01-09-2005 without normal interest in the due amount.
- To charge P.I. @ 14% (No additional normal interest) for all the future allotments made after 01-09-2005 in respect of housing schemes

  
Chairman, VUDA