

KARNATAKA HIGH COURT

Bank of India

Vs.

Karnam Ranga Rao

R.F.A. No. 19 of 1985

(K. Jagannatha Shetty, Actg. C.J. and M.S. Patil,J.)

27.11.1985

JUDGEMENT

Jagannatha Shetty, Actg. C.J.

1.This appeal has been preferred against the Judgment and Decree dated September 15,1984 passed by the Civil Judge, Hospet, in O.S. No. 45/84.

2. It was a suit instituted by the Bank of India ("the Bank") which is the appellant herein, for recovery of a sum of Rs. 30,564/-which was said to be the amount due and outstanding from defendants 1 and 2 out of the loan of Rs. 10,000/- granted to them for raising sugar-cane crop. Defendant 3 guaranteed repayment of the loan by executing a letter of guarantee. The documents exchanged between the parties seem to suggest that defendants 1 and 2 were liable to pay interest at the rate of 4 per cent above the rate prescribed by the Reserve Bank of India subject to the minimum of 13 per cent with quarterly rests. The Bank, however, has charged only half yearly rests and also claimed at the same rate in the suit.

3. Defendants while admitting the loan taken, however, denied their liability to pay interest with quarterly rests on the ground that the loan was for agricultural purpose and the Bank by the settled practice has no right to charge periodical compound interest. They also prayed for grant of installments to repay the loan in five equal annual installments.

4. On the basis of the pleadings, the trial Court framed the following issues :

are entitled for five equal installments?

5. The parties did not produce oral evidence, perhaps, in view of the fact that the defendants did admit the loan transaction. Defendant 3 remained ex parte. The documents produced by the Bank

were marked as Exs. P1 to P15. Ex. P1 is the demand promissory note dated April 29, 1976 for Rs. 10,000/- payable with interest at the rate of 4 per cent per annum above the Reserve Bank of India rate subject to the minimum of 13 per cent with quarterly rests. Ex. P2 dated April 29, 1976 is a letter acknowledging the debt and the liability to pay. Ex. P3 is a letter of lien and set-off. Ex. P4 is the hypothecation deed in regard to the standing crop. Ex. P5 is the guarantee bond by defendant 3. Exs. P6, P7 and P9 are acknowledgments of debt and securities regarding the amount due at that time. Ex. P8 is an acknowledgment of debt undertaking to pay interest at the revised rate subject to a minimum of 15 per cent with half-yearly rests. The other documents are not relevant except Ex. P14 which is the account extract of the Bank.

6. The trial Court after considering the contentions urged and the documents produced, held :

".....It has been well settled now that for agricultural loans in India, the conception of quarterly rest basis i.e., charging of compound interest does not apply. That being so, the plaintiff would not be entitled to charge compound interest on the loan amount advanced to the defendants 1 and 2....."

With that conclusion, the Court directed the Bank to submit a revised statement of accounts charging simple interest on the amount due. Accordingly, the Bank submitted a revised statement determining Rs. 19,851.66 as the sum due from the defendants. The Court then decreed the suit for the said amount with future interest at 6 per cent payable in two annual installments.

6A. The question raised by this appeal is of general nature and it relates to the right of the Bank to charge compound interest on agricultural advances. Similar questions have been raised in a large number of appeals; pending in this Court and subordinate Courts. The question though reeks of simplicity is not easy for its solution. In order to reach a satisfactory conclusion on the question, this Court by order dated January 16, 1985 issued notice under Order 1, Rule 8 of the Civil Procedure Code, to the Reserve Bank, of India to inspect the accounts concerned in this case and submit a report. As per the direction, the accounts have been inspected and a report dated June 7, 1985 has been submitted. The officer who submitted the report also appeared before this Court on July 18, 1985 along with Mr. Krishnan, the Legal Adviser of the Reserve Bank of India at Bombay. Both of them explained the matter and assisted the Court with reference to the directives issued by the Reserve Bank of India. The report has been taken on record, since the Bank has no objection.

7. The report submitted by the Officer of the Reserve Bank, inter alia, states that the Bank has debited interest to the crop loan account thrice before the due date of repayment of the loan and also compounded the interest. But compounding of interest on current dues on agricultural advances has been prohibited by the circulars of the Reserve Bank. The Bank, however, could add interest outstanding to the principal and compound the interest when the crop loan becomes overdue keeping in view what has been stated in the circular dated March 14, 1972. As such, the

Bank compounding of interest at half-yearly intervals after the loan amount has become overdue cannot be questioned. As per the Reserve Bank directive dated February 28, 1978, Banks should charge interest with quarterly or longer rests. The interest charged by the Bank with half-yearly rest; was, therefore, in compliance with the instructions contained in the directive.

8. The essential question we have to decide is whether the Bank was justified in charging interest with half-yearly rests on the agricultural loan amount due and outstanding from the defendants. It is, first, convenient to understand the meaning of the term "Rest" which is the exclusive preserve of the Banks. In the Stroud's Judicial Dictionary, the meaning of "rest" has been given as follows :

"A rest, in taking an account, is a pause at which the net balance between receipts and expenses is ascertained, so that interest may be abated or charged according to the finding; e.g. as between mortgagee in possession and his mortgagor....."

In Paget's Law of Banking, 132, there is a reference to the meaning of "rest" given by Lord Atkinson in *Yourell v. Hibernian Bank*¹, in the following terms :

"The bank, by taking the account with these half-yearly rests, secured for itself the benefit of compound interest. This is a usual and perfectly legitimate mode of dealing between banker and customer."

This Court in *State Bank of Mysore v. The Official Liquidator*², at p. 781 observed :

"When the accounts were to be taken with annual rests, it would necessarily mean that the balance of previous year would constitute as principal for the next year and interest would be charged on that amount."

9. With regard to the right or custom of Banks to charge compound interest on agricultural advances we have trilogy of cases of this Court. It is better that we examine the principles laid down in those decisions before we consider the question raised in this appeal.

(i) The first case on the point is *Bank of India v. Raosaheb Krishnarao*³, There the State Bank of India charged interest with quarterly rests on an agricultural loan. This Court mainly relying upon a passage from Paget's Law of Banking, 8th Edn., 1972, observed that the custom of charging compound interest by Banks would be normally applicable in the matter of overdraft facilities only and that too, when there is existence of relationship of banker and customer. But such a custom has no application to loans advanced on the security of properties. Sabhahit, J., speaking for the Bench, observed :

"Compound interest or the practice of quarterly or half-yearly rest is something strange to agricultural financing where the loans are either short-term, middle-term or long-term.

Short-term financing is done for growing the annual crops. They are termed as 'crop loans'. Middle-term financing is done for improvements in the lands and the period would be about three years to five years. Long-term financing is given for clearing off of old debts and for the long-term investments. That being so, in agricultural financing, the question of the normal commercial banking conditions as in overdrafts would not come into play and the bank 'custom' and habits which are usual in the case of commercial banking cannot be smuggled into agricultural financing."

On a consideration of evidence adduced in that case, learned Judge also held that there

¹1918 AC 372

³(1980) 2 Kant LJ 495

²(1967) 10 Mys Law Rep 767

was no agreement to charge "compound interest on the loan taken.

(ii) The next case in point of date is, *D. S. Gowda v. Corporation Bank*⁴, It was not a case concerned with the agricultural advance. The loan concerned in that case was for a commercial purpose and the interest charged thereon was with monthly and quarterly rests. This Court examined the customary practice of Banks to charge compound interest monthly or quarterly on advances and also incidentally considered the right of Banks to charge such interest on agricultural loans under the directives of the Reserve Bank of India. On the first question as to customary practice, it was observed :

"It is thus clear that the ordinary practice or custom of banks was only to charge interest with yearly or half-yearly rests and that too only on overdraft amounts and unsecured loans. The monthly or quarterly rests, therefore, does not appear to be the recognized banking practice. It may be that some banks as in the present case, might have charged interest with quarterly rests or monthly rests on some transactions, but to state that it was a banking practice generally accepted or universally followed by all banks, in our opinion, is far from truth."

On the second question, this Court, after examining the various directives and circulars issued by the Reserve Bank under Section 21 of the Banking Regulation Act, observed that the directives and circulars do not support the right claimed by Commercial Banks to charge interest with monthly or quarterly rests on agricultural advances. One other prominent question also came up for consideration in *D. S. Gowda's* case. That is with regard to power of Courts under the usury enactment to give relief to a debtor in distress, if the interest charged by the Bank is found to be excessive or unreasonable. This Court, in that context, dealt with general guidelines issued by the Reserve Bank as to the rate of interest to be charged by Commercial Banks and also the power conferred on Courts under the Usurious Loans Act. It was held that Courts could, in appropriate cases, analyse the loan transaction and the components of the interest charged to find out whether the totality of interest collected was excessive or unreasonable. It was also held that the directives of the Reserve Bank regulating the rate of interest to be charged by Commercial Banks do not impinge upon the Court's power to give relief to a debtor under the Usurious Loans Act.

10. The decision in D. S. Gowda's case AIR 1983 Karnataka 143 is under appeal before the Supreme Court. In the meantime, the Parliament has amended the Banking Regulation Act. Section 21 "A has been inserted in that Act by the Banking Laws (Amendment) Act, 1983 (Act No. 1 of 1984)

Section 21-A provides :

"21 A. Rates of interest charged by Banking Companies not to be subject to scrutiny by Courts. Notwithstanding anything contained in the Usurious Loans Act, 1918, or any other law relating to indebtedness in force in any State, a transaction between a Banking Company and its debtor shall not be re-opened by any Court on the ground that the rate of interest charged by the banking company in respect of such transaction is excessive."

⁴ AIR 1983 Karn 143

The scope of this section was considered by this Court in *Krishna Reddy v. Canara Bank*⁵, where the conclusion was expressed :

"The mandate of this section is that Courts cannot re-open the account relating to a transaction between a Banking Company and its customer on the ground that the rate of interest charged, in the opinion of Courts, is excessive or unreasonable. The Courts, in other words, cannot exercise jurisdiction under the Usurious Loans Act or any other law relating to indebtedness for the purpose of giving relief to any party. This appears to be the intent of the Legislature in enacting the Banking Laws (Amendment) Act, 1983.

Section 21A has, however, no bearing on the jurisdiction of Courts to give relief to an aggrieved party when it is established that the Bank in a particular case has charged interest in excess of the limit prescribed by the Reserve Bank of India.

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If, in any case, it is proved that the Bank has charged interest in violation of the direction of the Reserve Bank, the Court could give relief to the aggrieved party notwithstanding Section 21A of the Banking Regulation Act. The interest charged beyond the rate prescribed by the Reserve Bank would be illegal and void."

It was also reiterated that the Bank cannot charge interest with quarterly rests on agricultural advances.

11. The principles stated in the above decisions may be summed up as follows :

The Courts cannot re-open any account maintained by Banks relating to transaction with its customers on the ground that the rate of interest charged, in the opinion of Courts, is excessive or unreasonable. Section 21A of the Banking Regulation Act is a restraint on such power of Courts. However, in any case, if it is proved that the interest charged by

Banks on loans advanced is not in conformity with the rate prescribed by the Reserve Bank, then the Court could disallow such excess interest and give relief to the party notwithstanding the provisions of Section 21 A. Banks are bound to follow the directives or circulars issued by the Reserve Bank prescribing the structure of interest to be charged on loans and any interest charged by Banks in excess of the prescribed limit would be illegal and void. Banks cannot charge compound interest with quarterly rests on agricultural advances.

12. In the present case, although the terms of the loan advanced to the respondent authorized the Bank to charge interest with quarterly rests, the Bank, however, has charged interest only with half-yearly rests. Mr. Govinda Bhat, counsel for the appellant-Bank, therefore, has a two-fold submission. The counsel while justifying the interest charged with half-yearly rests, also contended that the directives of the Reserve Bank impose no constraint on Commercial Banks from charging interest with periodical rests, quarterly or half-yearly. On the contrary, according to counsel, it will be obligatory for Banks to charge interest with quarterly or longer rests. In support of the contention, he depended upon the following five circulars/ directives issued by the Reserve Bank relating to charging of interest on agricultural advances :

⁵ILR 1985 Kant 1277

Circular I dated March 14, 1972

Circular II dated October 5, 1974

Circular III dated March 13, 1976

Circular IV dated August 17, 1976

Circular V dated February 28, 1978

We will examine these circulars in turn :

13. Circular I dated March 14, 1972 : Of the circulars abovementioned, Circular I is by far the most important. It has a decisive bearing on the question that falls for determination. It is, therefore, necessary to analyse the circular in detail. Paragraph (1) of the circular reads :

"CHARGING OF INTEREST ON AGRICULTURAL ADVANCES.

There is at present no uniformity in the manner of charging interest on the various types of agricultural advances by Banks. Although interest is compounded at monthly, quarterly or half yearly rests on advances, such a system of compounding in the case of agricultural advances may not be suitable. The agriculturists do not have any regular source of income other than the sale proceeds of their crops. They will not, therefore, be in a position to pay interest at usual fixed intervals."

Paragraph (2) :

"Having regard to the special characteristics of agricultural finance, banks are advised to bear in mind the following principles in the matter of application of interest on such

advances.

i) Repayment period of agricultural advances, whether short-term or medium-term should be so fixed as to coincide with the period when the farmer is fluid i.e., after harvesting and marketing of his crops. Payment of interest should also be insisted upon only at the time of repayment of loan/installment so fixed.

ii) Interest on current dues should not be compounded.

iii) When crop loans or installments under medium-term loans become overdue, banks can add interest outstanding to the principal and compound the interest keeping in view what has been stated in paragraph(1) above,"

Paragraph (3) :

"Subject to the observance of the above principles, banks may adopt suitable accounting procedures in the matter of charging interest on agricultural loans."

Paragraph (3) which is the last paragraph of the circular allows liberty to Banks to adopt suitable accounting procedures for charging interest on agricultural loans. What are those suitable accounting procedures contemplated by the Reserve Bank? It is not far to seek. The circular itself provides enough guidelines for Banks to determine the mode of charging interest.

Paragraph (1) of the circular deprecates the tendency of Banks in charging compound interest on agricultural loans at usual fixed intervals at monthly, quarterly or half yearly rests. It expressly states that such a system in the case of agricultural advances may not be suitable. It also gives reasons why such a system is not suitable for agriculturists. It recognizes the economic condition of the agriculturists. It states that the agriculturists do not have any regular source of income other than the sale proceeds of their crops.

Paragraph (2) again provides general guidelines for application in the matter of charging interest on agricultural advances. It begins with a statement that agricultural finance has special characteristics. It advises Banks to bear in mind the principles set out there under in sub-paras (i) to (iii).

Sub-para (i) states that repayment period of agricultural advances whether short-term or medium-term should be so fixed as to coincide with the period when the farmer is fluid, that is when the farmer gets cash on the sale of his crops. It further states that payment of interest should also be insisted upon only at the time of repayment of loan or installment so fixed.

Sub-para (ii) prohibits compounding of interest on current dues.

Sub-para (iii), however, allows some discretion to Banks to charge compound interest keeping in view of what has been stated in Para (1) of the circular.

14. Mr. Bhat after referring to the contents of Circular I, explained its meaning in his own characteristic style. He urged that what has been prohibited by the circular is only compounding

of interest on current dues and not the right of Banks to charge compound interest with periodical rests when the loan becomes overdue. Such a periodical rests, according to counsel, must be quarterly and above. The first part of the submission is obvious and causes no difficulty. Sub-para (ii) of Para (2) of the Circular expressly directs that interest on current dues should not be compounded. The Bank, however, has charged compound interest in this case on current dues. It is clear from the report of the Reserve Bank. It only shows, even obvious directive is not followed by the Bank. The interest charged on current dues is illegal and must be disallowed. The second part of the contention appears to be ingenious, but it overlooks the indwelling and inherent reasons underlying Circular I. The circular, no doubt, permits Banks to charge compound interest. There is indeed, no dispute as to the right of Banks to charge compound interest when the loan becomes overdue. The dispute is only as to the interval at which the interest could be compounded.

15. In order to understand the real object and purpose of Circular I, we must know the problems internal to agriculture and also the importance of agriculture in national development. It is, then, only we would be able to determine the interval at which the Bank could charge compound interest on agricultural advances.

(i) Agriculture continues to account for over 40 per cent of the real gross domestic product on which about three-fourths of the country's population depends directly or indirectly for its living. The contribution to income growth and distribution of that income, therefore, affect the living conditions of the vast majority of our people.

(ii) In the first place, agricultural production is seasonal; most producers are forced to sell immediately after, or even before the harvest to meet essential living expenses or to repay debts. Secondly, it is not possible to adjust production perfectly to demand in view of the uncertainties of weather and yields. The actual production turns out mostly to be, if not always, shorter than the demand. Thirdly, any excess production brings down the prices disproportionately, leading to a realisation of a smaller sum to farmers. A uniformly good crop all over the area outstripping the demand may also equally be bad for them.

(iii) In many parts of India, prices of paddy and other produce just after the harvest are barely half of those prevailing 4 or 5 months later. Where the commodity markets are narrow, such price fluctuations are often magnified by speculative activities of some traders who try to corner all the stock. The result is again a severe hardship for the farmers and they may sometimes be ruined if there is resistance by the consumers or shift by the consumers to other products.

(iv) In the absence of regulated trading, a variety of malpractices plague the farmers. Middlemen and money-lenders have used their position of strength to charge high commissions. There are also malpractices in weighing and payment. (See : Agricultural Development in India by P. V. Shenoi, Page 107).

(v) In our country, 80 per cent of our villages are not connected with any market by pucca all-weather roads. The farmers naturally cannot take their produce for sale to

remunerative markets due to absence of road and transport facilities. (Ibid: Page 112).

(vi) Generally most of the farmers, unless their lands are located within the Atchkat area of any irrigation project, have to depend upon the vagaries of climate. Their anticipated showers do not come always in time. Good seasonal conditions which are a *sine qua non* of the economic prosperity of the farmers is more often their distant dream. If there is no proper seasonal distribution of rain fall, the farmers would be hard put even to eke out their living. The common experience in the recent past is that even the area which is well favoured by nature, cannot be sure of yearly rains. If there are more rains, they face calamities of floods of the rivers and streams.

(vii) The plough animal of the farmers is still the bullock which continues to be the main source of power for cultivation. Their other possessions are cows, sheep, goats and poultry. They are more often exterminated by common contagious diseases like black-quarter, hemorrhagic septicaemic, anthrax, parasitic diarrhoea, sheep-pox and rinderpest etc.

These are the problems of persons who feed the Nation. They have to live with these problems throughout their life. That is why, in our opinion, the Reserve Bank by Circular I expresses special concern for the farmers. It states that the system of compounding interest with periodical rests like monthly, quarterly or half yearly, may not be suitable in the case of agricultural advances. Circular I also sets out the reason why such a system of close periodical rests may not be suitable. It expressly states that the farmers do not have any regular source of income other than the sale proceeds of their crops. The circular then states :

"They will not, therefore, be in a position to pay interest at usual fixed intervals."

The usual fixed intervals, in the context, means monthly, quarterly or half yearly, which are applicable to commercial loans. There is one other reason assigned by the Reserve Bank. Banks have also been advised to fix the repayment period so as to coincide with the period when the farmer is fluid. The repayment period of loan is required to be fixed when the farmer gets cash by sale of his crop. Generally, the farmers do not get cash continuously or continually. If every thing goes on well and the nature smiles on them, they get cash only once in a year. It is only when they get cash, they will be able to repay the loan or the interest thereon. There is, therefore, no point in saddling them with compound interest calculated in close intervals, when they do not get cash from their produce. Banks should maintain the deliberate distinction sought to be drawn between commercial loans and agricultural advances. If the same system of compounding interest is also to be made applicable to agricultural advances, Circular I, in our opinion, would be totally uncalled for as unnecessary. Banks, therefore, should not charge interest with monthly, quarterly or half yearly rests in the case of agricultural advances. This is the only purposeful and reasonable interpretation of Circular I which we could think of to effectuate the intention of the Reserve Bank.

16. Circular II dated October 5, 1974 : (Charging of interest on agricultural advances). By this circular the Reserve Bank has reiterated that interest on current dues in respect of agricultural advances should not be compounded and it has accordingly directed all Banking institutions to suitably advise their branches to follow instructions given under Notification dated March 14, 1972.

17. Circular III dated March 3, 1976 : This is a general circular issued under Section 21 of the Banking Regulation Act, 1949 prescribing the rate of interest not more than 16.50 per cent per annum with quarterly rests. It seems to suggest that it would be obligatory for Banks to charge interest at 16.50 per cent with quarterly rests, but it has no reference to the interest to be charged on agricultural advances. So, Circular IV dated August 17, 1976 was issued by the Reserve Bank clarifying the position in regard to payment of interest on agricultural advances.

18. Circular IV dated August 17, 1976 : This has been addressed to all Scheduled Commercial Banks and it reads :

"Dear Sirs,

Method of charging interest on Agricultural Advances.

Please refer to our directive DBOD No. DIR B. C. 30/C. 90-76 dated the 13th March, 1976 stipulating the maximum rate of interest that could be charged on loans, advances, etc., by scheduled commercial banks. It has been stated therein that interest shall be charged with quarterly rests. It is clarified that this aspect of the directive will not apply to agricultural advances in respect of which the instructions issued in our letters No. Nat. 389/C 453(A)-72 dated the 14th March, 1972 and No. BP. B. C 107/C. 453(A)-74 dated the 5th October, 1974 will continue to prevail. In other words, payment of interest on agricultural advances should be insisted upon only at the time of repayment of principal/instalment of principal and interest on current dues should not be compounded.

Yours faithfully,

Sd/- P. N. Khanna Chief Officer."

It will be seen from the above directive that charging of interest with quarterly rests shall not apply to agricultural advances and Circular I will continue to govern such transactions. Circular IV also reiterates that payment of interest on agricultural advances should be insisted upon only at the time of repayment of principal/installment of principal, and interest on current dues should not be compounded.

19. Circular V dated February 28, 1978: This circular has been misconstrued by Banks and also by the Officer of the Reserve Bank who has submitted a report in this case. This circular was issued in supersession of Circular III dated March 13, 1976. All that has been done by this circular was to reduce the maximum rate of interest prescribed under Circular III. It has been

reduced from 16.50 per cent to 15 per cent. So far as compounding of interest is concerned, it has been directed that interest shall be charged with quarterly or longer rests. But this direction cannot have any application to agricultural loans. Circular II which has been clarified by Circular IV makes it clear that charging of interest with quarterly rests shall not apply to agricultural advances, and Circular I alone shall apply to agricultural advances. Circular V while replacing Circular III was not intended to supersede Circulars I and II. It is too much to presume that the Reserve Bank has directed the Commercial Banks to compulsorily compound interest with quarterly or longer rests even in the case of agricultural advances. Such an interpretation would nullify all that has been stated in Circulars I and II. There is nothing even impliedly to suggest in Circular V that Circulars I and II have been modified or superseded. It is, therefore, futile to contend that it would be obligatory for Banks to follow Circular V even in regard to agricultural advances.

20. Circular VI dated September 15,1984: This is yet another circular issued by the Reserve Bank to all scheduled Commercial Banks with a glib restatement of the general guidelines laid down by the aforesaid circulars. It contains instructions regarding the procedure for charging interest on all loan accounts and not exclusively pertaining to agricultural loans. The relevant portion of the circular reads :

"Dear Sir,

Compounding of interest by Commercial Banks.

As you are aware, the Reserve Bank of India has issued following guidelines to Commercial Banks regarding the procedure for charging interest on loan accounts :

- (a) Banks can charge interest on loan accounts at quarterly or longer rests.
- (b) In respect of direct agricultural advances banks should not compound the interest in the case of current dues, i.e., crop loans and installments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops.
- (c) When crop loans or installments under term loans become overdue, banks can add interest outstanding to the principal.
- (d) Where the default is due to genuine reasons banks should extend the period of loan or reschedule the installments under term loan. Once such a relief has been extended the overdues become current dues and banks should not compound interest.

We shall be glad if you will let us know early, say, by 29th September 1984 after verification, if necessary, with your divisional or regional offices of the practices followed for charging interest, the extent to which they differ from the advice given and the reasons for the same.

Yours faithfully,

Sd/-

(J. R. Prabhu)

Joint Chief Officer."

There is a marked difference between Clause (a) and Clauses (b) to (d). Clause (a) apparently does not deal with the matter covered under Clauses (b) to (d). It becomes clear when we turn to Clause (b) which begins "In respect of agricultural advances....." That means Clause (a) refers to loans other than agricultural advances. It has obvious reference to Circular V. Secondly, Circular VI was not issued in supersession of Circulars I and II and, therefore, we cannot accept the contention that Clause (a) of Circular VI also applies to agricultural advances.

21. To sum up the above discussion; the circulars/directives of the Reserve Bank direct that agricultural advances should not be treated on par with the commercial loans in the matter of application of the system of compounding interest. The farmers do not have any regular source of income other than sale proceeds of their crops is an acknowledged fact. They get income generally only once a year. They are, therefore, not in a position to pay interest at usual fixed intervals like monthly, quarterly and half yearly. Banks should not compound interest on current dues. Banks should not also charge interest with monthly, quarterly or half yearly rests on overdue loans. Perhaps, it may not be illegal to charge interest with yearly rests.

22. Before we part with this case, we should make it clear that the conclusion that we have reached is only in the light of the circulars/directives of the Reserve Bank of India. The said circulars/directives have not been considered by this Court in *Bank of India v. Raosaheb Krishnarao*⁶, That case proceeded solely on the basis of the customary practice of Banks. But, Banks in India are now governed by the Banking Regulation Act and the circulars/directives issued there under.

23. In the result, the appeal fails and is dismissed. In the circumstances of the case, we make no order as to costs.

24. Mr. Govinda Bhat, learned counsel for the appellant, seeks a Certificate for appeal to the Supreme Court.

25. In our opinion, this case does not involve any substantial question of law of general importance which needs to be decided by the Supreme Court.

26. Certificate prayed for is, therefore, refused.

Appeal dismissed.

⁶(1980) 2 Kant LJ 495