

Non-MSEDCL Specific - CPF Loan Lumpsum Repayment related Instructions dated 27-Jun-2017

The following instructions are hereby given to HR and Accounts sections of **other than MSEDCL company** to follow strictly which is not followed leading to problems in CPF schedule and reconciliation with S-Form and R-Form.

- 1) Lumpsum repayment to be accepted only if 50% of CPF loan is actually recovered through salary only. Permission must be sought by the employee from HR section to repay the loan for other than corporate office in Mumbai. For corporate office, CPF section will give permission. Before giving permission, HR section must check that 50% of loan is recovered through salary only. **Part payment of principal and interest is not allowed.**
- 2) After permission is given by HR section, HR section must also do calculation of the balance principal amount, interest and 1% BOT interest amounts. The formula of lumpsum repayment is shown in this document. The lumpsum repayment amounts should be calculated as per this formula only. Not following this formula will lead to excess or short loan interest and/or principal recovery. Employee himself can also do the calculation and check the same using the given formula.
- 3) **The permission and the calculation should be done during the period from end of last payroll and beginning of next payroll preferably before 18th of current month. This is because loan position is updated after previous month payroll is ended. Current practice of doing calculation and getting repayment on the last day of the month based on current month's installment recovery should be discontinued. After calculation, the calculations should be audited and sent to cash section for payment from employee. E.g. If current month is Jun-2017, May -2017 payroll is ended on 1st-Jun-2017. If employee wishes to close the loan in Jun-2017 and loan recovery should not be done in Jun-2017 salary, he must take permission and repay the loan between 2nd Jun-2017 to 18th-Jun-2017. (The last date of lumpsum repayment may be extended subject to only emergency and other reasons but they must ensure recovery is not done in Jun-2017 salary after employee pays lumpsum in Jun-2017).**
- 4) Employee should be asked to pay the amount immediately preferably through cash to avoid cheque bouncing problem and create problems in accounting. If payment accepted through cheque, it must be verified whether it is realized by accounts section within 3 days. After confirmation of realization, the CPF lumpsum amount receipt details must be entered in system and inform money receipt and bank credit details to HR section and audit section to close loan. HR and Audit sections should ensure that the loan recovery is not made in current month paybill. **Cheque should not be accepted within last 8 days of the month to avoid loan recovery in pay-bill (depending on current month paybill status).**
- 5) **Payment should not be accepted by cash section without the lumpsum repayment permission by HR and calculation sheet prepared by HR, audited and forwarded to cash section.**

- 6) The lumpsum repayment must be accounted in CPF S-Form correctly with principal, interest and BOT interest separately and shown under subcode 99 in CPF schedule.
- 7) If employee is in service, very old pending loans (not currently running loan) which are not recovered fully should be recovered through salary, if more than 50% Principal balance is remaining.
- 8) Following is the formula to calculate CPF interest for lumpsum repayment

Total Interest Due as on Date (including BOT int) = (Total Loan Amount Disbursed + Balance Principal Amount at Payroll Month End) X (No. of Principal Installments recovered + 1)
X (CPF Final Rate of Interest + 1) / 2400 **ROUNDED**

Interest Balance as on Date = (Total Loan Amount Disbursed + Balance Principal Amount at Payroll Month End) X (No. of Principal Installments recovered + 1) X (CPF Final Rate of Interest) / 2400 **ROUNDED**

BOT Interest Balance as on Date = Total Interest Due – Interest Balance as on Date

e.g. for Lumpsum Repayment - Loan sanction amt say 3,60,000, installment amt 10000, total principal installments as per sanction order 36, no of principal installments recovered 30 up to Sep-14. balance amt 60000 (10000 X 6). Loan was paid in financial year 2010-11, PF Final Rate of interest for year 2010-11 say 8.5. Then Total interest payable in oct-14 (i.e. after sep-14 month closure and before Oct-14 pay-bill processing)

Total Interest Due = (360000 + 60000) X (30 + 1) X (8.5 + 1) / 2400 = 51538

Int Balance as on Date = (360000 + 60000) X (30 + 1) X (8.5) / 2400 = 46113

BOT Interest balance as on date = 51538 – 46113 = 5425

In above formula, the CPF Rate of Interest is the final rate of interest (not provisional rate) declared for the financial year in which the month of loan disbursement (payment) false. i.e. if loan was disbursed during April-2011 to March-2012 and if final CPF Rate of interest is 8.95 then Total interest due is calculated with rate (8.95 + 1)%. CPF Trust AG Meeting is conducted around Sep, Oct, Nov every year to declare final CPF rate. During this period, the balance interest and lump-sum repayment may change due to change in CPF rate for loans disbursed during *previous financial year*. If Final rate of interest declared is greater than provisional rate of interest, interest will increase and system may not accept the amount due to change in rate of interest. The final rate is shown in View CPF balances screen in MSEB CPF Portal after selecting 'From Year' and 'To Year' and search button clicked for viewing yearly balances.

Note : It is under proposal for CPF schedule uploading by the respective locations of Non-MSEDCL company. Once this is started in this year, HR section must be prompt in CPF schedule uploading. They must upload CPF schedule data, validate and finalise the CPF schedule on or before 6th to maximum 10th of every month. After this facility is being used successfully by HR section, the correct calculation sheet can be made available for employees also and HR section to avoid manual calculation mistakes.