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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Interest Subvention on Individual Housing Loans

The Union Finance Minister during his Budget Proposal for 2009-10, had announced a Scheme of 1 per cent interest subvention for individual housing loans up to Rs.10 lakh, provided the cost of unit does not exceed Rs. 20 lakh, initially for a period of one year from October 1, 2009 to September 30, 2010. In the Budget speech for the year 2010-11, the Hon'ble Finance Minister announced extension of the Scheme till March 31, 2011.

The objective of the Scheme is to provide interest subsidy on housing loans as a measure to generate additional demand for credit and to improve affordability of housing to eligible borrowers in the middle and lower income groups. The details of the Scheme are -

Eligibility - Interest subvention of 1 per cent will be available on housing loans up to Rs. 10 lakh to individuals for construction/ purchase of a new house or extension of an existing house, provided the cost of construction/price of the new house/ extension does not exceed Rs. 20 lakh.

Duration - The Scheme will be in operation from October 1, 2009 to March 31, 2011.

Interest Subsidy - Subsidy of 1 per cent will be defined as reduction in interest rate by 100 basis points per annum from the existing rate of interest for a particular amount and tenor**.** It will be applicable to the first twelve installments of all such loans sanctioned and disbursed during the currency of the Scheme and would be computed for 12 months on the disbursed amount. The subsidy amount will be adjusted upfront in the principal outstanding, irrespective of whether the loan is on fixed or floating rate basis.

Implementing Agencies (IAs) - The Scheme will be implemented through scheduled commercial banks (SCBs) and housing finance companies (HFCs) registered with the National Housing Bank (NHB).

Nodal Agencies - The Reserve Bank and the NHB will be the nodal agencies for this Scheme for SCBs and HFCs, respectively.

Terms for Loan and Subsidy

(i) The interest subsidy of 1 per cent per annum will be admissible for the first year on the amount sanctioned and disbursed against the eligible housing loans. In case the loan amount is disbursed in parts (installments), the interest subsidy would be calculated for one year and claimed separately for every installment of the loan disbursement falling within the operating period of the Scheme.

(ii) The interest subsidy will be calculated on the interest chargeable at the time of disbursement of the loan.

(iii) The agreed rate of interest will be arrived at by the IAs keeping in view the Reserve Bank's/NHB's guidelines, if any, for loans up to Rs.10 lakh.

(iv) Borrowers can choose fixed or floating rate of interest.

(v) The mode of disbursement of the loan will be decided by the lending IA as per the borrower's requirement.

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(vi) The IAs will deduct the subsidy amount upfront from the principal loan amount of the borrower and charge interest on the net amount of loan at the agreed rate of interest.

(vii) The amount of reduction in the principal amount as a result of interest subsidy should be explained to the borrower by the bank/HFC officials. IAs should provide each borrower a statement which would make him/her understand the amount given as subsidy, how the subsidy has been adjusted and the impact of the subsidy on his/her EMIs.

(viii) It will be the IA's responsibility to ensure security of the loan amount.

(ix) The IAs will follow the appraisal, documentation, etc., as per their approved policies and procedures including those for risk assessment.

Claim Admissibility - After sanctioning and disbursing the eligible loans, the IAs will claim disbursement of subsidy from the nodal agency by submitting their claims in the prescribed format on a monthly basis. The subvention amount on the disbursed loan amount will be sanctioned to the IAs by the respective nodal agency on a monthly/quarterly basis.

Release of Funds from GOI - The Government of India will release the subsidy amount to the nodal agencies based on demand for sanction of subsidy received from the nodal agencies on a quarterly basis.

Utilisation Certificates - The IAs will be required to ensure proper end-utilisation of the funds and to submit utilisation certificates to their respective nodal agency against the amount of the interest subsidy released to them.

Inspection of Accounts - The IAs will flag all the loans covered under the Scheme in their books of accounts for inspection by the specified authority.

Monitoring/Evaluation - All SCBs and HFCs will submit a monthly consolidated return to the Reserve Bank and the NHB respectively, specifying the number of accounts, amount of loan disbursed, subvention given, etc.

The Reserve Bank has advised banks to put in place a suitable mechanism to ensure that eligible borrowers avail the benefit of interest subvention for one housing unit only.

Mobile Branches/ATMs

Further liberalising the Branch Authorisation Policy, the Reserve Bank has granted general permission to domestic scheduled commercial banks {other than regional rural banks (RRBs)} to operationalise mobile branches in Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001) and in rural, semi-urban and urban centres in the North-Eastern States and Sikkim.

The scheme of mobile branch envisages –

- Extension of banking facilities through a well protected van with arrangements for two or three officials of the bank to sit with books, safe containing cash, etc.
- The mobile unit should visit the places proposed to be served by it on specific days/hours.
- The mobile branch should not visit villages/centres which are served by co-operative banks and places served by regular branches of commercial banks.
- The mobile branch should be stationed in each village/location for a reasonable time on specified days and specified hours, so that its services could be utilised properly by customers. The business transacted at the mobile branch should be recorded in the books of the base branch/data centre.
- The bank should widely publicise the mobile branch facility in the village, including details of "specified days and working hours" at various locations so as to avoid any confusion to local customers; and any change in this regard should also be publicised.

General permission has also been granted to scheduled commercial banks (other than RRBs) to operationalise mobile ATMs at centres/places identified by them, without the Reserve Bank's prior permission. The details of the mobile branches and mobile ATMs should, however, be reported to the Reserve Bank in the prescribed proforma.

Repo and Reverse Repo Rates increased

The repo and reverse repo rates under the liquidity adjustment facility (LAF) have been increased from the second LAF of July 27, 2010 as follows:

Repo Rate : increased by 25 basis points from 5.50 per cent to 5.75 per cent.

Reverse Repo Rate : increased by 50 basis points from 4.00 per cent to 4.50 per cent.

Rupee Export Credit Interest Rates

The coverage of the interest subvention scheme of 2 per cent on rupee export credit for the period April 1, 2010 to March 31, 2011 has been extended to certain additional sectors. The sectors (earlier and additional ones) now falling under the interest subvention scheme are : (i) handicrafts; (ii) carpets; (iii) handlooms; (iv) small and medium enterprises; (v) leather and leather manufactures; (vi) jute manufacturing including floor covering; (vii) engineering goods; and (viii) textiles.

Sale of Investments held under HTM Category

The Reserve Bank has advised banks that if the value of sales and transfers of securities to/from held to maturity (HTM) category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, they should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited annual financial statements.

It has been observed that many banks are resorting to sale of securities held under HTM category, that too frequently, to take advantage of favourable market conditions and to book profits. It is reiterated that securities under HTM category are intended to be held till maturity and hence are not required to be marked to market.

FEMA

ECB Policy Liberalised

Take-out Finance

Keeping in view the special funding needs of the infrastructure sector, it has been decided to permit take-out financing arrangement through external commercial borrowing (ECB), under the approval route, for refinancing of rupee loans availed of from domestic banks by eligible borrowers in the sea port and airport, roads including bridges and power sectors for the development of new projects. The take-out finance arrangement has been permitted subject to the conditions that –

(i) The corporate developing the infrastructure project should have a tripartite agreement with domestic banks and overseas recognised lenders for either a conditional or unconditional take-out of the loan within three years of the scheduled commercial operation date (COD). The scheduled date of occurrence of the take-out should be clearly mentioned in the agreement.

(ii) The loan should have a minimum average maturity period of seven years.

(iii) The domestic bank financing the infrastructure project should comply with the extant prudential norms relating to take-out financing.

(iv) The fee payable, if any, to the overseas lender until the take-out should not exceed 100 bps per annum.

(v) On take-out, the residual loan agreed to be taken-out by the overseas lender would be considered as ECB and the loan should be designated in a convertible foreign currency and all extant norms relating to ECB should be complied with.

(vi) Domestic banks/financial institutions will not be permitted to guarantee the take-out finance.

(vii) The domestic bank will not be allowed to carry any obligation on its balance sheet after the occurrence of the take-out event.

(viii) Reporting arrangement as prescribed under the ECB policy should be adhered to.

Eligible borrowers should apply to the Reserve Bank for necessary approval before entering into take-out finance arrangement.

ECB beyond USD 100 million for Services Sector

The Reserve Bank would now consider applications from corporates in the hotel, hospital and software sectors to avail of ECB beyond USD 100 million under the approval route, for foreign currency and/or rupee capital expenditure for permissible end-uses. The proceeds of the ECB should, however, not be used for acquisition of land.

NBFCs

Participation in Currency Futures

NBFCs {excluding residuary non- banking companies (RNBCs)} have been permitted to participate in the designated currency futures exchanges recognised by the Securities and Exchange Board of India (SEBI) as clients, subject to the guidelines issued by the Reserve Bank's Foreign Exchange Department in this regard. Such permission has been granted to them only for the purpose of hedging their underlying forex exposures. They should, however, make appropriate disclosures regarding transactions undertaken in their balance sheet.

Repo in Corporate Debt Securities

The Reserve Bank has issued certain clarifications regarding NBFCs participating in repo transactions in corporate debt securities. These are :

Eligible Participants : NBFCs-ND with asset size of Rs. 100 crore and above (i.e. NBFCs-ND-SI).

Capital Adequacy : risk weights for credit risk for assets that are collateral for such transactions as well as risk weights for the counterparty credit risk would be as applicable to the issuer/counterparty in the NBFC (non-deposit accepting or holding) Prudential Norms Directions, 2007 as amended from time to time.

Classification of Balances in the Accounts : classification of balances in the various accounts viz; repo account, reverse repo account etc., should be done in the relevant schedules similar to that of banks.

Loan Facilities to Physically/Visually Challenged

The Reserve Bank has advised all NBFCs not to discriminate in extending products and facilities, including loan facilities, to the physically/visually challenged applicants on grounds of disability. NBFCs have also been advised to ensure that their branches render all possible assistance to such persons for availing of various business facilities.

INFORMATION

Entry of New Banks in the Private Sector

The Reserve Bank has released on its website a Discussion Paper on "Entry of New Banks in the Private Sector". The paper seeks views/comments of banks, non-banking financial institutions, industrial houses, other institutions and the public at large.

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Suggestions and comments are invited on the following aspects delineated in the Discussion Paper:

- Minimum capital requirements for new banks and promoter's contribution.
- Minimum and maximum caps on promoter shareholding and other shareholders.
- Foreign shareholding in the new banks.
- Whether industrial and business houses could be allowed to promote banks.
- Should NBFCs be allowed conversion into banks or to promote a bank.
- Business model for the new banks.

Suggestions/comments may be sent by September 30, 2010 to the Chief General Manager, Reserve Bank of India, Department of Banking Operations and Development, Central Office, 5th floor, World Trade Centre-1, Cuffe Parade, Mumbai-400005.

After receiving feedback, comments and suggestions on the possible approaches discussed in the paper and detailed discussions with the stakeholders, the Reserve Bank will frame the comprehensive guidelines for licensing of new banks and would invite applications for setting up new banks.

First Quarter Review of Monetary Policy for the Year 2010-11

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the First Quarter Review of the Monetary Policy for the Year for 2010-11 on July 27, 2010. The highlights are:

Projections

- Real GDP growth for 2010-11 revised to 8.5 per cent with an upside bias.
- Baseline projection for wholesale price index (WPI) inflation for March 2011 placed at 6.0 per cent.
- Money supply (M_3) growth for 2010-11 placed at 17.0 per cent.
- Growth in non-food credit of scheduled commercial banks placed at 20.0 per cent.

Stance

On the basis of the overall assessment, the stance of monetary policy in 2010-11 will broadly be to :

- Contain inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.
- Maintain an interest rate regime consistent with price, output and financial stability.
- Actively manage liquidity to ensure that it remains broadly in balance so that excess liquidity does not dilute the effectiveness of policy rate actions.

Monetary Measures

- Bank Rate retained at 6.0 per cent.
- Repo rate under the LAF increased by 25 basis points from 5.5 per cent to 5.75 per cent.
- Reverse repo rate under the LAF increased by 50 basis points from 4.0 per cent to 4.50 per cent.
- Cash reserve ratio (CRR) of scheduled banks retained at 6.0 per cent of their net demand and time liabilities (NDTL).

Expected Outcomes

The monetary policy actions are expected to:

(i) Moderate inflation by reining in demand pressures and inflationary expectations.

(ii) Maintain financial conditions conducive to sustaining growth.

(iii) Generate liquidity conditions consistent with more effective transmission of policy actions.

(iv) Restrict the volatility of short-term rates to a narrower corridor.

Mid-Quarter Review of Monetary Policy

The Reserve Bank will now undertake mid-quarter reviews roughly at the interval of about one and half months after each quarterly review. The mid-quarter reviews will be in June, September, December and March. They will be by way of a press release and will communicate the Reserve Bank's assessment of economic conditions more frequently, and will provide a rationale for either policy action or maintenance of the *status quo*. The Reserve Bank will, however, have the flexibility to take swift and pre-emptive policy action, as and when warranted by the evolving macroeconomic developments.

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