

RBI/2004-05/55

RPCD. Plan. BC. No. 8 /04.09.01/2004-05

July 20, 2004

**The Chairman/ Managing Director/
Chief Executive Officer**

(All scheduled commercial banks)

Dear Sir,

**Investment by banks in Mortgage Backed Securities – Lending to Priority
Sector under Housing Loans**

We have been receiving requests from various banks for inclusion of investment by banks in Mortgage Backed Securities, where the securitised loans represent direct advances to housing, as the banks' direct lending to housing under the priority sector lending.

2. The issue has been examined by us and it has been decided to classify the investment made by banks in the mortgage backed securities (MBS) under direct lending to housing within the priority sector lending, provided it satisfies the following conditions: -

- (i) The pooled assets are in respect of direct housing loans which satisfy the definition for inclusion under the priority sector;
- (ii) The securitised loans are originated by the housing finance companies/banks; and
- (iii) The mortgage backed securities (MBS) satisfy the conditions laid down in paragraph 3 of DBOD's circular DBOD. No. BP.BC. 106/21.01.002/2001-02 dated May 24, 2002.

3. We shall be glad if you please issue necessary instructions to your controlling offices/branches for appropriate action.

4. Please acknowledge receipt.

Yours faithfully,

sd/-

(C S Murthy)

Chief General Manager-in-Charge