

**RBI/2004/238**

RPCD. Plan. BC. No. 45 /04.09.01/2004-05

October 26, 2004

The Chairman/Managing Director  
All Scheduled Commercial Banks  
(excluding RRBs)

Dear Sir,

**Financing of Distressed Urban Poor**

Please refer to paragraph No. 84 of the Governor's Statement on Mid-Term Review of the Annual Policy for the year 2004-05 dated October 26, 2004 (copy of the paragraph enclosed). With a view to bringing in urban poor into formal financial system, it has been decided that banks may advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors.

2. Urban poor for the above purpose may include those families in the urban areas who are below the poverty line.

3. Such loans to urban poor may be classified under weaker sections within the priority sector. However, such loans may be reported under a separate sub-head, "Loans to urban poor indebted to non-institutional lenders" under the broad head "Other Priority Sector" in the returns being submitted to the Bank.

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

5. Please acknowledge receipt.

Yours faithfully,

**(G. Srinivasan)**  
**Chief General Manager**

Encl: As above.

***Financing of Distressed Urban Poor***

84. With a view to bringing in urban poor into formal financial system, it is proposed that:

- Banks may advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security.