

December 23, 2004

All Commercial Banks  
(excluding RRBs)

Dear Sir,

**Mid -Term Review of the Annual Policy Statement for the year 2004-05  
Risk weight on housing loans and consumer credit**

Please refer to our Circular No. DBOD. BP. BC. 106/ 21.01.002/ 2001-02 dated May 24, 2002, wherein, the risk weights on housing loans extended by banks to individuals against mortgage of housing properties and investments in Mortgage Backed Securities (MBS) of Housing Finance Companies (HFCs), recognised and supervised by NHB were reduced to 50 per cent for capital adequacy purposes, with a view to improving the flow of credit to the housing sector.

2. In this connection, please refer to paragraph 123 of the Mid-Term review of the Annual Policy Statement for the year 2004-05 enclosed with the Governor's letter No. MPD. BC. 256/ 07.01.279/ 2004-05 dated October 26, 2004 (copy of the paragraph enclosed). As mentioned therein, it has been decided to :

- (i) increase the risk weight for capital adequacy purposes, on housing loans extended by banks to individuals, which are fully secured by mortgage of residential properties and investments in Mortgage Backed Securities (MBS) of Housing Finance Companies (HFCs), recognised and supervised by NHB to 75 per cent. In the case of MBS of Housing Finance Companies to be eligible for 75 per cent risk weight, securities issued by the SPV should be backed only by

assets qualifying for 75 per cent risk weight. In all other cases, it will be 100 per cent.

(ii) increase the risk weight on consumer credit, including personal loans and credit cards receivables from 100 per cent to 125 per cent.

3. As the Capital to Risk-weighted Assets Ratio (CRAR) is to be maintained on an on-going basis, risk weights as indicated in paragraph 2 above will be applicable on all outstanding exposures.

Yours faithfully,

**( C. R. Muralidharan )**  
Chief General Manager-in-Charge

**Extract of the Mid-Term Review of the Annual  
Policy Statement for the year 2004 - 2005**

***“ Housing Loans and Consumer Credit: Temporary Risk Containment***

123. It is observed in the recent past that the growth of housing and consumer credit has been very strong. As a temporary counter cyclical measure, it is proposed:

- To put in place, risk containment measures and increase the risk weight from 50 per cent to 75 per cent in the case of housing loans and from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards. ”