

RBI/2006-2007/372

DBOD.BP.BC. 92 /21.01.002/ 2006-07

May 3, 2007

All Commercial Banks
(excluding Regional Rural Banks)

Dear Sir,

**Annual Policy Statement for the year 2007- 08:
Risk weight on residential housing loans**

Please refer to our circular No.DBOD.BP.BC.61/21.01.002/2004-05 dated December 23, 2004, 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 increased to 75% for capital adequacy purposes.

2. In this connection, please refer to paragraph 184 of the Annual Policy Statement for the year 2007-08 (copy of the paragraph enclosed). As mentioned therein, in view of the fact that banks have been advised from time to time to tighten their credit administration in this area in particular, it has been decided to reduce the risk weight in respect of housing loans up to Rs. 20 lakh to individuals against the mortgage of residential housing properties from 75% to 50%. Similarly, the risk weight for banks' investment in mortgage backed securities, which are backed by housing loans which would now qualify for 50% risk weight, and are issued by the housing finance companies regulated by the National Housing Bank is also reduced from 75% to 50%.

3. The reduced risk weights will be reviewed after one year keeping in view the default experience and other relevant factors.

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge

Extract of paragraph 184 of the Annual Policy Statement for the year 2007- 08***(j) Residential Housing Loans: Reduction of Risk Weight***

184. Under the standardised approach for credit risk under Basel II which is being implemented as per the schedule already indicated, the risk weight on residential property fully secured by mortgages is prescribed at 35 per cent, subject to fulfillment of strict prudential criteria. Keeping this in view and the fact that banks have been advised to tighten their credit administration in this area in particular, from time to time, it is proposed:

- to reduce the risk weight on the residential housing loans to individuals from the existing 75 per cent to 50 per cent as a temporary measure. This dispensation will be applicable for loans up to Rs.20 lakh and will be reviewed after one year, keeping in view the default experience and other relevant factors.