

RBI/2006-2007/373

UBD. PCB.Cir No. 40/ 13.05.000/ 2006-07

May 4, 2007

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir/Madam

**Annual Policy Statement for the Year 2007-08
Residential Housing Loans: Reduction of Risk Weight-UCBs**

Please refer to para 184 of the Annual Policy Statement for the year 2007-08 (copy enclosed).

2. In terms of our circular UBD.PCB.Cir.33/09.116.00/04-05 dated January 5, 2005 the risk weights on housing loans to individuals, which were fully secured by mortgage of residential housing properties, was increased from 50 per cent to 75 per cent for capital adequacy purposes.

3. It has now been decided 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.

4. Please acknowledge receipt to our Regional Office concerned.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager-in-Charge

Annual Policy Statement for the Year 2007-08

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