

January 17, 2008

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

**Prudential Norms for Capital Adequacy –
Risk Weight for Educational Loans**

Please refer to our circulars DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007 (paragraph 5.13.3) on 'Guidelines for Implementation of the New Capital Adequacy Framework' and DBOD No.BP.BC.4/21.01.002/2007-08 dated July 2, 2007, the 'Master Circular – Prudential Norms on Capital Adequacy' (Item IA(III)15 of Annex 8 to the circular).

2. In terms of the above stipulations, at present, the 'Educational Loans' are classified as a part of 'Consumer Credit' for the purpose of capital adequacy, and accordingly attract a risk weight of 125 per cent. The position has since been reviewed and it has been decided that the 'educational loans' be classified as non-consumer credit for the purpose of capital adequacy norms.

3. Accordingly, the risk weight applicable to educational loans would be as follows :

- a) Under Basel I framework, the risk weight would be 100 per cent, as against 125 per cent at present.
- b) Under Basel II framework, the educational loans, now no longer being a part of Consumer Credit, would be treated as a component of the regulatory retail portfolio under paragraph 5.9 of our circular dated April 27, 2007 and attract a risk weight of 75 per cent, as against 125% at present.

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge