

RBI/2007-2008/251

UBD. CO. BPD. (PCB). No. 33/13.05.000/2007-08

February 29, 2008

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

Dear Sir /Madam,

Advances to Builders / Contractors

Please refer to our circular UBD. No. I & L. 67 /J. 1-87/88 dated November 21, 1987 on the captioned subject. As per extant instructions, UCBs should normally refrain from sanctioning loans and advances to builders / contractors. However, where contractors undertake comparatively small construction work on their own (i.e. when no advance payment are received by them for the purpose), UCBs may consider extending financial assistance to them against hypothecation of construction materials, provided such loans and advances are in accordance with the bye-laws of the banks and instructions / directives issued by the Reserve Bank from time to time.

2. It has been observed that while financing builders / contractors as above, certain banks were found to be valuing the land for the purpose of security, on the basis of the discounted value of the property after it is developed, less the cost of development. This is not in conformity with established norms.

3. In this connection, it is clarified that UCBs should not extend fund based / non-fund based facilities to builders / contractors for acquisition of land even as a part of a housing project. Further, wherever land is accepted as collateral, valuation of such land should be at the current market price only.

Yours faithfully,

(A.K.Khound)
Chief General Manager