

June 16, 2008

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

Dear Sir/Madam,

Claims secured by residential property – Change in limits for risk weights-UCBs

Please refer our circular UBD.PCB.Cir.No. 40/13.05.000/06-07 dated May 4, 2007 wherein it was 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 for loans up to Rs.20 lakh. Banks were, however, advised that the same would be reviewed after one year, keeping in view the default experience and other relevant factors. It has now been decided to link the risk weights of loans to individuals meant for acquiring residential properties which are fully secured by mortgages on the residential property that is or will be occupied by the borrower or that is rented, to the **loan to value (LTV) ratio**.

2. In this connection, a reference is invited to paragraph 169 of the Annual Policy Statement for the year 2008-09 (copy of the paragraph enclosed) The modified risk weights on residential housing loans to individuals are as under:

LTV* Ratio	Sanctioned Amount of Loan	Risk Weight.
LTV ratio = or < 75%	Up To Rs 30.00 lakh	50%
LTV ratio = or < 75%	Above Rs 30.00 Lakh	75%
LTV ratio > 75%	Irrespective of the amount.	100 % (unchanged)

** LTV ratio should be computed as a percentage with total outstanding in the account (viz. "principal +accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator.*

3. All other instructions issued in this regard remain unchanged.
4. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

(A.K Khound)
Chief General Manager-in-Charge

Paragraph 169 of the Annual Policy Statement for the year 2008- 09

Prudential Norms for Housing:

169. On a review of recent developments, it has been decided to enhance the limit of Rs.20 lakh to Rs.30 lakh in respect of bank loans for housing in terms of applicability of risk weights for capital adequacy purposes. Accordingly, such loans will carry a risk weight of 50 per cent.