

RBI/2008-09/267
DBOD.No.BP.BC.76 /21.04.0132/2008-09

November 3, 2008

The Chairman and Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks
(excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

Prudential Guidelines on Restructuring of Advances by Banks

Please refer to paragraph 6.1 of our circular DBOD.No.BP.BC.37/21.04.132/2008-09 dated August 27, 2008 on the captioned subject, in terms of which only three categories of advances have been excluded from the special regulatory treatment for asset classification, upon their restructuring, as indicated vide paragraph 6 *ibid*. Thus, the housing loans granted by the banks would be eligible for special regulatory treatment, if restructured. In terms of paragraph 6.2.2 (iii), a ceiling of 10 years on the repayment period of the restructured advances (other than infrastructure advances) has also been stipulated for the restructured advances to be eligible for the special regulatory treatment.

2. It has been observed that the aforesaid ceiling of 10 years would make many of the housing loans ineligible for special regulatory treatment, since housing loans are normally granted with much longer repayment period.

3. The matter has been reviewed and it has been decided that the aforesaid ceiling of 10 years, over the repayment period of the restructured advances, would not be applicable for restructured housing loans, subject to compliance with all other terms and conditions prescribed in the aforesaid guidelines. The Board of Directors of the banks should prescribe the maximum period for restructured advances keeping in view the safety and soundness of advances.

4. It has also been decided that the restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points to the risk weights prescribed vide paragraph 5.10.1 of our Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of New Capital Adequacy Framework', issued vide circular DBOD.No.BP.Bc.11/21.06.0001/2008-09 dated July 1, 2008.

Yours faithfully,

(P Vijaya Bhaskar)
Chief General Manager