

December 1 , 2008

Chief Executive Officer
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Review of Prudential Norms – Provisioning for Standard Assets and Risk Weights for Exposures to Commercial Real Estate and NBFCs

Please refer to circular UBD.(PCB). Cir. No.30/09.11.600/06-07 dated February 19, 2007 on provisioning requirement for standard Assets and UBD.PCB.Cir. No.55/ 09.11.600/ 05-06 dated June 1, 2006 on Annual Policy Statement for the year 2006-07- Risk weight on exposures to commercial real estate.

2. The aforesaid prudential requirements were prescribed in view of the continued high credit growth observed in specific sectors. On a review, it has now been decided, as a countercyclical measure, to effect the following changes in these norms, with immediate effect:

a) Provisioning Norms: The provisioning requirements in case of Tier II UCBs for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto. Tier I UCBs will continue to make a general provision of 0.25% on all their standard assets.

The revised norms would be effective prospectively but the provisions held at present should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets; these should be duly provided for.

b) Risk weights: The risk weights for advances to corporates secured by commercial real estate and to NBFCs stand revised as follows:

(i) Loans and advances secured by commercial real estate: Such loans would attract a risk weight of 100 per cent as against the extant risk weight of 150 per cent.

(ii) Loans and advances to NBFCs : As per extant guidelines, UCBs shall not finance NBFCs other than those engaged in hire-purchase / leasing. Such companies now stand reclassified as Asset Finance Companies, vide DNBS circular dated September 15, 2008. The risk weights on exposure to such companies will remain unchanged at 100 per cent.

3. Please acknowledge receipt to Regional Office concerned.

Yours faithfully,

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