

RBI/2009-10/263

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December 18, 2009

The Chairman/ Managing Director/
Chief Executive Officer

*[All scheduled commercial banks
(excluding Regional Rural Banks)]*

Dear Sir,

Priority Sector Lending - Loans to Housing Finance Companies (HFCs)

Please refer to paragraph 7.5 of our Master Circular dated July 1, 2009 on Lending to Priority Sector, in terms of which loans granted to Housing Finance Companies (HFCs), approved by National Housing Bank for the purpose of refinance, for on-lending to individuals for purchase/construction of dwelling units, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family, are eligible to be classified under priority sector. However, the eligibility under this measure is restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. The above special dispensation is applicable to loans granted by banks to HFCs up to March 31, 2010.

2. It has been brought to the notice of the Reserve Bank that certain scheduled commercial banks are extending short-term loans of tenure ranging from six months to one year to Housing Finance Companies (HFCs), and classifying the same as priority sector advances. Since the housing loans are generally medium to long-term loans taken by the individuals, the short-

term loans with tenor of six months to one year granted by banks to HFCs for on-lending purposes would not be co-terminus with the loans taken by individuals.

3. On examination, it has been decided that the banks should link the tenor of loans granted by them to HFCs in line with the average portfolio maturity of housing loans, up to Rs. 20 lakh, granted by the HFCs to the individual borrowers. The banks should accordingly note that if the tenor of such loans granted by them to HFCs is not co-terminus with the on-lending of HFCs, as indicated above, they will not be eligible for classification under priority sector.

4. The banks should also ensure the end use of the funds strictly as per the guidelines on lending to priority sector.

5. The above instructions may please be advised to your controlling offices and branches for immediate implementation.

6. Please acknowledge receipt.

Yours faithfully,

(B. P. Vijayendra)

Chief General Manager