

May 14, 2008

The Chairman and Chief Executive Officer
All Commercial Banks
(excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

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

Please refer to the paragraph 5.10 of our circular DBDO.No.BP.BC.90/20.06.001/ 2006-07 dated April 27, 2007 on 'Guidelines for implementation of the New Capital Adequacy Framework', and also items Nos. [(A)(III)(13&14)] of Annex 8 to the Master Circular on 'Prudential Norms on Capital Adequacy', issued vide letter No.DBOD.BP.BC.4/ 21.01.002/ 2007-08 dated July 2, 2007, regarding risk weight for 'Claims secured by residential property'.

2. In this connection, a reference is invited to the paragraph 169 of the Annual Policy Statement for the year 2008-09 (copy of the paragraph enclosed). As mentioned therein, the following modifications are being made in the existing guidelines under both – Basel - I & Basel - II frameworks:

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)

3. It may please be noted that aforesaid modifications would apply to the banks under Basel - II framework as also those under Basel - I framework. Accordingly, the banks under Basel - I framework should also apply the risk weight on the basis of the LTV ratio as defined in paragraph 5.10.1 of our circular dated April 27, 2007.

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge

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

(d) 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.