

Update

Priority Sector Lending – Limits enhanced for Indirect Finance to Housing Sector

-Dipinti Ray
dipintiray@gmail.com

Vinod Kothari & Company

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The basic objective of setting priority sector targets / sub-targets has been to ensure greater flow of credit to those sectors where credit would “normally” not flow to the desired extent. The credit is required for these sectors in terms of employment generation potential of these sectors and to meet the social objective of reaching out to large masses of economically weaker sections of population.

Reserve Bank of India (RBI), in the year 2007, issued **revised guidelines on priority sector lending**¹. In terms of the said guidelines², *the assistance given to a non-governmental agency approved by the National Housing Bank (NHB) for the purpose of refinance for construction/reconstruction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of Rs. 5 lakh per dwelling unit is eligible for classification under priority sector.*

In order to promote housing for low income groups, Reserve Bank of India recently doubled the limit for home loans from **Rs.5 lakh to Rs 10 lakh** for consideration under priority sector lending for the purpose of refinance for construction or reconstruction of individual dwelling units and rehabilitation of slum dwellers³. Therefore, housing loans upto Rs. 10 lakhs will qualify to be priority sector lending. This move was taken by RBI in a bid to encourage housing for low income groups in key cities mentioned in RBI circular no.**RBI/2007-2008/126A** UBD. PCB.Cir.No. 11/09.09.001/2007-08 dated 30th August 2007⁴.

This decision has been taken in pursuance of the announcements made by the Union Finance Minister in his budget for 2012-13 to meet the shortage of housing for low income groups in major cities and towns.

OUR VIEW:

As per the existing norms, banks have to provide 40 percent of the aggregate bank advances to the prescribed priority sectors including housing for weaker section. With increment in the limit from Rs. 5 lakhs to Rs. 10 lakhs, the target of 40% priority sector lending is now more easily achievable. Therefore, the decision of RBI

¹ See RBI Circular no. RBI/2007-08/126 UBD.PCB.Cir.No.11/09.09.01/ 2007-08 dated August 30, 2007 at http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=3789

² The guidelines are available at: <http://rbidocs.rbi.org.in/rdocs/Content/PDFs/77070.pdf>

³ See RBI circular no.RBI/2011-12/567UBD.BPD. (PCB) CIR No.33/09.09.001/2011-12 dated 18th May2012: <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7221&Mode=0>

⁴ <http://rbi.org.in/scripts/NotificationUser.aspx?Id=3807&Mode=0>



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can be seen as a welcome move-since benefits are there for low income groups as well as banks.