Note

RBI revises Priority Sector Lending Norms

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Note

RBI vide its notification[1] dated 17th October, 2012 has revised the priority sector lending (PSL) norms and has not given much reason to rejoice. Under the revised PSL norm relating to the housing sector, the loan amount ceiling for PSL classification has been raised from Rs. 5 lakh per dwelling unit to Rs. 10 lakh per dwelling unit for the following loan segment:

1. Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers; and
2. The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs. 1,20,000 per annum, irrespective of the location, is prescribed

The notification also made certain additions to the existing PSL norms, taking into consideration the Nair Committee recommendations and the additions are as follows:

1. Bank loans to Housing Finance Companies (HFCs) approved by NHB for refinance purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 10 lakh per borrower provided the all inclusive interest rate charged to the ultimate borrower is not exceeding lowest lending rate of the lending bank for housing loans plus two percent per annum
2. The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio

While the focus of PSL norms relating to housing segment is to make more funds available for low income segment, there are certain glitches to the extant norms. The PSL norms require that with regard to the bank loans extended to HFCs, the interest rate charged to ultimate borrower should not exceed 2% p.a of the lowest lending rate of the lending bank. This would mean that the 2% should cover the operational costs and the net interest margins for the HFCs. Further, in case these loans have to be securitised, the all inclusive interest rate charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the investing bank plus 8% p.a. However, only such loans

[1] Priority Sector Lending – Targets and Classification,
http://rbi.org.in/scripts/NotificationUser.aspx?Id=7632&Mode=0

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shall be eligible to be classified as priority sector advances which have been qualified as priority sector eligible prior to securitisation. The above requirements are inconsistent with each other and technically would mean that the capping of interest rate on loans for securitisation purposes would also be 2% above the lending rate of the HFCs' lending bank.

Also, capping the individual bank's loans to HFCs to five percent of the individual bank's total priority sector lending, limits the fund availability from banks for HFCs.

RBI continues to leave ambiguity and even create some in the regulations issued leaving the market practices in a complete deadlock.