Reserve Bank of India Guidelines for Housing Finance

A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.

Restrictions on Advances against Sensitive Commodities under Selective Credit Control (SCC)

With a view to preventing speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Section 21 & 35A of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities. The commodities, generally treated as sensitive commodities are the following:

(a) Food grains i.e. cereals and pulses,

(b) selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castor seed, oils thereof, vanaspati and all imported oils and vegetable oils,

(c) Raw cotton and kapas,

(d) sugar/gur/khandsari,

(e) Cotton textiles which include cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres and partly out of cotton yarn and partly out of man-made fibres.

Banks are free to fix prudential margins on advances against these sensitive commodities. However, in case of advance against Levy Sugar, a minimum margin of 10% will apply.

(ii) Valuation of sugar stocks

(a) The unreleased stocks of the levy sugar charged to banks as security by the sugar mills shall be valued at levy price fixed by Government.

(b) The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

Bank finance should not be granted for the following:

(a) Banks should not grant finance for construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices. However, banks may grant loans for activities, which will be refinanced by institutions like NABARD.

(b) Projects undertaken by public sector entities which are not corporate bodies (i.e. public sector undertakings which are not registered under Companies Act or which are not Corporations established under the relevant statute) may not be financed by banks. Even in respect of projects undertaken by corporate bodies, as defined above, banks should satisfy themselves that the project is run on commercial lines and that bank finance is not in lieu of or to substitute budgetary resources envisaged for the project. The loan could, however, supplement budgetary resources if such supplementing was contemplated in the project design. Thus, in the case of a housing project, where the project is run on commercial lines, and the Government is interested in promoting the project either for the benefit of the weaker sections of the society or otherwise, and a part of the project cost is met by the Government through subsidies made available and/or contributions to the capital of the institutions taking up the project, the bank finance should be restricted to an amount arrived at after reducing from the total project cost the amount of subsidy/capital contribution receivable from the Government and any other resources proposed to be made available by the Government.

(c) Banks had, in the past, sanctioned term loans to Corporations set up by Government like State Police Housing Corporation, for construction of residential quarters for allotment to employees where the loans were envisaged to be repaid out of budgetary allocations. As these projects cannot be considered to be run on commercial lines, it would not be in order for banks to grant loans to such projects.

CONSTRUCTION ACTIVITIES ELIGIBLE FOR BANK CREDIT AS HOUSING FINANCE

The following types of bank credit will be eligible for being treated as housing finance:

(i) Loans to individuals for purchase/construction of dwelling unit per family and loans given for repairs to the damaged dwelling units of families;

(ii) Finance provided for construction of residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies, employers, priority being accorded for financing construction of houses meant for economically weaker sections, low income group and middle income group;

(iii) Finance for construction of educational, health, social, cultural or other institutions/centers, which are part of a housing project and which are necessary for the development of settlements or townships;

(iv) Finance for shopping complexes, markets and such other centers catering to the day to day needs of the residents of the housing colonies and forming part of a housing project;

(v) Finance for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments;

(vi) Bank credit given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies;

(vii) Finance provided to –

a. the bodies constituted for undertaking repairs to houses, and
b. the owners of building/house/flat, whether occupied by themselves or by tenants, to meet the need-based requirements for their repairs/additions, after satisfying themselves regarding the estimated cost (for which requisite certificate should be obtained from an Engineer/Architect, wherever necessary) and obtaining such security as deemed appropriate;

(viii) Housing finance provided by banks for which refinance is availed of from National Housing Bank (NHB);

(ix) Investment in the guarantee/non-guaranteed bonds and debentures of NHB/HUDCO in the primary market, provided investment in non-guaranteed bonds is made only if guaranteed bonds are not available.

CONSTRUCTION ACTIVITIES NOT ELIGIBLE FOR BANK CREDIT

7.1 Banks should not grant finance for construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices. However, banks may grant loans for activities, which will be refinanced by institutions like NABARD.

7.2 Projects undertaken by public sector entities which are not corporate bodies (i.e. public sector undertakings which are not registered under Companies Act or which are not Corporations established under the relevant statute) may not be financed by banks. Even in respect of projects undertaken by corporate bodies, as defined above, banks should satisfy themselves that the project is run on commercial lines and that bank finance is not in lieu of or to substitute budgetary resources envisaged for the project. The loan could, however, supplement budgetary resources if such supplementing was contemplated in the project design. Thus, in the case of a housing project, where the project is run on commercial lines, and the Government is interested in promoting the project either for the benefit of the weaker sections of the society or otherwise, and a part of the project cost is met by the Government through subsidies made available and/or contributions to the capital of the institutions taking up the project, the bank finance should be restricted to an amount arrived at after reducing from the total project cost the amount of subsidy/capital contribution receivable from the Government and any other resources proposed to be made available by the Government.

7.3 Banks had, in the past, sanctioned term loans to Corporations set up by Government like State Police Housing Corporation, for construction of residential quarters for allotment to employees where the loans were envisaged to be repaid out of budgetary allocations. As these projects cannot be considered to be run on commercial lines, it would not be in order for banks to grant loans to such projects.

BANK'S EXPOSURE TO REAL ESTATE SECTOR

(i) While the development of real estate is welcome, there is a need for the banks to curb the excessively risky lending by exercising selectivity and strengthening the loan approval process. Banks should ensure that the borrowers should have obtained prior permission from government/local governments/other statutory authorities for the project, wherever required. While the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

(ii) As loans to the residential housing projects under the Commercial Real Estate (CRE) Sector exhibit lesser risk and volatility than the CRE Sector taken as a whole, it has been decided to carve out a separate sub-sector called Commercial Real Estate - Residential Housing (CRE-RH) from the CRE Sector. CRE-RH would consist of loans to builders / developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH.

LOAN TO VALUE (LTV) RATIO

12.1 As per earlier instructions, the LTV ratio in respect of housing loans should not exceed 80 per cent. However, for small value housing loans i.e. housing loans up to 20 lakh (which get categorized as priority sector advances), the LTV ratio should not exceed 90 per cent.

12.2 With effect from June 21, 2013 these norms have been revised and the following LTV ratios have to be maintained by banks in respect of individual housing loans.

Category of Loan	LTV Ratio (%)
(a) Individual Housing Loans	
Upto ` 20 lakh	90
Above ` 20 lakh & upto ` 75 lakh	80
Above ` 75 lakh	75
(b) CRE – RH	NA

12.3 The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reasons, efforts should be made to bring it within limits.

12.4 It has been brought to our notice that banks adopt different practices for deciding the value of the house property while sanctioning housing loans. Some banks include stamp duty, registration and other documentation charges in the cost of the house property. This overstates the realisable value of the property as stamp duty, registration and other documentation charges are not realisable and consequently the margin stipulated gets diluted. Accordingly, banks should not include these charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted.

A. Housing Loan for building construction

i) In cases where the applicant owns a plot/land and approaches the banks/FIs for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the Banks/FIs before sanctioning the home loan.

ii) An affidavit-cum-undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executants to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.

iii) An Architect appointed by the bank must also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

B. Housing Loan for purchase of constructed property/ built up property

i) In cases where the applicant approaches the bank/FIs for a credit facility to purchase the built up house/flat, it should be mandatory for him to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building bye-laws and as far as possible has a completion certificate also.

ii) An Architect appointed by the bank must also certify before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building bye-laws.

C. Unauthorised colonies

No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.

D. Commercial Property

No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.