

# No priority-sector status to low-cost housing loans: RBI

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The Reserve Bank of India ([RBI](#)) has turned down a proposal from banks seeking priority-sector status to loans disbursed under affordable housing. According to sources FE spoke to, bankers had made repeated requests to the central bank to allow them to

classify affordable housing loans as priority-sector lending. A few months ago, the RBI turned down these requests, without citing any reason.

An email sent to RBI seeking clarification on the matter elicited no response till the time of going to press.

“Affordable housing is considered as infrastructure and there is a subsidy for loans taken for such homes. Obviously, it is a priority sector for the government,” a senior executive with a public-sector bank (PSB) said, justifying the demand for priority-sector status. Despite the rebuff by the central bank earlier, bankers continue to be hopeful that their request may be granted in future. Banks are considering making a written proposal on the same to present their case, sources told FE.

Presently, banks, especially PSBs, often meet their priority-sector shortfall by contributing to the Rural Infrastructure Development Fund (RIDF), which yields a lot less, as compared to affordable-housing loans. The sectors classified as priority sectors are agriculture, micro, small and medium enterprises (MSMEs), export credit, education, housing (low-cost), social infrastructure and renewable energy.

The infrastructure status for affordable housing, along with the Credit Linked Subsidy Scheme (CLSS) for households with an annual income of under Rs 18 lakh, has given a push to home loan disbursements. Analysts have pointed out that in the sub-Rs 25 lakh loan category, the effective interest rate on the EMI is now, in many areas, lower than the rental yield.

In a January 2018 article titled ‘Affordable housing in India’, the central bank said housing loans up to Rs 10 lakh grew 23.5% year-on-year (y-o-y) in 2016-17, as against 12.6% in FY16. Growth in this segment was driven primarily by the PSBs, who contributed 54% of the Rs 42,990 crore disbursed in FY17.

The same article also expressed concerns around asset quality in the affordable housing category, stating that the non-performing asset (NPA) ratio in the category of housing loans rose to 1.1% in 2016-17 from 0.9% in 2015-16.