

Increased PSL eligibility limits to create room for low-cost homes

By: [Shritama Bose](#) | Mumbai | Published: June 7, 2018 3:59 AM



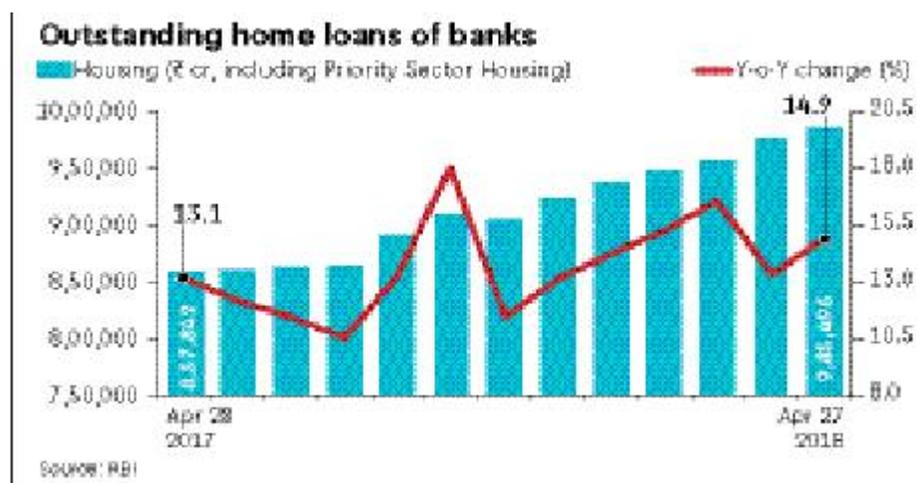
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The Reserve Bank of India ([RBI](#)) on Wednesday raised the housing loan limits for eligibility under priority sector lending (PSL) to Rs 35 lakh from Rs 28 lakh in metropolitan centres and to Rs 25 lakh from Rs 20 lakh in other centres. This will be subject to the

condition that the overall cost of the dwelling unit does not exceed Rs 45 lakh in metropolitan centres and Rs 30 lakh in other locations. Metropolitan centres were defined as those with a population of 10 lakh or more.

This signals a rethink on the part of the central bank, which is known to have earlier informally declined a plea to this effect. On April 25, FE had reported that the RBI had turned down a proposal from banks to confer priority sector status on affordable housing loans with relatively larger ticket sizes. Bankers, though, remained hopeful and were then contemplating a written proposal as well. Affordable housing enjoys infrastructure status and there is a subsidy for loans taken for such homes under the Pradhan Mantri Awas Yojana (PMAY).

At present, banks, especially public sector banks (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. Karthik Srinivasan, senior vice president and group head, financial sector ratings, Icra, said the revision in limits will make it easier for banks to meet their PSL requirements internally. “Now, when a bank does a Rs 30-lakh housing loan in those particular geographies, it can classify that as PSL. To that extent, it has to buy less from another NBFC to meet its target,” he said.



The infrastructure status for affordable housing, along with the Credit Linked Subsidy Scheme (CLSS) for households with an annual income of less than 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. Even as it eased the PSL requirements in the housing segment, RBI reiterated that there is stress emerging in the low-ticket buckets of the housing loan market.

“After a careful analysis of the housing loans data, it has been observed that the level of NPAs (non-performing assets) for the ticket size of up to Rs 2 lakh has been high and is rising briskly. Banks need to strengthen their screening and follow up in respect of lending to this segment in particular,” RBI said in its statement on developmental and regulatory policies. The central bank may even consider tightening of the loan-to-value (LTV) ratios or an increase in the risk weights in such categories.

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