



## RBI's easing of Cooperative Banks' Lending to Housing

### Why in news?

RBI has decided to increase the existing limits on individual housing loans provided by cooperative banks.

### What is the RBI's move about?

- The RBI has revised upward the limits for individual housing loan extended by Urban Co-operative Banks (UCBs).
- Along with this, the Rural Co-operative Banks (RCBs) will now be allowed to extend finance upto 5% of their total assets to commercial real estate or residential housing projects.
- **Revised limits-** The limits for tier 1/tier 2 urban cooperative banks (UCBs) stood revised from ₹30 lakh/ ₹70 lakh to ₹60 lakh/ ₹140 lakh.
- For rural cooperative banks (RCBs), the limits have been increased from ₹20 lakh to ₹50 lakh for RCBs with assessed net worth less than ₹100 crore and from ₹30 lakh to ₹75 lakh for the rest.

### What is the status of Cooperative banks in India?

- Co-operative banks are financial entities established on a co-operative basis and belonging to their members (the customers of a co-operative bank are also its owners).
- Broadly, co-operative banks in India are divided into two categories - urban and rural.
- **Rural cooperative banks (RCBs)-** RCBs could either be short-term or long-term in nature.
- Short-term cooperative credit institutions are further sub-divided into
  - State Co-operative Banks
  - District Central Co-operative Banks
  - Primary Agricultural Credit Societies
- Long-term institutions are
  - State Cooperative Agriculture and Rural Development Banks (SCARDBs)
  - Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)
- **Urban Co-operative Banks (UCBs)-** UCBs are either scheduled or non-scheduled.
- Scheduled and non-scheduled UCBs are again of two kinds
  - Multi-state UCBs
  - UCBs operating in single state
- **Regulation-** In India, co-operative banks are registered under the States Cooperative Societies Act.
- They also come under the regulatory ambit of the RBI under two laws
  - The Banking Regulations Act, 1949
  - The Banking Laws (Co-operative Societies) Act, 1955

*The aggregate balance sheet size of these banks amounts for the 10% of the size of scheduled commercial banks. The asset size of CBs is largely dominated by RCBs with 67% of total assets.*

## **What are the issues hampering the co-operative banks?**

- **Advance to deposit ratio**- The advance to deposit ratio for UCBs is around 60% at aggregate level much below scheduled commercial banks.
- The possible reason for the lower credit base of these banks can be attributed to the
  - skewed presence of UCBs in leading states only
  - duality issues related to the regulation
  - credit ceilings into potential sector like housing
  - rising NPAs with compulsion to primary sector lending
  - expansion of banks through banking correspondents and adoption of FinTech
- The RCBs are largely dependent on borrowings (27 % of total liabilities compared to 1% of UCBs).

*As of March 2021, UCBs have net NPA ratio of 4.6 % and gross NPA ratio of 11.7 % as against the 2.8% and 8.2% for banks.*

## **How is RBI's move aim to be beneficial?**

- UCBs have credit exposure of about ₹3.25 billion including one-third to the MSMEs and about 8% towards the housing sector.
- The RBI's move to boost credit to housing sector will
  - ease credit flow
  - safeguard banks against rising NPAs through the space for secured loans
- However, UCBs and RCBs need to improve their assets base by improving access through banking correspondents and capitalise the current opportunity of credit flow to household sector.

### **References**

1. <https://www.thehindubusinessline.com/opinion/rbis-easing-of-coop-banks-lending-to-housing-is-welcome/article65534129.ece>
2. <https://www.moneycontrol.com/news/business/rbi-to-roll-out-digital-lending-norms-soon-says-governor-shaktikanta-das-8699971.html>



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