Norms for Certain Retail Lending Products

🏘️ 1. Housing Finance: Introduction

Housing finance rules ensure that loans mainly support home-building and purchase activities, **not speculative real estate investments**. Banks must confirm loans comply with local building codes and guidelines.

- ✅ Allowed: Construction, buying, repair, home improvements.
- ❌ Not Allowed: Speculation in real estate (buying land for profit).

📑 Main Guidelines

📌 (i) General Rules

	Allowed ✅	Not Allowed ❌	
#1	Construction and purchase of residential homes	Real estate speculation	α
#2	Financing genuine housing needs	Loans without clear housing purpose	α

🏗️ (ii) Permitted Purposes & Eligible Borrowers

Allowed Uses ✅	Specific Examples 📌
Purchase of residential plots #1	Individuals buying land for own house

Slum improvement projects #2	Public agencies improving urban areas
Home construction & ready-built houses #3	Loans for completed houses/apartments
Repairs/additions #4	Individuals/agencies renovating homes

Prohibited Uses ❌
Buying farmland for resale/speculation
Commercial/industrial land speculation

Example: Bank can fund Mr. Sharma for land purchase **if he builds his home within stipulated timeframe**. If he delays or speculates, penalties apply. 🛑

🏦 (iii) Lending to Housing Intermediaries

Borrower Type	Allowed ✅ / Not Allowed ❌	Icon
Public Agencies #1	✅ Allowed for land acquisition & housing projects	🏛
Private Builders	❌ Prohibited for land acquisition	🚫
Housing Finance Institutions #2	✅ Allowed with clear Board policy	🏦

State Housing Boards/Public bodies #3	✅ Allowed	🏢
Private Builders (Construction) #4	✅ Allowed for construction phase	🏗️

- Banks must clearly apply **Commercial Real Estate (CRE)** guidelines.

$\frac{50}{150}$ 30%

📊 (iv) Quantum of Loan

	Aspect	Guidelines	Icon
#1	**Loan-to-Value (LTV)**	Prescribed by RBI (typically 75%-90%)	💳
#2	**Cost Inclusion**	Exclude stamp duty & registration if property cost > ₹10 lakh	🧾

$\frac{40 \times 100}{50}$

Example: For a house costing ₹50 lakh (excluding stamp duty of ₹2 lakh), bank funds ₹40 lakh (80% LTV). Customer pays ₹12 lakh (20% + stamp duty).

🏦 (v) Special Norms for Urban Cooperative Banks (UCBs)

Aspect	Guidelines	Icon
Borrower Categories #1	Clearly defined (individuals, groups, govt. agencies)	👥

#2	Eligible Purposes	Home purchase, construction, renovation, govt.-approved schemes	✅
#3	Loan Amount & Margins	Set maximum loan limits and clear margins	📌
#4	Security Required	Mortgage property, gold, govt. guarantee	🔒 Primary security
#5	Interest Rates & Charges	Board-regulated, transparent	💰
#6	Loan Tenure	Maximum: 20 years (including moratorium)	📅
#7	Aggregate Lending Limit	RBI-specified ceiling for total housing loans	🔝
#8	Precautionary Measures	Strict due diligence to prevent fraud	🚨

💡 **(vi) Innovative Housing Loan Products**

- **Builder-linked Loans**: Bank releases funds **as per construction stages** 🏗️.
- **Govt./Statutory Projects**: Funds released **as per govt.-approved schedules** 📅.
- Clearly explain risks & terms to customers before approval. 📣

📄 (vii) Statutory & Regulatory Approvals

Loans disbursed **only after all clearances** (e.g., municipal, environmental approvals) ✅.

🔍 (viii) Disclosure Requirements

- Follow **court-mandated disclosure norms** clearly specifying loan terms and conditions ⚖️.

⚙️ (ix) Other Important Norms

	Aspect	Description	Icon
#1	🏢 **Real Estate Exposure**	Banks must have clear risk & exposure policies	📋
#2	🎯 **Priority Sector Loans**	Housing loans under PSL category follow specific norms	🎯
#3	🏘️ **Affordable Housing Bonds**	Banks can issue 7-year bonds to raise funds for affordable housing	📜
#4	🏗️ **National Building Code (NBC)**	Loans only for projects compliant with NBC (BIS standards)	🏗️
	🌊 **Safety & NDMA Guidelines**	Include disaster-resilience norms (floods, earthquakes)	🌪️

#6

✅ **Fair Lending Practices**	Ensure transparency, fairness, and no hidden charges	📄

Example: A housing loan for a building project in an earthquake-prone area must follow NBC and NDMA standards strictly.

🚨 Risk Mitigation & Fraud Prevention

- **Verify all property documents**, title deeds, and clearances 🔍.
- Ensure construction strictly follows **approved plans** 🗺️.
- Train staff to identify and prevent fraud 🕵️.

📚 Education Loan

🎯 (i) Basis & Objective

Provide affordable loans for higher education in India or abroad, based on the **IBA Model Scheme**.

👤 (ii) Eligibility Criteria

Category	Details	Icon
🇮🇳 **Indian Nationals**	Eligible for study **in India & abroad**	🇮🇳
🌍 **PIO/OCI Card Holders**	Eligible only for study **in India**	🌍

Institution Categories:

1. **Top-rated institutions** 🏅
2. **Other institutions** 🏫
3. **Study abroad** ✈️

📖 (iii) Courses Eligible

Eligible Courses	**Expenses Covered**
✅ Graduate/ Postgraduate	Tuition fees, exams, hostel, books, equipment
✅ Professional/Technical	Travel expenses (for abroad), laptop, projects

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📋 **(iv) Documents Required**

- ✅ Student applicant documents (marksheets, admission letter, etc.)
- ✅ Co-applicant/guarantor income proofs, KYC documents

💰 **(v) Quantum of Finance**

- **Need-based**, with margin depending on loan amount.
- **Top-up loans** allowed if expenses increase.

Example:

If education cost is ₹10 lakhs, and margin is 10%,

- Bank finances: ₹9 lakhs
- Borrower contributes: ₹1 lakh (10%)

🔐 (vi) Security Requirements

Loan Amount	Security Needed	Icon
Up to ₹7.5 lakhs	Parent/Guardian Guarantee only	👪
Above ₹7.5 lakhs	Additional collateral security required	🔐

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⏳ (vii) Repayment Terms

- **Moratorium:** Course duration + 1 year (no EMI required during this period).
- **Loan Tenure:** Max 15 years after moratorium ends.
- **EMI repayment basis.**

Example:

If course duration is 4 years, repayment starts after 5 years, payable within the next 15 years.

📈 (viii) Interest Rates

- Linked to **External Benchmark Lending Rate (EBLR)**.
- May differ based on course, security, and institution rating.

🧾 (ix) Processing Charges

Loan Amount	Charges	Icon
Up to ₹7.5 lakhs	Generally no charges	🚫
Above ₹7.5 lakhs	Processing charges applicable	💳
Vidya Laxmi Portal	Enrolment charges applicable	🌐

🛡️ (x) Insurance Requirements

- ✅ **Life Insurance** / Credit life insurance
- ✅ **Personal Accident insurance** (highly recommended)

4 lac – Nil

4 – 7.5 — 5% 15%

💳 (xi) Sanction & Disbursement

- **Sanction**: If rejected, must be reviewed by next higher authority.
- **Disbursement**: Directly to educational institution, as per their payment schedule.

>7.5 — 15% 20%

📋 (xii) Follow-up & Monitoring

- Collect regular **Progress Reports** from institutions.
- Maintain borrower's **Aadhaar number**, SSN/UIN (if abroad), and employment details post-course.

📃 (xiii) Capability Certificate

- Issued for study abroad, based on student's financial strength and provided documentation.

💍 Loans Against Gold Ornaments & Jewellery

📌 General Norms for Gold Loans

Aspect	Guidelines	Icon
🏷️ **Loan-to-Value (LTV)**	Max 75% of gold value (entire loan period)	💎
⚖️ **Gold Valuation**	Based on 30-day avg. market price (22 carat)	📈
📅 **Loan Tenure**	Max 12 months with **Bullet Repayment**	⏳
💲 **Interest Payment**	Monthly rests (monthly interest payable)	📆

Example:

Gold worth ₹1 lakh → max loan ₹75,000.

🏦 Specific Norms for Urban Co-op Banks (UCBs)

Aspect	Norms	Icon
💵 **Max Loan Amount**	₹2 lakh per borrower	💰

⏰ **Loan Period**	Max 12 months	🗓️
🔒 **Other Norms**	Proper valuation, custody, records, appraisers	📜

🚨 Irregular Practices Observed

RBI has highlighted frequent mistakes banks make:

Issue	Description	Icon
🔍 **Valuation issues** #1	Valuation done **without customer presence**	🚫
#2 📋 **Third-party issues**	Improper use of third-party agents	⚠️
❌ **Due diligence failures** #3	Poor verification of gold ownership & authenticity	🚫🔎
🎯 **End-use not monitored** #4	Funds used for unintended purposes	❌💰
⚖️ **Transparency in auctions** #5	Improper auction procedures, lacking transparency	⚖️
📉 **LTV Monitoring** #6	Weak monitoring leads to exceeding RBI LTV limits	📈⚠️
📊 **Incorrect Risk-weights** #7	Incorrect risk calculation leading to regulatory issues	🚨

⚠️ **RBI Proposed Regulatory Framework (Draft)**

✓ Harmonized rules for **all lenders** (Banks, NBFCs, RRBs, Co-op banks).

✓ Stronger **conduct-related rules**, emphasizing transparency and fairness.

✓ Strict compliance to avoid observed deficiencies.

📲 Digital Lending & Gold (Metal) Loans

📱 1. Guidelines on Digital Lending

🌐 (i) General Aspects

Digital Lending means offering loans entirely online, using digital technology for:

- **Customer Acquisition** 🎯
- **Credit Assessment** 📈
- **Loan Approval** ✅
- **Disbursement** 💰
- **Loan Recovery** 🔄
- **Customer Support** 📞

📲 (ii) Key Entities

	Entity	Definition	Icon
#1	**Digital Lending Apps (DLAs)**	Mobile/web apps facilitating lending for banks/NBFCs	📱💻
#2	**Lending Service Providers (LSP)**	Agents providing services like credit scoring, servicing, and loan recovery for banks/NBFCs	🤝
#3	**Default Loss Guarantee (DLG)**	Contract to cover losses if borrower defaults	🛡️

Example:

A mobile app used by an NBFC to disburse personal loans quickly is a **DLA**, while the company managing repayments and collections is the **LSP**.

🛡️ (iii) Customer Protection & Conduct Requirements

	Aspect	Guidelines	Icon
#1	**Loan Disbursement & Repayment**	Directly via borrower's bank account	💳
#2	**Fee Collection**	Borrower pays only to the bank/NBFC, not to LSP directly	💲

#3 **Clear Disclosures**	Provide APR, Key Fact Statement, KFS digitally signed documents	📝
#4 **Grievance Redressal**	Both banks & LSPs must have clear redressal mechanisms	📞
#5 **Due Diligence on LSPs**	Banks must thoroughly check LSP's background & credibility	🔍

Example:

Loan agreement clearly shows interest as 14% APR, signed digitally by borrower. If there's an issue, borrower contacts bank's helpline or LSP's grievance cell directly.

🔐 (iv) Technology & Data Protection

Aspect	Guidelines	Icon
Data Collection & Usage #1	Clearly disclose data usage; borrower consent mandatory	🔑📁
Data Storage #2	Data stored securely by banks, not by LSP or DLA	🗄️🔒
Privacy Policy #3	Banks to maintain comprehensive privacy policies	🛡️📝
Technology Standards #4	Banks & LSPs must comply with RBI's tech security standards	🔐📲

(v) Default Loss Guarantee (DLG)

Aspect	Guidelines	Icon
Parties Involved #1	Between bank & LSP or two regulated entities	
Contract #2	Legally binding with clearly defined terms	
Guarantee Form #3	Cash deposit, lien on fixed deposit (with banks), Bank Guarantee	
Limit #4	Max. 5% of loan portfolio	
Tenor #5	Not less than the longest loan tenor	

Example:

If a digital loan portfolio totals ₹10 crore, DLG coverage can't exceed ₹50 lakh (5%).

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2. Gold (Metal) Loans (GML)

These are loans provided in **physical gold (metal form)** rather than cash, primarily to jewelry makers and exporters.

(i) Basic Norms for Gold (Metal) Loans

Borrower Type	Loan Terms	Icon
Jewellery Exporters	Max. ~~120~~ 270 days, back-to-back basis	
Jewellery Manufacturers	Max. 180 days	

Nominated Banks Only	Authorized banks approved by RBI	🏦✅

Example:

ABC Jewellery Ltd., exporting jewellery, gets gold loan for up to 120 days to produce and export jewellery; they repay from export earnings.

📅 (ii) Gold Monetization Scheme (GMS) linked GML

- Same prudential rules as regular Gold Metal Loans.
- Source of gold: Short-term Bank Deposit (STBD) or auctions under Medium and Long Term Gold Deposit (MLTGD).

⚙️ (iii) General Rules

Aspect	Guidelines	Icon
End-use Verification #1	Ensure gold is used only for permitted activities	🔍
Interest Rates #2	Linked to international gold borrowing rates	📈💲
Repayment Methods #3	Either in rupee equivalent or physical gold sourced locally	💰🥇
Asset-Liability Management #4	Banks must manage gold lending & borrowing prudently	⚖️🔑

Example: Jeweller borrowed gold worth ₹50 lakhs (gold value). After 120 days, they repay either ₹50 lakhs (current market equivalent) or equivalent gold quantity sourced locally.

🧾 1. What are Personal Loans?

Personal loans are loans given by banks to individuals for various personal purposes such as consumer needs, education, buying property, or financial assets.

Purpose of Personal Loans	Examples	Icon
Consumer Needs #1	Electronics, furniture	📺🛋️
Education #2	Tuition, hostel fees	🎓📚
Immovable Assets #3	Purchase of house/land	🏠
Financial Assets #4	Investments in securities	📈

Defined clearly in RBI's XBRL returns circular (4 Jan 2018).

💳 2. Electronic Cards on Overdraft Facility

Banks can issue **electronic cards** linked to overdraft (OD) accounts for individuals.

Guidelines	Description	Icon
Purpose #1	No specific end-use restrictions	💳✅
Card Validity #2	Matches OD facility validity period	📅

Transaction Mode #3	Only online, non-cash domestic transactions allowed	🌐

Example:

A bank gives Mr. Rajan an OD facility of ₹1 lakh for 1 year. He receives an electronic card valid exactly for 1 year, usable for online purchases within India.

📅 3. Reset of Floating Interest Rate on EMI-based Loans

Banks must follow rules when changing **floating interest rates** on personal loans:

Guidelines	Description	Icon
117 **Policy Framework** #1	Banks to have clear policies for interest resets	📝
137 **Adequate EMI/Tenor flexibility** #2	Ensure sufficient margin to adjust EMI/loan tenor	↔️📈

Example:

If the interest rate on a personal loan increases, the bank can either increase EMI or extend loan tenure, clearly informing the borrower.

⚠️ **4. Risk Weightage for Consumer Credit Exposure**

Banks must maintain higher **capital reserves** for riskier personal loans:

Type of Loan	Risk Weight	Icon
#1 **Consumer Credit (e.g., personal loans)**	125%	
#2 **Credit Card Receivables**	150%	

Example: 100cr → 1.25cr × 9%

If a bank lends ₹1 crore as personal loans, they must calculate capital requirements using a 125% risk weight, resulting in higher safety buffers.

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5. Bank Credit to NBFCs

Aspect	Guidelines	Icon
Risk Weight	Based on external credit ratings of NBFCs	
Exclusions	Loans to Housing Finance Companies (HFCs), NBFCs for priority sector loans	

Example:

Bank lending to a highly-rated NBFC may have lower risk weights (say 50%), while lending to less-rated NBFCs could have higher risk weights.

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6. Strengthening Credit Standards

Banks must follow strict credit standards to manage personal loans risks:

Aspect	Guidelines	Icon
Board-Approved Limits #1	Clearly defined limits for different personal loan segments	📌🗒️
Top-Up Loans Against Movable Assets #2	Treated as unsecured loans (higher risk)	💳🚨

Example:

If Mr. Amit takes a personal loan of ₹2 lakh against his car (movable asset), any top-up loan given later is considered an unsecured loan, demanding higher caution.

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