RBI’s easing of Cooperative Banks’ Lending to Housing

Why in news?

RBI has decided to increased 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

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