

RBI/2005-06/310

DBOD.BP.BC. 65 /08.12.01/2005-06

March 1, 2006

Chairman and Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks

Dear Sir,

Banks' Exposure to Real Estate Sector

As you are aware, there has been substantial increase in lending by banks to the real estate sector during the last few years. While the development of real estate is welcome, there is a need for the banks to curb the excessively risky lending by exercising selectivity and strengthening the loan approval process.

2. In this context, we advise that while appraising loan proposals involving real estate, banks should ensure that the borrowers should have obtained prior permission from government /local governments/other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager