GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4726
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DIVERSION OF BANK LOANS BY REAL ESTATE COMPANIES QUESTION
Bhagat Shri Sudarshan;Shetkar Shri Suresh Kumar

Will the Minister of FINANCE be pleased to state:

(a) whether instances of some real estate companies having diverted the bank loans for other purposes from pre-decided projects during the last three years come to / brought to the notice of the Government;

(b) if so, the details thereof, State-wise, company-wise and year-wise;

(c) whether the Government has taken / proposes to take any action against such defaulting companies;

(d) if so, the details thereof and if not, the reasons therefor;

(e) whether the Government / Reserve Bank of India (RBI) has any proposal to tighten the norms for loans to real estate companies; and

(f) if so, the details thereof and if not, the reasons therefor?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (d: Reserve Bank of India (RBI) has informed that its prudential norms on bank`s exposure to Commercial Real Estate (CRE) are already stringent since CRE sector is considered as a sensitive sector. These prudential norms require higher risk weight and provisioning in cases of CRE. Further, special asset classification benefit on restructuring is not available to CRE exposures. RBI, being the regulator monitors implementation of its guidelines and takes appropriate action in case of violation of such guidelines. RBI has not informed any specific instance of such cases.

(e) & (f): Banks were advised vide RBI`s circular No.DBS.COPP.BC. 21/11.01.005/2004-05 dated 29.06.2005 to put in place the following system for managing the sensitive sector portfolio. These instructions are indicative in nature and banks may adopt a system depending upon their portfolio size, business complexities, risk appetite, etc.

(i) Banks should have a Board mandated policy in respect of their real estate exposure.

(ii) The policy may include exposure limits, collaterals to be considered, margins to be kept, sanctioning authority / level, sector to be financed, etc., though the actual limits / margins may vary from bank to bank depending upon the individual bank`s portfolio size, risk appetite and risk containing abilities, etc.

(iii) Banks should have risk management system in place for containing risks involved in this sector, including price risk, etc.

(iv) Banks should have a monitoring mechanism to ensure that the policy stipulations are being followed by field level functionaries and that their exposure to this sensitive sector is within the stipulated limits.