



CIRCULAR NO.883

Sub: Exposure to Commercial Real Estate (CRE) Sector.

SIDBI vide Circular FI No.07/2009-10 dated 30.09.2009 has issued new guidelines in connection with exposure to CRE sector. The copy of the SIDBI Circular along with the RBI guidelines is enclosed for reference.

SIDBI has made it mandatory for SFCs, to adopt a Board mandated policy in respect of their commercial real estate exposure. The policy should include the exposure limits – annual sanction limit and also as a percentage to the over all outstanding of loans and advances. SIDBI has also suggested that SFCs should put in place a close monitoring mechanism and make specific disclosure about their gross exposure to the CRE section in the annual report.

The definition of CRE has been adopted as per the RBI guidelines. Essentially the RBI guidelines indicate that *the exposure needs to be classified as CRE exposure, if the debt servicing is through the rental income of the asset created out of the financial assistance or through the disposal of the assets created for discharge of debt.* While an indicative list of CRE related activities is given by RBI, classification of the particular exposure as CRE or otherwise needs to be decided by looking into the nature of the project and cash flows. For example, in case of a hotel project, if the construction is for letting out for hotel activity, then classification will be under CRE; if the construction is for running hotel business by the borrower himself, then the classification will not be under CRE, because in former case, debt servicing will be out of rental income, where as in the latter case the debt servicing will be out of revenue generated from hotel business

In light of the new definition, the following activities which are being financed by the Corporation need to be classified under CRE Sector:

- a) Layout developments
- b) Residential apartments
- c) Commercial and Office buildings
- d) Software technology parks and industrial estates made for rental purpose
- e) Warehouse/godowns prominently used for sub-letting
- f) Assistance under rental discounting scheme
- g) Convention Centers

As per RBI guidelines, it is not permitted to extend fund based or non-fund based facilities to private builders for acquisition of land even as part of housing project. However, financial assistance may be extended to private builders on commercial terms by way of loans for executing the works of public agencies like State Housing Boards, linked to each specific project.



Keeping in view the guidelines issued by SIDBI, a note was placed before the Board in its meeting held on 30.10.2009. The Board has approved adoption of new policy and has also decided that the exposure to CRE sector should be capped at 25% (of outstanding) and this should be brought down to 20% during the next financial year. While deliberating on the subject, the Board has also approved an exposure limit of 45% to manufacturing sector, 10% to hospitality and health sector and 20% to service sector. The sub-limits on exposure to different industrial activities are being worked out at the Head Office and will be communicated to the branch offices.

Branch Offices/Credit Department in Head Office are instructed to take note of the revised guidelines and classify an exposure as CRE sector appropriately, based on the new guidelines. The branch offices/Credit Dept., are also instructed to ensure that the exposure to manufacturing, hospitality, health sector and service sector are increased and exposure to CRE is contained within the overall limit of 25%. Wherever, the exposure to CRE sector exceeds 25% of outstanding, such branches will have to seek prior approval of the Executive Director (Finance) and in case of Credit Department, prior approval of Executive Director(O) has to be taken. In the appraisal report of CRE projects, specific mention has to be made about the CRE outstanding of the Branch/Credit Dept., vis-à-vis the over all outstanding of the Branch/Credit Department.

The contents of this circular shall be brought to the notice of all the concerned in your office/department

Sd/-
MANAGING DIRECTOR.

To:
All Branch / Zonal Managers/IA Cells
All Departmental Heads/Principal Officers
General Managers – at Head Office
Library

CC to:
Executive Director (F) }
Executive Director (O) } for information