

1st October, 2009

**To : Members of the General Committee
Members
Banking and Finance Expert Committee**

Dear Sir/Madam,

Scheme of 1% interest subvention on housing loans upto Rs.10 lakhs

We are pleased to circulate herewith the Interest Subvention Scheme launched by the Union Government on 30th September, 2009 for your information :-

With regards,

T.S. SAMPATH KUMAR
Secretary General

The Government on 30th September, 2009 launched an interest subvention scheme of 1% on all individual housing loans upto Rs.10 lakh for units costing upto Rs. 20 lakh. The scheme recognizes that cut in interest rates has an important role to play in reducing EMIs of borrowers & creating additional demand for housing. The Scheme will cover all regions of the country and support the low and middle income sections of society to become house owners. The scheme is also expected to give a boost to credit flow to the housing sector and create additional employment in the housing and allied sectors, such as steel and cement.

The scheme was formulated in response to an announcement made by the Finance Minister in the Lok Sabha on 27th July, 2009 where he stated that housing, particularly lower and middle income housing, deserved to be supported. In order to stimulate the demand for housing for this segment of the population he proposed an amount of Rs. 1000 crore to be allocated as interest subsidy for a period of one year of operation of the scheme. The allocation of the amount and the guidelines of the scheme were approved by the Cabinet on 10th September 2009.

The scheme will be in operation for a period of one year starting from 1st October 2009 to 30th September 2010. Subsidy of 1 per cent will be defined as reduction in interest rate by 100 basis points per annum from the existing rate of interest for a particular amount & tenor. It will be applicable to the first twelve instalments of all such loans sanctioned and disbursed during the currency of the scheme and will be computed for 12 months on the disbursed amount. The subsidy amount will be adjusted upfront in the principal outstanding, irrespective of whether the loan is on fixed or floating rate basis. The Scheme will be implemented through scheduled commercial banks (SCBs) and housing finance companies (HFCs) registered with the National Housing Bank. The RBI

and the NHB will be the Nodal Agencies for this Scheme for SCBs and HFCs, respectively. The number of beneficiaries covered under the scheme will depend, interalia, upon the size of the loan amount and the number of beneficiaries approaching the nodal agency for interest subvention. Being a demand driven scheme no specific targets for coverage of beneficiaries have been fixed. An amount of Rs. 300 crore will be allocated in the Budget of 2009-10 for implementation of the Scheme. The balance amount will be allocated in the Budget of next year.

Source : PIB Press Release dated 30th September, 2009

Bangalore Chamber of Industry and Commerce

"Sheriff Chambers", 14 Cunningham Road, Bangalore-560052 | Phone (91) (080) 22286080/81/82 | Fax: (91) (080) 22251475 | Web Site : www.bcic.org.in