



# CAIIB

## Module-C Unit-1

### Rural Banking



## CAIIB Rural Banking Module C Unit 1- Priority Sector Lending

### Priority Sector Advances

- In 1980, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of the aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. **The guidelines have undergone changes over the period and the a revised Master Directions – Priority Sector Lending (PSL) – Targets and Classification was issued in September 2020.**
- The targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co- operative Bank (UCB) other than Salary Earners' Bank.

*The categories under priority sector are as follows:*

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

**Targets and Sub-Targets for Priority Sector**

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Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent <sup>#</sup> is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 percent <sup>#</sup> is prescribed for SMFs	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent <sup>#</sup> is prescribed for SMFs

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 percent <sup>#</sup> of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 percent <sup>#</sup> of ANBC or CEOBE, whichever is higher

Categories	Primary Urban Co-operative Bank				
Total Priority Sector	40 per cent of ANBC or CEOBE, whichever is higher, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from March 31, 2024. UCBs shall comply with the stipulated target as per the following milestones:				
	Existing target	March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024
	40%	45%	50%	60%	75%
Micro Enterprises	7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher				
Advances to Weaker Sections	12 per cent <sup>#</sup> of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.				

### Targets and Sub-Targets for Priority Sector



Financial Year	Small and Marginal Farmers target *	Weaker Sections target ^
2020-21	8%	10%
2021-22	9%	11%
2022-23	9.5%	11.5%
2023-24	10%	12%

The applicable target for lending to the non-corporate farmers for FY 2022-23 will be 13.78 per cent of ANBC or CEOBE whichever is higher.

### Computation of Adjusted Net Bank Credit

Bank Credit in India (As prescribed in item No.VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934.	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)	III (I – II)
Investments in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector.	IV
ANBC	III + IV

### Description Of Eligible Categories Under Priority Sector

#### Agriculture:

- Crop loans including loans for traditional / non-traditional plantations, horticulture and allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans against pledge / hypothecation of agricultural produce (including warehouse receipt) for a period not exceeding 12 months subject to a limit up to

Rs. 75 lakh against NWRs/ e-NWRs and up to Rs. 50 lakhs against warehouse receipts other than NWRs/e-NWRs.

- Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.
- Loans to farmers for installation of solar power plants on barren/fallow land.

**Farm Credit – Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities.**

***Loans for the following activities will be subject to an aggregate limit of Rs. 2 crore per borrowing entity:***

- Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.

**Loans up to Rs. 75 lakh against pledge/hypothecation of agricultural produce for a period not exceeding 12 months against NWRs/eNWRs and up to Rs. 50 lakh against warehouse receipts other than NWRs/eNWRs.**

Loans up to Rs 5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.

UCBs are not permitted to lend to co-operatives of farmers.

**Agriculture Infrastructure:** Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of Rs. 100 crore per borrower from the bank.

### **Ancillary Services:**

***Following loans under ancillary services will be subject to limits prescribed as under:***

- Loans up to Rs. 5 crore to co-operative societies of farmers for purchase of the produce of members.
- Loans up to Rs. 50 crore to Start-ups, that are engaged in agriculture and allied services.
- Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.

Bank credit to registered NBFCs (other than MFIs) towards on-lending for 'Term lending' component under agriculture will be allowed up to ₹ 10 lakh per borrower.

### **Micro, Small and Medium Enterprises (MSMEs):**

- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India.
- All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.
- Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
- Outstanding deposits with **SIDBI and MUDRA Ltd.** on account of priority sector shortfall.

### **Export Credit (not applicable to RRBs and LABs)**

Domestic banks / WoS of Foreign banks/ SFBs/ UCBs	Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹ 40 crore per borrower.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher.	Export credit up to 32 per cent of ANBC or CEOBE whichever is higher.

### **Education:**

- Loans to individuals for educational purposes, including vocational courses, not exceeding Rs. **20 lakh** will be considered as eligible for priority sector classification.

### **Housing:**

- Loans to individuals up to Rs. 35 lakh in metropolitan centres (with population of ten lakh and above) and up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed Rs. 45 lakh and Rs. 30 lakh respectively.
- Housing loans to banks' own employees will not be eligible for classification under the priority sector.
- Since Housing loans which are backed by long term bonds are exempted from ANBC, banks should not classify such loans under priority sector.
- Investments made by UCBs in bonds issued by NHB / HUDCO on or after April 1, 2007 shall not be eligible for classification under priority sector.

### **Housing (other aspects):**

- Loans up to Rs. 10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres for repairs to damaged dwelling
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.

- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m.
- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to Rs. 20 lakh for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.
- Outstanding deposits with NHB on account of priority sector shortfall.

### **Social Infrastructure**

- Bank loans up to a limit of Rs. 5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc.
- Loans up to a limit of Rs. 10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres.
- In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.

### **Renewable Energy:**

- Bank loans up to a limit of Rs. 30 crore to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for nonconventional energy based public utilities, viz., street lighting systems and remote village electrification, etc., will be eligible for Priority Sector classification.
- For individual households, the loan limit will be Rs. 10 lakh per borrower.

### **Others:**

***The following loans as per the prescribed limits are eligible for priority sector classification:***

- Loans not exceeding Rs. 1.00 lakh per borrower provided directly by banks to individuals and individual members of SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed Rs. 1.00 lakh and for non-rural areas it does not exceed Rs. 1.60 lakh, and loans not exceeding Rs. 2.00 lakh provided directly by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs.
- Loans to distressed persons not exceeding Rs. 1.00 lakh per borrower to prepay their debt to non-institutional lenders.
- Loans up to Rs. 50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

### **Weaker Section:**

Priority sector loans to the following borrowers will be considered as lending under Weaker Sections category.

(i)	Small and Marginal Farmers
(ii)	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
(iii)	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
(iv)	Scheduled Castes and Scheduled Tribes
(v)	Beneficiaries of Differential Rate of Interest (DRI) scheme
(vi)	Self Help Groups
(vii)	Distressed farmers indebted to non-institutional lenders
(viii)	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
(ix)	Individual women beneficiaries up to ₹1 lakh per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
(x)	Persons with disabilities
(xi)	Minority communities as may be notified by Government of India from time to time.

### **Inter-bank Participation Certificate**

- IBPCs bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines.

### **Priority Sector Lending Certificates (PSLCs)**

- The outstanding PSLCs bought by banks will be eligible for classification under respective categories of priority sector provided the underlying assets originated by banks are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on Priority Sector Lending Certificates issued.

### **Bank loans to NBFCs for on-lending (not applicable to RRBs, UCBs, SFBs and LABs):**

Bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under respective categories subject to the following conditions:

**Agriculture:** On-lending by NBFCs for 'Term lending' component under Agriculture will be allowed up to Rs.10 lakh per borrower.

**Micro & Small enterprises:** On-lending by NBFC will be allowed up to Rs. 20 lakh per borrower.

- **Bank loans to HFCs for on-lending (not applicable to RRBs, SFBs and LABs):** Bank credit to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 20 lakh per borrower.



### **Non- Achievement Of Priority Sector Targets**

- Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the Reserve Bank from time to time.
- With effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/ NHB/ SIDBI/ MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-à-vis the prescribed target.
- While computing priority sector target achievement, shortfall/ excess lending for each quarter will be monitored separately.
- The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.
- Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

### **Common Guidelines For Priority Sector Loans**

- **Rate of interest:** The rates of interest on bank loans will be as per directives issued by Department of Regulation (DoR), RBI from time to time.
- **Service charges:** No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000.
- **Receipt, Sanction/Rejection/Disbursement Register:** A register/electronic record should be maintained by the bank wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded. The register/electronic record should be made available to all inspecting agencies.
- **Issue of acknowledgement of loan applications:** Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.
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