

Priority Sector Lending

Introduction to Priority Sector Lending (PSL)

The Reserve Bank of India decides to allot funds to predetermined priority sectors of the economy that may require credit and financial assistance, especially in cases where the lack of PSL will lead to the heavy losses to the participants of that sector in some cases.

Priority Sectors Lending is the role exercised by the RBI to banks, imploring them to dedicate funds for specific sectors of the economy like agriculture and allied activities, education and housing and food for the poorer population.

- For 2020, the RBI sought channeling funds for the startup sector.
- When introduced, only public sector banks were required to focus on the development of the predetermined priority sectors; though now private and foreign banks are also required to provide adequate care and credit.
- The way PSLCs are traded is similar to the workings of the money market, where issuing these certificates will help banks raise money. Surplus banks may be incentivized in the process, and banks facing cash shortfall may finance their short term needs.

The categories of priority sector are as follows

1. Agriculture
2. Micro, Small and Medium Enterprises
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

Priority Sector Lending

- The RBI mandates banks to lend a certain portion of their funds to specified sectors, like agriculture, Micro, Small and Medium Enterprises (MSMEs), export credit, education, housing, social infrastructure, renewable energy among others.
- All scheduled commercial banks and foreign banks (with a sizable presence in India) are mandated to set aside 40% of their Adjusted Net Bank Credit (ANDC) for lending to these sectors.
- Regional rural banks, co-operative banks and small finance banks have to allocate 75% of ANDC to PSL.

- The idea behind this is to ensure that adequate institutional credit reaches some of the vulnerable sectors of the economy, which otherwise may not be attractive for banks from the profitability point of view.

Different Types of Loan

Agricultural Loans in India

Agriculture is the backbone of Indian economy and it definitely comes as no surprise to see financial institutions offer monetary aid to farmers all across the country. Agricultural loans are available for different kinds of farming-related activities.

Benefits of Agriculture Loans

- **Competitive Interest Rates** – One of the biggest benefits of agriculture loans is that the interest rates are low and start at just 8.80% per annum.
- **Quick Processing** – Most lenders process agriculture loan applications within a couple of working days. Once the loan is approved, the amount is disbursed to the borrower's account within a few working days.
- **Minimal Paperwork** – Agriculture loans require minimum documentation. The borrower has to submit only a few primary documents like photo id proof, address proof, land ownership deed, etc.
- **Flexible Repayment Tenure** – Borrowers can repay the loan as per their convenience. There are both short-term and long-term loans for farmers.
- **No Hidden Charges** – Agriculture loans are highly transparent, and all the related fees are mentioned upfront. There are no other hidden charges.

Types of Agricultural Loans in India

One can avail a loan for the following activities related to agriculture:

- Running day to day operations
- Buying farm machinery such as tractors, harvesters, et cetera
- Purchasing land
- Storage purposes
- Product marketing loans
- Expansion

Moreover, these financial aids can be offered in form of grants and subsidies too, which are usually meant to protect the farmer in an event of crop damage or loss of crops.

Agricultural loans in India are not only offered to farmers working towards the cultivation of food crops, but they are available to anyone who is engaged in other agriculture-related sectors like horticulture, aquaculture, animal husbandry, silk farming, apiculture and floriculture.

Education Loan

Quality education is of prime importance to any individual, and students go the extra mile to achieve that. However, the cost of education is on the rise lately and opting for an education loan seems to be the single best solution.

An education loan is a loan that students apply to meet the financial requirements to complete their course. Many banks and NBFCs in India offer education loans at competitive rates to help educate the upcoming innovators and leaders.

Types of Education Loans

Based on Location

- **Domestic Education Loan**

Students who would like to pursue education in India can apply for this loan type. The loan will get approved only if the applicant is admitted to an Indian educational institution and meets all other lender criteria.

- **Overseas Education Loan**

Such loans help students realise their dream of pursuing the course of their desire in a foreign institution. The loan covers the airfare, accommodation, and tuition fee for students who wish to study abroad only if they satisfy the eligibility criteria.

Based on Course

- **Undergraduate Loans**

This type of education loan is provided for students to give financial aid to students so they can complete their undergraduate degrees. An undergraduate degree will usually be a 3 to the 4-year long course under various specialisations. Having an undergraduate degree helps individuals to land a decent job and start earning.

- **Postgraduate Loans**

Many undergraduates would like to continue their education with a postgraduate course, usually a 2-year long course in India. An advanced degree is desired to get more profound knowledge in the area of interest.

- **Career Development Loans**

Many professionals who work for a few years in corporate jobs prefer to pause their career and take up professional courses and training to improve their employment prospects. Such individuals would strive hard to get into reputed business and technical schools to polish their skills and reach greater heights in their career.

Based on Collateral

- **Loan Against Property, Deposits, and Securities**

You can pledge immovable assets, such as agricultural land, residential land, flat, house, and others, fixed deposit certificates, recurring deposits, gold deposits, bonds, debentures, and equity shares to get the necessary financing to pursue education.

- **Third-Party Guarantee**

A guarantee letter from an employee of the bank or a home bank can help the student get an education loan.

Home Loan

Buying a house is one of the biggest dreams come true for most people and an extravagant affair altogether. Imparting life to such a dream requires a lot of effort from the buyers' end and the best one can do to accommodate the home in their budget is through a home loan.

A home loan can be opted to buy a new house/flat or a plot of land where you construct the house, and even for renovation, extension, and repairs to an existing house.

Types of Home Loans in India

Home Loan

This is the most common type of home loan availed to purchase a house. There are many housing finance companies, public banks, and private banks that offer housing loans where you borrow money to purchase the house of your choice and repay the loan in monthly instalments.

You can get up to 80%-90% of the house's market price in the form of financing. The lender will hold the house until you completely repay the loan.

Home Construction Loan

This is the right home loan type if you already have a plot of land and you need financing to construct a house in that land.

Home Extension Loan

Say you already own a house and you would like to extend the house with another room or another floor to accommodate the growing family. Home extension loan provides financing for this purpose.

Home Improvement Loan

A home improvement loan provides financing for renovating or repairing the house if there's any fault in the existing system, such as painting the house's interior or exterior, plumbing, upgrading the electrical system, waterproofing the ceiling, and more.

Home Loan Balance Transfer

The current home loan interest rate may be overwhelming, or you may not be happy with your current lender's service; you can transfer the home loan's outstanding balance to a different lender who offers a lower interest rate and better service. Upon transfer, you can even check out the possibilities of a top-up loan on your existing one.

Composite Home Loan

This type of home loan provides financing for purchasing the plot of land where you would like to construct a house and for the construction, both within a single loan.