

Banks to go by marginal cost of funds to set base rate: RBI

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Certain govt schemes exempted; aimed at improving monetary transmission

Lending norms There will be no lending below the MCLR of a particular maturity for all loans linked to that benchmark, the RBI said

Mumbai, December 17:

The Reserve Bank of India on Thursday said banks, with effect from April 1, will move to the marginal cost of funds-based lending approach for determining their respective base rates. Base rate is the minimum lending rate below which banks are not allowed to lend.

All rupee loans sanctioned and credit limits renewed with effect from April 1 will be priced with reference to the marginal cost of funds-based lending rate (MCLR), comprising marginal cost of funds, negative carry on account of cash reserve ratio, operating costs and tenor premium.

Monetary transmission

Given that MCLR will vary across banks, there could be marked variation in the base rates of banks and it could trigger migration of loans from one bank to another, said a senior public sector banker. Currently, base rates of banks tend to converge around a median.

The new approach for calculating the base rate is being introduced with the express purpose of improving monetary transmission.

The marginal cost of funds will comprise marginal cost of borrowings (constituting deposits — core portion of current and savings deposits; fixed and floating rate term deposits; foreign and currency deposits and borrowings — short-term and long-term rupee borrowings and foreign currency borrowings) and return on net worth.

The tenor premium will be uniform for all types of loans for a given residual tenor.

Since MCLR will be a tenor-linked benchmark, banks will arrive at the MCLR of a particular maturity — overnight, one month, three month, six month, one year — by adding the corresponding tenor premium to the sum of marginal cost of funds, negative carry on account of CRR and operating costs.

The RBI said that banks should have a board-approved policy delineating the components of spread (comprising business strategy and credit risk premium) charged to a customer.

The policy will include principles relating to determination of the quantum of each component of spread, the range of spread for a given category of borrower/type of loan, and delegation of powers in respect of loan pricing.

There will be no lending below the MCLR of a particular maturity for all loans linked to that benchmark, the RBI said.

Banks will review and publish their MCLR of different maturities every month on a pre-announced date with the approval of the Board or any other committee to which powers have been delegated.

Interest reset norms

The central bank said banks may specify interest reset dates on their floating rate loans.

Banks will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of the MCLR.

The RBI has granted exemption from MCLR to certain loans — loans covered by schemes specially formulated by the Centre wherein banks have to charge interest rates as laid down for the scheme; working capital term loan, and funded interest term loan, among others, granted as part of the rectification/restructuring package; and loans granted under various refinance schemes formulated by the Centre or any government undertakings.

(This article was published in the Business Line print edition dated December 18, 2015)

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