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RBI clarifies its Directions on MCLR System

The Reserve Bank of India today clarified some of the provisions of [Reserve Bank of India \(Interest Rate on Advances\) Directions, 2016](#) (hereinafter called the Directions) relating to the Marginal Cost of Funds based Lending Rate (MCLR) system which comes into effect on April 01, 2016. The changes are:

1. Fixed Rate Loans

As per Section 13(d)(v) of the Directions, fixed rate loans are exempted from being linked to MCLR as the benchmark for determining interest rate. On a review, it has been decided that fixed rate loans upto three years shall be priced with reference to MCLR. Fixed rate loans of tenor above three years will continue to be exempted from MCLR system. Accordingly, Section 13(d)(v) of the Directions has been modified.

2. Computing Marginal Cost of Funds

As per Annex to Section 6(b) of the Directions, for computing Marginal Cost of Funds, balances of deposits and other borrowings outstanding as on the previous day of review shall be reckoned. On a review, it has been decided that banks will have the option to reckon the outstanding balances of deposits and other borrowings as on any day, not more than seven calendar days, prior to the date from which the MCLR becomes effective. The chosen time lag shall be maintained consistently for a period not less one year. Accordingly, Annex to Section 6(b) of the Directions has been modified.

3. MCLR of Various Maturities

As per Section 6(b)(viii) of the Directions, banks are required to publish MCLR for various tenors. It is clarified that the tenor of the MCLR calculated as per the Annex shall correspond to the following:

- i) the tenor of the funds in the single largest maturity bucket, provided it is more than 30 per-cent of the entire funds reckoned for determining the MCLR.
- ii) the weighted average tenor of two or more maturity buckets that together account for more than 30 per-cent, if no single maturity bucket accounts for more than 30 per-cent of the funds. The maturity bucket shall be arrived at by calculating the cumulative weightage based on the descending order of the maturity time buckets.

Accordingly, Section 6(b)(vii) of the Directions has been inserted and Section 6(b)(viii) has been modified. Other sections have been renumbered.

4. Effective Date for applying MCLR on Floating Rate Loan

As per Section 9(a) and 9(b) of the Directions, MCLR prevailing on the day a floating rate loan is sanctioned shall be applicable till the next reset date. On a review, it has been decided that MCLR prevailing on the date of first disbursement, whether partial or full, shall be applicable on the floating rate loan and future reset dates determined accordingly. Accordingly, Section 9(a) and 9(b) of the Directions have been modified.

The updated Reserve Bank of India (Interest Rate on Advances) Directions, 2016 is now available on the Reserve Bank's website www.rbi.org.in.

Further, for ease of understanding a few clarifications and examples have been uploaded on the Bank's website under the head [Frequently Asked Questions \(FAQs\) on Marginal Cost of Funds based Lending Rate \(MCLR\)](#).

Background

The Reserve Bank of India had issued guidelines on Marginal Cost of Funds based Lending Rate (MCLR) vide [circular DBR.No.Dir.BC.67/13.03.00/2015-16 dated December 17, 2015](#). The guidelines come into effect from April 1, 2016. These guidelines were incorporated in the Reserve Bank of India (Interest Rate on Advances) Directions, 2016.

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