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RBI rejects banks' demand to defer MCLR

By [Sangita Mehta](#), ET Bureau | Updated: Mar 21, 2016, 11.06 AM IST

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MUMBAI: The Reserve Bank of India has rejected bankers' demand to defer the operationalisation of **MCLR**, or marginal cost of funds based lending, even as many lenders said that they are not ready to adopt the system. The new system will be operational from April 1 and many banks fear that their margins will be hit if the new method is implemented, while others said that the cost of lending could also go up.

In a closed-door meeting held recently between senior **RBI** and bank officials, the central bank told lenders that it doesn't want to extend the deadline since it was conveyed to them in December itself.

MCLR is a new method that banks will have adopt to declare the lending rates, and it will replace the base rate. The new rate has to be a tenor-linked rate with a reset clause at least once a year. For the customer, the MCLR that is prevailing on the day the loan is sanctioned, will be in application till the next reset even if the benchmark rate changes.

On the calculation of MCLR, the RBI has said that banks have to fac tor in the incremental cost of funds and not the average cost. Therefore, margins of banks with huge share of fixed rate loans and higher share of low cost deposits will not be hurt.

However, in case of a falling interest rate scenario, **interest rates** of new deposits would not come down as fast as the reset on the new loans. Thus, the banks' incremental cost may fall marginally in six months, but a large chunk of loans could be due for reset either on monthly or quarterly basis, thereby hurting banks margins -the difference between the cost of funds and yield on investments. The new method is introduced after the RBI felt that policy rate transmission was not effective under the base rate system -the rate at which banks lend to best-rated borrower. The RBI has lowered policy rates -which is the repo rate -by 125 basis points over the past 15 months. But banks have lowered interest rates by just about 60-70 basis points.

Bankers complained that they were unable to pass on the rate cut benefits to borrowers since rates on liabilities side-on deposits were at a fixed rate, while rates on the loan books were on a floating rate basis.

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