

Banks cautious about borrowing under RBI's special liquidity facility for MFs

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On Day 1, lenders avail only ₹2,000 cr

Banks are treading with caution when it comes to borrowing under the Reserve Bank of India's special liquidity facility for mutual funds (SLF-MFs).

This is underscored by the fact that they borrowed only ₹2,000 crore on Tuesday under this facility to lend to mutual funds, which are facing liquidity pressure.

The RBI has opened the SLF-MF facility of ₹50,000 crore from April 27 to ease liquidity pressure on the funds. This facility is available till May 11 or up to utilisation of the allocated amount, whichever is earlier.

The SLF-MF is on tap and open ended, and banks can submit their bids to avail funding on any day from Monday to Friday. Marzban Irani, CIO-Fixed Income, LIC MF, said the response to the SLF facility from banks was poor.

He underscored that banks largely prefer to invest in 'AAA'-rated debt instruments and, to a lesser extent, in 'AA'-rated instruments in MF portfolios. There is no investment appetite for debt instruments rated below these two categories.

Banks have been cautious about borrowing from the RBI's special liquidity facilities, which have been opened so that these resources can be invested in the debt instruments issued by non-banking finance companies, housing finance companies and microfinance institutions. This is due to the fear of having to contend with credit risk should these instruments get downgraded at a later stage.

Under the SLF-MF, the RBI conducts repo operations of a 90-day tenor at the fixed repo rate.

"Funds availed of under the SLF-MF shall be used by banks exclusively for meeting the liquidity requirements of MFs by extending loans, and undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers, debentures and certificates of deposit

held by MFs,” the RBI said in a statement on Monday. Support extended to mutual funds under the SLF-MF is exempted from banks’ capital market exposure limits.

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