

Interest Rates on Advances – Prime Lending Rate and Spreads

Ref No. DBOD. Dir. BC. 39/13.03.00/2003-04

October 21, 2003

All Scheduled Commercial Banks
(**excluding** RRBs and LABs)

Dear Sir

Interest Rates on Advances – Prime Lending Rate and Spreads

Please refer to item 2 of Annexure I of our Master Circular DBOD. No. Dir. BC. 10/ 13.03.00/2003-04 dated August 14, 2003 regarding rate of interest on loans and advances (i) for purchase of consumer durables (ii) to individuals against shares and debentures/bonds and (iii) other non-priority sector personal loans. Banks were given freedom to determine the rates of interest in respect of above types of loans and advances without reference to PLR. However, as it was not the intention to allow any concessionality in case of such loans banks were advised not to charge rates below PLR, regardless of size of the loans.

2. On a review of the matter, it has now been decided to withdraw the above restrictions that banks should not charge rates below PLR, regardless of size of the loans. Banks are now free to determine rates of interest on such advances without reference to PLR and regardless of the size of loan. Banks should, however, have transparent and objective policy approved by their Boards in this regard.

3. Accordingly, Annexure I of Master Circular DBOD. No. Dir. BC. 10/ 13.03.00/ 2003-04 dated August 14, 2003 has been amended.

4. An amending directive DBOD. No. Dir. BC. 38/13.03.00/2003-04 dated October 21, 2003 is enclosed.

5. Please acknowledge receipt.

Yours faithfully,

(M.R.Srinivasan)
Chief General Manager-in-Charge

Encl.: As above

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**Interest Rates on Advances –
Prime Lending Rate and Spreads**

In exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949 and in modification of its Master Circular DBOD. No. Dir. BC. 10/ 13.03.00/2003-04 dated August 14, 2003, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that Annexure I of the aforesaid Master Circular shall be substituted with immediate effect with the revised [Annexure I](#) as per the enclosure.

2. All other provisions of the Master Circular DBOD. No. Dir.BC.10/13.03.00/ 2003-04 dated August 14, 2003 shall remain unchanged.

(Shyamala Gopinath)
Executive Director

Encl.: As above

Interest Rate Structure for all rupee advances including Terms Loans of commercial banks

1. (a) Upto and inclusive of Rs.2 lakh Not exceeding Prime Lending Rate (PLR)
- (b) Over Rs.2 lakh The banks are free to determine rates of interest subject to PLR and spread guidelines. The banks may, however, offer loans at below PLR rates to exporters or other creditworthy borrowers including public enterprises based on a transparent and objective policy approved by their Boards.

2. Export Credit Effective from May 1, 2003 to October 31, 2003
(\$)
- (1) Pre-shipment Credit
- (a) (i) Upto 180 days Not exceeding PLR minus 2.5 percentage points
- (ii) Beyond 180 days and upto 270 days The banks are free to determine rates of interest subject to PLR and spread guidelines.
- (b) Against incentives receivable from Government covered by ECGC Guarantee (upto 90 days) Not exceeding PLR minus 2.5 percentage points

3. Post-shipment Credit
- (a) On demand bills for transit period (as specified by FEDAI) Not exceeding PLR minus 2.5 percentage points
- (b) Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)
- (i) Upto 90 days Not exceeding PLR minus 2.5 percentage points
- (ii) Beyond 90 days and upto 6 months from the date of shipment The banks are free to determine rates of interest subject to PLR and spread guidelines.
- (c) Against incentives receivable from Government covered by ECGC Guarantee (upto 90 days) Not exceeding PLR minus 2.5 percentage points
- (d) Against undrawn balances (upto 90 days) Not exceeding PLR minus 2.5 percentage points
- (e) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days) Not exceeding PLR minus 2.5 percentage points

4. Deferred Credit
Deferred credit for the period beyond 180 days The banks are free to determine rates of interest subject to PLR and spread guidelines.
5. Export Credit not otherwise specified (ECNOS)
 - (a) Pre-shipment credit The banks are free to determine rates of interest subject to PLR and spread guidelines
 - (b) Post-shipment credit The banks are free to determine rates of interest subject to PLR and spread guidelines

\$ Since these are ceiling rates, banks are free to charge any rate below the ceiling rates.

6. DRI Advances 4.0
 7. The banks are free to determine the rates of interest without reference to PLR and regardless of the size in respect of following loans:
 - (a) Loans for purchase of consumer durables
 - (b) Loans to individuals against shares and debentures/bonds
 - (c) Other non-priority sector personal loans
 - (d) Advances/overdrafts against domestic/ NRE/ FCNR (B) deposits with the bank, provided that the deposit/s stands/ stand either in the name(s) of the borrower himself/ borrowers themselves, or in the names of the borrower jointly with another person
 - (e) Finance granted to intermediary agencies (excluding those of housing) for on lending to ultimate beneficiaries and agencies providing input support
 - (f) Finance granted to housing finance intermediary agencies for on lending to ultimate beneficiaries
 - (g) Discounting of Bills
 - (h) Loans / Advances / Cash Credit / Overdrafts against commodities subject to Selective Credit Control
 8. Loans covered by participation in Free to charge interest rates as per stipulations of refinancing schemes of term lending the refinancing agencies without reference to institutions PLR
- Note: Intermediary agencies are indicated in Annexure II of Master Circular.