



प्रेस प्रकाशनी PRESS RELEASE



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI places on its Website for Public Comments Report of the Working Group on BPLR

The Reserve Bank of India has today placed on its website the [Report of the Working Group on Benchmark Prime Lending Rate \(BPLR\)](#). Comments on the Report may please be [emailed](#) or sent to the Adviser-in-Charge, Monetary Policy Department, Reserve Bank of India, Central Office, Mumbai 400 001 by November 17, 2009.

The Working Group on BPLR (Chairman: Shri Deepak Mohanty) was constituted in pursuance of the announcement made in the Annual Policy Statement of 2009-10 to review the BPLR system and suggest changes to make credit pricing more transparent.

The main recommendations of the Working Group are:

- Over a period of time, several concerns have been raised about the way the BPLR system has evolved. These relate to large quantum of sub-BPLR lending, lack of transparency, downward stickiness of BPLRs and perception of cross-subsidisation in lending. The Working Group was of the opinion that until the system was modified and/or replaced with some other system, the tendency to extend loans at sub-BPLR rates on a large scale in the market would continue raising concerns on transparency. The Working Group also noted that on account of competitive pressures, banks were lending a part of their portfolio at rates which did not make much commercial sense.
- Having carefully examined the various possible options, the views of various stakeholders from industry associations and the public, and international best practices, the Working Group concluded that there was merit in introducing a system of Base Rate to replace the existing BPLR system.
- The proposed Base Rate will include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the Base Rate would include (i) the card interest rate on retail deposits (deposits below Rs. 15 lakh) with one year maturity (adjusted for current account and savings account deposits); (ii) adjustment for the negative carry in respect of cash reserve ratio (CRR) and statutory liquidity ratio (SLR); (iii) unallocatable overhead cost for banks which would comprise a minimum set of overhead cost elements; and (iv) average return on net worth.

- The actual lending rates charged to borrowers would be the Base Rate plus borrower-specific charges, which will include product-specific operating costs, credit risk premium and tenor premium.
- In order to make the lending rates responsive to the Reserve Bank's policy rates, the Working Group has recommended that banks may review and announce their Base Rate at least once in a calendar quarter with the approval of their Boards. The Base Rate alongside actual minimum and maximum lending rates may be placed in public domain.
- With the proposed system of Base Rate, there will not be a need for banks to lend below the Base Rate as it represents the bare minimum rate below which it will not be viable for the banks to lend. The Working Group, however, also recognises certain situations when lending below the Base Rate may be necessitated by market conditions. The Working Group is of the view that the need for such lending may arise as an exception only for very short-term periods. Accordingly, the Base Rate system recommended by the Working Group will be applicable for loans with maturity of one year and above (including all working capital loans).
- Banks may give loans below one year at fixed or floating rates without reference to the Base Rate. However, in order to ensure that sub-Base Rate lending does not proliferate, the Working Group recommends that such sub-Base Rate lending in both the priority and non-priority sectors in any financial year should not exceed 15 per cent of the incremental lending during the financial year. Of this, non-priority sector sub-Base Rate lending should not exceed 5 per cent. That is, the overall sub-Base Rate lending during a financial year should not exceed 15 per cent of their incremental lending, and banks will be free to extend entire sub-Base Rate lending of up to 15 per cent to the priority sector.
- At present, at least ten categories of loans can be priced without reference to BPLR. The Group recommends that such categories of loans may be linked to the Base Rate except interest rates on (a) loans relating to selective credit control; (b) credit card receivables; (c) loans to banks' own employees; and (d) loans under differential rate of interest (DRI) scheme.
- The Working Group suggests that the proposed system would be applicable for all new loans and for those old loans that come up for renewal. However, if the existing borrowers want to switch to the new system before the expiry of the existing contracts, in such cases the new/revised rate structure should be mutually agreed upon by the bank and the borrower.
- The Base Rate could also serve as the reference benchmark rate for floating rate loan products, apart from the other external market-based benchmark rates.
- In order to increase the flow of credit to small borrowers, administered lending rate for loans up to Rs. 2 lakh may be deregulated as the experience reveals that lending rate regulation has dampened the flow of credit to small borrowers and has imparted downward inflexibility to the BPLRs. Banks should be free to lend to small borrowers at fixed or floating rates, which would include the Base Rate and sector-specific operating cost, credit risk premium and tenor premium as in the case of other borrowers.

- At present, the ceiling on interest rates on pre-shipment rupee export credit up to 270 days and post-shipment rupee export credit up to 180 days has been stipulated at BPLR *minus* 2.5 percentage points. The Working Group, recommends that the interest rate on rupee export credit should not exceed the Base Rate of individual banks. As export credit is of short-term in nature and exporters are generally wholesale borrowers, there is a need to incentivise export credit for exporters to be globally competitive. By this change in stipulation of pricing of export credit, exporters can still access rupee export credit at lower rates as the Base Rate envisaged is expected to be significantly lower than the BPLRs.
- At present the interest rates on education loans are linked to ceilings with reference to the BPLR. The ceiling rate of interest rate on education loans up to Rs. 4 lakh has been stipulated at not exceeding BPLR. Interest rates on educational loans in excess of Rs. 4 lakh are prescribed as BPLR+1 per cent. In view of the critical role played by education loans in developing human resource skills, the interest rate on these loans may continue to be administered. However, in view of the fact that the Base Rate is expected to be significantly lower than BPLR, the Working Group recommends that there is a need to change the mark up. Accordingly, the Working Group recommends that the interest rates on all education loans may not exceed the average Base Rate of five largest banks plus 200 basis points. The information on the average Base Rate should be disseminated by the Indian Banks' Association (IBA) on a quarterly basis to enable banks to price their education loan portfolio.
- In order to bring about greater transparency in loan pricing, the banks should continue to provide the information on lending rates to the Reserve Bank and it should continue to disseminate information on the Base Rate. In addition, banks should also provide information on the actual minimum and maximum interest rates charged to borrowers.
- All banks should scrupulously follow the Banking Codes and Standards Board of India (BCSBI) Codes for fair treatment of customers of banks, viz., the Code of Bank's Commitment to Customers (Code) and the Code of Bank's Commitment to Micro and Small Enterprises (MSE Code). The Working Group also recommends that the Reserve Bank may require banks to publish summary information relating to the number of complaints and compliance with the Codes in their annual reports.