प्रेस प्रकाशनी PRESS RELEASE

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December 17, 2015

RBI announces Marginal Cost of Funds Methodology for Interest Rate on Advances

The Reserve Bank of India today released the final guidelines on computing interest rates on advances based on the marginal cost of funds. The guidelines come into effect from **April 1, 2016**. Apart from helping improve the transmission of policy rates into the lending rates of banks, these measures are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost pricing of loans will help the banks become more competitive and enhance their long run value and contribution to economic growth.

The highlights of the guidelines are as under :

i. All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to the **Marginal Cost of Funds based Lending Rate (MCLR)** which will be the internal benchmark for such purposes.

ii. The MCLR will be a tenor linked internal benchmark.

iii. Actual lending rates will be determined by adding the components of spread to the MCLR.

iv. Banks will review and publish their MCLR of different maturities every month on a pre-announced date.

v. Banks may specify interest reset dates on their floating rate loans. They will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of MCLR.

vi. The periodicity of reset shall be one year or lower.

vii. The MCLR prevailing on the day the loan is sanctioned will be applicable till the next reset date, irrespective of the changes in the benchmark during the interim period.

viii. Existing loans and credit limits linked to the Base Rate may continue till repayment or renewal, as the case may be. Existing borrowers will also have the option to move to the Marginal Cost of Funds based Lending Rate (MCLR) linked loan at mutually acceptable terms.

ix. Banks will continue to review and publish Base Rate as hitherto.

Background

The Reserve Bank of India had stated in its First Bi-monthly Monetary Policy Statement 2015-16 announced on April 7, 2015 that '*for monetary transmission to occur, lending rates have to be sensitive to the policy rate. With the introduction of the Base Rate on July 1, 2010 banks could set their actual lending rates on loans and advances with reference to the Base Rate. At present, banks are following different methodologies in computing their Base Rate – on the basis of average cost of funds, marginal cost of funds or blended cost of funds (liabilities). Base Rates based on marginal cost of funds should be more sensitive to changes in the policy rates. In order to improve the efficiency of monetary policy transmission, the Reserve Bank will encourage banks to move in a time-bound manner to marginal-cost-of-funds-based determination of their Base Rate'.*

Accordingly, the Reserve Bank of India had brought out the draft guidelines on banks adopting marginal cost of funds methodology for calculating Base Rates on September 1, 2015. Based on the feedback received from all stakeholders, as well as extensive discussions held with banks, the final guidelines have now been released.

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Press Release : 2015-2016/1432