

IMPORANT GUIDELINES ON INTEREST RATES ON ADVANCES *

1. BASE RATE

The Base Rate is the minimum rate for all loans other than exempted categories and banks are not permitted to resort to any lending below the Base Rate. All categories of loans will henceforth be priced only with reference to the Base Rate w.e.f. 01.07.2010. For loans sanctioned upto 30.06.2010 which come up for renewal from 01.07.2010 onwards, Base Rate would be applicable. However, the following categories of loans could be priced without reference to the Base Rate:

- a) DRI advances
- b) Loans to banks' own employees
- c) Loans to banks' depositors against their own deposits.

The rate of interest below the Base Rate are not considered as violation of the Base Rate guidelines in respect of borrowers as under:-

1. Cases where subvention/rebate is available viz.

- a) Interest Rate Subvention on Crop Loans
- b) Interest Rate Subvention on Export Credit

2. Restructured Loans

3. Financing of Off-Grid and Decentralized Solar applications (Under Jawaharlal Nehru National Solar Mission (JNNSM) Scheme)

- There can be only one Base Rate for each bank. Banks have the freedom to choose any benchmark to arrive at a single Base Rate which should be disclosed transparently.
- Computation of Base Rate is set out in RBI Circular. Banks are free to use any other methodology, as considered appropriate, provided it is consistent and are made available for supervisory review/scrutiny, as and when required.
- Banks are required to review the Base Rate at least once in a quarter with the approval of the Board or the Asset Liability Management Committees (ALCOs) as per the bank's practice and the same is required to be exhibited at the branches and also on their websites.

1.1 **Floating Rate of Interest**

- Banks are free to offer all categories of loans on fixed or floating rates subject to conformity to their ALCO guidelines. The methodology of computing the rates should be objective, transparent and mutually acceptable to counter parties.

- The Base Rate could also serve as the reference benchmark rate for fixed/floating rate loan products, apart from external market benchmark rates. The fixed/floating interest rate based on external benchmarks should, however, be equal to or above the Base Rate at the time of sanction or renewal.

Other Guidelines

- Banks are permitted to formulate a transparent policy for charging penal interest with the approval of their Board of Directors. However, in the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to Rs.25,000.
- Banks are required to incorporate in the loan agreements a proviso "Provided that the interest payable by the borrower shall be subject to the changes in interest rates made by the Reserve Bank from time to time" enabling to charge the applicable interest rate in conformity with the directives issued by RBI from time to time.
- Banks are required to charge withdrawal against uncleared effects (i.e. uncleared local and outstation cheques) as they are in the nature of unsecured advances. This will not apply to the facility afforded to depositors for immediate credits in respect of cheques sent for collection.
- Under consortium arrangement, each member can charge their applicable rate of interest on the portion of the credit limits extended subject to the condition that such rate of interest is determined with reference to its Base Rate.
- Interest is to be charged on all new and existing accounts, other than agricultural advances, on monthly rest basis and to ensure that the effective rate does not go up merely on account of the change in modality.
- Banks should refrain from offering low/zero percent interest rates on consumer durable advances to borrowers through adjustment of discount available from manufacturers/ dealers of consumer goods, since such loan schemes lack transparency in operations and distort pricing mechanism of loan products.
- Banks are required to refrain from charging of interest beyond a certain level which is treated as usurious and can neither be sustainable nor be conforming to normal banking practice.
- Interest rates charged by banks, inter-alia, should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower.

- The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan.
- An appropriate ceiling should be fixed on the interest, including processing and other charges that are levied on such loans, which should be suitably publicised.

(*SOURCE: RBI MASTER CIRCULAR)

o0o0o0o0o0o