

RBI releases draft guidelines on Loan System for Delivery of Bank Credit

The Reserve Bank of India released draft guidelines on loan system for delivery of bank credit which stipulate a minimum level of 'loan component' in fund based working capital finance and a mandatory Credit Conversion Factor (CCF) for the undrawn portion of cash credit/ overdraft limits availed by large borrowers, with a view to enhancing credit discipline among large borrowers.

Banks provide working capital finance by way of cash credit/overdraft, working capital demand loan, purchase/discount of bills, bank guarantee, letter of credit, factoring, etc. Cash credit (CC) is by far the most popular mode of working capital financing. While CC has its benefits, it also poses several regulatory challenges such as perpetual roll overs, transmission of liquidity management from the borrowers to banks/RBI, hampering of smooth transmission of monetary policy, etc.

Draft guidelines on Loan System for Delivery of Bank Credit

With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, it is proposed to modify the system for delivery of bank credit for such borrowers as follows:

1. Minimum level of 'loan component' and Effective date

In respect of borrowers having aggregate fund based working capital limit of Rs. 150 crore and above from the banking system, a minimum level of 'loan component' of 40 percent shall be effective from October 1, 2018. Accordingly, for such borrowers, the outstanding 'loan component' must be equal to at least 40 percent of the sanctioned fund based working capital limit, including ad hoc credit facilities. Hence, for such borrowers, drawings up to 40 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.

2. Sharing of Working Capital Finance

The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to guidelines on bifurcation as stated in point 1 above. All lenders in the consortium shall be individually and severally responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.

3. Amount and tenor of the loan

The amount and tenor of the Working Capital Demand Loan (WCDL) may be fixed

by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component with different maturity periods as per the need of the borrowers.

4. Repayment/Renewal/Rollover of Loan Component

Banks/consortia/syndicates will have the discretion to stipulate repayment of the 'loan component' in instalments or by way of a "bullet" repayment, subject to IRAC norms.

5. Risk weights for undrawn portion of cash credit limits

Effective from April 1, 2019, the undrawn portion of cash credit/ overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.

6. The 40 percent loan component will be revised to 60 percent, with effect from April 1, 2019.

RBI seeks comments or suggestions on draft guidelines on Loan System for Delivery of Bank Credit from banks and other stakeholders. Request you to please send us your suggestions (if any) to Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in latest by June 20, 2018.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Senior Research

Officer at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in

"We Walk Our Talk"

PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : research@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

Connect with us:  [@phdchamber](#)  [Like us on Facebook @phdcci1908](#)  [Follow us on Instagram @phdcci](#)  