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

The Reserve Bank of India today 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.

Comments on the draft guidelines are invited from banks and other stakeholders by June 26, 2018. The Comments/Feedback on the draft guidelines may be forwarded to:

The Chief General Manager in-Charge, Reserve Bank of India
Department of Banking Regulation
12th Floor, Main Building
Shahid Bhagat Singh Marg,
Mumbai – 400001

Or by email with subject line “Feedback on draft guidelines on Loan System for Delivery of Bank Credit” on the email.

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Jose J. Kattoor
Chief General Manager