

Guidelines on Benchmark Prime Lending Rate (BPLR) applicable to loans sanctioned upto June 30, 2010 (Paragraph 2.3.6)

With effect from October 18, 1994, RBI has deregulated the interest rates on advances above Rupees two lakh and the rates of interest on such advances are determined by the banks themselves subject to BPLR and Spread guidelines. For credit limits up to Rupees two lakh, banks should charge interest not exceeding their BPLR. Keeping in view the international practice and to provide operational flexibility to commercial banks in deciding their lending rates, banks can offer loans at below BPLR to exporters or other creditworthy borrowers, including public enterprises, on the basis of a transparent and objective policy approved by their respective Boards. Banks will continue to declare the maximum spread of interest rates over BPLR.

Given the prevailing status of the credit market in India and the need to continue with concessionality for small borrowers, the practice of treating BPLR as the ceiling for loans up to Rupees two lakh will continue.

Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans for purchase of consumer durables, loans to individuals against shares and debentures / bonds, other non-priority sector personal loans, etc. as per details given below.

BPLR will be made uniformly applicable at all branches of a bank.

Determination of Benchmark Prime Lending Rate (BPLR)

In order to enhance transparency in banks' pricing of their loan products as also to ensure that the BPLR truly reflects the actual costs, banks should be guided by the following considerations while determining their Benchmark PLR:

Banks should take into account their (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning / capital charge and profit margin, while arriving at the benchmark PLR. Banks should announce a Benchmark PLR with the approval of their Boards.

The Benchmark PLR will be the ceiling rate for credit limit up to Rupees two lakh.

All other lending rates can be determined with reference to the Benchmark PLR arrived at as above by taking into account term premia and / or risk premia.

Detailed guidelines on operational aspects of Benchmark PLR have been issued by IBA on November 25, 2003.

In the interest of customer protection and to have greater degree of transparency in regard to actual interest rates charged to borrowers, banks should continue to provide information on maximum and minimum interest rates charged together with the Benchmark PLR.

Freedom to fix Lending Rates

Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of the following loans:

- i. Loans for purchase of consumer durables;
- ii. Loans to individuals against shares and debentures / bonds;
- iii. Other non-priority sector personal loans including credit card dues;
- iv. Advances / overdrafts against domestic / NRE / FCNR (B) deposits with the bank, provided that the deposit/s stands / stand either in the name(s) of the borrower himself / borrowers themselves, or in the names of the borrower jointly with another person;
- v. Finance granted to intermediary agencies including housing finance intermediary agencies (list as given below) for on-lending to ultimate beneficiaries and agencies providing input support.;
- vi. Discounting of Bills;
- vii. Loans / Advances / Cash Credit / Overdrafts against commodities subject to Selective Credit Control;
- viii. To a co-operative bank or to any other banking institution;
- ix. To its own employees;
- x. Loans covered by refinance schemes of term lending institutions.

An Illustrative list of Intermediary Agencies

1. State sponsored organisations for on-lending to weaker sections. Weaker sections include –
 - i) Small and marginal farmers with landholdings of 5 acres and less, and landless labourers, tenant farmers and share-croppers;
 - ii) Artisans, village and cottage industries where individual credit requirements do not exceed ₹ 50,000/-;
 - iii) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY);
 - iv) Scheduled Castes and Scheduled Tribes;
 - v) Beneficiaries of Differential Rate of Interest (DRI) scheme;
 - vi) Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY);
 - vii) Beneficiaries under scheme of Liberation and Rehabilitation of Scavengers (SLRS);
 - viii) Advances to Self-Help Groups (SHGs);
 - ix) Loans to distressed poor to repay their debt to informal sector, against appropriate collateral or group security;

Loans granted under (i) to (viii) above to persons from minority communities as may be notified by Government of India from time to time.

In states, where one of the minority communities notified is, in fact, in majority, item (ix) will cover only the other notified minorities. These States/Union Territories are Jammu and Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

2. Distributors of agricultural inputs / implements.
3. State Financial Corporations (SFCs) / State Industrial Development Corporations (SIDCs) to the extent they provide credit to weaker sections.
4. National Small Industries Corporation (NSIC).
5. Khadi and Village Industries Commission (KVIC).
6. Agencies involved in assisting the decentralised sector.
7. State sponsored organisations for on-lending to the weaker sections.
8. Housing and Urban Development Corporation Ltd. (HUDCO).
9. Housing Finance Companies approved by National Housing Bank (NHB) for refinance.

10. State sponsored organisations for SCs / STs (for purchase and supply of inputs to and / or marketing of output of the beneficiaries of these organisations).
11. Micro Finance Institutions / Non-Government Organisations (NGOs) on-lending to SHGs.