

MCLR, base rate merger proves elusive

Decision pending: If PSBs offered borrowers a lower rate, the banks will incur a Rs. 40,000 crore loss, says a study. Reuters

Millions of customers are paying a higher interest rates on home and auto loans, among others, in effect ensuring that public sector banks avoid further losses.

This is because the Reserve Bank of India (RBI) is yet to mandate banks to allow customers who signed up for loans in the erstwhile 'Base Rate' regime and who are paying higher rates, to shift to the current 'MCLR' structure, which is lower than the base rate.

Interest income impact

An internal study by the banking regulator has found that if banks offer their customers a lower interest rate, public sector banks will incur a whopping Rs. 40,000 crore loss. "Public sector banks have reported huge losses in the previous financial year. Asking them to shift their customers to MCLR could impact their interest income further," said a reliable source who wished not to be named.

State-run banks are already reeling under huge losses due to a rise in non-performing loans. Nineteen of India's 21 state-run lenders reported losses in 2017-18, wiping out almost all of the government's capital injections during the year.

Base rate is the erstwhile loan pricing mechanism which was replaced by MCLR — the Marginal Cost of funding based Lending Rate — from April 1, 2016. The one-year MCLR of banks, to which a bulk of the loan rates are linked, is lower than the base rate. For example, SBI's base rate is 8.7% while its one-year MCLR is 8.25% — a difference of 45 basis points.

RBI's own assessment

According to the RBI's own assessment, 'a large proportion' of loans is still linked to the base rate. A base rate customer can shift to the MCLR only by paying a fee. On February 7, in the sixth bimonthly policy review of 2017-18, RBI had said the base rate would be linked to MCLR from April 1.

"With the introduction of MCLR, it was expected that the existing base rate-linked credit exposures shall also migrate to MCLR system. It is observed, however, that a large proportion of bank loans continue to be linked to the base rate despite the Reserve Bank highlighting this concern in earlier monetary policy statements," the RBI had said on February 7.

"Since MCLR is more sensitive to policy rate signals, it has been decided to harmonise the methodology of determining benchmark rates by linking the base rate to the MCLR with effect from April 1, 2018. Necessary instructions will be issued by the end of next week," it added. Instructions to the effect have not yet been issued.

END