Large Corporate Loans To Cost More From FY18

The Reserve Bank of India on Thursday said corporate loans beyond the limit set by it would cost more from financial year 2017- 18, as banks have to maintain additional provisions and high capital for such exposures.

In keeping with the corporate bond reforms, RBI also prescribed restrictions on banks taking incremental exposure on a single party, mostly corporate groups, beyond normal limits. The norms aim to curb concentration risks and enhance credit supply for large borrowers through markets.

The banking system ordinarily keeps future incremental exposures to specified borrowers within the Normally Permitted Lending Limit (NPLL), RBI said.

Exposures beyond NPLL will be deemed to carry higher risk. These will attract additional provisioning and higher risk weights, RBI said.

Banks will have to keep an additional three per cent over and above the applicable provision on incremental exposures for excess NPLL. This will be distributed in proportion to each bank's funded exposure to specified borrowers.

Banks will also have to keep additional risk weight of 75 percentage points over and above the applicable weight for exposure to specified borrowers.

The additional exposure for risk weighted assets (RWA) will be distributed in proportion to each bank's funded exposure.

Meanwhile, RBI also proposed to limit exposure of a bank to a business group to up to 25 percent of its capital, down from 55 per cent.

"Large Exposure (LE) limits for each counter party and group of connected counterparties, under normal circumstances, willbecappedat20per cent and 25 per cent, respectively, of the eligible capital base," RBI said in a draft LE framework.

The eligible capital base will be defined as tier-1 capital of the bank, as against capital funds at present, it said.

Connected large borrowing companies will be identified on the basis of control as well as economic dependence criteria, it said.

(Business Standard)