



The Reserve Bank today came out with draft guidelines on loan system for delivery of bank credit to improve discipline among larger borrowers enjoying working capital facility from the banking system. (Reuters)

The Reserve Bank today came out with draft guidelines on loan system for delivery of bank credit to improve discipline among larger borrowers enjoying working capital facility from the banking system. The draft stipulates 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, it said. "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 per cent shall be effective from October 1, 2018," said the draft guidelines as [RBI](#) proposes to modify the system for delivery of bank credit for large borrowers.

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, it said. "Hence, for such borrowers, drawings up to 40 per cent 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," the RBI's draft said. The 40 per cent loan component will be revised to 60 per cent, with effect from April 1, 2019, it added.

The central bank has invited comments on the draft guidelines from banks and other stakeholders by June 26. Banks provide working capital finance by way of cash credit/overdraft, working capital demand loan, purchase/discount of bills, bank guarantee, letter of credit, and factoring. Cash credit (CC) is by far the most popular mode of working capital financing. On sharing of working capital finance, the draft said that the ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed.

It further said that 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, it added. Also, 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, will attract a credit conversion factor of 20 per cent, the draft guidelines said.

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