Q43

What is/are the purpose/purposes of the 'Marginal Cost of Funds based Lending Rate (MCLR)' announced by RBI? 1. These guidelines help improve the transparency in the methodology followed by banks for determining the interest rates on advances. 2. These guidelines help ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Select the correct answer using the code given below (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: C.

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Explanation

(a)

Statement 1 only. MCLR does make the lending-rate method more transparent, but RBI also framed it as fair to both borrowers and banks. 1 alone is incomplete.

(b)

Statement 2 only. Fairness of rates is an stated purpose, yet transparency of methodology is equally central. 2 alone is not the key.

(c) Official key

Both 1 and 2. Marginal Cost of Funds based Lending Rate (2016) replaced the base-rate regime so that banks publish a clearly computed internal benchmark and transmit policy-rate changes more fairly to borrowers while covering their marginal cost of funds. That stored letter is the official key.

(d)

Neither. Both purposes are in RBI's MCLR rationale, so 'neither' is not the key.

Summary

Official key is (c) both 1 and 2. MCLR was RBI's 2016 benchmark to make loan pricing transparent and balanced for banks and borrowers. Honour the stored letter (c).

Related possible facts

These can be asked in a future Prelims paper.

MCLR effective

1 April 2016

Replaced
Base rate system (2010)

Later regime
External benchmark lending rate (EBLR) for many retail/MSME loans from 2019

Components
Marginal cost of funds, negative carry on CRR, operating cost, tenor premium

Reset
Interest reset at defined tenors under MCLR