

BHARAT SCHOOL OF BANKING

BASE RATE

Base Rate System

Bank **lends** money to its customers by **loans** or **advances** or other **credit facilities**. It charges some **interest** on the **lending / credit**. Does a bank need to follow any specific **rules** while providing money to its customers?

Yes, banks follow **Base rate** system, formulated by **RBI**. **Base rate** is the **minimum** chargeable **interest** for the credit sanctioned to the **customer** (meaning, no bank can offer **loans** to its customers **below** this **interest rate**).

Base rate system replaced the **Benchmark Prime Lending Rate (BPLR)** system on **July 1, 2010**.

Situational Question

Suppose you are an officer in a rural bank. A poor people comes in your branch seeking loan for his house (or some other reason). Can you offer him a loan, bearing interest below the Base Rate?

The answer is **YES**, if he is **eligible** for **DRI scheme**. (criteria described below)

Exclusions

There are some few **exclusions**, where you can **grant loan** below **base rate**, as -

1. **Differential Rate of Interest (DRI) Scheme** beneficiaries
2. Loans to bank's **own employees** (including **retired** employees)
3. Loans to bank's **depositors** against their **own deposits** (e.g., granting loan on his own **fixed deposit**, etc.)

DRI Scheme

As per **RBI** guidelines, for **lending** under **DRI scheme**, banks are required to **grant loans** at **concessional rate of interest** to the **eligible beneficiaries** -

- Family **income ceiling** per annum in **rural** and **urban** area should be less than **Rs. 18,000** and **Rs. 24,000** respectively
- Borrower should not be benefited under any **subsidy-linked** schemes of **government**
- **Max. limit of loan - Rs. 15,000**. For **housing loan**, it could be up to **Rs. 20,000**
- Banks are required to **lend 1 %** of their **total outstanding advances** under **DRI Scheme** every year.