

Covid-19 loans -Banks using their own resources to get the benefit

Updated at May 7, 2021 22:22 IST

Banks using their own resources to lend for boosting Covid-19 health infrastructure will get to park surplus funds with the RBI and earn 40 basis points (bps) extra over the reverse repo rate, the central bank said on Friday.

Banks have to create a 'Covid loan book' under the scheme and the extra return can be earned on surplus funds to the extent of disbursed loans.

These loans will be classified under priority sector lending till repayment or maturity, whichever is earlier. Priority sector loans are exempted from maintaining cash reserve or statutory liquidity ratios, and so banks can extend them at concessional rates too.

These loans can be given to borrowers directly or through intermediary financial entities regulated by the RBI.

On Wednesday, RBI Governor Shaktikanta Das announced an on-tap liquidity window of Rs 50,000 crore with tenures of up to three years at repo rate — currently at 4 per cent — till March 31, 2022.

To incentivise the lenders, the RBI said the banks will be eligible to park their surplus liquidity with the RBI at repo rate minus 25 bps, or at 3.75 per cent.

Currently, banks park their excess funds at the reverse repo rate, which is 3.35 per cent. This means banks will be able to earn 0.40 per cent, or 40 bps, higher than the regular reverse repo rate.

The scheme provides the much-needed immediate liquidity for ramping up Covid-related health care infrastructure and services in the country.

Banks using the liquidity window should deploy the money within 30 days from the date of availing of the fund, the RBI said in a communication to banks.

There is no tenure restriction on lending by banks under the scheme. However, lenders will have to ensure the amount borrowed from the RBI is always backed by loans to the specified segments.

Whether banks will get funds or not will depend on the availability as on the date of application.

The funds cannot be guaranteed in case Rs 50,000 crore has already been availed of, the RBI said.

If a bank places multiple requests during the week, all requests will be aggregated, and a single repo contract will be created on the date of operation.

In case the requested amount exceeds the remaining amount under the scheme on the date of operation, the remaining amount will be distributed on a pro-rata basis among all the eligible requests, the RBI added.