

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3497
ANSWERED ON:15.12.2006
NORMS FOR MPBF
Ponnuswamy Shri E.

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India has laid certain norms for fixing the Maximum Permissible Bank Finance (MPBF) for the corporate customers taking into accounts various criteria;
- (b) if so, the guidelines issued to Public Sector Banks for assessment of working capital Finance of Corporate customers / existing borrowers;
- (c) whether such guidelines are flouted by the Public sector Banks; and
- (d) if so, the details thereof and the reasons therefor?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b) : Maximum Permissible Bank Finance (MPBF) was prescribed by Reserve Bank of India (RBI) in November 1975 as part of implementation of the recommendations of the Tandon Working Group set up to frame guidelines for follow up of banks credit. However, to maintain consistency with the policy of deregulation of matters relating to dispensation of credit by banks, RBI had withdrawn the prescription from April 15, 1997 and thereby the banks were advised to evolve an appropriate system for assessing the working capital credit needs of borrowers, within the prudential guidelines and prescribed exposure norms.

Since then the banks enjoy complete freedom in the matter of assessment of working capital finance. However, banks are required to lay down, through their Boards, transparent policy and guidelines for credit dispensation in respect of each broad category of economic activity.

(c) & (d) : Do not arise.