

CRISIL assigns first Bank Loan Ratings under Basel II Inaugurates a new era of use of ratings in capital measurement

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CRISIL today assigned its first set of Bank Loan Ratings (BLRs) following the new regulatory framework on capital adequacy for banks, commonly known as Basel II. These ratings will be used by banks to determine risk weights for their loan exposures in keeping with the *Guidelines for Implementation of the New Capital Adequacy Framework*, recently issued by the Reserve Bank of India.

According to Ms. Roopa Kudva, Executive Director and Chief Rating Officer, CRISIL, “*These bank loan ratings mark a new era for use of credit ratings by banks. Hitherto, credit ratings were assigned mostly to capital market instruments such as debentures, bonds and commercial paper. The use of CRISIL ratings by banks reflects the confidence the market has gained in using credit ratings as an advanced tool for measuring and managing credit risk. CRISIL expects that Bank Loan Ratings will be a key input for appropriate pricing of credit risk by banks.*”

By giving significant relief in the capital that banks must hold against their corporate loan exposures, the new guidelines create an incentive for banks to use credit ratings. The highest relief of 80 per cent is available for ‘AAA’ and ‘P1+’-rated exposures, but there is substantial relief for exposures that are rated below the highest category as well, examples being ‘A’ category-rated long-term loans and ‘P2’ category-rated short-term facilities. CRISIL expects that a number of banks will take advantage of this opportunity and seek BLRs for all their corporate loans and facilities. This is likely to lead to much wider penetration for credit ratings, especially in the ‘A’ and ‘BBB’ rating categories.

The widespread use of Bank Loan Ratings will have a far-reaching impact on the secondary debt and credit derivatives markets as well. According to Mr. Raman Uberoi, Senior Director, CRISIL Ratings, “*BLRs will help develop an active secondary market for bank loans, as they have done in many developed economies. These ratings also augur well for the development of the Credit Default Swap (CDS) market, where ratings on the underlying reference obligations are indispensable.*”

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CRISIL has rated the bank facilities of **Hero Honda Motors Limited, Hero Honda Finlease Limited, NTPC Limited, Reliance Industries Limited, and UltraTech Cement Limited**. CRISIL assigns BLRs to all forms of fund-based and non-fund based bank facilities, including cash credit, working capital demand loans, guarantees, and letters of credit. The ratings will be assigned on both long-term and short-term rating scales, similar to ratings assigned to debentures and commercial paper respectively. The criteria for assigning BLRs will be identical to the criteria applied for ratings on bonds and debentures, after taking into account features – such as technical defaults and minor differences in defining due dates – that are specific to bank facilities. All of CRISIL’s bank loan ratings will be widely published, and will be available online at www.crisil.com.

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