

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1164
ANSWERED ON:07.03.2008
UNFAIR TREATMENT OF BORROWERS
Kharventhan Shri Salarapatty Kuppusamy

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government is aware that many of the public and private sector banks are offering lower floating rates to fresh borrowers while forcing the existing customers to keep paying earlier higher rates;
- (b) if so, the details along with the action taken against the bankers who are not passing on the benefits of fall in interest rates to the existing borrowers;
- (c) whether the Government is aware that banks are levying penal interest to the customers who are repaying loans ahead of tenure or switching over to loans with lower interest rates;
- (d) if so, the action taken thereon; and
- (e) if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) and (b): Effective October 1994, the Reserve Bank of India has deregulated the interest rates on advances above Rs. 2 lakh including loans to small and micro industrial enterprises, and these interest rates are determined by the banks themselves with the approval of their Boards. For credit limit up to Rs. 2 lakh, the Benchmark Prime Lending Rate (BPLR) has been prescribed as the ceiling lending rate. In order to enhance transparency in banks' pricing of their loan products, banks have been advised to fix their BPLR after taking into account

(i) actual cost of funds,

(ii) operating expenses and

(iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Banks have also been allowed to freely price their loan products below or above their BPLR and offer floating rate products by using market benchmarks in a transparent manner.

As reported by Public Sector Banks (PSBs), floating interest rates are linked to BPLR and whenever the BPLR is changed, the interest rate changes are effected both for existing as well as new borrowers.

(c) to (e): RBI has reported that as per the extant guidelines, the decision to prescribe service charges including prepayment charges is left to the discretion of the boards of individual banks. Banks would normally be expected, while fixing the service charges, to ensure that charges are reasonable, consistent with the cost of providing these services and that the customers with low value/volume of transactions are not penalized.

Most of the PSBs have reported that they do not charge any pre-payment penalty in case the account is adjusted by the borrower from his own resources. However, in case of take-over of term loans by other banks, a nominal rate of fore-closure fee is charged on the balance outstanding on the date of adjustment.