

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1521

ANSWERED ON:27.11.2009

``HOME LOAN``

Bapurao Shri Khatgaonkar Patil Bhaskarrao;Gaikwad Shri Eknath Mahadeo;Yaskhi Shri Madhu Goud

Will the Minister of FINANCE be pleased to state:

- (a) whether the Nationalised and Foreign Banks increase the rate of interest on home loan on floating rate automatically when it is revised upwards automatically but not reduce if it is revised down towards;
- (b) if so, the reasons therefor;
- (c) whether the Government has any proposal to bring in some guidelines/law for this purpose; and
- (d) if so, the details thereof?

Answer

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

(a) & (b): Reserve Bank of India (RBI) has deregulated interest rates on advances above Rs.2 lakh w.e.f. October, 1994. The rates of interest on advances are determined by the banks themselves subject to Benchmark Prime Lending Rate (BPLR) and Spread guidelines. While determining the BPLR, banks are guided by actual cost of funds, operating expenses, margin to cover regulating requirements of provisioning etc. Further, banks have the freedom to offer all categories of loans on fixed or floating rates subject to conformity of their Asset-Liability Management (ALM) guidelines.

(c) & (d): The Reserve Bank of India (RBI) constituted a Working Group to review the Benchmark Prime Lending Rates (BPLRs) and suggest an appropriate loan pricing system. The Working Group has submitted its report in October, 2009. The main recommendations of the Working Group, include replacing the existing overall sub-Base Rate lending at t5% of administered lending rate for loans upto Rs. 2 lakh, introducing greater transparency on loan pricing and scrupulous follow up of Banking codes and Standards Board of India (BCSBI) Codes for fair treatment to customers of banks. The RBI has placed the report of the Working Group on its website for public comments.