

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2590

ANSWERED ON:12.03.2010

PENALTY ON PRE-PAYMENT OF LOANS

Bapurao Shri Khatgaonkar Patil Bhaskarrao; Gaikwad Shri Eknath Mahadeo; Raghavan Shri M. K.; Tandon Shri Lal Ji; Yaskhi Shri Madhu Goud

Will the Minister of FINANCE be pleased to state:

- (a) whether scheduled commercial banks and other financial institutions imposed penalty on pre-payment of loans including home loans;
- (b) if so, the details thereof, bank-wise/ financial institution-wise and reasons therefor alongwith the action taken/ proposed to be taken by the government in this regard;
- (c) the details of such penalty collected by such banks/financial institutions during the last three years;
- (d) whether the government has issued any guidelines regarding the refund of such penalty to customers; and
- (e) if so, the details thereof and if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c) :- Reserve Bank of India (RBI) have reported that no specific guidelines on foreclosure or pre-payment of charges for loans have been issued to banks. Pre-payment/foreclosure charges are normally levied by banks as pre-payment of loans affects their Asset Liability Management and is reckoned as part of the basic banking services for which banks may levy a reasonable charge. In order to ensure transparency banks are required to ensure that only latest updated information in the prescribed format is placed on their web-site and ensure that the same is easily accessible from the Home Page of their web-sites.

The data reporting system of RBI does not generate information as asked for. However, RBI has reported that the offices of 15 Banking Ombudsmen have received 7331 complaints under 'Loans/Advances – housing' during the year 2008-09 as compared to 5297 and 757 complaints in the previous years.

(d) & (e) :- In terms of extant RBI instructions, in the context of granting greater functional autonomy to banks, operational freedom has been given to scheduled commercial banks on all matters pertaining to banking transactions, including pre-payment/ foreclosure charges on loans. With effect from September 1999 banks have been given freedom to fix service charges for various types of services rendered by them. While fixing service charges, banks should ensure that the charges are reasonable and not out of line with the average cost of providing these services. Further, in terms of RBI's circular dated February 2, 2007 on 'Reasonableness of bank charges' banks have been advised that they should make basic banking services available at reasonable prices/ charges to customers.

In terms of the 'Guidelines of Fair Practice Code for Lenders' banks have been advised by RBI that loan application forms should be comprehensive and should include information about the fees/ charges, if any, payable for processing, the amount of such fees refundable in the case of no-acceptance of applications, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with other banks can be made and an informed decision can be taken by the borrower.