

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1569  
ANSWERED ON:05.03.2010  
SUBJECT: HOME LOANS PRE-PAYMENT PENALTY  
Shetkar Shri Suresh Kumar

**Will the Minister of FINANCE be pleased to state:**

- (a) whether Competition Commission has intervened on the home loan prepayment penalty issue;
- (b) if so, the details thereof;
- (c) whether banks have expressed concern over such intervention; and
- (d) if so, the details thereof and reaction of the Union Government thereto?

**Answer**

To be answered by The Minister of State in the Ministry of Finance (Shri Namu Narain Meena)

(a) to (b): Competition Commission of India (CCI) has informed that information under Section 19 of the Competition Act, 2002 has been received against some Banks/ Housing Finance Institutions with regard to anti competitive agreements on imposing penalty for pre-payment of home loans.

(c) to (d): National Housing Bank (NHB) has reported that some of the Housing Finance Companies (HFCs) have sent reply to CCI on the following lines:

(i) The company borrows fund from the market at certain rate of interest for specified period depending on the lending requirement keeping in view matching of asset vis-a-vis liability. In case of pre payment of the loans by the borrowers, the unexpected fund made available by prepayment is parked at / lend at, lower rate of interest causing loss to the company. Further, it is not feasible for the financial institution to prepay its lenders as loan agreement with lenders may not permit the same or permit with certain charges.

(ii) The prepayment of loan by customer requires recasting of Asset Liability Management.

(iii) Initial cost of the company such as commission etc. for procuring the loan amount is assumed in the pricing for the entire term of loan. If the loan gets prepaid the initial cost remains unrealized.

(iv) The purpose of prepayment charges is to mitigate the financial strain on the company caused by the premature closure of loan and not to prevent the customers from availing loans from lenders of their choice.