GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4632
ANSWERED ON:23.04.2010
SUBJECT: INTEREST AND OTHER CHARGES ON LOANS
Shivanagouda Shri Shivaramagouda

Will the Minister of FINANCE be pleased to state:

(a) whether the scheduled commercial banks particularly the private sector banks are charging high rate of interest and other hidden charges arbitrarily on the loans tike home loans, vehicle loans, etc;

(b) if so, the details thereof and the reasons therefor alongwith the proportion out of the total loan disbursed by the said banks under each category during the last three years;

(c) whether banks are providing such loans at a teaser rate of interest for some initial period;

(d) if so, the details thereof alongwith norms set by the Reserve Bank of India (RBI) in this regard;

(e) whether the Government has any effective mechanism to monitor and control the funtioning of banks to this effect;

(f) if so, the details thereof and if not, the reasons therefor; and

(g) the corrective measures taken/ being taken by the Government in the matter?

Answer

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

(a) & (b): Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs.2 lakh, including housing loans, and these interest rates are determined by banks themselves with the approval of their Boards, subject to Benchmark Prime Lending Rate (BPLR) and Spread guidelines. Individual banks therefore determine interest rates to be charged to a particular borrower subject to BPLR and Spread guidelines. Loans up to Rs. 2 lakh carry the prescription of not exceeding the BPLR. However, banks have the freedom to determine the rate of interest, without reference to BPLR and regardless of size in respect of loans for purchase of customer durables and other non-priority sector personal loans including credit cards dues.

(c) & (d): RBI has come across some media reports about certain banks offering `teaser rates` to customers. Teaser Rates refer to fixed low interest rates applied to loans only for a limited initial period after which interest rates prevailing in the market are applied to the loan. Offer of such interest rates are a matter for regulatory concern because borrowers with low financial means may get attracted to take such loans on finding the initial low interest rates to be within their financial means, but may land themselves into a financial distress should interest rates start rising and the banks start charging them with higher interest rates post the lapse of the initial period. The resulting delinquency of such loans would have adverse impact on the financial stability of the lending banks.

(e) to (g): Banks have been advised by RBI to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances to borrowers. Banks have also been given the freedom to offer all categories of loans on fixed or floating rates, subject to conformity to their Asset Liability Management (ALM) guidelines. In order to ensure transparency, banks are to use only external or market-based rupee benchmark interest rates for pricing of their floating rate loan products The methodology of computing the floating rates is to be objective, transparency and mutually acceptable to counter parties. This methodology is to be adopted for all new loans. In the case of existing loans of longer/ fixed tenure, banks should reset the floating rates according to the above method at the time of review or renewal of loan accounts, after obtaining the consent of the borrowers concerned.