

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:6891

ANSWERED ON:07.05.2010

SUBJECT: HOME LOANS

Gangaram Shri Awale Jaywant;Shekhar Shri Neeraj

Will the Minister of FINANCE be pleased to state:

- (a) whether the existing/ teaser Interest rate on home loans has affected the real estate market;
- (b) if so, the details thereof;
- (c) the details of the home loans disbursed by the Scheduled Commercial Banks including cooperative banks alongwith the recovery of such loans during the last three years, State-wise and bank-wise;
- (d) whether the Government proposes to set up Central Registry Office to simplify the procedure of raising home loans as envisaged in the Securitization and Reconstruction of Financial Assets and Enforcement of Security of Security Interest Act, 2002 (SARFAESI);
- (e) if so, the details thereof and if not, the reasons therefor;
- (f) whether Indian Bank Association (IBA) has submitted any report to the Government in this regard; and
- (g) if so, the details thereof alongwith the steps taken/ being taken by the Government in the matter?

Answer

The Minister of State in the Ministry of Finance (Shri Namu 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. 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.

(c): Details of State-wise and bank group-wise outstanding loans for housing as provided by RBI for the last three years is at Annex-I & II respectively.

(d) to (g): Indian Bank's Association (IBA) had set-up a working group under the Chairmanship of CMD, Central Bank of India for setting up of a Central Electronic Registry as per provisions of SARFAESI Act, 2002. Based on the recommendations of the working group, the Government has decided to set up a Central Registry under the SARFAESI Act, 2002. This will inter-alia enable the lending agencies to expeditiously verify the status of land/property against which loans are to be sanctioned. This will result in speedy and efficient verification of the property and security as also increase the confidence of lending agencies. It is expected that these will translate into simplified loan process. A budgetary provision of Rs-25 crore towards setting up of Central Registry has been made in FY 2010-11.