

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:6923

ANSWERED ON:07.05.2010

SUBJECT: GUIDELINES FOR MISLEADING HOME LOAN SCHEMES

Bapurao Shri Khatgaonkar Patil Bhaskarrao;Deshmukh Shri K. D.;Dharmshi Shri Babar Gajanan;Gaikwad Shri Eknath Mahadeo;Gangaram Shri Awale Jaywant;Owaisi Shri Asaduddin;Siddeswara Shri Gowdar Mallikarjunappa;Singh Shri Bhola;Yadav Shri Ranjan Prasad;Yaskhi Shri Madhu Goud

Will the Minister of FINANCE be pleased to state:

- (a) whether the banks have been charging different interest rates on existing and new home loans by misleading the customers;
- (b) if so, the details thereof and the reasons therefor along with corrective measures taken by the Government in this regard;
- (c) whether the Reserve Bank of India (RBI) has issued guidelines for home loan schemes which are not being adhered to by the banks;
- (d) if so, the details thereof, bank-wise and the action taken/ being taken against such banks;
- (e) whether RBI has sent any advisory note to Indian Banks Association (IBA) in this regard;
- (f) if so, the details thereof and the banks' reaction thereto; and
- (g) the steps taken by the Government to provide lower interest rate on home loan to old customers?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (g): The rates of interest of all Scheduled Commercial Banks (SCBs) stand deregulated since 1992, with the exception of loans upto Rs.2 lakhs for which interest rate should not exceed the Benchmark Prime Lending Rate (BPLR). The banks, with the approval of their respective Boards, determine the BPLR taking into account the actual cost of funds, operating expenses, regulatory requirement of provisioning, etc.

As per Reserve Bank of India (RBI)'s guidelines dated 5th May, 2003 on Fair Practices Code for Lenders, all SCBs have to ensure that all information relating to rate of interest, charges, fees for processing etc. should invariably be disclosed to the customers.

The RBI has issued a Master Circular dated 01-07-2009 on Housing Finance which is to be complied with by all banks and is placed on RBI's website. The action on non-compliance of its guidelines by banks are taken by RBI, as and when reported.

With a view to further regulate the interest rate on advances, including home loans, the RBI has issued a circular dated 9th April, 2010 wherein the banks have been advised that with effect from 1st July, 2010, they should determine their actual lending rate on loans and advances with reference to a Base Rate which will replace the existing BPLR system, to be announced by the banks after seeking approval of their respective Boards. Since the transparency in the pricing of lending products has been a key objective, the banks are required to exhibit the information on their Base Rate at all branches and also on their websites. The Base Rate system would be applicable to all new loans and for those old loans that come up for renewal. The existing loans based on the BPLR system may run till their maturity. In case existing borrowers want to switch to the new system, before expiry of the existing contracts, an option would be given to them, on mutually agreed terms without any fee for such switch-over.