

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:847
ANSWERED ON:25.02.2011
INTEREST RATES BY PRIVATE FINANCE COMPANIES
Shukla Shri Balkrishna Khanderao Balu Shukla

Will the Minister of FINANCE be pleased to state:

- (a) whether the interest rate on loan charged by private finance companies is on the rise;
- (b) if so, the details thereof; and
- (c) the steps taken/being taken by the Government to keep a check on such rate of interest?

Answer

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

(a) to (c) Reserve Bank of India (RBI) regulates only companies incorporated under the Companies Act, 1956 and registered with it as Non-Banking Finance Companies (NBFCs) under Section 45 IA of the RBI Act, 1934. Interest rates on loans and advances are deregulated. RBI has therefore not issued any specific guidelines on interest rates to be levied by NBFCs on the loans granted by them. The rate of interest to be charged by the company is governed by the terms and conditions of the loan agreement entered into between the borrower and the NBFCs. However, in order to ensure transparency in such matters, NBFCs have been advised by RBI on September 28, 2006 to adopt a Fair Practices Code, with the approval of their Boards. NBFCs have also been advised vide circular dated May 24, 2007 to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. Further, NBFCs were also advised vide company circular dated October 10, 2007 to invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction/disbursement of loans. NBFCs were advised vide circular dated January 2, 2009 that the Board of the NBFC should adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc. and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers should be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter etc.