

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1404

ANSWERED ON:27.11.2009

PENALTY ON PRE MATURE PAYMENTS

Bapurao Shri Khatgaonkar Patil Bhaskarrao;Deora Shri Milind Murl;Gaikwad Shri Eknath Mahadeo;Yaskhi Shri Madhu Goud

Will the Minister of FINANCE be pleased to state:

- (a) whether the public and private banks are levying foreclosure charges or penalty on pre-mature payment of retail loans by customers;
- (b) if so, the details thereof and reasons therefor;
- (c) the details of penalty collected by private banks including ICICI and HDFC banks during the last three years from the customers and the rules under which it was done;
- (d) whether the Reserve Bank of India (RBI) has issued any guidelines in this regard;
- (e) if so, the details thereof and if not, the reasons therefor; and
- (f) the time by which the guidelines are likely to be issued and implemented?

Answer

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

(a) to (f): In terms of extant instructions, in the context of granting greater functional autonomy to banks, operational freedom has been given to scheduled commercial banks on all matters pertaining to banking transactions, including pre-payment / foreclosure charges on loans. With effect from September 7, 1999, banks have been given freedom to fix service charges for various types of services rendered by them. While fixing service charges, banks should ensure that the charges are reasonable and not out of line with the average cost of providing these services. Pre-payment / foreclosure charges are normally levied by banks as prepayment of loans affects their Asset Liability Management and is reckoned as part of the basic banking services for which banks may levy reasonable service charge. In order to ensure transparency, banks have been advised to display and update on their websites the details of various service charges in a prescribed format.

Further, in terms of the `Guidelines of Fair Practices Code for Lenders` banks have been advised by RBI that loan application forms should be comprehensive and should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of applications, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with other banks can be made and an informed decision can be taken by the borrower.