

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4068

ANSWERED ON:20.03.2015

PRICING OF CREDIT

Arunmozhithevan Shri A.;Mahadik Shri Dhananjay Bhimrao;Satav Shri Rajeev Shankarrao;Sule Smt. Supriya Sadanand

Will the Minister of FINANCE be pleased to state:

- (a) whether working group on pricing of credit set up by the Government has submitted its report;
- (b) if so, the details thereof along with the major recommendations of the committee and the action taken by the Government thereon;
- (c) whether Reserve Bank of India (RBI) has made it mandatory for all banks to display information relating to all loan costs such as loan interest rates and processing fee on their websites;
- (d) if so, the details thereof along with the time by which the said information is likely to be available; and
- (e) the other steps taken / being taken by the Government in this regard?

Answer

The Minister of State in the Ministry of Finance (SHRI JAYANT SINHA)

(a)& (b): Reserve Bank of India (RBI) has submitted its report on "Working Group on Pricing of Credit" on April 10, 2014. The report of 'Working Group on Pricing of Credit' is available on RBI's website www.rbi.org.in under the head 'Publications'. Major recommendations made by the Working Group are:

The Board of banks should ensure that price differentiation does not lead to any discrimination amongst borrowers.

Any price differentiation must be consistent with bank's credit pricing policy factoring Risk Adjusted Return on Capital (RAROC). Banks should be able to demonstrate to the RBI the rationale of the pricing policy.

Banks' internal policy must spell out the rationale for, and range of, the spread in the case of a given borrower, as also, the delegation of powers in respect of loan pricing.

The spread charged to an existing customer cannot be increased except on account of deterioration in the credit risk profile of the customer.

The floating rate loan covenant may have interest rate reset periodicity and the resets may be done on those dates only, irrespective of changes made to the Base Rate within the reset period.

Customers who opt to shift from Benchmark Prime Lending Rate(BPLR) linked loans to Base Rate loans are not charged any additional interest rate or any processing fee for such switch-over.

The Indian Banks' Association (IBA) may develop a new benchmark for floating interest rate products, namely, the Indian Banks Base Rate (IBBR), which may be collated and published by IBA on a periodic basis. Banks may consider offering floating rate products linked to their own Base Rate or IBBR or any other floating rate benchmark.

To bring in greater transparency enabling comparability across banks and informed decision making by customers.

The benefit of interest reduction on the principal on account of pre-payments should be given on the day the money is received by the bank without waiting for the next EMI cycle date to effect the credit.

Both, banks and the RBI may impart financial education through consumer education drives.

For retail loans, the customers should have a choice of "with exit" and "sans exit" options at the time of entering the contract.

The IBA should:

Develop case studies and examples of best practices for customer service;

Conduct studies to identify areas of best market conduct practices for improvement;

Conduct training for industry representatives.

The grievances redressal systems in banks should be made robust and responsive to customers' needs.

(c) to (e): RBI's had issued guidelines vide Circular dated November 25, 2008 and dated November 12, 2010 on 'Guidelines on Fair Practices Code for Lenders-Disclosing all information relating to processing fees/charges' and dated January 22, 2015 on "Display of Information by Banks".