The economy has registered strong and sustained growth over the last decade. The average annual growth rate of the industrial and the agricultural and allied sectors during the last decade has been 7.8 per cent and 2.4 per cent respectively.

Penalty charges on pre-payment of home loans

†*7. SHRI SATYAVRAT CHATURVEDI : Will the Minister of FINANCE be pleased to state:

(a) whether Governments attention has been drawn towards the decision of the Competition Commission of India (CCI) that in case of pre-payment of home loans by consumers, penalty can be charged from them;

(b) if so, the reaction of Government on the trend of charging penalty by banks from the consumers making pre-payment of loans; and

(c) the steps taken by Government to check this practice of banks?

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE) : (a) Yes, Sir. The Competition Commission of India (CCI) has examined the practice of levying pre-payment penalty in the home loan market by the lending institutions and is of the view that the same is not anti-competitive.

(b) and (c) The Government has separately examined the issues in consultation with Indian Banks' Association (IBA), Reserve Bank of India (RBI) and National Housing Bank (NHB). IBA pointed out that the basis for levy of pre-payment charges is the cost of funds and problem of Assets Liability Management (ALM). IBA has also mentioned that if pre-payment charges are not allowed to be levied, the lenders would increase the rates of interest, thereby adversely affecting the housing loan market for the borrowers. RBI has commented that 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/pre-closure charges on loans. RBI, however, has pointed out that banks should ensure that charges are reasonable and not out of line with the average cost of providing these services. The Public Sector Banks (PSBs) have reported that by and large they do not levy any pre-payment charges when the amount is paid by the borrowers from their own sources. In view of this, the Government, in May 2010, requested IBA, NHB and PSBs that:

i. No pre-payment charges may be levied by the lending institutions when the loan amount is paid by the borrowers out of their own funds; and

ii. If any pre-payment charges are to be imposed on housing loans, the same need to be reasonable and transparent and not out of line with the average cost of providing these services.

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†Original notice of the question was received in Hindi.