

(b) RBI has been increasing policy rates to contain inflation and inflationary expectation to prevent the economy from getting overheated.

(c) The increase in the Base Rates/Benchmark Prime Lending Rates (BPLRs) of banks, consequent upon increase in policy rate by the RBI, may result in increase in EMIs particularly in respect of loans which are contracted at floating rates.

(d) Taking cues from the monetary tightening by the Reserve Bank, banks have been increasing both their deposit and lending rates. While the borrowers pay high interest rates when the lending rates go up consequent upon hike of policy rates by RBI, the Scheduled Commercial Banks (SCBs) also raise their deposit rates which have increased in the range of 25-500 basis points (bps) since March 2010 across all maturities. Therefore, higher lending rates do not necessarily mean higher profit for banks.

(e) On an ongoing basis, Government has been providing interest subvention to certain sectors of the economy and sections of the society.

Levy of penalty on foreclosure of home loans

3597. SHRI R.C. SINGH: Will the Minister of FINANCE be pleased to state:

(a) the number of Public Sector Banks (PSBs) following the directive of the Ministry to not to levy a penalty of 2 per cent for foreclosure of home loan account;

(b) the definition of 'own funds' as per the directive;

(c) whether the Ministry will be in its capacity to also advise private and foreign banks to follow suit; and

(d) if not, the reasons therefor?

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

(a) Government, in May 2010, advised Public Sector Banks, Indian Banks' Association and National Housing Bank that 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 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.

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.

(b) In general, own funds means funds generated through 'own sources' and not through borrowings by any lender. Prepayment of loan by a borrower can take place on account of (i) takeover of his/her loan by other lender, and (ii) out of their own sources. In the first case, the borrower often gets their existing loan refinanced by other lender, if the interest rate offered by other lending institution in the market was lower and attractive.

(c) and (d) In terms of RBI guidelines, in the context of granting greater functional autonomy to banks, freedom has been given to scheduled commercial banks, including public sector banks, private sector banks and foreign banks, on all operational matters pertaining to banking transactions.

Adoption of taxation regime put in place by EU

3598. SHRI RAMA CHANDRA KHUNTIA: Will the Minister of FINANCE be pleased to state:

(a) whether Government is considering the policy, practice and safeguards under taxation regime put in place by the European Union post-global slowdown; and

(b) if so, what are the areas of India's interest?

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE): (a) and (b) No, Sir. Government has a well defined taxation policy as regards direct taxes, which is to have simple tax laws with moderate rates of tax on a wide tax base with minimal exemptions. Further in the backdrop of global slowdown, the excise duty was reduced from 16% to 8% and service tax rates from 12% to 10%, as part of fiscal stimulus package announced by the Government between December, 2008 and February, 2009.

Proposal for additional subsidy on diesel to farmers

†3599. SHRI NARENDRA KUMAR KASHYAP: Will the Minister of FINANCE be pleased state:

†Original notice of the question was received in Hindi.