

Stop charging prepayment penalty on home loans: RBI to banks

In a relief to borrowers, the RBI on Tuesday asked banks to immediately stop charging penalty on pre-payment of home loans taken on floating interest rates.

"It has...been decided that banks will not be permitted to charge foreclosure charges\pre-payment penalties on home loans on floating interest rate basis, with immediate effect," the Reserve Bank said in a communication to banks.

The RBI noted that the Damodaran Committee had observed that foreclosure charges levied by banks on prepayment of home loans were resented by home loan borrowers.

This is particularly so considering that banks were found to be hesitant in passing on the benefits of lower interest rates to the existing borrowers in a falling interest rate scenario, it added.

"As such, foreclosure charges are seen as a restrictive practice deterring the borrowers from switching over to cheaper available source," the RBI said.

The removal of the charges or penalty, the RBI said, will lead to reduction in the discrimination between existing and new borrowers and competition among banks will result in finer pricing of the floating rate home loans.

"Though many banks have in the recent past voluntarily abolished pre-payment penalties on floating rate home loans, there is a need to ensure uniformity across the banking system," it added.

Some banks were charging pre-payment penalty of 1-2 per cent of the outstanding loans.

With an aim to ensure uniformity across the banking system in home loan segment, the RBI in the annual monetary policy for 2012-13 had proposed "not to permit" banks to levy the charges.

It had said that detailed guidelines in this regard would be issued separately.

Last year, a consensus was reached at the Banking Ombudsmen Conference that banks should not impose pre-payment charges on loans with a floating rate of interest.

Earlier, housing finance regulator National Housing Bank (NHB) had directed all housing finance companies to desist from imposing a pre-payment penalty.

Source: DDI News