

## **HC quashes RBI communication on NBFC interest rate**

Quashing a RBI communication, Madras High Court bench here today said the apex bank cannot wash off its hand of the responsibility of regulating interest rates charged by non-banking financial companies (NBFCs) and asked it to look into the matter in terms of Fair practice Code as well as circulars issued by it.

A division bench comprising Chief Justice Sanjay Kishan Kaul and V.Dhanapalan made the observations while disposing of a PIL seeking a direction to quash the May 3, 2012 Reserve Bank of India communication which stated that it was "not regulating the rate of interest being collected by NBFCs".

Petitioner A R Jeyarhuthran, an advocate, had also sought to restrain NBFCs Muthoot Finance Company and Manapuram Finance from collecting exorbitant rate of interest.

"RBI cannot wash off its hand of such responsibility as time

and again it has issued some circulars to regulate Interest charged by the NBFCs," the court held.

The court also directed the Centre to look into the issue which had already received the attention of its authorities.

Observing that charging exorbitant interest was a violation, the court said the RBI should have checked, periodically, if the NBFCs were complying with its circular regarding fair interest charged by them.

Even if the RBI would not have specified what is fair rate of interest and what is exorbitant, it should have made sure that NBFCs collected a fair interest, the Judges said noting that the Country had a history of money lenders charging exorbitant interest from People and how the public lost money.

The Judges rejected the plea of Central Government Pleader who said that RBI had not issued any guideline fixing the interest rate to be collected by the NBFCs.

The Judges said that RBI should look into the matter (collection of exorbitant rate of interest by NBFCs) in terms of Fair Practice Code as well as circulars issued by it.

The government pleader said that they had however received complaints about exorbitant rate of interest being collected by money lenders and NBFCs. "Since the money lender and the borrower have entered into some sort of agreement, there is nothing that RBI could do," he said.

The petitioner alleged that the two NBFCs were violating the Money Lenders Act and also the Tamilnadu Prohibition of Charging Exorbitant Interest Rate Act 2004.

They should not collect more than 12 per cent, But were collecting 24 per cent to 30 per cent interest, he submitted.

The Finance Secretaries of the Central and State government and the RBI officials were legally bound to regulate them.

RBI being a statutory body was also legally bound to promote economic interest of the weaker section of the People.

RBI had issued a direction to the NBFC on January 25,2012 to charge interest correlating to the current bank interest but through its May 3, 2012 communication it said the bank was not regulating the NBFCs interest rate.

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