

## **Prepay loan without fine to housing finance companies**

In a development that will cheer thousands of home owners who have availed of loans from any of the 54 housing finance companies (HFCs), the National Housing Bank (NHB) has banned the levy of pre-payment penalty.

The NHB, which is the housing finance regulator, has also asked HFCs to ensure that all borrowers pay the same interest rate, irrespective of when the loan was taken. The two decisions, notified on Wednesday, will cover all HFCs ranging from HDFC to LIC Housing Finance and Dewan Housing Finance. They come into effect immediately, NHB chairman & managing director RV Verma told TOI.

By notifying the new rules, the NHB has initiated a step that the Reserve Bank of India has been contemplating for a while. Although the banking regulator has discussed the issue with banks and ombudsmen, it is still to notify the norms.

As a result, only 33% of the Rs 5 lakh crore housing finance market will benefit from the NHB's decision.

The housing finance regulator said HFCs will no longer levy any fee on floating rate loans. In case of fixed rate loans, it has made a distinction and only those borrowers who pay from their "own sources", such as savings or even loans from relatives, will be exempted from payment of penalty. In case borrowers shift to another bank or HFC, the penalty will be applicable.

While a similar advisory was issued last October, the NHB has said that any violation will attract penal action. The move will enable several borrowers to now shift their loans to banks or HFCs that offer home loans at a lower rate. Banks and HFCs levy pre-payment penalty of up to 4%, which often resulted in borrowers continuing to pay higher rates. "The idea is to protect the interests of borrowers. It will give them freedom to exercise their choice," Verma said. HFCs, however, refused to comment on the issue, saying they were studying the matter.

On uniform interest rates, the NHB's letter was in the nature of an advisory and did not talk of any penal action for violation. "It is accordingly advised that HFCs should ensure uniformity in rates, on floating rate basis, charged to their old and new customers, with the same risk profile irrespective of the time of entry of borrowers in the market," the letter said.

Banks and HFCs have long argued that they were earlier offering loans at a discount to the prime lending rate and argued for the continuation of the

differential rate regime. But with the advent of a base rate system, under which lending below the benchmark rate is not allowed, the system is being changed.

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