

RBI panel proposes measures to make bank loan process hassle-free for customers

Penalty for banks that harass customers by delaying transfer of loans from one to the other, doing away with processing fee for shifting within the same bank from one type to another and an industry benchmark base rate for borrowers are among the recommendations of a central bank panel on pricing of loans to make processes smoother for retail borrowers.

"Indian Banks' Association should evolve a set of guidelines for easier and quicker transfer of loans, particularly mortgage/housing loans," said a report submitted by a panel headed by former deputy governor Anand Sinha. "There could also be penalties for banks which do not cooperate with borrowers in this regard."

Banks will also have to give their customers the choice of prepaying and exiting a loan, if the recommendations of this committee are implemented.

As per the recommendations, banks will have to give customers the benefit of interest reduction on the principal in case of prepayment of loans. This benefit, the committee said, "should be given on the day the money is received by the bank without waiting for the next EMI cycle date to effect the credit."

To ensure convenience of customers, the committee has also recommended that banks reset the interest rate charged on floating rate loan on dates that are fixed in the covenant, irrespective of changes made to the base rate within the reset period.

The central bank had set up this committee to bring transparency in credit pricing and address customer complaints relating to downward stickiness of the interest rates, discriminatory treatment of old borrowers vis-a-vis new borrowers and arbitrary changes in spreads.

"For retail loans, the customers should have a choice of "with exit" and "sans exit" options at the time of entering the contract. The exit option can be priced differentially but reasonably," the committee said. Customers could avail of the exit option after giving prior notice to the banks and without any impediments. These steps could address issues of borrowers being locked into contracts, serve as a consumer protection measure and also help enhance competition, the committee said.

The committee has also recommended that the spread charged to existing customers be increased only if the individual's credit profile deteriorates. "The customer should be informed of this at the time of contract. Further, this information should be adequately displayed by banks through notices/website," the committee said.

It has also asked the IBA to develop a new benchmark for floating interest rate products, namely, the Indian Banks Base Rate or IBBR, which may be collated and published by IBA on a periodic basis.

"Banks may consider offering floating rate products linked to the base rate, IBBR or any other floating rate benchmark ensuring that at the time of sanction, the lending rates should be equal to or above the base rate of bank. To begin with, IBBR may be used for home loans," said the committee.

To avoid discrimination among borrowers, the committee has recommended that banks with overdependence on short-term deposits compute the base rate on the basis of marginal cost of funds.

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