

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-472
ANSWERED ON- 06/02/2023

INTEREST RATES CHARGED BY NBFCs

472. SHRI VISHNU DATT SHARMA

Will the Minister of FINANCE be pleased to state:-

(a) whether the Government is taking any measure to address the situation of very high interest rates being charged by Non-Banking Financial Companies (NBFCs) from poor customers despite the fact that loans disbursed by NBFCs are insured (secured);

(b) if so, the details thereof along with the corrective steps taken/proposed to be taken by the Government in this regard; and

(c) if not, the reasons therefor?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(DR. BHAGWAT KARAD)

(a) to (c): Reserve Bank of India (RBI) has deregulated interest rates on loans and advances. Neither the RBI nor the Government prescribe the interest rate to be charged by the NBFCs and the same are governed by the terms and conditions of the loan agreement entered into between the borrower and the NBFC. Boards of NBFCs have been directed to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

Further, RBI has issued various guidelines/norms applicable to NBFCs with regard to the charging of rate of interest to its borrowers which, *inter alia*, include the following:

- (i) To protect the interest of customers, RBI has laid down a Fair Practices Code which has to be adhered to by NBFCs. Grievance Redressal Procedure has also been laid down to adequately address customer complaints.
- (ii) The Board of each NBFC are required to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rates of interest to different categories of

borrowers is required be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter. Boards of NBFCs are required to lay down appropriate internal principles and procedures in determining interest rates.

- (iii) The rate of interest and approach for gradation of risks are required to be made available on the website of the NBFCs or published in the relevant newspapers. The information published on the website or otherwise published has to be updated whenever there is a change in the rates of interest. The rate of interest has to be an annualised rate so that the borrower is aware of the exact rate that would be charged to the account.
- (iv) Other requirements which have been laid down include the following:
 - (1) All communications to the borrower related to change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc., have to be in vernacular language or a language as understood by the borrowers.
 - (2) Loan application forms should include necessary information which affects the interest of the borrower, so that the borrower may take informed decision by meaningfully comparing with the terms and conditions offered by other NBFCs.
 - (3) NBFCs are required to mention the penal interest charged for late repayment in bold in the loan agreement.
 - (4) NBFCs are also required to ensure that changes in interest rates and charges are effected only prospectively.
