

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UN-STARRED QUESTION NO. 564

ANSWERED ON 24th JULY, 2023/ 2 SRAVANA, 1945 (SAKA)

‘INTEREST ON HOME LOANS’

564. Shri. Kanumuru Raghu Rama Krishna Raju:

Will the Minister of *FINANCE* be pleased to state:

- (a) the details of the rate of interest on home loans since 2011-12;
- (b) the details of the rate of interest on reverse mortgage loan given to senior citizens since 2011-12;
- (c) whether the house is mortgaged to a bank/ Government in both these cases of home loans and if so, the details thereof;
- (d) the reason for charging 10.50% interest from senior citizens in reverse mortgage loan and 6.50% on loanees of home loans, overdrafts; and
- (e) the reason for such a wide difference and why the benefit of reduction of interest declared in the budget every year is not passed on to the reverse mortgage loanees?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(DR. BHAGWAT KARAD)

(a) to (b): As informed by the National Housing Bank, while the Weighted Average Lending Rate on Individual Housing Loan by Scheduled Commercial Banks (SCBs) has been in the range of 7.34% to 13.62%, the corresponding rate of interest on Reverse Mortgage Loan (RML) provided to senior citizens is in the range of 7.6% to 16.05%.

(c) The residential house is mortgaged with the SCBs in cases of both Home Loan/RML.

(d) to (e): The interest rate to be charged on the Home Loan/ RML is decided by the SCBs based on various factors e.g; cost of funds, risk perception/premium, loan pricing policy, tenor of the loan, etc.

The RML as a loan product has certain basic differences from conventional housing loan products, some of which are as follows:

- (i) RML provides liquidity to borrowers based on underlying assets of senior citizens for a variety of purposes like meeting expenditure for maintenance of family, supplementing pension/other income, medical emergency, home improvement etc; whereas, housing loan product is for purchase/upgrade of house.
- (ii) Under RML, the borrower has the option to receive a lumpsum amount up to 50% of Net Present Value of the property and the balance loan amount is payable through Annuity at regular intervals.
- (iii) The RML scheme attracts 100 % risk weight and hence higher capital provisioning is required to be made as compared to normal Home loan.
- (iv) There is always uncertainty in tenure of RML, as the loan is liquidated only after the demise of the borrower.

With effect from 1.10.2019, the rate of interest on housing loan including RML is linked to external benchmark *viz.* REPO rate, and benefit of reduction of interest declared is immediately passed on to the borrower, consequent upon reduction of Benchmark rate.

The Financial Institutions including Banks are Board run commercial entities and in a deregulated credit environment, all the credit-related decisions are taken by them in terms of their board-approved policies and extant Reserve Bank of India regulations/guidelines.
