



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2011-12/622

UBD.BPD.(PCB) CIR No. 41 /12.05.001/2011-12

June 26, 2012

The Chief Executive Officers
All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

Home Loans - Levy of Fore-closure Charges / Pre-payment Penalty by Urban Co-operative Banks (UCBs)

Please refer to our [Circular UBD.\(PCB\).Cir.No.54/09.39.000/05-06 dated May 26, 2006](#) on levy / display of bank charges.

2. The attention of UCBs is invited to [paragraphs 81 to 83](#) of the Monetary Policy Statement 2012-13 announced on April 17, 2012 with regard to home loans on floating interest rates. The Committee on Customer Service in Banks (Chairman : M. Damodaran) had observed that foreclosure charges levied by banks on prepayment of home loans are resented upon by home loan borrowers across the board especially since banks were found to be hesitant in passing on the benefits of lower interest rates to the existing borrowers in a falling interest rate scenario. As such, foreclosure charges are seen as a restrictive practice deterring the borrowers from switching over to cheaper available source.

3. The removal of foreclosure charges / prepayment penalty on home loans will lead to reduction in the discrimination between existing and new borrowers and competition among banks will result in finer pricing of the floating rate home loans.

शहरी बैंक विभाग, केंद्रीय कार्यालय, गारमेट हाऊस, पहली मंज़िल, डॉ ए बी रोड, वरली, मुंबई- 400018 भारत
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बैंक हिन्दी में पत्राचार का स्वागत करता है —



Though some banks have in the recent past voluntarily abolished pre-payment penalties on floating rate home loans, there is a need to ensure uniformity across the banking system. It has, therefore, been decided that UCBs will not be permitted to charge foreclosure charges / pre-payment penalties on home loans on floating interest rate basis, with immediate effect.

Yours faithfully

(A. Udgata)
Chief General Manager – in – Charge