

Abolishment of Home loan Prepayment Penalty

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The much eagerly awaited thorny issue of prepayment penalty on Home loan foreclosure has finally found some succor by the announcement from NHB –National Housing bank a wholly owned subsidiary of The Reserve bank of India and a regulator for all housing finance companies that no HFC shall be allowed to charge prepayment penalty on home loans on floating rate of interest whether from own funds or take over by any bank.

This would apply to home loans on fixed rate prepaid from own funds but not on loans taken over by other HFC. Currently most of the HFC charges a pre penalty of 2% on foreclosure whether from own funds or takeover. This decision was taken at the Banking Ombudsmen conference held recently. One more issue was resolved by the decision by the NHB to implement same floating rate of interest for new as well as existing customers already on board. Currently banks were implementing a differential rate of interest for old and new customers.

Axis bank, Bajaj finance and SBI have already announced their acceptance of the new policy roll out and all the other players are expected to follow soon.

Effect of the new policy and its implementation on mortgages is awaited keenly.