

NHB (ND)/DRS/Misc. Circular No.17/2016-17

July 22, 2016



All Registered Housing Finance Companies

Dear Sir/Madam,

### **Levy of foreclosure charges/pre-payment penalties - Clarification**

Please refer to our Circulars NHB(ND)/DRS/Policy Circular No. 63/2014-15 and 66/2014-15 dated August 14, 2014 and September 3, 2014, respectively, in terms of which, *inter-alia*, all floating rate term loans sanctioned to individual borrowers by the Housing Finance Companies (HFCs), are exempted from any foreclosure charges /prepayment penalties.

2. It has come to our notice that some of the HFCs continue to levy foreclosure charges/pre-payment penalties on term loan sanctioned to individual borrowers under different nomenclatures, such as loan origination cost, loan maintenance cost, etc. This is in contravention of the provisions of the circulars referred to above. We clarify that these provisions apply to all term loans sanctioned only to individual borrowers.

3. Further, the issue relating to applicability of the aforesaid circulars to a Sole Proprietorship Concern/Firm or an HUF, as a borrower/co-borrower has also been examined in the light of complaints / representations received by us. We clarify that the intent and spirit of the circular is to protect the interest of the individual borrowers. Therefore, a Sole Proprietorship Concern/Firm or an HUF, as borrower or co-borrower will not be treated as an individual borrower for the purpose of these circulars.

4. However, in cases where the terms & conditions of the loans sanctioned indicate that no foreclosure charges/pre-payment penalties shall be levied, such loans shall continue to be governed by the already sanctioned terms & conditions.

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5. HFCs are, therefore, advised to implement the above referred Circulars in the right spirit and make all necessary efforts to resolve the complaints received from borrowers. Further, HFCs are also advised to educate the borrowers on the above issues at the time of sanction of loan and include the same under para 6(iii) of Annex-II of Circular No. NHB(ND)/DRS/Policy Circular No.70/2014-15 dated April 20, 2015.

6. Any non-compliance with any of the provisions on levy of foreclosure charges/pre-payment penalty will be viewed seriously.

Yours faithfully,

(A. P. Saxena)  
General Director