

May 24, 2007

To,

All Non-Banking Financial Companies (NBFCs)
Including Residuary Non- Banking Companies (RNBCs)

Dear Sir,

Complaints about excessive interest charged by NBFCs

The Reserve Bank has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs.

2. Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice.

3. Boards of NBFCs are, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

4. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans may be kept in view.

5. NBFCs may confirm having put in place appropriate systems in this regard within a period of one month from the date of this circular to the Regional Office of this Department in whose jurisdiction they are registered.

Yours faithfully

(P Krishnamurthy)
Chief General Manager In-Charge