

5<sup>th</sup> April, 2024

<p>The Manager, Listing Department, National Stock Exchange of India Ltd., Exchange Plaza, 5<sup>th</sup> Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 Scrip ID: LICHSGFIN EQ Email: <a href="mailto:cmlist@nse.co.in">cmlist@nse.co.in</a></p>	<p>The General Manager, Department of Corporate Services-Listing Dept., BSE Limited, 25<sup>th</sup> Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001. Scrip Code : <b>500253</b> Email: <a href="mailto:corp.relations@bseindia.com">corp.relations@bseindia.com</a></p>
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Dear Sir/Madam,

**Re: Disclosure of Penalty levied by RBI on contraventions / default of regulatory requirements.**

This is to inform you that the Company has received a letter from Reserve Bank of India (Regulator) vide letter Ref: CO.ENFD.DENBFC.No.S15 / 02-14-261 / 2024-25 dated 05/04/2024, levied a penalty of ₹ 49,70,000/- (Rupees Forty Nine Lakhs Seventy Thousand only) on LIC Housing Finance Limited, Mumbai (the company) for non-compliance with Parra 80.1 (part) and 85.6 of the RBI Master Directions. The RBI letter has enclosed for ready reference.

This is for your information and records.

Yours faithfully,

For LIC Housing Finance Ltd.

Varsha Hardasani

Company Secretary and Compliance Officer

CIN No. : L65922MH1989PLC052257

Corporate Office : LIC Housing Finance Ltd., 131 Maker Tower "F" Premises, 13th Floor, Cuffe Parade, Mumbai 400 005  
Tel :+ 91 22 2217 8600 Fax:+91 22 2217 8777, Email: [lichousing@lichousing.com](mailto:lichousing@lichousing.com), Website : [www.lichousing.com](http://www.lichousing.com)

Registered Office: LIC Housing Finance Ltd. Bombay Life Bldg., 2nd flr., 45/47, Veer Nariman Rd, Fort, Mumbai - 400 001.  
Tel: +91 22 2204 9682 /9799 /0006 Fax: +91 22 2204 9682, E-mail: [lichousing@lichousing.com](mailto:lichousing@lichousing.com), Website : [www.lichousing.com](http://www.lichousing.com)



# भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA

सीओ.ईएनएफडी.डीईएनबीएफसी.सं./S15/02-14-261/  
2024-25

05 अप्रैल 2024

प्रबंध निदेशक एवं मुख्य कार्यकारी अधिकारी  
एलआईसी हाउसिंग फ़ाइनेंस लिमिटेड  
131, मेकर टावर, "एफ" प्रेमाइसेस,  
तेरहवीं मंज़िल, कफ परेड  
मुंबई - 400 005

महोदय,

राष्ट्रीय आवास बैंक अधिनियम, 1987 की धारा 52क -  
कंपनी की 31 मार्च 2022 की वित्तीय स्थिति पर सांविधिक  
निरीक्षण के दौरान पाए गए भारतीय रिज़र्व बैंक के निर्देशों  
का उल्लंघन

कृपया दिनांक 5 दिसंबर 2023 के कारण बताओ नोटिस सं.  
CO.ENFD.DENBFC.No.S585/02-14-261/2023-  
2024, उसके लिए दिये गए दिनांक 22 दिसंबर 2023 के  
आपके उत्तर, दिनांक 13 एवं 18 मार्च 2024 के पत्रों के  
द्वारा दिए गए अतिरिक्त प्रस्तुतिकरणों एवं 13 मार्च 2024  
को संपन्न वैयक्तिक सुनवाई की कार्यवाही का संदर्भ लें।

2. इस मामले में कार्यपालक निदेशकों की अधिनिर्णय समिति  
द्वारा पारित दिनांक 27 मार्च 2024 के आदेश की मूल प्रति  
इसके साथ संलग्न है।

3. कृपया दंड की राशि केवल एन.ई.एफ.टी. के माध्यम से  
भारतीय रिज़र्व बैंक को भेजें तथा उक्त की पुष्टि हमें  
[cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in), [sindhupancholy@rbi.org.in](mailto:sindhupancholy@rbi.org.in)  
तथा [someshwarbansal@rbi.org.in](mailto:someshwarbansal@rbi.org.in) पर ईमेल द्वारा  
प्रेषित करें। इस हेतु अपेक्षित विवरण नीचे दिया गया है:

खाते का नाम : Enforcement Department  
खाता सं. : 4140200100103191  
आईएफएससी कोड : RBIS0COD001

CO.ENFD.DENBFC.No./S15/02-14-261/  
2024-25

April 05, 2024

Managing Director & Chief Executive Officer  
LIC Housing Finance Limited  
131, Maker Tower, "F" Premises,  
13th Floor, Cuffe Parade  
Mumbai – 400 005

Dear Sir,

**Section 52A of the National Housing Bank  
Act, 1987 – Violation of RBI directions  
observed during statutory inspection with  
reference to company's financial position as  
on March 31, 2022**

Please refer to the Show Cause Notice No.  
CO.ENFD.DENBFC.No.S585/02-14-261/2023-  
2024 dated December 05, 2023, your reply  
thereto *vide* letter dated December 22, 2023,  
additional submissions made *vide* letters dated  
March 13 and 18, 2024 and proceedings of the  
personal hearing conducted on March 13, 2024.

2. The Order dated March 27, 2024 passed by  
the Adjudication Committee of Executive  
Directors in the matter is enclosed herewith, in  
original.

3. The amount of penalty imposed therein may  
be remitted to RBI through NEFT only and  
confirmation of the same may please be sent by  
e-mail to [cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in),  
[sindhupancholy@rbi.org.in](mailto:sindhupancholy@rbi.org.in) and  
[someshwarbansal@rbi.org.in](mailto:someshwarbansal@rbi.org.in). The requisite  
details are as under:

A/c Name : Enforcement Department  
Account No. : 4140200100103191  
IFSC Code : RBIS0COD001



कृपया लेनदेन के प्रयोजन में - “Penalty - Enforcement Department” का उल्लेख करें।

दंड की राशि को भेजने के तुरंत बाद कृपया इसका ब्योरा - जैसे कि जिस बैंक के माध्यम से राशि भेजी गयी उसका नाम, राशि भेजने की तिथि, यू.टी.आर. संख्या, कितनी राशि भेजी गयी - इन्हें उक्त ई-मेल पर भेज दें।

4. यह आदेश पूर्ण गोपनीयता के साथ जारी किया गया है और इसे किसी अन्य व्यक्ति/प्राधिकरण के साथ साझा नहीं किया जाना चाहिए अथवा जब तक कि किसी कानून द्वारा या उसके अंतर्गत विशेष रूप से आवश्यक न हो, किसी अन्य तरीके से खुलासा या प्रकाशित नहीं किया जाए।

5. इस पत्र की प्राप्ति की सूचना हमें [cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in), [sindhupancholy@rbi.org.in](mailto:sindhupancholy@rbi.org.in) तथा [someshwarbansal@rbi.org.in](mailto:someshwarbansal@rbi.org.in) पर ईमेल के द्वारा दें।

Description of transaction should be “Penalty – Enforcement Department”.

Immediately after the penalty amount is remitted, you are advised to forward the details of the same, i.e., name of the bank through which remitted, date of remittance, UTR Number and the amount remitted, to the above E-mail IDs.

4. The Order is issued in strict confidence, and it should not be shared with any other person/authority or disclosed or published in any other manner, unless specifically required by or under any law.

5. Please acknowledge receipt of this letter through e-mail at [cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in), [sindhupancholy@rbi.org.in](mailto:sindhupancholy@rbi.org.in) and [someshwarbansal@rbi.org.in](mailto:someshwarbansal@rbi.org.in).

भवदीय / Yours faithfully

(सिंधु पंचोली) / (Sindhu Pancholy)

महाप्रबंधक / General Manager

अनुलग्नक : यथोक्त / Encl: As above



RESERVE BANK OF INDIA / भारतीय रिज़र्व बैंक  
ENFORCEMENT DEPARTMENT / प्रवर्तन विभाग  
CENTRAL OFFICE / केन्द्रीय कार्यालय

BEFORE THE ADJUDICATION COMMITTEE, RESERVE BANK OF INDIA

IN THE MATTER OF

**Non-compliance with Reserve Bank directions by LIC Housing Finance Limited  
observed with respect to financial position as on March 31, 2022**

The Reserve Bank, in exercise of the powers conferred under  
section 52A of the National Housing Bank Act, 1987 passes the following

ORDER

**Background**

The statutory inspection of LIC Housing Finance Limited (the company), with reference to its financial position as on March 31, 2022, was conducted by the National Housing Bank (NHB) between February 20, 2023 and March 20, 2023. The Inspection Report (IR) pertaining thereto revealed, *inter alia*, non-compliance with certain provisions of the "Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021".

2. Based on the above, a show cause notice No. CO.ENFD.DENBFC.No./S585/02-14-261/2023-2024 dated December 05, 2023 (SCN) was issued to the company by the Reserve Bank (RBI), calling upon it to show cause, in writing, as to why the maximum penalty stipulated under section 52A of the National Housing Bank Act, 1987 (NHB Act) should not be imposed on the company for non-compliance with the aforementioned direction issued by RBI, as stated therein.
3. The company submitted its reply to the SCN *vide* letter dated December 22, 2023. The company made additional submissions *vide* its letters dated March 13 and 18, 2024. An opportunity of Personal Hearing (PH) was also accorded to the company upon its request. The representatives of the company (Annex-I) made oral submissions during the PH held on March 13, 2024 before the Adjudication Committee of Executive Directors (AC) comprising the undersigned.
4. All the records pertaining to the matter placed before the AC, including the company's written submissions made *vide* letter dated December 22, 2023 in reply to the SCN (as detailed in Annex-II), additional submissions made *vide* letters dated March 13 and 18, 2024 and oral submissions made during the PH, were duly considered and evaluation of





the regulations and facts, findings arising therefrom and conclusion of the AC thereon, are as follows:

#### **4.1 Charge: Non-compliance with the RBI directions on Fair Practices Code for Housing Finance Companies**

##### **4.1.1 Charge in the SCN**

*“The company failed to comply with the Reserve Bank directions for Housing Finance Companies (HFCs), when it -*

- i. did not disclose, rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers, to its customers in the application forms and also did not communicate the same explicitly in the sanction letters; and*
- ii. did not have an interest rate model adopted by the Board; and*
- iii. charged pre-payment levy or penalty in the form of interest for six months in -*
  - a. 393 housing loans sanctioned under floating rate of interest (amount collected ₹1,02,33,338.47) and*
  - b. 26 housing loans sanctioned under fixed rate of interest (amount collected ₹6,02,483.00) which were preclosed by the borrowers out of their own sources.*

*(As detailed in excel sheet referred to in the Annex to SCN)”*

##### **4.1.2 Submissions by the company**

**4.1.2.1** The company made its written submissions, *vide* letter dated December 22, 2023, in reply to the charges contained in the SCN. The relevant submissions of the company are as follows:

- I. As regards the charge relating to non-disclosure of rate of interest and approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers in loan application forms and sanction letters, the company submitted that -
  - i. *“Based on the requirements of the customers LIC Housing Finance Ltd. provides different housing schemes and products. In all the schemes / products the interest rates are categorised based on the CIBIL credit score associated with the customers’ credit history. The different categories of interest rates applicable to different schemes / products are compiled in the document “Basket of Products” which is displayed in the Comprehensive Notice Board at our offices. The same is*





also displayed on the Company's website for customers & public at large and are updated from time to time."

- ii. "The rate of interest which is based on the loan product / scheme and profile of the customer is mentioned in the Loan Sanction Letter issued to a customer. Hence the customer is aware of the rate of interest being charged and only after the consent of the customer has been obtained, the loan is disbursed to him."
  - iii. "However, in the interest of greater transparency, we have now made it compulsory for disclosure of the rate of interest and also inform the customer of the approach to gradation of risk and rationale for charging different rates of interest in the loan application form and sanction letter and obtain an explicit consent from him before proceeding further."
  - iv. The company furnished a copy of "Basket of Products" with current rates of interest and a sample copy of the sanction letter dated January 06, 2022 issued to a customer, along with its reply.
- II. As regards the charge of not having an interest rate model adopted by the Board, the company submitted that -
- i. "The Prime Lending Rate of the company is recommended by ALCO and approved by the Board level Executive Committee (EC) based on the movement in Cost of Funds / Projected cost of funds, Salary & Establishment expenses, Provisions for NPA / Bad Debt and Profit margin. Other factors such as rate revision by the RBI are also considered while taking the decision to revise rates. The Board in its meeting dated 22/12/2005 had approved the model of pricing of loans which comprised of above-mentioned components."
  - ii. "Further, the Board in its meeting held on 30/01/2012 authorised the Executive Committee of the Board to approve LICHFL-PLR and to review & revise the same from time to, EC has reviewed the LICHFL-PLR latest on 29/03/2023. As such this responsibility is being discharged by the Executive Committee based on the authorisation of the Board of Directors as indicated above and this aspect is already complied."
  - iii. The company furnished copies of 'note & minutes' of meetings of the Board held on December 22, 2005 and January 30, 2012 and copies of 'Executive Committee note & minutes' dated March 29, 2023, along with its reply.





III. As regards the charge relating to charging of pre-payment levy or penalty in housing loans, the company submitted that -

- i. *"The interest collected for full first 6 months is not a pre-payment levy or penalty on pre-closure of housing loans, but it is a payment of interest to cover the operating expenses, for reasons mentioned below, and is not of a restrictive nature:*
  - a) *Cost of acquisition of a borrower, the administrative expenses towards sanction of the loans and initial negative carry of funds are to be provided for.*
  - b) *The Company raises funds by borrowings from banks and markets which involves cost. The cost of borrowing needs to be provided for.*
  - c) *The very purpose of a home loan is to provide secure and long-term loans to the genuine borrowers, and the same should not be treated as Bridge Loan by the borrowers.*
  - d) *Further, the customers were explicitly informed by indication of this fact in clause 8 of the Loan Sanction Letter (specimen attached in Annexure-2) and they have duly accepted the conditions of the sanction letter before disbursement of loan."*
- ii. *"However, in view of the observations of NHB in this regard during Inspection in Feb-Mar 2023, the matter was reviewed. With effect from 01/04/2023, in such cases, Interest is being charged only for the period till date of closure of the loan. As the company has effected correction in this procedure to adhere to the regulatory guidelines with effect from 01/04/2023, we request you to view this aspect leniently."*

**4.1.2.2** The company, vide its letter dated March 13, 2024, furnished the current status in the matter and submitted that –

I. As regards not having an interest rate model adopted by the Board, -

*"The factors involved in the Rate of Interest / Prime Lending Rate had references in various documents. The management integrated these points in the form of a document on Interest Rate Model and placed it separately to the Board for approval. The Board in its meeting dated 07/03/2024 approved the Interest Rate Model (minutes to be finalised)."*

II. As regards charging of pre-payment levy or penalty in housing loans, -





- i. *"From 01/04/2023, if loan is closed within 6 months of 1<sup>st</sup> disbursement, interest is collected only up to the date of payment. Regulatory guidelines are now adhered to."*
- ii. *"Further, as directed by the Board, the Company initiated the refund process for the 419 cases enumerated in the Show Cause Notice. In the 419 cases, out of the Interest collected Rs. 1,08,35,821.47, the excess Interest from the date of payment till 6 months (differential amount) works out to Rs. 80,12,680."*
- iii. *"Of these cases, the Company has refunded, through NEFT, the differential amount to the customer in 267 cases amounting to Rs. 41,08,092/- In the remaining cases the company is in the process of obtaining Bank details of the borrower(s) for refunding the amount. We expect the process of refund to all the borrowers to be completed by 31-03-2024."*
- iv. *"Additionally, the Company has proactively identified 418 such cases during FY 2022-23. In the 418 cases, out of the Interest collected Rs. 1,46,27,841/-, the excess Interest from the date of payment till 6 months (differential amount) works out to Rs. 1,13,39,182/-."*
- v. *"The refund process has been initiated in 342 cases of 2022-23 for Rs. 85,47,031/-. In the remaining 76 cases, the Company is in the process of obtaining bank details of the borrower (s) to carry out the refund process and We expect the process of refund to all the borrowers to be completed by 31-03-2024."*

**4.1.2.3** The company, vide its letter dated March 18, 2024, made the following submission in respect of the charge relating to charging of pre-payment levy or penalty in housing loans:

- i. *"Whereas the total amount of interest collected in all these 419 pre-closed loans was Rs. 1,08,35,821.47, on analysis of each of these 419 loans we observed that an amount of interest totalling to Rs. 28,23,141.47 was correctly charged for the period between the date of disbursement of loan till the exact date of closure of the loan (loan availed period)."*
- ii. *"The balance amount of Rs. 80,12,680 had been collected for the period from the date of closure of the loan till the date of expiry of 6 months. We have now started refunding the excess interest collected amounting to Rs. 80,12,680 under 419 loan accounts."*







- iii. “As on date the company has refunded the excess amount charged in 303 cases, amounting to Rs. 47,23,992/-, through NEFT. In the remaining cases the company is in the process of obtaining Bank details of the borrower(s) for refunding the amount.”

**4.1.2.4** The company, in its oral submissions made during the PH held on March 13, 2024, reiterated its submissions provided in writing till that date.

#### **4.1.3 Evaluation of regulation and facts**

**4.1.3.1** In terms of paragraph 80.1 of the Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (issued vide DOR.FIN.HFC.CC.No.120/ 03.10.136/2020-21 dated February 17, 2021 and updated as on 28.12.2021) (hereinafter referred to as 'Master Direction'), it was mandated that –

*“The Board of each HFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter...”.*

**4.1.3.2** In terms of paragraph 85.6 of the aforesaid Master Direction, it was mandated that –

*“HFCs shall not charge pre-payment levy or penalty on pre-closure of housing loans under the following situations:*

- a. *Where the housing loan is on floating interest rate basis and pre-closed from any source.*
- b. *Where the housing loan is on fixed interest rate basis and the loan is preclosed by the borrower out of their own sources.*

*The expression “own sources” for the purpose means any source other than by borrowing from a bank/ HFC/ NBFC and/or a financial institution...”.*

**4.1.3.3** From the sample loan sanction letter dated January 06, 2022 (furnished by the company in reply to the SCN), it is seen that one of the conditions stated that *“If the principal is repaid either in full or in part within 6 months from the date of disbursement of the loan or first instalment thereof, interest shall be charged for a minimum period of 6 months on the outstanding principal amount as on the date of repayment”.*





#### 4.1.4 Findings

**4.1.4.1** While RBI directions required all HFCs to disclose rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers in the loan application forms and communicate the same explicitly in the sanction letters, the company had not disclosed the same in the loan application forms as well as sanction letters. The company claimed that the interest rates in all the schemes / products were categorised based on the CIBIL credit score associated with the customers' credit history and that different rates of interest applicable to different schemes / products and categories of borrowers were compiled in the "Basket of Products" and displayed in the 'Comprehensive Notice Board' at its offices. Also, the company claimed that it has 'now' made it compulsory to disclose the rate of interest and the approach to gradation of risk and rationale for charging different rates of interest in the loan application forms and sanction letters and obtain an explicit consent for the same from borrowers. The company further claimed to have communicated the applicable rates of interest to each of the borrowers in the sanction letters.

**4.1.4.2** While RBI directions required Boards of HFCs to adopt interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances, the IR observed that the company did not have a 'Board approved Policy on Lending Rate calculation'. The company claimed that the interest rate model, approved by the Board, was in place since December 22, 2005, which took into consideration movement in cost of funds / projected cost of funds, salary & establishment expenses, provisions for NPAs / bad debts, profit margin and rate revision by RBI for deciding the prime lending rate (PLR). The company further claimed that the Executive Committee of the company's Board was authorised (by the Board) on January 30, 2012 to approve/review/revise PLR from time to time, and last such review was done on March 29, 2023. Also, the company claimed that an integrated document on 'Interest Rate Model' was approved in the Board meeting held on March 07, 2024.

**4.1.4.3** While RBI directions required HFCs to not charge pre-payment levy or penalty for pre-closure of housing loans sanctioned on floating interest rate basis and pre-closed from any source and for housing loans sanctioned on fixed interest rate basis and pre-closed from borrowers' own sources, the company had admittedly charged pre-payment penalty, amounting to a sum totalling ₹80,12,680, in 393 housing loans sanctioned on floating rate of interest basis and 26 housing loans sanctioned on fixed rate of interest basis and pre-closed from borrowers' own sources, where pre-payment was done by the





customers within six months of disbursement of the loans / first instalment thereof. The company claimed that –

- i. the money collected from customers was not a pre-payment levy or penalty, but was recovery of interest to cover the costs related to customer acquisition and borrowings and to attract only genuine borrowers, and this was informed to the customers in their sanction letters;
- ii. it stopped the practice with effect from April 01, 2023 and since then interest was claimed only for the period till date of closure of the loan;
- iii. it refunded a total amount of ₹47,23,992/-, out of the total amount of ₹80,12,680, to 303 borrowers through NEFT till March 18, 2024; and
- iv. it was in the process of obtaining bank details of the borrower(s) in the remaining cases for refunding the amount, which is expected to get completed by March 31, 2024.

#### 4.1.5 Conclusion

**4.1.5.1** As regards the charge relating to non-disclosure of rate of interest and approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers in loan application forms and sanction letters, -

- i. The company's contention that in all the schemes/ products the interest rates are categorised based on the CIBIL credit score associated with the customers' credit history is not relevant for these proceedings as the charge in the SCN does not pertain to categorising of interest rates based on the CIBIL credit score associated with the customers, but to the requirement of making mandatory disclosures to the borrowers, regarding the rationale for charging different rate of interest to different categories of borrowers, in the application forms and sanctions letters.
- ii. The company's contention that different rates of interest applicable to different schemes / products and categories of borrowers were compiled in the "Basket of Products" and displayed in the Comprehensive Notice Board at its offices, is also not relevant in these proceedings, as the charge in the SCN is not regarding disclosure on the website or notice boards of the branches of the company.
- iii. The company's claim that the rate of interest which is based on the loan / product and the profile of the customer is mentioned in the loan sanction letter issued to a customer and therefore the customer was aware of the rate of interest being charged is not tenable, as the loan sanction letter only mentioned the rate of





interest being charged to the customer and did not disclose the rate of interest and the approach for gradation of risk for charging different rate of interest to different categories of borrowers. Upfront disclosure of such information to the prospective customers in the application forms is part of the Fair Practices Code prescribed for non-banking financial companies. Further, the company admitted that in the interest of greater transparency it had now made it compulsory for disclosure of the rate of interest and the approach to gradation of risk and rationale for charging different rates of interest in the loan application form and sanction letter, which indicates that the company has only now started to disclose the same in the loan application forms and sanction letters.

**4.1.5.2** As regards the charge relating to charging of pre-payment levy or penalty in housing loans, the company's claim that the interest collected from customers was not a pre-payment levy or penalty, but was recovery of interest (for pre-closure of loans within six months of disbursement / first installment thereof) to cover the costs related to customer acquisition and borrowings and to attract only genuine borrowers, and this was informed to the customers in their sanction letters, is not tenable and not acceptable, as the recovery of pre-payment levy / penalty is prohibited for housing loans under the RBI directions (as explained in para 4.1.3.2 above) regardless of the terminology used to describe such charges or the rationale extended for collecting such charges and the same would not become permissible merely by disclosure of the same to the borrowers. The company had collected a substantial amount of ₹80,12,680 from the borrowers towards pre-payment penalty during the financial year 2021-2022.

**4.1.5.3** Based on the above and the findings given in paragraph 4.1.4 hereinabove, the AC concludes that –

- I. To the extent the company had not disclosed rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers in the loan application forms/sanction letters till recently, it had contravened the RBI directions contained in paragraph 80.1 of the Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, which warrants imposition of monetary penalty.
- II. To the extent the company claimed to have had an interest rate model, approved by the Board, since December 22, 2005, the charge is not substantiated.
- III. To the extent the company had charged pre-payment levy or penalty in the housing loans sanctioned on floating rate basis and on housing loans sanctioned on fixed





rate basis and closed from borrowers' own sources, it had contravened the RBI directions contained in paragraph 85.6 of the Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, which warrants imposition of monetary penalty.

## Order

5. If any housing finance institution which is a company fails to comply with any direction given or any order made by RBI under any of the provisions of Chapter V of NHB Act, then RBI may, in terms of section 52A of NHB Act, impose on such person or housing finance institution, for a contravention or default committed before January 22, 2024, a penalty not exceeding five lakh rupees or twice the amount involved in such contravention or default, where the amount is quantifiable, whichever is more; and where such contravention or default is a continuing one, further penalty which may extend to twenty five thousand rupees for every day, after the first day, during which the contravention or default continues.

6. In view of the failure of the company to comply with the directions issued by RBI to the extent concluded in paragraphs 4.1.5(I) and 4.1.5(III) hereinbefore, it is decided to impose a penalty of (i) ₹1,60,000/- (Rupees One Lakh Sixty Thousand only) for non-disclosure of rate of interest and approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers in loan application forms/sanction letters, and (ii) ₹48,10,000/- (Rupees Forty-Eight Lakh Ten Thousand only) for charging of pre-payment penalty in housing loans.

7. Accordingly, in exercise of the powers conferred under section 52A of the National Housing Bank Act, 1987, an aggregate penalty of **₹49,70,000/- (Rupees Forty-Nine Lakh Seventy Thousand only)** is hereby imposed on **LIC Housing Finance Limited** and the company is directed to pay the said penalty of ₹49,70,000/- (Rupees Forty-Nine Lakh Seventy Thousand only) within thirty (30) days from the date of receipt of this Order.

8. A copy of this order be served on the MD & CEO of the company for due compliance. The imposition of penalty is without prejudice to such other action as RBI may consider necessary.

  
(Manoranjan Mishra)  
Executive Director

27 MAR 2024

Mumbai

  
(Deepak Kumar)  
Executive Director

  
(Radha Shyam Ratho)  
Executive Director



## Annex I

### List of representatives of the company in Personal Hearing

Sr. No.	Name	Designation
1.	Shri T. Adhikari	MD & CEO
2.	Shri K. K. Ghoshal	GM (Credit Management)
3.	Shri P. P. Kelkar	GM (Marketing)
4.	Shri Sudipto Sil	CFO
5.	Shri D. R. Muralidharan	CCO
6.	Shri J. Sangameswar	CRO
7.	Shri Krishna Kant Sharma	DGM (Credit Management)
8.	Shri Vikash Awasthi	DGM (Marketing)
9.	Shri Vikas Gupta	Deputy Manager (Marketing)
10.	Ms. Renuka Vartak	AGM, Compliance
11.	Shri Dharmendra Choudhary	AGM (Credit Management)
12.	Shri Hitesh Talreja	Chief Manager (IT)





## SCN observations and company's written submission

Charge in the SCN	Company's Reply
<p>The company failed to comply with the Reserve Bank directions for Housing Finance Companies (HFCs), when it -</p> <p>i. did not disclose, rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers, to its customers in the application forms and also did not communicate the same explicitly in the sanction letters; and</p> <p>ii. did not have an interest rate model adopted by the Board; and</p> <p>iii. charged pre-payment levy or penalty in the form of interest for six months in -</p> <p>a. 393 housing loans sanctioned under floating rate of</p>	<p>Based on the requirements of the customers LIC Housing Finance Ltd. provides different housing schemes and products. In all the schemes / products the interest rates are categorised based on the CIBIL credit score associated with the customers' credit history. The different categories of interest rates applicable to different schemes / products are compiled in the document "Basket of Products" which is displayed in the Comprehensive Notice Board at our offices. The same is also displayed on the Company's website for customers &amp; public at large and are updated from time to time. A copy of the "Basket of Products" with current rates of interest is attached for ready reference (Annexure-1).</p> <p>The rate of interest which is based on the loan product / scheme and profile of the customer is mentioned in the Loan Sanction Letter issued to a customer (Annexure-2). Hence the customer is aware of the rate of interest being charged and only after the consent of the customer has been obtained, the loan is disbursed to him.</p> <p>However, in the interest of greater transparency, we have now made it compulsory for disclosure of the rate of interest and also inform the customer of the approach to gradation of risk and rationale for charging different rates of interest in the loan application form and sanction letter and obtain an explicit consent from him before proceeding further.</p> <p>The Prime Lending Rate of the company is recommended by ALCO and approved by the Board level Executive Committee (EC) based on the movement in Cost of Funds / Projected cost of funds, Salary &amp; Establishment expenses, Provisions for NPA / Bad Debt and Profit margin. Other factors such as rate revision by the RBI are also considered while taking the decision to revise rates. The Board in its meeting dated 22/12/2005 had approved the model of pricing of loans which</p>





Charge in the SCN	Company's Reply
<p>interest (amount collected ₹1,02,33,338.47) and</p> <p>b. 26 housing loans sanctioned under fixed rate of interest (amount collected ₹6,02,483.00) which were preclosed by the borrowers out of their own sources.</p> <p>(as detailed in excel sheet referred to in the <b>Annex</b>)</p>	<p>comprised of above-mentioned components (copy of note and minutes were enclosed as Annexure-3).</p> <p>Further, the Board in its meeting held on 30/01/2012 authorised the Executive Committee of the Board to approve LICHFL-PLR and to review &amp; revise the same from time to time (Copy of Board note &amp; minutes dated 30/01/2012 enclosed Annexure-4), EC has reviewed the LICHFL-PLR latest on 29/03/2023 (Copy of Executive Committee note &amp; minutes dated 29/03/2023 enclosed Annexure-5), As such this responsibility is being discharged by the Executive Committee based on the authorisation of the Board of Directors as indicated above and this aspect is already complied.</p> <p>The interest collected for full first 6 months is not a pre-payment levy or penalty on pre-closure of housing loans, but it is a payment of interest to cover the operating expenses, for reasons mentioned below, and is not of a restrictive nature:</p> <p>a) Cost of acquisition of a borrower, the administrative expenses towards sanction of the loans and initial negative carry of funds are to be provided for.</p> <p>b) The Company raises funds by borrowings from banks and markets which involves cost. The cost of borrowing needs to be provided for.</p> <p>c) The very purpose of a home loan is to provide secure and long-term loans to the genuine borrowers, and the same should not be treated as Bridge Loan by the borrowers.</p> <p>d) Further, the customers were explicitly informed by indication of this fact in clause 8 of the Loan Sanction Letter (specimen attached in Annexure-2) and they have duly accepted the conditions of the sanction letter before disbursement of loan.</p>







Charge in the SCN	Company's Reply
	<p>However, in view of the observations of NHB in this regard during Inspection in Feb-Mar 2023, the matter was reviewed. With effect from 01/04/2023, in such cases, Interest is being charged only for the period till date of closure of the loan. As the company has effected correction in this procedure to adhere to the regulatory guidelines with effect from 01/04/2023, we request you to view this aspect leniently.</p>

