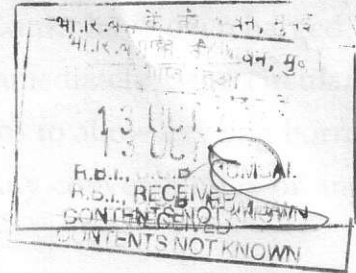


12 October 2017

Dr Urjit Patel  
Governor  
Reserve Bank of India  
Mumbai



Subject: Excess Interest Charged By Banks under Base Rate and MCLR Regime

Dear Dr Patel,

As you are probably aware, we at MoneyLife have been raising the issue of arbitrary and opaque policy of banks in respect of floating interest rates. Borrowers who have taken loans on a floating rate basis suffer an immediate increase in rates when rates go up but do not get much relief when rates go down. We have highlighted this issue in two articles in MoneyLife magazine.

The findings of Reserve Bank's Internal Study Group to "Review the Working of the MCLR System" vindicate our stand on these issues. The Group has highlighted that banks deviated in an ad hoc manner from the specified methodologies for calculating the base rate and the MCLR to either inflate the base rate or prevent the base rate from falling in line with the cost of funds. According to the Study Group, "banks have been quite slow in migrating their existing customers to the MCLR regime. Most of the base rate customers are retail or small and medium enterprise (SME) borrowers. Hence, the banking sector's weak pass through to the base rate is turning out to be deleterious to the retail and SME borrowers in an easy monetary cycle."

This is a serious issue. Indeed, from the consumer standpoint, this amounts to widespread malpractice, which calls for redressal.

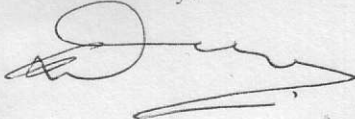
In our view, the Reserve Bank should direct banks to calculate the excess interest

they have charged (through arbitrary and ad hoc calculations of base rate or MCLR) and refund the money to borrowers, especially retail borrowers and SMEs. The RBI should also direct banks to set up special helplines to handle complaints from borrowers, whom banks have overcharged over the years. We also request the Reserve Bank to immediately issue circular/master directions asking banks and financial institutions to allow existing borrowers to migrate to MCLR or any new system without any conversion fee or any other charges for the switchover.

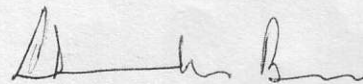
We are taking the liberty of attaching our articles on this issue with this request letter. This is also raised the issue of unfair loan agreements and one-sided terms in our Memorandum to you on issues faced by bank customers dated 18 March 2017.

Dr Patel, we are confident you will have the issue examined and initiate action at the earliest. We look forward to active engagement and a line of acknowledgement from your office.

Yours Truly,



Sucheta Dalal  
Founder-Trustee  
Moneylife Foundation



Debashis Basu  
Founder-Trustee  
Moneylife Foundation

Encl:

1. Executive Summary from the Dr Janak Raj Internal Study Group of RBI
2. Article in Business Standard: "Home Loan Loot: Whose Side is the RBI On?" by Debashis Basu
3. Article in Business Standard: "The deceit and Loot in Home Loans" by Debashis Basu
4. Article in Business Standard: "How opaque MCLR allows looting of borrowers" by Debashis Basu
5. Article in Moneylife: "Banks Are Fleecing Their Customers" by Sucheta Dalal
6. Article in Moneylife: "Borrowers Beware: Your Bank May Be Ripping You Off"

by Sucheta Dalal

7. Moneylife magazine Cover Story: "Your Friendly Bankster" Issue 292

CC:

1. Shri Narendra Modi  
Hon. Prime Minister of India  
Prime Minister's Office,  
152, South Block, Raisina Hill,  
New Delhi-110011
2. Shri Arun Jaitley,  
Minister of Finance  
Ministry of Finance,  
New Delhi-110011
3. Shri Rajiv Kumar  
Secretary (Financial Services),  
Department of Financial Services,  
Ministry of Finance,  
3rd floor, Jeevan Deep Building  
Sansad Marg  
New Delhi-110001