Many Foreign Banks Charge 50% Interest

Lenders such as Citi & HSBC charge exorbitant rates on consumer and unsecured loans

Barclays, HSBC, Standard Chartered and Citibank are among many lenders that charge interest rates as high as 30-50 %,mainly on consumer loans, akin to micro finance lenders that face a possible cap on lending rates. Although all banks have a base rate, or benchmark prime lending rate, most loans are priced well above it as small entrepreneurs and individual borrowers do not have the power to negotiate lower rates. Most of these high-priced loans are either credit card loans or unsecured loans .Citibank and Stan Chart charged a 41% interest rate for over 60% business contracted under the cash credit category while HSBC charged 53% on term loans, RBI data for the quarter ended December 2010 shows. In that quarter, the base rate of most banks was between 7.75% and 9.5%.Although credit card companies justify charging high rates due to high delinquencies on credit card receivables, there is an urgent need to cap such rates of interest as it is done in case of MFIs, said AC Mahajan, former chairman & managing director of state-run Canara Bank.It is generally believed that some banks, including foreign and private banks, charged 36% upward on credit cards dues and extra penalty on overdues. Banks lending practices, including those of state-run ones, were questioned when they were found lending below their previously benchmarked prime lending rates to top clients.

At the same time, banks were charging the smaller ones morea case of the poor subsidising the rich. That made the RBI mandate the base rate last year, the rate below which no bank can lend. The rates charged on consumer loans, especially credit cards, have also been questioned, but there is no indication of regulating them. The interest rate of 50% refers to the consumer finance business which was closed down in 2008, said an HSBC spokesperson. However, some of these loans were of up to four years tenor and are being repaid. Such loans form less than 1% of HSBC's retail loan book. Currently, in the unsecured loans category, HSBC offers personal loans where the interest rates are in the 17-22 % range. There was a debate a few years ago on usurious rates when recovery agents tortured customers to receive payments. But banks changed course and instead cut their indiscriminate selling of credit cards. A similar development in some parts of Andhra Pradesh last year led to a state legislation that curtailed business. Subsequently, the central bank accepted the recommendations of the Malegam Committee that suggested ceilings on the loan amount and interest rates. Industry leader State Bank of India has been lending in the range of 7-15 % while second-largest lender ICICI Banks loans are between 6% and 19.50%.The lower rates for domestic private sector banks, which have similar business practices as foreign ones, may be due to non-reporting of some high interest-bearing loans under the category that foreign banks report. Some of the rates may also be due to the penalty after default. This data is picked up from a return submitted by all commercial banks where we are required to input outstanding amounts and interest rate range for various categories of loans, said a Citibank spokesperson. In respect of the category cash credit, the range is 9% to 42 %,the upper end referring to interest on credit card revolving component, which also includes penal interest and is within the prevailing industry norms. Under an RBI guidance note that we follow, revolver exposures are required to be reported under the cash credit category. Standard Chartered and Barclays did not respond to an email seeking comment at the time of going to press. The data shows PSU and private banks charged a maximum rate of 18% and 22%,respectively,on term loans and demand loans wherein at least 60% of business was contracted. However for the same category, foreign bank have charged 53% and 40%,respectively.