Loan Cash Back Scheme

Why in news?

The Centre waives the compound interest on loans up to Rs 2 crore.

What is the government's proposal?

- The Finance Ministry issued certain guidelines to the banks.
- It said that the difference between the compound interest and simple interest for a period of six months will be provided to all borrowers with loans up to Rs 2 crore.

What does this mean?

- This means that the borrowers need to pay only simple interest.
- The government will pay back the difference between compound interest charged during those six months and simple interest.
- The ex gratia payment will be admissible irrespective of whether the borrower had availed the moratorium on repayment or not.
- It is for those loan accounts which are standard and not non-performing assets (NPAs) as on February 29, 2020.
- For loan accounts which were closed during this period, the ex gratia payment will be made from March 1, 2020 till the date of closure of such account.

Who is eligible for the scheme?

- The compound interest waiver is for most of the loans: housing, MSME, education, credit card dues, automobile, personal loans to professionals.
- Any borrower whose aggregate of all facilities with lending institutions is more than Rs 2 crore will not be eligible for the waiver.
- The waiver will be provided by all private and state-owned banks, cooperative banks, regional rural banks, housing finance companies and non-banking financial institutions.
- The rate of interest used to calculate the ex gratia amount will be based on the contracted rate specified for most loans.
- Exact waiver benefit will depend on the stage of the loan and outstanding principal amount.

What is the relief being offered to borrowers?

- This waiver may come as a relief to borrowers, mainly whose loans are in initial years of repayment as their interest component is a major chunk.
- This would help in reducing the burden on borrowers as they are required to pay the contracted rate of interest on loans.
- However, customers will still have to bear the liability of simple interest accumulated during the six of the moratorium period.

How's the calculation done?

- The government has specified that for reimbursement, the compounding of interest should be reckoned on a **monthly basis**.
- The rate of interest to be applied for calculating the difference will be the contracted rate as specified in the loan agreement.
- For credit card dues, the rate of interest will be the weighted average of lending rate charged by the card issuer for transactions financed on the EMI basis during the period from March 1, 2020 to August 31, 2020.

Will the bank be able to handle it?

- Bankers say that it's not an easy task and involves more paperwork for banks and housing finance firms.
- Banks should process the claims of borrowers and credit the amount.
- They will have to lodge the claim for reimbursement with the designated cell at State Bank of India (SBI) by December 15, 2020.
- SBI, nodal agency for the scheme, will evaluate the claims and furnish the details to the government.
- Lending institutions will get the funds through SBI.

What's the cost to the government?

- The cash outgo from the government is likely to be between Rs 5,000-7,000 crore as all the borrowers may not be eligible for the scheme.
- However, the government has not given any deadline on paying up the cash-back to the banks.

Source: The Indian Express

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