



## ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No: 3427/Delhi)

State Bank Buildings, St. Mark's Road, Bangalore – 560 001

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**CIRCULAR NO.17**

**07.02.2012**

**TO ALL AFFILIATES/MEMBERS:**

### **ENHANCEMENT OF HOUSING LOAN TO BANK EMPLOYEES AT INDUSTRY LEVEL**

You are aware of the fact that we have been pursuing vigorously with IBA/Govt. to enhance the quantum of Housing Loan to Bank Officers with concessional rate of interest and evolve a uniform scheme for the Banking Industry. At present, the quantum of Housing Loan varies among Banks and there is no uniformity in implementing the Housing Loan Scheme. Moreover, some steps are afoot to dilute the scheme and bring the Bank employees' Housing Loan Scheme on par with the Housing Loan Scheme for the general public. We have taken a strong exception to this move of the Govt. and we have addressed a letter to IBA, wherein we have made some suggestions to improve the scheme, with attendant concessional rate of interest.

- 2.** A copy of the letter annexed to this letter is self-explicit.
- 3.** Further developments in this regard will be posted to you.

With greetings,

**(G.D.NADAF)  
GENERAL SECRETARY**



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**No.1452/39/12**

**03.02.2012**

To,  
**The Chairman,**  
Indian Banks' Association,  
Stadium House, 6<sup>th</sup> Floor,  
Block No.3, Veer Nariman Road,  
**MUMBAI – 400 020.**

Dear Sir,

SUB: ENHANCEMENT OF HOUSING LOAN TO BANK EMPLOYEES AT  
INDUSTRY LEVEL

REF: (i) Your letter No.HR&IR/CIR/2011-12/76/624A/728/4620 dated  
09.12.2011, addressed to CEOs of Public Sector Banks.  
(ii) Your letter No. HR&IR/MV/Govt./624A/4171/dated 30.09.2011  
addressed to the Ministry of Finance, Department of Financial  
Services, Govt. of India.

We have for reference your captioned letters and observe that, you had written to the Govt. of India, recommending upward revision in quantum of Staff Housing Loan to Bank employees at a maximum of Rs. 25.00 lacs for officers, Rs.15.00 lacs for Award Staff, and Rs.10.00 lacs for sub-staff at uniform rate of interest of 8% simple per annum.

**2.** Now, we learn that the Govt. of India, vide their letter No.F:No.4/5/2/2003-IR, dated 16<sup>th</sup> November, 2011 have advised you to revisit the above proposal and send revised recommendations covering the following points:

- (a) Assess the impact of the concession Loan in terms of cost to Banks.

- (b) Interest rate should be indexed with the prevailing Base Rate and clearly conveying that while for smaller loan there could be some rebate from the base rate and this should get progressively reduced and bigger loan should be at par with the terms of loan given to general public. The scheme may provide for such ceilings.
- (c) The Government has also suggested to you to prepare a model scheme to be followed by all Public Sector Banks and forward to Government for consideration.

**3.** These suggestions of the Government are in contravention of the existing staff loan schemes, with concessional rate of interest since these schemes have been considered as welfare measure for employees in the Banking Industry to own a shelter. Bringing the rate of interest on par with the rates applicable to general public, amounts to annulling the welfare measure to the employees. While we oppose this retrograde suggestion of the Government, we wish to make it emphatically clear that interest concession hitherto enjoyed by the Bank Employees needs to be revisited and the rate be reduced further. The concessional rate of interest has been enjoyed by the Bank employees for more than four decades, due to historical reasons and settlements. It is a fact that, employees in other Public Sector industries enjoy concessions as regards the product/services rendered by their industry. In this background, we strongly feel that, indexing the interest rate on Housing Loans to base rate and on par with loans to general public, will deprive the Bank Officers/employees to loose the element of concession in the rate of interest extended as a welfare measure, which is being enjoyed even prior to introduction of the model scheme by the Government.

**4.** The impact of the Government's suggestions and our proposal can be summarized as follows:

<b>Details</b>	<b>IBA's Proposal</b>	<b>Our Proposal</b>
Quantum Proposed	25 lacs	30 lacs
Repayment	20 years	25 years or upto 75 years of age

Rate of Interest	8% Simple Flat	6% Simple Flat
<b>Interest Payable</b>	<b>Rs. 20,44,333/- (Approx.)</b>	<b>Rs.23,44,500/- (Approx.)</b>

**5.** From the above, you may observe that the officers/employers will be forced to pay more interest @ 8% simple per annum rather than with other rates indicated hereinabove. The proposed move will put a heavy burden on the Bank officers/employees.

**6.** The Staff Housing Loan carried interest rate of 5% upto Rs.1.10 lacs and 10% for loan between Rs.1.10 lacs and Rs.5.00 lacs and these rates were fixed during 1988, when third party lending rate was at 18% p.a.

**7.** It is pertinent to note here that, during the intervening period the rate of interest on home loans to the general public came down to 6% to 7%, prior to the rates looking northward again a couple of years ago. But rate of interest on Staff Housing Loan continued to be 10% and 11% above the slab of Rs.1.10 lacs. Even interest rate for loans to general public has been prevailing at 10% (Base rate) but the interest rate on Staff Housing Loan was not reduced in consonance with the falling interest rate. This, needless to say has resulted in the element of concession in the rate of interest, hitherto enjoyed by the Bank employees, being lost.

**8. LINKING STAFF HOUSING LOAN INTEREST RATE TO "COST OF FUND TO BANK".**

Through its communication dated 16.11.2011, the government has advised all the Banks to link rate of interest on Staff Housing Loans to the cost of funds.

We wish to bring to your kind notice the fact that, average cost of fund for the entire Banking Industry as at 30<sup>th</sup> September, 2011 was worked out to be 6.30%, which is on the higher side because of raising of Repo/Reverse Repo rates during the last 12 months on more than 13 occasions. Otherwise, the cost of fund for the Banking Industry normally works out to 5.50% only.

Going by the above facts the effective rate of interest on Staff Housing Loans should be fixed at around 6% p.a. irrespective of the quantum of loan.

#### **9. STAFF LOANS AS PERCENTAGE TO TOTAL ADVANCE AND EARNING ASSETS OF THE BANK:**

Staff Loans as a percentage to total advances works out to less than 0.50% only, at the Industry level.

Also the Staff Loans as a percentage to average earning assets of the Bank works out to 0.40% only.

From the above, you may observe that, staff advances to total advances of the Banks works out to less than 0.50% which is very, very negligible.

Organisations like HUDCO, Axis Bank, grant Staff Housing Loans at 4 to 6% p.a. simple, as an employee welfare measure.

#### **10. PERFORMING ASSETS**

Staff Loans are always standard and Performing Assets and hence, no cost of provisioning for NPAs is required while indexing rate of interest for Staff Loans.

#### **11. LOANS TO CORPORATE BODIES ARE SUBSIDISED**

As per the credit policy of the Banks, loans to Corporates are being sanctioned subject to the rating and pricing policy.

Most of the loans to Corporates are being considered at concessional rate of 2% to 3% less than the applicable rate of interest for the particular segment of borrowers.

**12.** In this background, we would like to offer the following suggestions.

- a)** Enhancement in the quantum of loan upto Rs. 30.00 lacs for officers.
- b)** The rate of Interest should not be at 6% p.a (simple).
- c)** Repayment schedule to be increased to 25 years and/or upto 75 years of age whichever is earlier.
- d)** Outstanding loan amount at the time of superannuation should be recovered by way of EMIs from pension or earnings on superannuation benefits, upto the age of 75 years.
- e)** If husband and wife are working in the same Bank or different organisations, House Building Advance may be permitted to them to avail the loan at concessional rate, individually to acquire different properties in the name of husband and wife.

If both of them are working in the same Bank, they shall be permitted to avail the combined limit or individual limit to acquire properties according to their requirement.

- f)** Second Housing loan for acquiring residential accommodation at concessional rate of interest should be permitted as majority of officers may have availed small quantum of loan earlier to acquire an economy flat/house.

**13.** We request you to take note of the above and send suitable recommendations to the Govt. of India; to continue the existing provisions with further liberalisation in interest concession as well as quantum of loan, so as to enable the Bank Officers/employees acquire a decent living accommodation.

Thanking you,

Yours faithfully,

A handwritten signature in black ink, appearing to be 'G.D. NADF', written in a cursive style.

**(G.D.NADF)**  
**GENERAL SECRETARY**