

**Zero percent Interest Finance
Schemes for Consumer Durables**

**Reserve Bank of India
Central Office
Department of Banking Operations and Development
Centre - 1, World Trade Centre
Cuffe Parade, Colaba, Mumbai - 400 005**

Ref. DBOD No. Dir. BC. 19/13.07.01/2002-03

August 19, 2002
Shravana 28 ,1924(Saka)

All Scheduled Commercial Banks
(excluding RRBs & LABs)

Dear Sir,

**Zero percent Interest Finance
Schemes for Consumer Durables**

Please refer to item 2(i) of Annexure I of our Master Circular DBOD No. Dir.BC. 6/13.07.01/2001-02 dated 9 August 2001 in terms of which banks are required to charge interest on loans for purchase of consumer durables at the rate not below their PLR regardless of size of the loan amount.

2. It has been observed that some of the banks are providing low/zero percent interest rates on consumer durable advances to borrowers through adjustment of discount available from manufacturers/dealers of consumer goods. Some of the banks are also promoting such schemes by releasing advertisement in different newspapers and media indicating that they are promoting/financing consumers under such schemes.

3. The issue has been examined by us and we advise that such loan schemes lack transparency in operations and distort pricing mechanism of loan products. These products do not also give a clear picture to the customers regarding the applicable interest rates. Banks are, therefore, advised to refrain from offering such products. They are also advised to refrain from linking their names in any form/manner with any incentive-based advertisement where clarity regarding interest rate is absent.

4. Please acknowledge receipt.

Yours faithfully,

**(R.C. Agrawal)
General Manager**