Repaying home loan? Expect more fair play from banks

Housing Loans To Be Decided By Markets From Apr

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: Borrowers can now expect more fair play when it comes to pricing of home loans, which will soon be decided by markets rather than banks.

The RBI said on Wednesday that from April 1, 2019, it will be mandatory for banks to link all floating rate loans, which are extended to individuals and small business, to an external benchmark. This benchmark can be the RBI's repo rate, yield on the 91-day or 181-day treasury bill or any other yardstick produced by the Financial Benchmarks of India.

"We have been moving towards enhancing transparency on loans. As part of this, we moved from base rate to marginal cost of lending rate. In furtherance of this objective, we are making it mandatory for banks to link personal and SME loans after April 2019," N S Vishwanathan, deputy governor, RBI, said. The actual interest rate will be the benchmark plus the margin the bank chooses, which will remain constant throughout the loan tenure.

A long-standing grievance of home loan borrowers has been that banks manipulate the floating rate benchmark to offer better deals to new customers without bringing down rates for old customers. Using an external benchmark will mean that any change in market rates will get automatically reflected in all home loans.

Citibank is the only lender in India that uses external benchmark for home loans. In March this year, the bank had introduced a home loan scheme where the rate of interest was linked to the government's 91-day treasury bill.

Soon, ombudsman for e-transactions

The RBI has decided to introduce the concept of limited liability for pre-paid instruments, which includes digital wallets. Also, a new office of ombudsman for digital transactions is being created to take up complaints on pre-paid instruments. **P 17**

'NBFCs don't need RBI funds for now'

The apex bank has said the current situation in the non-banking finance company sector does not warrant direct injection of RBI funds. Deputy governor Viral Acharya said the RBI's steps have eased funding stress and enabled NBFCs raise long-term funds. **P 17**

External benchmark helps tackle sticky floating rates

We believe that the use of external benchmarks for floating rate home loans provides transparency to the end consumer. We have seen a favourable response since its launch in March 2018, with 95% all new bookings opting for our 3-month T-bill rate-linked home loan product," Rohit Ranjan, head of secured lending, Citibank India, said.

Besides improved transparency, an external benchmark is expected to result in improved transmission of rates. The effectiveness of the RBI's policy in stimulating demand or curbing it will work only if banks pass on its rate actions. It has been seen in the past that banks try to protect their margins by not bringing down rates in line with the RBI's rate cuts or during growth phases they refuse to pass on rate hikes, resulting in loans continuing to grow despite the central bank's efforts to curb demand. With an external benchmark, banks will have no choice.

The move to have an external benchmark was first proposed by a committee headed by Janak Raj, principal adviser at the RBI's monetary policy department. For several years now, the RBI has been trying to address the issue of floating rate loans, which move up easily when market rates rise but tend to be sticky when interest rates come down. Banks have been managing to vary rates for new borrowers by varying the spread at which they extend loan. To address this, the RBI asked banks to replace prime lending rate (PLR) with the marginal cost of lending rate (MCLR). The MCLR, which was to be based on the incremental cost of funds, came with its own problems of having multiple rates.

›**Urjit Patel maintains silence on row with government, P 17**