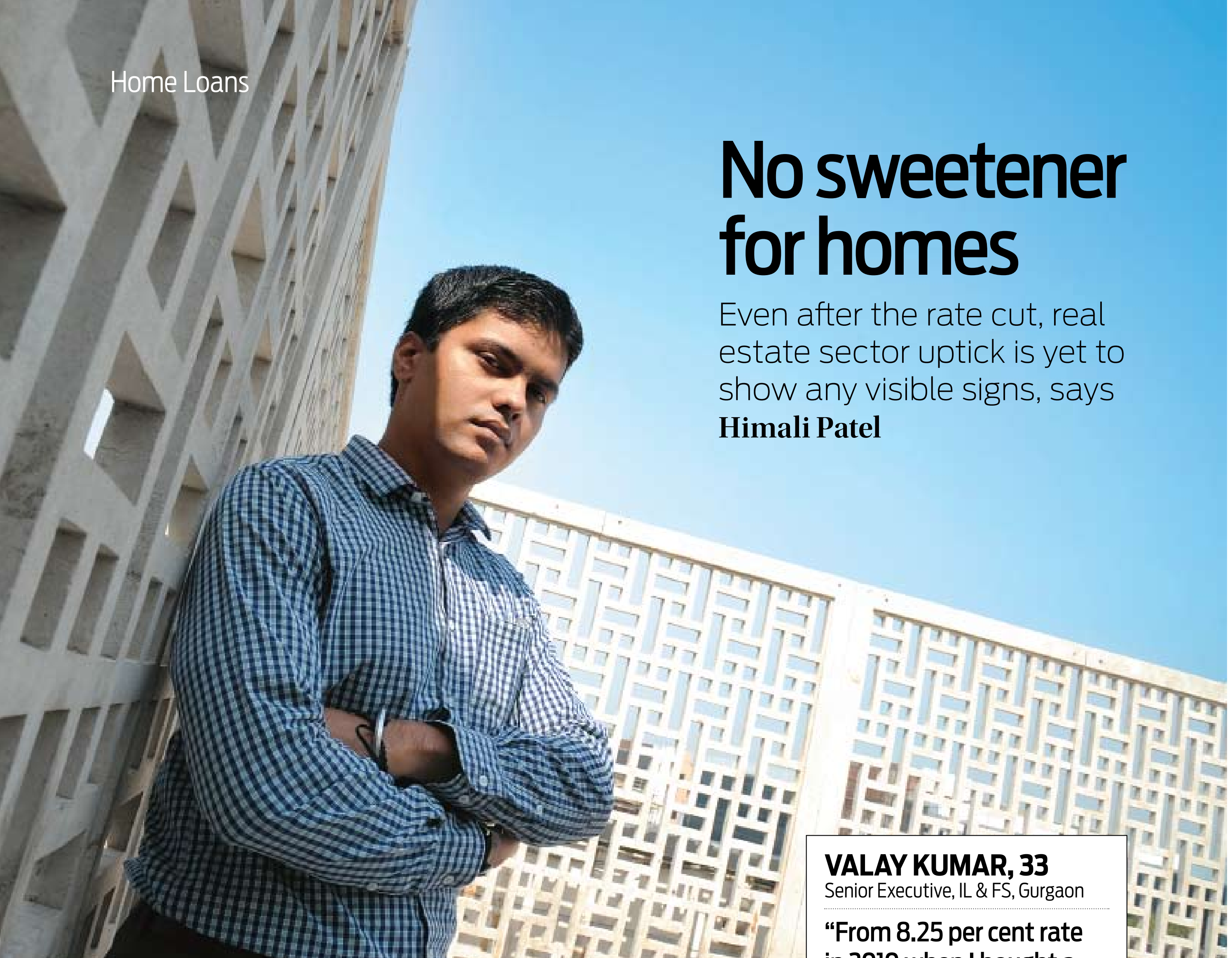
No sweetener for homes

Even after the rate cut, real estate sector uptick is yet to show any visible signs, says **Himali Patel**



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Buying a home without the help of a loan is a distant dream for most people and one rarely comes across a homeowner who is not servicing a home loan these days. Yet, the pain point among these types of homeowners is the rising EMIs on these loans. “I had taken a home loan in 2010 at 8.25 per cent from HDFC Bank, which kept going up after that,” recounts Gurgaon-based Valay Kumar. Like several others, Kumar has seen his EMI outgo rise for most part of the past five years, when he borrowed to pay for his home. He is eagerly waiting for the lower rates to kick-in so that his loan liability starts to go down.

The recent reduction in interest rates by the RBI, followed by cuts made by banks, was expected to be a big moment for crores of home loan takers who were eagerly waiting to ride the lower interest rate cycle, in order to help them reduce their EMI outgo. The mood is palpable, going by the numerous advertisements on attractive loans by bankers and other lenders, which is expected to get the impetus from the festive season. Says Harshil Mehta, CEO, DHFL: “We have announced a festive season offer whereby a promotional rate of 9.55 per cent will be provided to new customers for home loans of up to ₹25 lakh. This offer is valid till December 31, 2015.”

For all the noise, the rates offered by bankers and other lenders are not as exciting as one would have hoped for. But, as is largely felt, this is just the beginning of a reducing rate cycle and, a quarter later the rates should fall further for both borrowers and lenders to feel the excitement. In fact, the trend is similar to how it was way back in 2009 when, on the back of a sluggish economy, bankers and lenders had introduced teaser rates on home loans. These loans were available for a limited period with a catch, such that a borrower bought into the deal as it was attractive only to find the loan EMIs go up after the holiday period of one year.

VALAY KUMAR, 33
Senior Executive, IL & FS, Gurgaon

“From 8.25 per cent rate in 2010 when I bought a house, I have seen the rates touch 10.25 per cent. I hope the rate goes back to where I had started from so that I can reduce my EMI burden.”

Borrow wisely

Although home loans have become easy to get, the experience is not always the best for people. Those who borrowed during the teaser rate phase still rue over the turn of events that resulted in their EMIs going up as soon as the teaser phase ended. “One fine day, I realised that the EMI outgo had increased when my banker informed me about it,” recalls Delhi-based Raghav Kohli, who was expecting the teaser period to be extended. Although the teaser loan phase was extended, it was applicable for new borrowers and not existing borrowers.

Home loans are not the only type of loans that get popular during the festive season, loans on consumer goods find a high traction, too. Add the online deals on e-commerce portals and you get the picture. Likewise, in case of automobiles, the auspiciousness of the season results in not only discounts being offered by car dealers, but also discounts and packages on car purchase by lenders. Like every other such deal, these too come with a catch, which proves costly when it comes into effect.

Says Dilshad Billimoria, Founder and Chief Financial Planner, Dilzer Consultants: “Several companies are offering huge cash discounts and some are offering interest-free loans if the down payment is sizeable.” Yes, lenders do mention that they are waving the processing fee or offering zero per cent loans, but none of these are true. Most often these are mentioned to attract buyers to the car showroom or store but when one digs in detail, the reality emerges on such loans being offered with limited flexibility. For instance, many a time, the pricing of a car already includes a discounted first year’s insurance premium and accessories thrown in for free.

In case of personal loans, the pre-approved loan is a big temptation, however, it comes at a high cost, something that is not easily visible unless one starts deconstructing the actual loan costs. The lure of 10 EMIs instead of 12 sounds very attractive, but most of the time the upfront payment is significantly more than two months’ EMIs that one would have otherwise paid. As a borrower, it is in your interest to drill deep into the details of a loan than be blindly driven by the promise of a low EMI.

Clever moves

For existing borrowers, the going is good if their lender is passing the benefit of the rate cut to them. “I am waiting to see how much EMI goes down now, considering most of the time since I borrowed, the rates

Lending rates

BANK	OLD	NEW	CUT (BPS)
SBI			
Base rate (%)	9.7	9.3	40
Home loan rate (%)			
for women borrowers	9.7	9.5	20
others	9.75	9.55	20
ICICI Bank			
Base rate (%)	9.7	9.35	35
Home loan rate (%)			
for women borrowers	9.85	9.6	25
others	9.9	9.65	25

Low-down on rates

Q What is base rate?
Base rate is the minimum interest rate at which a bank can lend except for loans to its own employees, its retired employees and against bank’s own deposits.

Q Do banks set their own base rate or is it set by the RBI?
Every bank has the freedom to decide its base rate from time to time. The RBI does not decide the base rate of any bank or NBFC or HFC. A bank’s base rate or PLR is determined based on its cost of raising funds or deposits and a minimum margin that it must apply to cover its cost of operations and credit risk. However, a bank can have only one base rate for all its customers at a time. When pricing a loan, the bank may add customer-specific or product-specific spread or margin to the base rate to arrive at its lending rate.

Q How does base rate vary over time? How do interest rates on base rate-benchmarked loans change over time?
Banks can revise their base rate any number of times. In order to avoid frequent changes to interest rate on base rate-benchmarked loans, RBI has specified that the interest rate on all such loans be revised at the beginning of every quarter to give effect to changes made to the base rate during the previous quarter.

Making it affordable

In line with the government's move towards 'Housing for All by 2022', the recent RBI rate cut was followed with an announcement, which will give push to the affordable housing segment. In this regard, the RBI has increased the amount banks can advance for a property purchase on home loans of ₹30 lakh or less.

In its notification, the central bank has allowed a loan-to-value (LTV) ratio of up to 90 per cent for home loans of ₹30 lakh or less, which was earlier allowed only for loans up to ₹20 lakh. The LTV is nothing but how much of a property's value a bank can lend to a borrower, and a higher LTV only means that one can borrow more for the same house now as compared to the past.

The shift is in line with the changing definition of affordability, especially in urban areas where the scope to find a house for ₹30 lakh is nearly impossible. There is respite for borrowers looking for a home loan between ₹30 lakh and ₹70 lakh as well, with LTV of up to 75 per cent notified for this range.

The move to relax LTV norms by the RBI comes at a time when the real estate sector is undergoing tremendous stress due to a long slowdown, which has resulted in high unsold inventory. This increase in LTV will bring in more borrowers, especially in the affordable housing sector, which could act as the catalyst in reviving the buzz in the real estate sector.

were on the upswing," says Kumar. Although offers can be tempting, but if you are looking to take a loan in the near future, it would be better to wait for some more time rather than jump into the fray to borrow. Banks and other lenders are working out ways to pass the benefit of the rate cut and, at the same time, come up with new offers.

One also needs to be cautious of a few things at this stage, such as bundling of insurance in case of home or car purchase, bundling of products in case of consumer loans, and adding of processing fee to the loan sum. Remember, as a borrower when you take a loan, you never save money. Instead, all you get is the convenience and the benefit of advancing a financial purchase. Therefore, when borrowing, do so only if it is essential. After all, getting a loan is not the difficult part, but servicing it for long durations surely is. It is important to keep in mind that when you borrow, the repayment impacts your cash flows till such time that the loan ends.

Although RBI governor Raghuram Rajan had stressed on the rate cut benefits to be passed, little has actually been transferred. "Markets have transmitted the RBI's past policy actions via commercial paper and corporate bonds, but banks have done so only to a limited extent," remarked Rajan.

If you do borrow for long tenures, you could land up the way Kumar did—repaying a higher EMI for some years before the rates cut started to reduce his liabilities. While there is no way to come out of such a reality, you can definitely borrow in a manner such that you comfortably service a loan. A smart way is to negotiate your loan and borrow only as much as you need instead of being lured into buying something just because it seems to be available at a discount and with easy finance.

Dilshad Billimoria
Founder and Chief Financial Planner, Dilzer Consultants

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