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Big lenders slash home loan interest rates; industry responds positively



The steep home loan interest rate cuts by up to 90 basis points will be a shot in the arm for homebuyers as borrowing costs will come down significantly. It is expected that demand for homes will get a significant boost with this welcome step.

As the final day of 2016 arrived, the entire country was waiting for the late evening when Prime Minister, Narendra Modi was to address the nation. Since he last addressed on November 8, when the demonetisation move was announced, everyone was awaiting a new policy reform that might be implemented on New Year's Eve. He announced New Year gifts for the public in the form of an interest rate cut by slashing lending rates by almost 0.9 percent or 90 basis points.

For instance, State Bank of India (SBI), reduced its marginal cost of funds based lending rates (MCLR). For SBI, the new rates are 8 percent against 8.90 percent for one year loans, 8.10 percent and 8.15 percent respectively for two year and three year maturity. Meanwhile, one year MCLR stand at 8.45 percent against 9.15 percent for Punjab National Bank (PNB), 8.65 percent against 9.30 percent for Union Bank of India (UBI) and 9.15 percent against 9.30 percent for IDBI Bank. Even private banks such as Kotak Mahindra and ICICI Bank reduced their home loan interest rates to 8.2 percent and 8.65 percent, respectively.

Responding to the steep and unprecedented interest rate cuts by nationalised banks led by SBI, J C Sharma, VC & MD, Sobha Limited avers, "This reduction of lending rates by the banks is the outcome of huge inflow of deposits made possible due to demonetisation. This is a positive step in line with the government's desire to revive the Indian economy."

Continued to next page>>

Echoing similar sentiment, Atul Banshal, President- Finance and Accounts, M3M adds, "The much-awaited rate cuts are expected to boost the sentiments dampened by the government's demonetisation move and trigger consumption demand in a big way. Banks have substantial quantum of low cost funds and the reduction in the MCLR is expected to positively impact loan growth both in the retail consumer segment and in corporate sector lending, thereby supporting growth."

The rate cuts will give boost to retail credit. This will be most visible on the home loan portfolio. "Home loan rates are now at their lowest levels for several years. Lower home loans could see the fortunes of the sector picking up, especially in the affordable housing segment. The rate cut will immediately benefit new home-loan borrowers," adds Banshal.

SBI's decision could force other banks and housing mortgage financiers to lower their lending rates. The decision to purchase a residential property is taken after a lot of planning. Many have been putting off a decision in anticipation of lower interest rates. This cut may expedite that action. This is a welcome and well-thought out return to conventional monetary and fiscal policy.

Further, Prime Minister's focus on providing homes at probably the cheapest possible rates in Indian history through the Pradhan Mantri Awas Yojna (PMAY) meant for urban middle class and poor families will revive the fortune of more than 250 industries connected with the real estate sector. It is also expected to give huge boost in providing employment to construction workers.

With the annual Budget around the corner, Sharma feels that government should also give due importance to various demands put forth by the housing sector. He said that the economy which was temporarily and adversely impacted due to demonetisation has been used well by the government in putting back the unproductive cash into the mainstream circulation through the banking system. This step will be considered as a long-term structural reform which is expected to put the Indian economy back on the growth trajectory.