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Shift to MCLR if your home loan is on base rate

Harsh Roongta



Recently SBI announced a 0.30% drop in its base rate from 8.95% to 8.65%. That looks like a big drop till

you realise it only applies to those home loan consumers who had their loan sanctioned before April 2016.

The drop does not look so big when you realise that for those who had their home loan sanctioned in July 2010 (when base rates were introduced) will continue to pay 10.40% interest even after this “big” drop in interest rate as compared to 8.35% paid by current home loan borrowers.

Those who had their home loans sanctioned in June 2010 will pay 10.90% as compared to the 8.35% paid by new home loan borrowers today.

Despite the inadequate reduction in interest rates for old borrowers, SBI's share price still fell by 1% on news of the reduction indicating how much the bank depended on past borrowers to pay higher interest rates.

You might be surprised to note that there are around 80 lakh borrowers whose loan rates are linked to base rates and who have not bothered to get it changed to the current MCLR regime. The number of borrowers on the old PLR system is not known. If you multiply these numbers across all banks it will indicate the extent to which all banks depend on borrower inertia for their profitability.

All this when all that a borrower with a good repayment track record has to do is to threaten to shift his loan to another lender for his existing lender to provide the lower rate to him.

Most borrowers, however, are blissfully unaware of what interest rate they are paying on their loan let alone under which system (MCLR or base rate) their loan is. Even those who wake up get caught in doing complicated calculations whether it makes sense to shift their loan.

This is a primer for those borrowers whose loans were sanctioned prior to April 2016. First – you don't need to do any calculations. It makes sense for you to shift your loan to the new system – whether with the same lender



KNOW YOUR RATE SYSTEM?

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■ Borrowers under the prime lending rate system just before the base rate was introduced are even worse off

er or a new lender. First write (don't call, write) to your existing lender asking for the amount needed to fully pay off the loan as well as a certificate indicating the title deeds held by the lender. This is a signal to the lender that you are considering shifting your loan and if you have been a good borrower the bank will provide a counter offer to you. Do not waste your time calling and talking to people in the lender organisation. Write to the address that would be men-

tioned in the statements that are sent to you every year or some lenders even allow this to be done online.

If the lender does not respond back within 30 days, then file a grievance (through email or written letter) at the address that is mentioned on the lenders website. After this if your existing lender gives a decent deal (meaning somewhere close to 8.35% interest) then you can take it even if it means paying a small fee to them for the shift since it

avoids all other administrative hassles of shifting your loan. If they do not give you a good offer look around in the market. You are bound to get a good home loan offer from the market (8.35% or thereabouts) unless something is seriously wrong with your credit profile or your property papers or your loan amount outstanding is very low (less than Rs 20 lakh say). You can take that and reduce your effective interest cost. This may involve some cost in terms of stamp duty etc. Most lenders would be happy to waive any processing fee or any upfront fees. To summarise therefore if your home loan has been sanctioned before April 2016 – shift it to the new system today. It is not very difficult, especially if you do it with the same lender.

The writer is Sebi-registered investment advisor

CA Harsh Roongta is a fee-only investment adviser. Send your queries to personalfinance@dnaindia.net or tweet them to @harshroongta

