

WITH THE CHANGEOVER, FROM BPLR TO 'BASE RATE', EXPECTATIONS WERE THAT EXISTING HOME LOAN CUSTOMERS WOULD BENEFIT FROM LOWER INTEREST RATES AND TRANSPARENCY. HOWEVER, THINGS HAVEN'T QUITE TURNED OUT AS EXPECTED, SAYS **KAMLESH PANDYA**

STATUS QUO, DESPITE THE SWITCH TO BASE RATES?

The switch from benchmark prime lending rate (BPLR) to 'base rate' had raised hopes among home loan customers of transparency in the system, vis-à-vis rating, profiling and sanctioning of a specific home loan interest rate to the customers. It also raised hopes that when interest rates were lowered for new customers, existing customers could also expect to benefit from the same.

Amit Goenka, national director - capital transaction, Knight Frank India, describes the BPLR regime as one that was 'arbitrary and opaque'. Realtor Ramprasad Padhi concurs that there was little transparency in the BPLR system. "Banks and home finance companies had the advantage. One major grouse of existing home loan borrowers was that they were forced to pay a higher rate of interest, while banks and HFCs lured new customers with lower interest rates. It was to overcome such anomalies that the RBI made banks shift over to the base rate system, from July 1," explains Padhi.

It was expected that once the new system was put in place, more transparency would prevail and there would be no place for teaser rate loans. "A fortnight down the line, major home loan providers are continuing with their teaser rate offers. It is almost status quo," he adds.

The worry, says developer Vinod Mishra, is that the 'teaser rate war' among banks may create a 'bubble', like what we saw in the USA, with dire consequences. "Since large players have cheaper funds at their disposal and there is surplus liquidity, they can afford to dole out such offers, which are not in the interest of either the borrowers or the lenders. It also disturbs the level playing field that hitherto existed amongst large, medium and small players," he adds. The practice of

luring new customers with lesser interest rates, while forcing existing customers to shell out higher interest rates will never end if teaser rate loans are allowed to continue and the basic purpose of introducing the base rate system may not be achieved, warns Mishra.

Abhishek Lodha, MD, Lodha Developers feels that the changeover will prove positive and customers will benefit from the base rate regime because of the transparency that it will bring to lending transactions. "Additionally, when interest rates fall, it will be passed on to the customer by way of a lower interest rate," he points out. Mayur Shah, MD of the Marathon Group maintains that the switch is a big leap forward. "Existing customers should also benefit, as the RBI has asked banks not to charge any fee when customers shift their loans to the new base rate system," he adds. "The transparency, as a result of the new system, would offer an opportunity to existing customers to renegotiate rates when they switch," puts in Kaizad Hateria, GM - sales and marketing, Rustumjee.

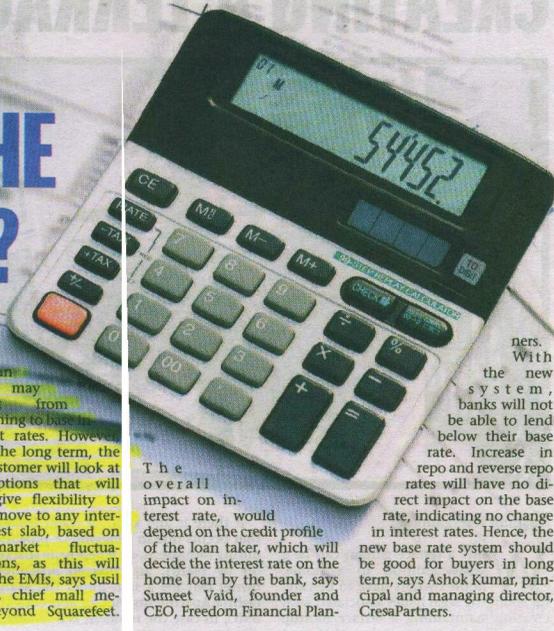
Manoj John, vice-president (corporate planning), RNA Corp opts to remain neutral, vis-à-vis the benefit of interest rates to consumers under the base rate regime. "Eventually, NBFCs do not come under the purview of the RBI and may continue to offer interest rates as per the old system," he points out. Prakash Sharma, director, Pranjee Group feels that the transparency of the new system, which defines the minimum permissible interest rate, will only benefit home loan seekers who negotiate hard for the lowest possible rate. "Nevertheless, the affordability of the rate will continue to be the main factor for banks," he adds.

Former banker, Girish Gohil, who runs a real estate consultancy, DHED, explains that the

switch from BPLR to base rate has two main goals - first, to make things transparent for the loan taker and secondly, at the macro level, to ensure that the RBI's measures to control inflation become more effective. "The competition among banks to woo new customers will become more structured, and the base rate system will control inflation and liquidity in the economy and curb private finance in the real estate market," he adds.

In the current market sce-

nario, home loan seekers may benefit from switching to base rate interest rates. However, in the long term, the customer will look at options that will give flexibility to move to any interest slab, based on market fluctuations, as this will help plan the EMIs, says Susil Dugarwal, chief mall mechanic, Beyond Squarefeet.



The overall impact on interest rate, would depend on the credit profile of the loan taker, which will decide the interest rate on the home loan by the bank, says Sumeet Vaid, founder and CEO, Freedom Financial Plan-

ners. With the new system, banks will not be able to lend below their base rate. Increase in repo and reverse repo rates will have no direct impact on the base rate, indicating no change in interest rates. Hence, the new base rate system should be good for buyers in long term, says Ashok Kumar, principal and managing director, CresaPartners.