THE TIMES OF INDIA

Fri, 23 Aug-19; Times Property - Times of India - Bangalore; Size : 878 sq.cm.; Circulation:371460; Page : 5

Hope returns to the realty sector ahead of the festive season with the apex bank cutting the repo rate for the fourth consecutive time. It can get favourable for home-buyers and NBFCs with banks likely to follow suit

# CREDIT GETS CHEAPER

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While home loan interest rates are already reasonable, they are set to fall further. The Reserve Bank of India (RBI) has slashed repo rate by 35 bps in its recent monetary policy. While this significant reduction is seen as unconventional, it is most likely to act as a sentiment booster for the realty industry, which is now preparing for the festive season.

Industry experts opine that this rate cut will be most beneficial for home-buyers, as banks are most likely to pass on the benefits to them. RBI said that the rate cut is necessary to bring balance in growth and inflation. Even as the figures have improved in real estate, competitive home loan rates will drive the market further.

State Bank of India (SBI) was the first to get off-the-block cutting its loan rates by reducing marginal cost of lending rate (MCLR) by 15 bps with effect from August 10. This brings the one-year MCLR (which is the benchmark for home loans) to 8.25 per cent. In its statement of the latest bi-monthly policy, the RBI said it is creating an enabling situation to ensure better credit flow to Non-Banking Finance Companies (NBFCs).

**RATE CUTS AT A GLANCE**

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| **Oct 2018:** 6.5 | **August 2019:** 5.4 |
| **Feb 2019:** 6.25 | **Rate cut from Feb to August 2019:** 1.1 per cent |
| **April 2019:** 6 | **One basis point is equal to one-hundredth part of one per cent* |
| **June 2019:** 5.75 | |

Source: RBI monetary policy statement

GETTY IMAGES

*The reduction in repo rates will lower the cost of debt for real estate developers to the extent that such rate cuts are transmitted by banks through MCLR rate changes. Developers, who are primarily utilising lease rental discounting or construction finance loans from the banking channel, will benefit from the rate reduction. However, the rate cuts by itself may not be enough to spur fresh lending activity by NBFCs and HFCs to the real estate sector as concerns persist regarding the credit quality of exposures to certain segments. Reduction in home loan interest rates as a result of the repo rate cuts will however, support the demand for housing to some extent and is a move in a positive direction.*

**SHUBHAM JAIN,**
SENIOR VP AND GROUP HEAD - CORPORATE RATINGS, ICRA LTD

*Over the last several quarters, RBI has been reducing the repo rate including the recent cut of 0.35 per cent. Banks will soon start passing on the rate cut to home loan borrowers. 2019-20 is turning out to be a good year from the perspective of home-buyers. Further, RBI is taking measures to infuse liquidity in the NBFC system. Refinancing of housing loans by banks up to Rs 20 lakh given by NBFCs will now be treated as 'priority sector lending'.*

**VINIT DEO,**
CHARTERED ACCOUNTANT AND CMD, POSIVIEW CONSULTING

*Previous rate cuts in 2019 did prompt some banks to lower their home loan interest rates by a certain margin. The RBI is putting in concerted efforts to establish a mechanism for effective transfer of repo rate reductions to actual consumer lending rates. This fact by itself bodes well for future acceleration of consumer spending as it means that future repo rate cuts will be transmitted more proactively.*

**ANUJ PURI,**
CHAIRMAN, ANAROCK PROPERTY CONSULTANTS

## THE IMPACT ON THE SECTOR

- Banks are most likely to pass on the rate cut benefit to borrowers;
- State Bank of India (SBI) was the first to announce a 15 bps reduction in MCLR across all tenors within hours of RBI's policy announcement;
- EMIs are most likely to reduce by approx. Rs 500 to 600 per lakh per annum;
- Existing borrowers can be benefited when their banks reduce MCLR;
- Prepaying is advisable for existing borrowers;
- New borrowers should opt for MCLR-linked loans;
- RBI also said that it has taken several measures to enhance credit flow to the NBFC sector to ensure credit flow;
- After the budget, RBI is now closely monitoring NBFCs and HFCs;
- As per revised rules, NBFCs can now on-lend to the priority sector through banks.