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SBI pares lending rates for existing borrowers by 30 bps

Alekh Archana
alekh.a@livemint.com

MUMBAI: Loans for existing borrowers are set to get a little cheaper with the State Bank of India (SBI) reducing its base rate by 30 basis points on Monday, a move that is likely to be followed by other banks. The move is also unlikely to benefit new borrowers whose loan rates are linked to the so-called marginal cost of funds-based lending rates (MCLR). A basis point is a hundredth of a percentage point.

SBI's revised base rate now stands at 8.65%. The lender has kept MCLR for January unchanged at 7.70-8.10%.

After the base rate cut, for a home loan of ₹30 lakh with a 20-year tenure, the equated monthly instalment (EMI) will come down to ₹877 per lakh from ₹897 per lakh.

"The 25 basis point reduction in retail term deposit rates in November gave us room to reduce base rate," said PK Gupta, managing director at SBI. He added that base rate reduction is expected to benefit 8 million customers, most of whom are home loan borrowers.

Since April 2016, banks have moved to marginal cost of fund-based lending rate (MCLR) system as the base rate regime was found to be rigid and weak in terms of passing on rate cuts effected by the Reserve Bank of India. Though some borrowers have migrated to MCLR, many, especially in the retail segment, continue to use the base rate, banking analysts said.

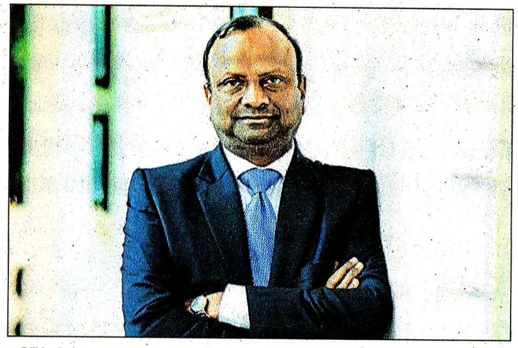
"Usually, whenever SBI reviews lending rates, we have other banks, especially private sector and larger public sector ones following the direction. Around 30-40% loans in the industry are still linked to base rate. If other lenders don't cut the base rate, borrowers may opt for MCLR," said Udit Kariwala, a senior analyst at India Ratings.

Many borrowers have already moved to MCLR, countered Ashutosh Mishra, a banking analyst at Reliance Securities.

The impact of SBI's move will be "small", he added.

Indeed, lending rates are unlikely to trend downward unless there is a sharp revival in credit growth and higher loan volumes make up for lower rates. Deposit rates too have to come down to facilitate lower rates.

"The way government bond yields have moved and the fact that policy rate is not expected to come down because of inflation worries, I think the ability of banks to cut loan rates at this point of time looks constrained. Additionally, for banks to cut loan rates, reduction in deposit rate is required. This again looks unlikely because systemic liquidity has dried-up," said Rajiv Anand, executive director–retail banking at Axis Bank.



SBI chairman Rajnish Kumar MINT/FILE