

Manage your home loan smartly, as interest rates dive



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Experts point out that the reduction in the interest rates, will serve as a catalyst to revive the real estate sector. However, the question is: Will all home buyers benefit, because of the fall in rates? "If the existing borrowers have borrowed home loans at fixed interest cost, based on the base rate system and not the marginal cost of funds-based lending rate (MCLR) system, where the interest rate was around 10%, then, he will not benefit from the rate cut and will have to pay extra money as compared to new home buyers," points out Ajay Jain, executive director investment banking and head real estate group, at Centrum Capital. "Even existing home buyers, who have availed of loans under the MCLR regime, will have to wait till the reset date, to reap the benefits. This reset date differs from one bank to another and varies from three months to one year. This means, the borrower will have to pay the higher interest cost till the next reset date," adds Jain. However, new borrowers will benefit and they will also be eligible for a higher loan amount, as the EMI is generally linked to the monthly income. Will the interest rate cuts benefit existing borrowers or new borrowers? "A borrower who has taken a loan under the MCLR scheme after April 2016, would have to wait until the reset period, before their interest rates are recalculated. Those who have older loans, may still be on the base rate regime, whose interest rates have either not been changed or changed only marginally. Borrowers stand to spend more on the loan, in either case," points out Adhil Shetty, CEO, BankBazaar.com. See also: How are home loan rates charged by banks and housing finance companies "However, in the former, the excess amount paid, would be only for a few months, until the reset. After this, the borrower would be able to avail of the lowered interest rates and the difference will not be more than a couple of thousands. In the latter case, the difference would be significant," he says. Shetty