

SBI's 8% home loan kicks up storm

ENS Economic Bureau
Posted: Feb 19, 2009 at 0240 hrs IST

Mumbai: Competition is again hotting up in the home loan segment. With home sales falling, banks and housing finance companies are on an overdrive to expand their credit portfolio, leading to claims and counter-claims. Even as other PSU banks have quietly started following the SBI way to freeze home loan rates at 8 per cent for one year, some other entrenched players in the business are not so happy.

Clearly, at a time when the economy is going through a sharp slowdown, state-owned banks are taking the lead to give a boost to key manufacturing businesses such as steel and cement. A day after HDFC chairman Deepak Parekh termed the SBI move as a "gimmick", HDFC officials on Wednesday claimed that the 20-year weighted average of rates by SBI came to 9.94 per cent whereas HDFC was offering home loans at 9.75 per cent.

"When the 8 per cent offer ends at the end of the year, customers could see rates rising by 23 per cent to around 10.25 per cent from 8 per cent. This could upset the repayment plans of customers," said an official. But, SBI countered this by saying there were significant gains to be made in the first year itself.

As per the SBI scheme, interest rates which will be frozen at 8 per cent for a year will revert to those under specific slabs. Now other PSU banks have also started offering the same package with Central Bank of India coming out with a similar scheme on Tuesday. But another official at a state-owned bank said, "If interest rates continue to drop, the rate for customers next year too would be lower."

According to an official of another mortgage financier, as SBI has put a deadline of April 30, 2009 for availing of the package, it's clear that they are targeting the existing customers of other banks and companies. "You can't identify a home in a month. A genuine home buyer will need a couple of months to select a house. Otherwise they would have given time for a year or two," he said.

An SBI executive said, "Most private banks have cut rates only nominally. The interest rates of foreign banks and private banks continues to be at 12-13 per cent levels even after significant easing of key policy rates."

Rising interest rates in the last couple of years have been impacting borrowers with extended maturities. While India is an 80 per cent floating-rate mortgage market, mortgages are mainly to the salaried class and most properties are owner-occupied. So delinquencies have been low — less than 2 per cent.

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