



**A**s a major relief to home loan seekers under floating interest rates, the Reserve Bank of India (RBI) has directed state and central co-operative banks to forgo levying of penalty on pre-payment with immediate effect.

Currently, with the challenging trend in the real estate market, the RBI's recent directive of doing away with pre-payment charges on home loans has come as a breather, points out Shailesh Puranik, Managing Director, Puranik Builders Pvt Ltd. "This move was followed by few banks and now with this directive from the apex bank, the benefits of this decision will be borne by many. Not only will it attract the homebuyers but the overall loan process will be made less tedious for homebuyers. As a result, this directive will positively impact the homebuyer's decision resulting in pushing the demand for homes in the city," he says.

This move will definitely provide some relief to home loan borrowers, point out realty experts. "It is encouraging that the RBI has asked banks not to levy pre-payment penalties on home loans, especially on loans under floating interest rate plans. This will bring in a positive move in the buyer's sentiments," says Prasad Deshpande, CEO, Pune Vastu.

"This rule will give primary benefit to customers as they will have the option to change to other home loan service providers if their current one charges high interest rates," says V K Sharma, CEO and Director, LIC Housing Finance Ltd. "Having said that, we haven't been charging pre-payment fees on floating rate home loans for one-and-a-half years now," he adds.

Hope is afloat among developers that fence-sitters who were expecting corrections will be definitely pleased and will also invest in realty now. "This will also lead to rise in home sales. As the trend shows that prices haven't corrected much and the burden of pre-payment penalties have also gone. So I feel there would some improvement in realty sales," he observes.

According to a Kalpataru spokesperson, this decision has been taken by the apex bank by considering the "genuine" need for such a policy. "As some banks are already following this norm, this directive will bring in uniformity in the pre-payment policies, bring transparency and competitiveness in the banking sector thus benefiting the customers with best deals. Besides, it will boost the morale of the homebuyers, especially those who had been holding on to the decision of buying a home."

Another positive fallout is that buyers would be assured that banks become more competitive while providing loan terms. Says Anish Sanghvi, Associate Director - Financial Services, PwC India: "Even where the buyer is a first-time borrower or the property is not approved by one set of banks vis-a-vis others, banks will price the loan in a competitive manner. While this step may help in rationalising overall interest rates

**SOME RELIEF**

Borrowers under floating interest rates get respite as RBI directs the banks to forgo penalty on pre-payment of home loans, says RAJIV DOGRA

for home buyers, it is not going to materially lower the cost of buying homes. As such rationalisation of interest rates amongst banks would marginally improve borrowing ability of the home buyer. It is unlikely to bring about a substantial change in realty industry dynamics, which a price rationalization of properties may provide."

However, Gulam Zia, National Director - Research & Advisory Services, Knight Frank India feels that this move would not have a significant impact on the market sentiment. "The reason being that market sentiment is not just made up of the mortgage industry. It is determined by global ups and downs and local uncertainties. So, this move would not have much impact on the health

of the realty industry. Ideally, it's only when an individual receives a windfall amount that they look forward to clearing their loan amount, so it's not a very regular thing and only a small section of homebuyers opt for it," he says, adding that this move had been long overdue.

Earlier, the RBI had also asked the commercial banks to stop charging such penalties. The central bank said the removal of foreclosure charges or pre-payment penalty on home loans will lead to reduction in the discrimination between existing and new borrowers and competition among banks will result in finer pricing of the floating rate home loans.

Inputs: Anuradha Ramamirtham

**QUICK BYTE**

■ THE DIRECTIVE WILL BRING IN TRANSPARENCY AND COMPETITION IN THE BANKING SECTOR THUS BENEFITING THE CUSTOMERS WITH BEST DEALS