



QUICK BYTES

■ RBI HAS ASKED BANKS NOT TO LEVY PREPAYMENT PENALTIES ON HOME LOANS, ESPECIALLY ON LOANS UNDER FLOATING INTEREST RATE PLANS

■ EXPERTS BELIEVE THAT THE MOVE WILL ENCOURAGE FENCE-SITTERS TO INVEST IN REALTY

In a recent move, the Reserve Bank of India (RBI) directed state and central co-operative banks to forgo levying of penalty on pre-payment of home loans on floating interest rates with immediate effect.

This move will definitely provide some relief to home loan borrowers, point out developers. "It is encouraging that the RBI has asked banks not to levy prepayment 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 Dhaval Ajmera, Director, Ajmera Realty & Infra India Ltd.

Hope is afloated 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 adds.

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.

According to a Kalpataru spokesperson, this kind of 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 ensured 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 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 rationalisation 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 though.

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.

With an aim to ensure uniformity across the banking system in home loan segment, the RBI in the annual monetary policy for 2012-13 had proposed not to permit banks to levy the charges.

Earlier, housing finance regulator National Housing Bank (NHB) had directed all housing finance companies to desist from imposing a pre-payment penalty.



PENALTY RELIEF

With the RBI directing the banks to forgo penalty on pre-payment of home loans, the move is likely to provide a breather to borrowers, says **RAJIV DÖGRA**

