You May Have to Pay a Penalty for Switching Loans in First 2 Years

NHB nod for such a move will hit borrowers looking to gain from falling rates

The National Housing Bank is considering allowing lenders to levy prepayment penalty on housing loan customers who transfer the outstanding amount to another lender in the first two years of the loan tenure, a dampener for borrowers wanting to make the most of falling interest rates.

Sriram Kalyanaraman, chairman of National Housing Bank, the regulator for housing finance companies (HFCs), believes that home loan `shopping' could lead to risks building up in the system as banks and HFCs are vying for the same customers to expand their market share.

"I think there should be some form of lock-in for the customers in the initial days, say 18 to 24 months, before they are allowed to transfer loans," said Kalyanaraman. "CompaniesHFCsbanks are trying to woo customers with lower interest rates, which is good for customers, but there could be a bubble due to everyone concentrating on the same segment and also topping up loans when they do bal ance transfer."

In October 2011, NHB had waived off pre payment penalty on money borrowed from housing finance companies on floating rate. So, borrowers could prepay the loan by borrowing from a bank or a non banking finance company while moving l to lower interest rates.

The following year, the Reserve Bank of India barred banks from levying foreclosure charges, or pre-payment penalties, on home loans with floating interest rates. In 2014, the RBI asked banks not to e levy pre-payment penalties or foreclosure d charges on all floating rate term loans sanctioned to individual borrowers.

Other than housing, floating loan products include corporate, vehicle and personal loans. Earlier, banks were charging pre-payment penalty of up to 2% of the outstanding loan amount.

Banks, HFCs and nonbanking finance companies try to woo customers with lower interest rates. As loan demand from corporates is yet to pick up, lenders are focusing on their retail portfolio, especially home loans, which is more secured lending.

The housing loan market continues to be dominated by the five large groups -SBI Group, HDFC Group, LIC Housing Finance, ICICI Group and Axis Bank. Together they accounted for 60% of the total housing credit in India on December 31, 2014. Since then, a number of new HFCs have emerged in niche segments like affordable housing and self-employed customer segments, growing at more than 50% and slowly gaining market share, according to recent report by rating company Icra.

With competition intensifying, lenders have dropped rates after the recent policy action by the RBI. SBI had recently cut its base rate by 40 bps but raised spreads on home loans so borrowers can look for loans at 9.55%. HDFC, which prices home loans over a retail prime lending rate, had reduced rates by 25 basis points to 9.65%.

The RBI has cut the repo rate by 125 basis points since January this year, while banks have reduced base lending rates by 50 basis points.

The Icra report said the government's focus on affordable housing and favourable regulations could push overall housing credit growth to 20-22% from financial year 2015-16.

(Economic Times)