Interest rate: Your home loan just got dearer

SUMMARY: *With an interest rate hike from 11% to 11.25%, customers seeking Rs 20 lakh as home loan for 20 years, will now have Rs 20,985 as EMI from Rs 20,643 before the hike*

Contrary to general expectations, the Reserve Bank of India on Tuesday raised the repo rate — at which the RBI lends to commercial banks — by 25 basis points pushing it to 8 per cent. Not only did it come as a dampener for the equity markets but even the sentiments of home and car buyers took a beating as both existing and prospective buyers (at floating rate loans) would see a rise in their outgo on their loan if banks follow RBI's move.

Going for the rate hike amidst softening inflation, Raghuram G Rajan, Governor RBI argued, "Although headline inflation has fallen significantly with the substantial fall in vegetable prices, CPI inflation excluding food and fuel has remained flat and WPI inflation excluding food and fuel has risen."

He, however, provided a breather by stating that further policy tightening may not be anticipated if the disinflationary process evolves.

The latest rate hike of 25 basis points, however, will have an impact on existing floating rate loan customers if the bank decides to revise its base rate/prime lending rate in the same proportion.

For an existing customer whose principal outstanding stands at Rs 10 lakh and his tenure is 180 months at an interest rate of 11 per cent, if the interest rate goes up to 11.25 then the tenure of his loan will rise to 187. This means an additional seven Equated Monthly Instalments (EMI) will have to be paid.

For a new home loan customer seeking Rs 20 lakh loan for 20 years, a rate hike from 11 per cent to 11.25 per cent will lead to a rise in his EMI from Rs 20,643 to Rs 20,985.

Though it has come as a dampener for customers who have taken home loans and have been waiting for the interest rate cycle to turn around, the softening in inflation comes as a good news as it may provide Reserve Bank with the desired environment to go for rate cuts going forward.

But for now, be prepared to pay more or switch over the loan to a bank that offers you a lower rate.

(Financial Express)