

**FAST FACT**

■ IN CASE THE INTEREST RATE GOES UP, THE BORROWER STILL PAYS THE PRIOR AGREED LOWER RATE. IN CASE THE INTEREST RATE GOES DOWN, THE BORROWER LOSES AS HE HAS TO PAY A HIGHER RATE THAN THE MARKET RATE

In case of a fixed-rate loan, the rate of interest is decided before hand at the time of availing the loan

**FIXED-RATE LOAN IS BACK!**

Prem Bisht

Over the last few years, the interest rates on housing loans have been gradually increasing. Now, banks have started offering fixed rate loans for different tenures from five years upwards. These loans are priced marginally higher than the floating rate loans. Also, banks offer a variant in the form of a partially-fixed rate loan where the rate is fixed for the first 1-3 years, and then it becomes a floating rate loan. These are basically hybrid loans, containing features of both fixed- and floating-interest rate loans.

a softer interest regime once the inflationary factors come under control. It is this expectation that is prompting banks to offer fixed-rate loans for a longer tenure.

In the last 3-4 years, the market for fixed-rate loans had virtually disappeared. Borrowers were not ready to locking at a high rate. Banks could not lock in, too, because they did not know how much higher the interest rates would go.

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Recently, the RBI allowed lenders to float infrastructure bonds to the extent of the home and infrastructure loans outstanding in their books. Infrastructure bonds are a cheap source of finance as they are exempt from reserve requirements.

A fixed rate loan is suitable for borrowers with limited capacity to prepay a loan and would not like to run the risk of the rates going up in future.

For banks, the advantage of a fixed-rate loan is that the prepayment penalty applicable here reduces the risk of prepayment by borrowers.

**QUICK BITES**

■ A FIXED RATE LOAN IS SUITABLE FOR BORROWERS WITH LIMITED CAPACITY TO PREPAY A LOAN AND WHO WOULD NOT LIKE TO RUN THE RISK OF THE RATES GOING UP IN FUTURE

■ FOR BANKS, THE ADVANTAGE OF A FIXED-RATE LOAN IS THAT THE PREPAYMENT PENALTY APPLICABLE HERE REDUCES THE RISK OF PREPAYMENT BY BORROWERS



Fixed-rate loan is a good option for those who don't want the risk of an upward movement in interest rates in the near future. **ASHISH GUPTA** writes

**A**fter a long time, the fixed-rate home loan is back in the market. Over the last few years, the interest rates on housing loans have been gradually increasing. Even though they stabilized over the last couple of years, there were not many banks offering a fixed-interest rate loan.

In case of a fixed-rate loan, the rate of interest is decided before hand at the time of availing the loan.

The rate remains the same during a fixed part of the tenure of the loan irrespective of the market rates. In case the interest rate goes up, the borrower still pays the prior agreed lower rate. In case the interest rate goes down, the borrower loses as he has to pay a higher rate com-

pared to the market rate.

In case of a floating-rate loan, the rate of interest is linked to the base rate of the bank. The rate of interest varies directly with the base rate, which in turn is linked to the market rates.

In case the interest rate goes down, the cost of borrowing for the borrower also goes down. In case the rate of interest goes up, the cost of borrowing also goes

up. Thus, the borrower floats along with the market rate.

The measures taken in the past are expected to show results, with the inflation figures likely to come within acceptable limits.

This being the case, there will be an opportunity for banks to cut interest rate in the near future. The RBI has been indicating time and again that it will induce