RBI explores loan rate pricing for hsg fin cos

Regulator Has Asked Banks To Link Their Loan Rates To An External Benchmark

Mayur.Shetty@timesgroup.com

Mumbai:

After forcing banks to link retail loans to an external benchmark, the RBI is looking at the way nonbanking finance companies (NBFCs) and mortgage companies price their products.

While an external benchmark might not be mandated for housing finance companies (HFCs), banking regulator wants to bring more transparency in their pricing. Meanwhile, the RBI is also not in favour of a combined fixed and floating home loan product, which SBI chairman Rajnish Kumar had recently spoken about.

According to sources, after taking over the regulation of HFCs earlier this year, the central bank is trying to bring uniformity in the regulation for banks and HFCs. "Currently, HFCs are not even following the marginal cost of lending rate (MCLR) and are still linking loans to the prime lending rate. The RBI is currently studying how they are pricing interest rates," a source said.

The central bank is unlikely to prescribe an external benchmark for HFCs because they fund most of their loans from wholesale borrowings where the price does not vary in line with RBI's rate changes. Sources said that while competition ensures that HFCs offer rates that are close to what the banks are offering, the RBI wants more transparency in the prices.

On the SBI chairman's recent announcement that the lender will seek clarification from the RBI on offering fixedfloating rates, the central bank is understood to have expressed concern as it pushes risks to a future date.

Kumar had earlier said that the bank was willing to offer long-term floating rate loans but did not have the wherewithal to offer long-term fixed rate loans. In order to give choice to the borrower, the lender had said that it will seek permission from the RBI to offer loans that are fixed in the initial years but start floating in subsequent years.

The banking regulator is nudging lenders to ensure that they have their retail lending rates linked to an external benchmark like the repo from October 1, 2019. Though many banks are now linking their home loans to the repo, Citibank was the first to use an external benchmark by linking interest rate on mortgages to yield on treasury bills.

An external benchmark is unlikely as HFCs fund most loans from wholesale borrowings, where price doesn't vary in line with RBI's rate changes