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**Cost of home loan tends to even out over a period of time**

**N**ormally, my advice to borrowers is that you can never time the market.

**Taking a floating rate loan makes sense if cost of product is right**

**I**t looks likely that the repo rate will only go down in the next year or remain un-

**Borrowing decisions can't always be put off for rate cuts**

**I**t is widely anticipated that interest rates will further soften from here.

**It may be worth waiting to lock into lower rates for car loans**

**T**here seems to be a consensus view that RBI will continue to cut rates, at

If we take an example of home loans, I would not say whether a particular time is a good or bad time to take a home loan.

In an environment where it appears that the rates will be going down, property prices will remain higher. If the interest rates are higher, usually the demand is slightly lower and hence prices are also slightly lower.

If you take any period in the last 10-20 years, rarely has it happened that interest rates and property prices have remained low. Hence, one should look at the total cost of ownership of the asset, as opposed to the cost of the loan.

Consumers should know that loans like home loans are on a floating rate and the rates are reset periodically, every 3-6 months, so the cost of borrowing tends to even out. Particularly, after 1 April, if the proposed plan of external bench-

changed, at worst, from the point of view of the borrower in the present and future inflation scenarios.

RBI could be lowering rates by 25-50 basis points during the course of the year, but the decision to lower rates by banks will depend a lot on how their supply of funds i.e. deposits behave. Deposit growth has been weak which has deterred banks from lowering rates. So, a commensurate reduction in rates on the lending side is unlikely.

That said, from the point of view of individuals, the transmission of any rate cut will be the swiftest as most banks are focusing on this segment with home and auto loans being the prime areas. The decision to buy a home or an automobile would be driven primarily by the cost of the product and if individuals feel that the price is right, taking a loan may be prudent on a flexible interest rate as fu-

Some even estimate two more rate cuts this year. Given the benign outlook on inflation, this may well be possible.

But borrowing decisions rarely happen in isolation. They are usually associated with some major event in your life such as buying a home or car, where the loan decision is secondary to a larger decision. It is improbable that someone who has found their dream house would be willing to put off that decision in anticipation of a rate cut. There could also be emergencies because of which one may need a personal loan. Again, it is unlikely that one would put off the loan decision in that case.

If you have to borrow now, go for a floating rate loan, especially from a bank that has been prompt in the past to pass on rate cuts.

Having said that, if you can, it would be wise to postpone your borrowing

least once more, if not twice. But borrowers need to keep in mind that the transmission of lower rates on existing floating rate loans has traditionally been much slower than when rates move up, and is a function of multiple variables including ability to reduce deposit rates and demand for loans.

Thus, the reduction in rates for retail borrowers may be slow and to a lower extent than RBI rate cuts. For borrowers looking at long-term loans like home loans, the interest rate at the entry point may not be a critical parameter, as rates tend to fluctuate over the period of the loan and tend to average out.

However, borrowers could wait for the new system of moving to an external benchmark rate, which is expected to come into effect from the next financial year, to see if that works in their favour. For fixed loans

marks-linked lending is to become real, then you are not at any disadvantage in taking a loan now or later.

ture benefits would anyway flow when rates come down, as the timing of rate cuts is still uncertain.

decision to later this year. That way, you can avail the best loan prevailing at the time after the rate cut.

like car and personal loans, it may be worth waiting to lock into a lower rate over the next few months.