

Banks hike lending rates in response to RBI move

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MUMBAI: A host of banks have revised their lending rate following the hike of 50 basis points (100bps = 1 percentage point) by the Reserve Bank of India (RBI) in its key policy rate. While the repo-linked benchmark has surpassed the pre-Covid level, the marginal cost of lending rate (MCLR), which is used for loans to businesses and older home loans, continues to be below pre-Covid.

Those that have increased their lending rate include the country's largest lenders State Bank of India, ICICI Bank, Bank of India, Indian Bank and Yes Bank. SBI has revised its external benchmark linked lending rate to 8.55%, while the repo-linked lending rate has been increased to 8.15%. The new loans are given at a spread over the benchmark rate. While the cost will

go up for existing borrowers, the banks have the headroom to reduce the credit risk spread over the benchmark rate for new customers to keep their loans competitive.

ICICI Bank raised its external benchmark lending rate to 9.25% with effect from September 30. According to the bank's website, the interest rates on home loans begin from 8.6%, which is a 2.7% spread over the repo rate. The private lender has also increased its marginal cost of lending rate across tenures. HDFC's new home loans also begin at 8.6% following the increase in rates.

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Among the public sector banks, Bank of India and Indian Bank have revised their marginal cost of lending rates. The increase in MCLR is marginal compared to the increase in the repo rate. The slower transmission of rate hikes to MCLR compared to the repo-linked rate is because the latter reflects the incremental cost of funds and banks have not increased their deposit rates in the same proportion as loans. As banks hold surplus liquidity, they are able to grow their loan books by increasing their credit to deposit ratio.

According to a report by CareEdge, the share of external benchmark lending rates (EBLR) -linked loans in total outstanding floating rate rupee loans was 46.9% at the end of June this year, while that of MCLR-linked loans was 46.5%. Compared with public sector banks, private lenders have a higher share of EBLR the lending rate transmission is faster in private banks.