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Flushed with liquidity, banks slash home loan rates to decadal low

Synopsis
The rate war also comes on the back of continuous prodding by the monetary authority which has slashed the repo rates by a whopping 200 bps since March 2020 to 4 per cent to help revive the economy ravaged by the pandemic, but still credit demand remains under 6 pe cent.

In November 2020, ICICI Bank became the first private sector lender to cross the Rs 2-lakh-crore-mark in mortgage loan portfolio giving it 13 per cent market share, according to an Emkay Global report.

Flushed with **excess liquidity** as general credit demand still way below the desired levels, leading home loan players State Bank of India, HDFC, ICICI Bank and

Kotak Mahindra Bank
NSE -0.96 % have slashed their rates to a decadal low, leaving consumers spoilt for choices.The interest rate war comes as banks are sitting on huge excess liquidity which as of last week was over Rs 6.5 lakh crore, according to
Care Ratings
NSE -0.78 %. Excess liquidity is a drag on the banks bottomlines as they have to pay interest to depositors which is as low as 2.5 per cent now, though.

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According to the RBI data, home loan growth decelerated in FY21 due to the pandemic, though the decline in fact began in March 2020. From 17.5 per cent in January 2020, home loan growth halved to 7.7 per cent in January 2021.

For banks, **housing loans** are safe bets in the current scenario as the risk of default is minimal with a gross **NPA** of just 0.67 per cent for SBI which leads the market and for HDFC too this NPA is under 1 per cent.

Banks are hoping that the nascent economic recovery will lead to more home purchases, which has been faltering since last March. With corporates demand still a far cry and down in the dumps from an NPA point of view, for banks the biggest reason to push home loan is its risk-free nature. Unlike personal loans, housing loans involve a collateral. In case of default, banks can seize the asset and auction it off.

At Rs 14.17 lakh crore as of November 2020, live housing loans account for more than half of personal loans for banks.

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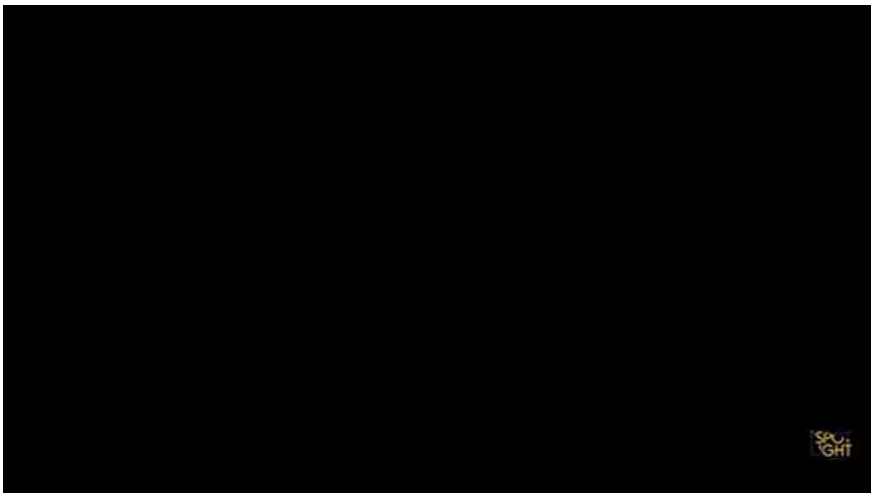

For consumers there are other advantages too-- attractive property prices due to the pandemic and the resultant reduction in stamp duty by many states after the pandemic hit the realty sector badly.

But lenders are still choosy by pricing loans differently, depending on the risk profile and creditworthiness of borrowers. For SBI and Kotak Mahindra, the new rates of 6.7 per cent and 6.65 per cent, respectively, are applicable only to those borrowers with a credit score of 800 and above. Also, barring HDFC, the new rates are only up to March 31.

The rate war began on March 1 when market leader SBI, which has over Rs 5 lakh crore of live home loan book and commanding a market share of 34 per cent of the Rs 14.17 lakh crore market, has even gone to the extent of waving the processing fee as well and cut the rates by 10 bps to 6.7 per cent.

The SBI offer of 6.7 per cent with no processing fee is up to March 31 for loans up to Rs 75 lakh and 6.75 per cent for above that. It is also offering an additional 5 bps lower rate to women and if applied through its mobile app Yono, said Saloni Narayan, deputy managing director for retail business at SBI.

"SBI, being the market leader in home finance, takes ownership in bolstering consumer sentiments. The affordability for the consumer increases immensely with the present offerings as the EMI will be reduced," she said.

On the same day, Kotak Mahindra Bank followed suit reducing its rate by 10 basis points to 6.65 per cent, making it the lowest in the mortgage market. Even before this, it had the lowest rate for past many months at 6.75 per cent.

Two days later, HDFC, the pureplay mortgage leader with over 19 per cent market share (according to an Emkay Global report), joined the race and lowered the rates by 5 bps to 6.75 per cent to new and existing customers for unlimited period. But later it also lowered the rates by another 5 bps till March 31 and with a flat Rs 3,000 processing fee.

Last month chairman Dinesh Khara said SBI's home loan portfolio crossed the Rs 5 lakh crore milestone, widening its market share to 34 per cent. He said this was led by a spectacular growth in the home loan segment in December 2020 when it had the highest sourcing, sanctions, disbursements, and growth that the bank had ever registered.

On an average, SBI takes around 1,000 home loan customers on board per day, he said adding despite the massive setback to the real estate sector triggered by pandemic, our housing business saw unparalleled growth so far this year.

Taking cue from leading home financiers, ICICI Bank also cut its home loan rates to 6.7 per cent on March 5 for loans up to Rs 75 lakh and for higher amount the rate will be 6.75 per cent. The private sector lender said the new rate is the lowest in 10 years and the revised rates will be available till March 31.

"Since the past few months, we have been witnessing a resurgence in demand from consumers who want to buy homes," said Ravi Narayanan, head of secured assets at ICICI Bank.

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