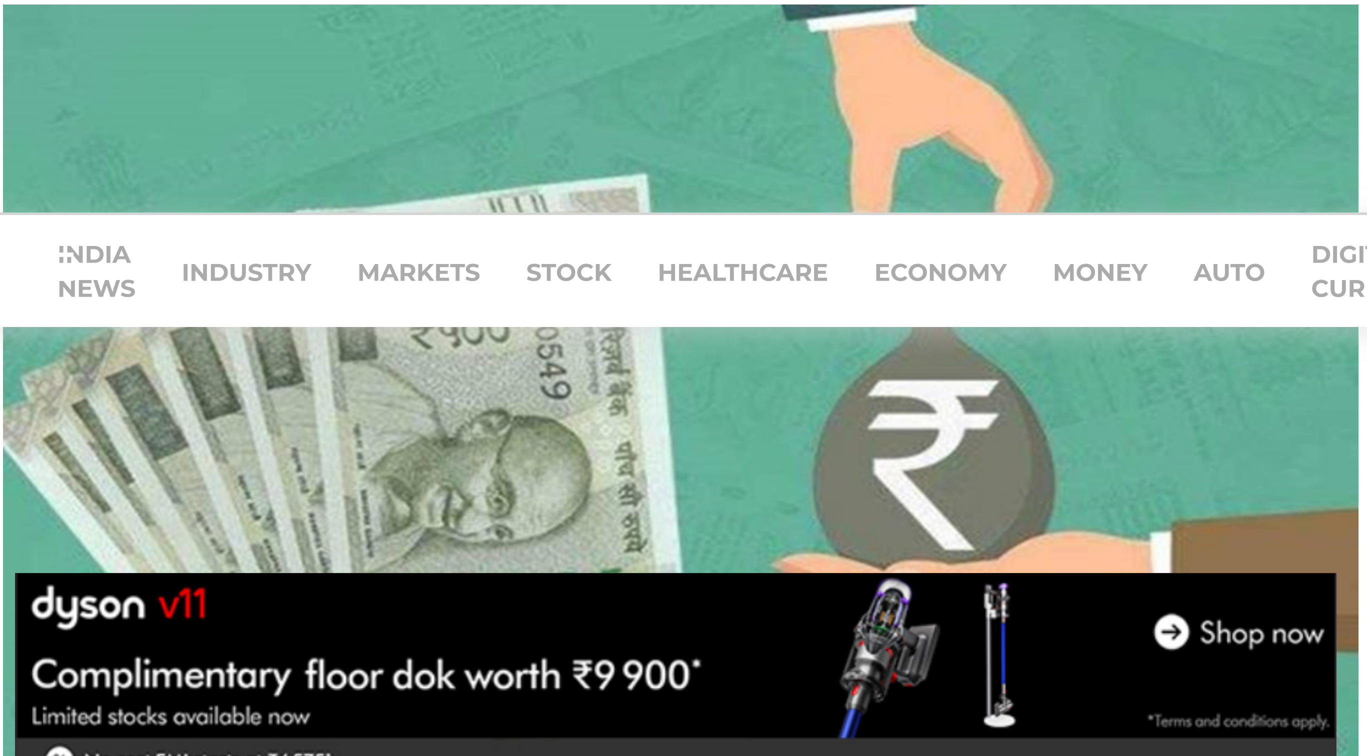
Loans get costlier as banks hike MCLR: SBI raises MCLR by 10 BPs; BoB, Axis follow suit

The one-year MCLR at SBI now stands at 7.1%, a shade lower than the 7.25% at HDFC Bank, Punjab National Bank (PNB) and ICICI Bank. BoB's one-year MCLR is now 7.35%, while Axis Bank's is 7.4%.

Written by Shritama Bose
April 19, 2022 3:10:00 am



the State Bank of India (SBI) raising the marginal cost of funds based lending rates (MCLR) by 10 basis points (bps) across tenures. This is the first instance of a lending rate hike by SBI in more than three years. The interest rate cycle seems to have turned with other large lenders, including Bank of Baroda (BoB) and Axis Bank, also hiking MCLR by 5 bps each across tenures.

The one-year MCLR at SBI now stands at 7.1%, a shade lower than the 7.25% at HDFC Bank, Punjab National Bank (PNB) and ICICI Bank. BoB's one-year MCLR is now 7.35%, while Axis Bank's is 7.4%.

Since October 2019, retail loans — including home loans — have been priced off an external benchmark-linked lending rate (EBLR). However, floating rate loans taken by consumers prior to October 2019 will now turn pricier

share of MCLR-linked loans remains the largest, 53.1% in December 2021, in banks' books, RBI data show. For SBI, the share of MCLR-linked loans is estimated at just over 40%. The proportion of floating-rate loans linked to the external benchmarks rose to 39.2% in December 2021 from 28.6% in March 2021. Bankers said the cost of funds has been on the rise since the beginning of 2022 as they have been raising deposit rates. "The MCLR is a calculated rate and banks cannot raise it arbitrarily. You are seeing the hikes now because there has confidence to raise loan rates in anticipation of repo rate hikes. SBI's Dinesh Khara was among the bankers who had expressed concern over what was seen as mispricing of risk. Interestingly, some top corporations are understood to have clinched loans from bankers at interest rates lower than the yield on the benchmark bond, which closed at 7.152% on Monday.

Recent data from RBI show that while the recovery in loan growth is underway, it is still quite weak. While there is some traction in loans with ticket size of `100 crore, most of the growth is coming from smaller ticket sizes. Signs of capex are still not visible as the private sector is showing negligible growth in sanctions. Interestingly, the recovery in credit growth is stronger at private banks.

Sanjay Agarwal, senior director, CARE Ratings, said interest rates have now bottomed out. "The difference between lending rates and deposit rates had increased substantially over the last two years. Now that difference may reduce, both rates will go upwards," he said.

Banks must have a policy for calculating MCLRs based on the RBI's framework for MCLR-based pricing and the policy can be changed only once in three years. Lenders that are revising MCLRs may be doing so to account for the varying levels of adjustments they have made to deposit rates in different time buckets, bankers said.

benchmark yields lays bare the growing disconnect between benchmark yields and lending rates, with banks entering territory where loan rates are effectively lower than yields and offer little incentive to go for risky lending.

"Also, as and when benchmark rates start rising, the effective yield may spike further, a disincentive ensuring demand degrowth from corporates for proposed capex. As banks would be forced to enhance the lending rates, aligning it with market determined course (with NBFCs following suit with a