



It is better to go for a fixed rate loan for the initial period to offset any impending rise in interest rates

Banks are revising their base rates upwards by up to half a percentage point, and this will make loans costlier. The base rate is the benchmark rate for a bank to fix interest rates on loans. According to the **Reserve Bank of India (RBI)** guidelines, it has to be reviewed by banks every quarter. The latest revision of the rate will remain effective for the October-December period.

But, this is not likely to affect home loan rates of major banks. In order to make home loan rates more attractive, most banks offer home loans at a fixed interest rate for the first three years. For example, it may be an interest rate of eight percent on home loans for the first year and nine in the second and third years. The fixed rate for the initial period also provides a kind of certainty on the interest burden on borrowers for the initial period. The present rates of eight and 8.5 percent offered by a number of banks are very attractive. In the last 10 years, the lowest rates at which banks offered home loans was around 7.5 percent, in 2004. But, within a few months, the rates rose to nine percent, which became 10 percent by 2007. At present, a home loan at around 8.5 percent is lesser than even the inflation rate.

On top of that, you will get tax concessions on the loan borrowed to buy a house. On calculation, the effective interest rate, after adjusting tax benefits, comes to at least two percentage points lesser than the rack rate. That means, if you are buying a house with a home loan, you are paying even lesser than the opportunity cost of money.

Bankers feel that as the inflation rate is high, the RBI will act to increase interest rates. But as you are borrowing at a fixed rate for the first three years, at this point in time, your EMI will not increase - you are insulated from any likely rate hike in the near future.

A one percentage point hike in the interest rate, from eight percent to nine percent, on a 20-year loan of Rs 1 lakh, will result in an increase in EMI by Rs 64 - from Rs 836 to Rs 900. So, if you have taken a home loan of Rs 50 lakhs, your EMI will increase by Rs 3,200 or Rs 38,400 per year.

- **THE PRESENT RATES OF INTEREST OFFERED BY BANKS ARE ATTRACTIVE FOR BORROWERS**
- **ALONG WITH A LOW INTEREST RATE, TAX CONCESSIONS ON THE LOAN BORROWED TO BUY A HOUSE MAKES IT EVEN MORE EASY FOR BORROWERS**

Source: TimesProperty Dt:8-10-10