

## Axis Bank's rate cut: Let the good times roll for home loan borrowers

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And so the race begins. Axis Bank's 15 basis points reduction in its marginal cost of funds-based lending rate (MCLR) across tenures, a week after the RBI's 25 basis point rate cut, is likely to trigger a spate of similar cuts by other banks. Lending rates had already started to trend lower by 10-15 basis points (selectively) with banks moving from base rate to the MCLR based loan pricing in the beginning of this month. Most leading banks, for instance, had set their home loan rates based on MCLR lower than the existing rates.

With the recent cut, Axis Bank's home loans will be priced at 9.45 per cent (upto Rs 28 lakh), bringing it at par with SBI and ICICI Bank - offering the cheapest loans for now. Given, that SBI, ICICI Bank and housing finance company HDFC, have been competing neck and neck in the past, offering the best deals, home loan borrowers can be sure of more rate cuts in the coming weeks.

### Lowering deposit rates

Axis Bank taking the lead and cutting rates is a marked deviation from the past, when other leading banks such as HDFC Bank, SBI and ICICI Bank have been first movers. The sharp cut in deposit rates by Axis Bank in the past week, has helped the bank cut its lending rates faster. The bank has lowered its deposits rates by 25-40 basis points across one- to five-year deposits. A 15 basis points cuts in MCLR, is hence not altogether surprising. Under the new method, deposit rate increases or decreases were expected to immediately reflect on the banks' cost of funds and hence, on lending rates.

Axis Bank is also well placed to compete on lending rates, as it has a high share of low cost deposits (current and savings account), benefiting from lower funding costs. Other leading banks, such as ICICI bank, HDFC bank and SBI also have a healthy CASA base. These banks are likely to follow suit. But for now, none of these banks have cut their deposit rates.

### More flexibility

Moving to MCLR has also given more flexibility to banks to price their loans. Each bank now declares at least five MCLR rates of various tenures ranging from overnight to one year. Loans can be benchmarked against a particular MCLR. Banks can thus price loans more competitively based on different MCLR rates.

In case of home loans, most banks have priced their loans against the one-year MCLR. But Axis Bank has chosen to peg its lending rates against the six-month MCLR. One-year MCLR (used for home loan rates) for SBI, ICICI Bank and

HDFC Bank is the lowest at 9.2 per cent. Even after the 15 basis points cut, Axis Bank's one-year MCLR is higher at 9.35 per cent. But since the bank prices its home loans against its six-month MCLR of 9.3 per cent, this, along with a lower mark-up has helped it price its home loans attractively.

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