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Banks set to launch schemes to tap pay commission bonanza

By [Dheeraj Tiwari](#), ET Bureau | Updated: Aug 01, 2016, 02.16 PM IST

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NEW DELHI: [State Bank of India](#), the country's largest lender, and its rivals are set to launch programmes aimed at encouraging [government](#) and [defence employees](#) in line for fatter August salaries to borrow and spend on consumer goods, cars and homes. [Punjab National Bank](#) is also firming up plans to tap salary increases to the tune of a total Rs 70,000 crore through this financial year thanks to the award of the [Seventh Central Pay Commission](#).

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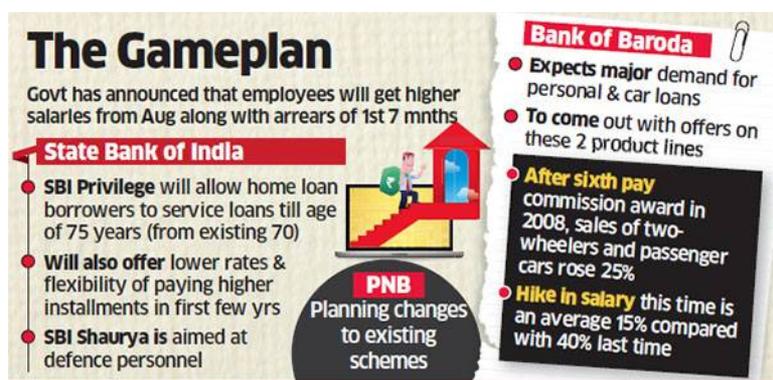
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State-owned SBI will raise the age bar on loan repayments by five years in the two schemes it's planning. It will also offer lower interest rates and the flexibility of paying higher installments in the first few years.

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"We will launch SBI Privilege to suit the needs of the borrowers who will be benefiting from the pay commission," said SBI managing director [Rajnish Kumar](#). "This new scheme will allow home loan borrowers to service loans till the age of 75 from the existing age of 70 years besides a five basis point reduction in interest rates if they repay through check-off facility (or payments deducted directly from the salary)." A basis point is 0.01percentage point.

Another progamme, SBI Shaurya, is aimed at defence personnel, who are also in line for pay and pension increases. On Friday, the government announced its employees would get the higher salaries from August along with arrears of the first seven months. The pay commission award is due from January 1.



The total cost of the award is pegged at Rs 1.02 lakh crore in FY17, but will be less by Rs 30,000 crore as allowances are not being paid out just yet.

After the sixth pay commission award in 2008, the sales of two wheelers and passenger cars rose 25%. Analysts expect a similar bump, though not as sharp, this time around.

The increase in salary this time is an average 15% compared with 40% last time. Plus, last time the arrears were for two years, resulting in a bigger surge.

PNB is planning changes to existing schemes. "The recently announced wage revision is expected to give a push to retail credit," managing director Usha Ananthasubramanian said last week, pegging it at 10-11% in this fiscal.

Other state-run lenders are also looking to focus on retail growth at a time when lending to major infrastructure sectors has taken a hit.

Non-food bank credit rose 7.9% in June against 8.4% a year ago, according to Reserve Bank of India data. "We expect that the major demand will be from personal loans and car loans," said a Bank of Baroda executive. "We will be soon be coming out with interesting offers on these two product lines."

SBI reduced its marginal cost of lending rate (MCLR) to 9.10% effective August 1 from 9.15%. The home loan rate drops to 9.35% on August 1 from 9.40%. The interest rate on home loans offered by the bank is mostly pegged at 20-25 basis points over MCLR. PNB has also cut its MCLR by 0.05 percentage point across the various tenures.

IDBI Bank has reduced its base rate to 9.65% from 9.75%. "With most banks focusing on retail growth, there can be a further decline in interest rates mostly for loans against secured assets," said an executive director at a state-run lender.

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