

SBI to link new floating rate home, auto loans to RBI's repo rate

1 min read . Updated: 23 Sep 2019, 10:53 AM IST

Staff Writer

The new interest rate mechanism from SBI will be effective from October

SBI has made some modifications to its existing repo-linked home loan scheme

Topics

SBI

State Bank of India or SBI, the country's largest lender, has decided to adopt Reserve Bank of India's repo rate as the external benchmark for all floating rate loans for MSME, home and retail loans effective October 1, 2019. RBI had earlier asked banks to [link all new floating rate personal or retail loans](#) (home, auto, etc.) and floating rate loans to Micro and Small Enterprises to external benchmarks from October 01, 2019.

The benchmarks include RBI's repo rate, Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL), Government of India 6-Months Treasury Bill yield published by the FBIL or any other benchmark market interest rate published by the FBIL.

The RBI said banks are free to offer such external benchmark linked loans to other types of borrowers as well.

SBI said it has voluntarily extended the external benchmark based lending to Medium Enterprises also, to boost lending to the MSME sector as a whole.

SBI had introduced [repo-linked floating rate home loans](#) from July 1, 2019. SBI said a few modifications have been made in the scheme effective 1st October 2019 to comply with the latest regulatory guidelines.

Coming back to the new RBI guidelines for new floating rate home and auto loans, the banks have to reset rates at least once in three months, depending on the change of the external benchmark.

Banks have been given the freedom to decide the spread over the external benchmark.

However, credit risk premium can change only when borrower's credit assessment undergoes a

substantial change, as agreed upon in the loan contract.

Further, other components of spread including operating cost could be changed once in three years.

Existing loans and credit limits linked to the MCLR/Base Rate/BPLR shall continue till repayment or renewal, as the case may be.

The RBI also said that existing floating rate term loans sanctioned to borrowers who are eligible to prepay a floating rate loan without pre-payment charges will be eligible for switch to external benchmark without any charges/fees, except reasonable administrative/legal costs. And the final rate charged to this category of borrowers, post switchover to external benchmark, shall be same as the rate charged for a new loan of the same category, type, tenor and amount, at the time of origination of the loan.

Topics

SBI