

Jun 06 2014 : **The Times of India (Bangalore)**

# SWITCHING HOME LOAN TO ANOTHER LENDER

**Kavita Sriram explains how and when it helps to switch to another lender when the interest rates are different**

Vishal has taken a home loan of Rs. 60 lakhs.

The lender charges an interest of 12 percent for the loan. The tenure of the loan is 10 years (120 months). His equated monthly installment (EMI) works out to be around Rs 86,000. Vishal finds his home loan very expensive. What are the options before him? When the interest rates are upward bound, borrowers usually contemplate prepayment or switching. Switching the lender is an option to consider if there is a new product introduced in the market that gives the borrower tremendous scope to save. If another lender charges a lower interest rate, the borrower can consider switching.

Earlier, switching a lender came with numerous costs. They could include valuation fees, legal charges, cost of breaking a fixed rate loan, processing fees or even administrative overheads. You need not pay a prepayment penalty anymore on floating rate loans. The only additional cost for transferring your loan would mainly be the processing fee. Before you switch, make sure that the switching costs do not exceed the savings.

Inform your lender of your plan to switch to a cheaper rate with another lender. Your lender could provide you with alternate solutions or cheaper rates if he seeks to retain your business. How do you select the best loan product? A best loan product saves you money.

Vishal switched to another lender who charged him interest at 10 percent floating rate. Though there was a small processing fee and other related costs, Vishal was happy. His EMI is a more affordable Rs 79,000. Vishal's joy was short-lived. The new lender hiked the interest rate to 11 percent within six months. Vishal has to pay an increased EMI but less than what the first lender charged him. Now, Vishal is worried. What if the new lender hikes the interest rate yet again? In such a case, the entire exercise of switching the loan would become meaningless.

Before switching the lender, it is essential to find out the relevant details of the new lender. Find out how often he increases the rates. When was the last rate hike? Are there any immediate plans to increase the interest rate? Vishal did not anticipate a rate hike immediately after switching the lender.

Unless there is a savings of more than one percent in terms of interest rate, it is best not to switch. Interest rates move in a cyclical pattern. The peaks are followed by troughs. If the savings is marginal, it is better to stick to the existing lender. Switching may be the only option when banks fail to pass the benefits of falling rates to the borrowers. QUICK BYTE BEFORE SWITCHING TO ANOTHER LENDER, YOU NEED TO MAKE A THOROUGH ANALYSIS OF COSTS INVOLVED AND THE BENEFIT YOU WILL GET IN TERMS OF SAVINGS IN INTEREST COST, TO ENSURE YOU GET A GOOD DEAL [FAST FACT] THE OUTSTANDING BALANCE AND TENURE LEFT ARE RELEVANT, APART FROM THE INTEREST RATE DIFFERENCE, WHILE EVALUATING THE OPTION OF MOVING THE LOAN TO ANOTHER BANK

## HOW SWITCHING TO ANOTHER LENDER WORKS

### Assume:

■ **Loan amount:** Rs 60 lakhs ■ **Tenure:** 10 years ■ **Rate of Interest:** 12 percent

### Repayment table without switching lender

Year	Interest	Principal	Balance	EMI	Interest rate (%)
1	7,02,199	3,30,792	56,69,208	86,083	12
2	6,60,246	3,72,745	52,96,463	86,083	12
3	6,12,972	4,20,018	48,76,444	86,083	12
4	5,59,704	4,73,287	44,03,157	86,083	12
5	4,99,679	5,33,312	38,69,845	86,083	12
6	4,32,042	6,00,949	32,68,896	86,083	12
7	3,55,826	6,77,165	25,91,731	86,083	12
8	2,69,945	7,63,046	18,28,685	86,083	12
9	1,73,171	8,59,819	9,68,866	86,083	12
10	64,125	9,68,866	0	86,083	12

**Note:** Figures in rupees

**The cost of borrowing in this case is Rs 43.30 lakhs.**

### Assume:

■ **Loan amount:** Rs 60 lakhs ■ **Tenure:** 10 years  
 ■ **Rate of Interest:** 12 percent for first year, 11 percent after switching lender

### Repayment table with switching lender

Year	Interest	Principal	Balance	EMI	Interest rate (%)
1	7,02,199	3,30,792	56,69,208	86,083	12
2	6,04,304	3,90,700	52,78,508	82,917	11
3	5,59,093	4,35,911	48,42,596	82,917	11
4	5,08,650	4,86,355	43,56,241	82,917	11
5	4,52,369	5,42,635	38,13,606	82,917	11
6	3,89,576	6,05,428	32,08,178	82,917	11
7	3,19,517	6,75,488	25,32,691	82,917	11
8	2,41,350	7,53,654	17,79,036	82,917	11
9	1,54,138	8,40,866	9,38,170	82,917	11
10	56,834	9,38,170	0	82,917	11

**Note:** Figures in rupees