**Bandhan** Mutual Fund





# Credit score up? Home loan rates won't drop till you ask

Pay EMIs on time to boost your credit score, renegotiate for better loan terms with your bank

Better score, cheaper loans

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MUMBA

hen Ram took his first home loan two years ago, he didn't have a credit history, so the bank offered him a 9% interest rate. Fast-forward to today-after two years of consistently paying his EMIs on time, his CIBIL score soared past 800.

Armed with a strong credit score and a little persuasion, Ram returned to his bank and convinced them to lower his interest rate to 8.5%. That 50-basispoint drop may sound small, but it translated into savings of ₹25 lakh on his ₹l crore loan over 25 years.

Though Ram's example is illustrative, the approach is grounded in reality-many borrowers successfully negotiate lower interest rates after their credit scores improve.

In this article, we'll walk you through how banks calculate interest rates and how you can make sure you're getting the most favourable terms possible.

#### How banks set interest rates

Banks consider three key factors when deciding how much interest to charge on a loan.

The first is the reporate-the rate at which the Reserve Bank of India (RBI) lends money to commercial banks. Since this rate is controlled by the RBI, banks are required to revise their lending rates in response to any changes. As of now, the repo rate stands at 6.25%

The second factor is the markup or spread, which is essentially the bank's profit margin. For instance, if the bank applies a 2.75% markup on top of the 6.25% repo rate, the effective home loan interest rate becomes 9%.

The third factor is the borrower's creditworthiness. If banks are confident that a borrower is low-risk-typically indicated by a high credit scorethey're often willing to reduce their profit margin

For example, instead of charging the full 9%, a borrower with a strong CIBIL score of 800 or above might receive a discount of 80 basis points. thereby bringing the effective interest rate down to 8.20%.

"Credit score is one of the major factors in risk-based pricing. In addition to the above, other factors are the profile of the customer and the type of property being purchased," said an official from IIFL Housing Finance.

Jagadeesh Mohan, founder of EMISaver.com, a startup that helps people plan and save money on loans, said if the borrower takes a property liability insurance, the banks are willing to further reduce the interest by 5 basis points, although such insurance is slightly expensive.

### **Credit journey begins**

For most people, their credit journey begins with a credit card or a smallticket loan-like a two-wheeler loan. After a year or two of timely repayments and maintaining credit utilisation under 30%, their CIBIL score often crosses 750. But reaching 800 and beyond typically requires handling a larger loan, such as a home loan,

That's why many first-time borrowers may not qualify for the best interest rates upfront. But over time, as they build a repayment track record,

#### Consistent repayments over time can restore creditworthiness and improve loan terms—even after defaults. Illustration What happens after 2 years? Name: Ram **HIS** credit score **RAM** repays **HE** asks the bank to Loan amount: ₹1 crore loans on time improves to 802 lower his interest rate Interest rate: 9% Tenure: 25 years EMI: **₹83,920 EVENTUALLY** agrees to cut the rate by 0.50% CIBIL Score: -1 (No credit history) reluctant at first **Getting banks to lower your loan rate** What it may cost ► Share your improved credit score with the bank Same bank: ₹3,000-5,000 (processing fee) ▶ If they decline, mention a possible balance transfer Balance transfer: 0.3% to 0.8% of ▶ Banks rarely let go of low-risk borrowers with strong outstanding loan\* ▶ Show in-principle approval from another lender Result: Save ₹25 lakh and 2.5 years 9% (for 25 years) 8.5% (after 2 years) 1,00,00,000 97,66,408\* Loan amount

Interest rate Tenure (Years) 25 20.5 -83,920 -83,971\*\* Total amount to be repaid 2,51,75,891 2,06,56,905 Amount paid for 2 years 20,14,071 Total repaid amount 2,51,75,891 2,26,70,976 Total saved 25,04,915 \*Outstanding amount after 2 years; \*\*Customer pays same EMI Hypothetical example

their credit score improves.

Even those with poor credit histories can see their scores rise significantly after a few years of disciplined EMI payments.

Most banks don't openly publish how much interest they'll charge for each credit score bracket. However, they internally track this data and revise it often.

For example, Punjab National Bank currently offers the following rates for home loans up to 10 years: • 8.15% for scores above 800

**Borrowers with** 

higher credit

scores often get

better loan terms

and lower interest

rates due to lower

• 8.30% for scores of 750-799

• 8.75% for scores bet ween 700 and 749

• 9.85% for scores between 600 and 699When your credit scor improves, it's worth approaching your bank to request a revision in your home loan interest rate.

If the bank manager declines this request, the borrower can opt for a balance transfer.

A balance transfer allows the borrower to transfer the balance to a new bank. Borrowers typically opt for this facility when they find lower interest rates from other banks, despite having to

bear some associated costs such as pro-

"If post disbursal the credit score increases then there is always an option of balance transfer to another lender at lower rate or alternatively you can raise a request with current lender to reduce the rate on payment of applicable switch fees," said an official from IIFL

Home Finance. If the banks don't budge on reducing the interest rates, Mohan from EMIsaver.com recommends getting an

in-principal approval from another bank at a lower interest rate and showing the documents to the present bank where they have the loan.

"Banks don't want to lose customers, especially when the borrower's credit score is above 800," said Vinay Uppin of Emisaver.com. "Banking typically refrains from

touching their top customers because they are the least risky ones," he added.  $What you \, should \, do$ There can be three scenarios that can

come up for borrowers. If they already have an excellent credit score (more than 800) before taking a

home loan, they'll get attractive rates from the start itself. However, for ple, it might be the first time that they're borrow-

ing and hence, have not

perceived risk build up their credit score. Or they might have defaulted or delayed payments in the past and has a bad credit score. In either of the latter caseswhether you started with a low credit score or no credit history at all—your score will likely improve after a few months or years of timely EMI payments. But most borrowers either don't

> missing the chance to renegotiate their loan terms. If your credit score has improved since taking the loan, a reduced interest rate can lead to significant savings over the loan tenure. Consider consulting a loan advisor—they often charge a fee, but the long-term savings can far outweigh the cost.

track this change or fail to act on it,

"Depending on the profile of the customer and type of property, an

individual can apply for a loan within the regulatory norms of LTV. Good credit score becomes an added advantage to negotiate on rates. Lenders customize the loan based on the customer's credentials. 3 principles of Identity, Intent, and Income is the base around which the entire lending works," said the official from IIFL Home Finance.

Source: Emisaver.com

If the same lender/bank agrees to lower the interest rate, a small processing fee of around Rs.3,000 to Rs.4,000 is charged. In case the bank does not lower the interest rate, the borrower can transfer their loan to another bank using a balance transfer. This is a longer process, and it can cost around 0.3-0.8% of loan value, depending on the state the borrower is in

Jagadeesh from Emisaver.com said that he has also been recommending people to move from a normal home loan to another bank that has a loan over draft (OD) facility.

According to hm, in such accounts, he says that the borrower can set aside spare money with the bank and that amount minus the remaining principal amount is interest free. The borrower could also take out that money anytime she wants. Besides, when they transfer the loan to a new bank, they get to earn an affiliate income from the bank getting the loan, Jagadeesh said. However, note that OD loans have a tad higher interest than normal loans.



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## E-commerce: Inside the great five-star review con

FROM PAGE 10

"We allow only verified customers who have purchased a particular product to rate that product and limit one rating per account. Reviews found to be influ-

suspicious product reviews.

WEEKLY

**INVESTO** 

market prices to decline?

Last week's answer: BULLS

'Intermediaries/Market Infrastructure institutions

CHALLENGE

What five-letter word refers to investors who expect

SCAN,

Last week's winners: Suyog Kulkarni, Manipal Singh, Saba Hawaldar

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where you rank in India.

**WORD** 

enced by coordinated efforts are promptly taken down and stringent measures are taken against the parties involved. Where such manipulations are linked to sellers, strict actions are taken, including permanent delisting and barring future onboarding," the spokesperson said.

Mint also reached out to Amazon and Myntra for their comments but had not received a response at the time of publishing this story.

### **CHECKS AND BALANCES**

Fake reviews on e-commerce websites aren't a new problem. Regulatory bodies and e-commerce companies have been working to curb this menace, but the review networks continue to get more sophisticated.

A survey done by LocalCircles in 2024, involving over 10,000 respondents, found that over half of online shoppers believe that e-commerce



Telegram group. (Right) A snapshot of a message sent by a mediator outlining the terms of a deal.

ratings and reviews are positively biased, with many saying their negative reviews weren't published.

Despite existing guidelines, few platforms clearly label sponsored content and most haven't adopted artificial intelligence (AI) tools to improve review authenticity. Consumers continue to rely heavily on reviews, indicating a need for stricter enforcement to rebuild trust.

E-commerce platforms do attempt to counter fake reviews, but fraudsters have developed ways to bypass these checks. "Platforms monitor certain patterns, like the number of reviews a user posts per month," said Sahariya.

"But even the fraudsters know this. They tell their reviewers to limit posts to three or four reviews a month so they don't get flagged." Back in the Telegram group,

after getting a deal on a cooler, Vishal has moved on to hunt for a deal on a stainless-steel bottle. Whether either of those products is truly worth a fivestar rating is anyone's guess.

But in a digital economy increasingly driven by stars and ratings, it's clear that trust, once the bedrock of online commerce, is now being traded, refunded and reviewed like any other commodity. And it's all happening in plain sight, one glowing review at a time.

## GOAL-BASED INVESTING AMID MARKET VOLATILITY IS KEY TO FINANCIAL SUCCESS



We welcome your views and comments at

 he stock market rewards patience over impulsive reactions, transferring wealth from those chasing short-term movements to those who stay committed to a long-term strategy. This is especially relevant today as the BSE Sensex, which soared

to about 85,800 in September, has dipped to around 73,100. This decline reflects global trade disputes, rising geopolitical tensions, and capital outflows driven by a stronger US dollar, adding to short-term volatility. Concerns over US protectionist policies and fluctuating global interest rates have kept investors on edge. Despite positive domestic indicators like resilient GDP growth and easing inflation, global headwinds have overshadowed these gains, contributing to the market's struggles.

### Staying the course

India's structural growth drivers remain intact. The nation is seeing a respectably strong capital expenditure expansion, which is boosting employment and production in industries such as

power, auto, and telecommunications. The rapid digital transformation and a rising middle class, estimated to encompass approximately one-third of the nation's 1.4 billion population, play a pivotal role in driving consumption.

Over the past few months, there's been a sharp market sell-off. The median price-to-earnings of BSE500 constituents fell from 44x in September to 32x in February. Historically, such downturns have offered disciplined investors chances to accumulate quality assets at attractive valuations.

While short-term volatility can be unsettling, markets tend to grow over time, driven by economic progress and innovation. With proactive government moves and a fast-evolving digital economy, the current correction offers a key window for strategic, goal-oriented investing.

For an investor with a 15-year horizon, a market downturn isn't just a phase to endure—it's an opportunity. A 15-20% decline in portfolio value may seem unsettling, but it also means that highquality assets are now available at more attractive valuations.

By investing systematically and staying committed to their goals, long-term investors can capitalise on lower prices, setting the stage for future gains when markets rebound. For those nearing retirement, such downturns highlight the need to align investments with financial timelines-reinforcing why goalbased investing is key to managing risk and sustaining growth. **Realigning portfolios** 

As market conditions evolve and investor sentiment shifts, there are bound to be potential growth opportunities in the next



phase of the cycle. This transition presents a crucial window for investors to realign their portfolios, ensuring they are positioned to capitalise on future growth while staying committed to their long-term financial goals.

Portfolio rebalancing ensures investments remain aligned with long-term objectives, especially during volatile periods. During market dips, this could mean increasing exposure to undervalued equities while maintaining adequate diversification to manage risk. Increasing contributions through SIPs (systematic investment plans) during market downturns can help with rupee cost averaging and also positions investors to benefit from the eventual recovery.

 $Investors\, should\, focus\, on\, structuring\, their\, portfolios\, around$ specific objectives—whether it's financial independence, wealth preservation or retirement planning. Ensuring adequate liquidity for short-term needs is equally important, as having a wellmaintained emergency fund and allocating assets to liquid  $instruments\,\bar{can}\,\bar{prevent}\,the\,need\,for$ 

forced withdrawals.

Use downturns Understanding one's risk appetite is to realign your equally critical. Market downturns portfolios with often provide an opportunity to acculong-term goals, avoid emotional decisions

mulate assets at lower valuations, but the strategy must be tailored to an investor's ability to withstand fluctuations. Those with a higher risk tolerance can increase exposure to equities. while conservative investors may seek a balanced approach with

diversified asset allocation. The key to financial success lies not in predicting short-term

movements but in staying invested, following a structured plan and maintaining discipline. The key is to focus on financial goals rather than react to short-term market noise.

Investing without a plan is like boarding a flight with no destination-turbulence will feel a lot worse.

Tarun Birani is founder and CEO of TBNG Capital Advisors