

# ICICI BANK CUSTOMER EDUCATION SERIES

TIMES BUSINESS ASSOCIATE COMMUNICATION

## Did You Know?

Loan rates across banks vary primarily because their cost of funds is different.



## Fixed or Floating?

Borrowers who choose a fixed rate take comfort from the fact that the rate remains unchanged. However, since interest rates are inherently dynamic, an unchanged rate may be risky, while a benchmarked floating rate may even out over time. Borrowers who frequently switch from fixed to floating, or vice versa, may end up with higher effective rates and costs.

When interest rates increase, floating rates increase, making the fixed rate look better. Therefore floating-rate borrowers tend to switch to fixed rates, and new borrowers also choose a fixed rate. This shift does not happen when rates begin to increase, but after a prolonged period of rate hikes. Thus, borrowers are likely to lock themselves into a high fixed rate, when the cycle is about to turn, which will be to their disadvantage. The reverse is true in a falling-rate scenario. Borrowers then prefer the floating rate and lock into one just as the rates

are poised to increase.

Over the long period of a housing loan, changes in interest rates are likely to even out with a floating rate. With a fixed rate, there is likely to be a gain or a loss depending on the time of borrowing and the fixing of the rate.

Centre for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at [www.icicibank.com](http://www.icicibank.com) or send us an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

Look out for our next article on 'The Truth About Credit Cards' on December 31.



### SMS CONTEST

Question: Borrowers who switch frequently between fixed rate and floating rate may end up with \_\_\_\_\_ effective rates and costs.

Answer: A. higher  
B. lower  
C. no change in

To answer SMS Q&A A, B or C to 53030 and win a 2N 3D holiday.\*  
Contest open for the day of publication.

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