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November 06, 2020

To,  
Shri Siddhartha Mohanty  
Managing Director & CEO  
LIC Housing Finance Limited

**Sub: Realignment of LIC Housing Finance Prime Lending Rate (LHPLR) with Benchmark RBI Interest Rates**

Respected Sir,

We Confederation of Real Estate Developer's Association of India (CREDAI) represents more than 20,000 developers across the country.

- As you are aware that RBI's Covid-19 Resolution Framework itself recognize that "The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such widespread impact could impair the entire recovery process, posing significant financial stability risks."

Real Estate Industry both in residential and commercial space is the worst affected industry due to Covid 19 pandemic. Thus In absence of any fiscal support the real estate sector shall face intense pressure on their cash flows.

- LIC Housing Finance Limited has large client base from Indian Real Estate Sector both in Construction Finance and Lease Rent Discounting.
- In recent few years the key interest rates in India is trending downward due to macroeconomic scenario.

a) Movement in Major benchmark rates across since September 2018

Month	RBI Repo Rate	SBI MCLR	PNB MCLR	BOB MCLR	HDFC Bank MCLR	ICICI Bank MCLR
Sep-18	6.50%	8.50%	8.50%	8.65%	8.70%	8.70%
Dec-18	6.50%	8.55%	8.50%	8.65%	8.70%	8.75%
Mar-19	6.25%	8.55%	8.50%	8.65%	8.75%	8.80%
Jun-19	5.75%	8.45%	8.45%	8.70%	8.70%	8.75%
Sep-19	5.40%	8.15%	8.30%	8.40%	8.45%	8.55%
Dec-19	5.15%	7.90%	8.15%	8.25%	8.15%	8.25%
Mar-20	4.40%	7.75%	8.05%	8.15%	8.15%	8.15%
Jun-20	4.00%	7.00%	7.60%	7.65%	7.65%	7.70%
Sep-20	4.00%	7.00%	7.35%	7.55%	7.30%	7.40%

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b. Reserve Bank of India has released its Monetary Policy Committee outcome wherein they have acknowledged as below:

*"... Meanwhile, most service sector indicators for January and February 2020 moderated or declined. Since then anecdotal evidence suggests that several services such as trade, tourism, airlines, the hospitality sector and **construction** have been further adversely impacted by the pandemic. Dislocations in casual and contract labour would result in losses of activity in other sectors as well."*

4. Further overall scenario for opinion on lease rentals from various Industry experts are noted as below:

a. The outbreak of coronavirus disease will have a short-term impact on India's office market, with demand likely to fall by 45 per cent and rentals softening by 5-10 percent. **Anshul Jain, Managing Director- India and South East Asia, Cushman & Wakefield.**

b. Few large occupiers have begun re-negotiating their lease contracts for lower rents. **Samantak Das, Executive Director and Head of Research, REIS, JLL India**

c. A sizeable share of office goers was working from home, since the lockdown began. It is likely that only a part of this workforce may ever return to office, full-time. A number of companies, including IT giants such as Infosys, TCS and Wipro, are planning to allow remote working even when COVID-19 subsides, and a few may allow staggered shifts and timings. As per industry estimates, if such policies take shape, companies could free-up 30%-50% of the real estate that is occupied, at present. (Source: [www.housing.com](http://www.housing.com))

5. There are multiple reports wherein it is conclusive that overall Lease Rentals will witness correction / steep correction in near & medium term. Impact on Lease Rentals can also be demonstrated from economics point of view:

**a) Interest Rates**

Change in Lease Rentals are in direct proportion to Lease Rental. Return by way of Lease Rentals are benchmark to Rate of Interest. If interest rate increases rentals are bound to increase to compensate the same or else landlords selling property due to the increase in the mortgage payments. On the contrary if interest rate decreases rentals are bound to decrease or else lessee will have option to reallocate as new entrants in leasing market will be attracted considering yield greater than that to other benchmark investment.

**b) Supply and Demand**

In any industry supply and demand is a key factor to how the market performs, too much of one and not enough of the other leads to problems. Within the rental market too many units available for rent and not enough demand will lead to a decrease in rental prices for property, adversely demand for rental property is high, lots of people looking to rent property and not enough rental property on the market will usually result in an upturn for rental values for property. With present pandemic situation tenants are discounting which leads to additional property available for lease resulting steep correction in Lease rentals.

We would now like to make submission as below:

- a) There are many developers who have taken construction finance and lease rental discounting facility from your esteemed organisation
- b) Your esteemed Institution has increased benchmark rate (i.e. LICPHLFR) from 15.50% to 15.80% for the corresponding period as detailed above. Whereas for the same period in benchmark rate i.e. MCLR of leading public and private banking sector has been come down by around 150 to 200 basis points.

- c) Enclosing along with media reports wherein on-going Lease Rental Discounting transaction are happening in the range of 7.50% to 8.00%
- d) As per recent restructuring guidelines of LICHFL there will be 0.50 % higher interest rates than normal account with processing fees of 0.50 % plus applicable taxes on accounts undergoing restructuring with LIC HFL.

We CREDAI on behalf of developers hereby request you to realign benchmark rate i.e. LHPLR in range of 12.50 % ~ 13.00 % as per prevailing market condition. We request you not to levy interest rate beyond 9 % on all account undergoing restructuring as any increase beyond that shall not be in interest of all the stake holders as overall transaction shall be unviable.

Looking forward for your continuous support to our industry and helping hand to sail over present difficult scenario keeping intact of interest all the shareholders.

Thanking you,

Yours Faithfully,  
**For CREDAI-MCHI**



**Deepak Goradia**  
President



**Pritam Chivukula**  
Hon. Secretary

CC.

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