ASK US

AARATI KRISHNAN

Q. My father is retiring on July 31. He wants to invest ₹5 lakh. Please advise.

RISHABH DUBEY

A. The investment recommendation would depend on his goals. Assuming his main objective is to protect his capital while receiving a good return from this investment, he should consider the post office Senior Citizens' Savings Scheme, which allows individuals to invest up to ₹15 lakh of retirement proceeds. The scheme has a five-year lock-in period and pays interest at a fixed rate every quarter. For July to September 2019, the interest rate stands at 8.6% per annum. If your father invests before the end of September 2019, he stands to receive 8.6% interest throughout his five-year holding period. The account can be opened at many leading banks apart from the post offices. This scheme is absolutely safe, being a Government of India borrowing. If your father does not need regular cash flows, he can perhaps consider debt mutual funds investing in high quality bonds. But they carry market risks and pose some risk to capital.

Q. My husband and I want to support my parents and in-laws with a fixed monthly amount. Please suggest investment plans that would yield ₹10,000 per month.

SOUNDARYA N

A. Immediate annuity plans from life insurers are usually the best way to secure a fixed (and relatively risk-free) regular income for those who cannot actively manage their money. Under these plans, you pay a lump sum to an insurer who undertakes to pay a lifelong annuity (pension) as long as you live. However, the key disadvantage is they offer very low returns (about 6-6.5%) compared to bank deposits or debt mutual funds. If you are interested in such plans, do check out LIC Jeevan Shanti, LIC Jeevan Akshay VI and HDFC Life Immediate Annuity plan.

However, if you are targeting a ₹10,000 per month payout for the next ten years, you should consider the Pradhan Mantri Vaya Vandana Yojana offered by the LIC. The scheme is currently open until March 31, 2020. Senior citizens, who have completed 60 years of age, can invest up to ₹15 lakh in the scheme to secure a monthly pension of ₹10,000 for the next ten years. While the pension is calculated at prescribed rates, the effective return works out to about 8% per annum. A ₹15-lakh investment fetches you a pension of ₹10,000 per month.

On the policyholder surviving 10 years, the initial investment is refunded. On his or her death within 10 years, the beneficiary receives this refund. The scheme allows premature surrender under exceptional circumstances. The pension received will be taxable if your parents fall in the taxable income bracket.

Q. I am an informal sector worker earning ₹16,000 a month. I can save ₹4,000. What kind of investments should I make?

RAHUL DHANI

A. If you would like your capital to remain completely safe while you earn a guaranteed return, you can consider recurring deposits (RD) with banks or a Public Provident Fund account (PPF).

An RD will be best if you would like to have greater flexibility to withdraw your money as and when you need it.

A PPF account will lock in your money for 15 years but is an excellent option to save for your retirement.

If you are willing to take risk to your capital and don't need your money for the next five years, you can consider starting Systematic Investment Plans in aggressive hybrid mutual funds. These funds invest 65% of the money in stock markets and up to 35% in bonds and can get you to a double-digit return over time periods of five years-plus.

But you should invest in such funds only if you can take a capital loss of 10-20% in some years when the stock market isn't doing well.

Readers can send in queries on personal finance and investing to moneywise@thehindu.co.in. Our experts who write on personal finance will answer these queries. Moneywise will not give specific recommendations for investment in a particular mutual fund scheme, share or fixed deposit.

Easy on the pocket

Cheaper loans is good news for borrowers but they must look out for spread and product structure

RADHIKA MERWIN

Lending rates on your home, vehicle and personal loans could get cheaper. Last week, the RBI mandated banks to link new floating rate personal and retail loans to an external benchmark from October 1, 2019. The external benchmark can be the RBI's repo rate, the 3-month treasury bill yield or the 6-month treasury bill yield. Up until now, loans were linked to the bank-specific benchmark – MCLR (marginal cost of funds-based lending rate).

There are several nuances in the new structure that borrowers need to be wary of.

Better transmission

Floating rate loans, whether for buying a new house or a vehicle, are pegged against a particular benchmark. Until now, each bank decided its benchmark based on its cost of deposits or borrowings. Given that each bank's cost is different, MCLR also varied across banks.

Ideally, when the RBI cuts or hikes the repo rate, banks' MCLR should also move in tandem. But given that banks only source a small portion (1%) of their deposits at RBI's repo rate, banks' cost of funds reduce or increase by a smaller amount (than repo rate movement), limiting the changes in MCLR.

Under the new repo-rate-linked system, RBI's rate actions will get transmitted almost immediately. Let us take the case of SBI. It introduced the repo-linked home loan in July. Lending rates change every time the RBI tweaks its repo rate.

The repo-linked lending rate or RLLR changes from the first of the following month in which the RBI changes its repo rate. With the RBI's 35 bps repo rate cut in August, SBI's RLLR has reduced to 7.65% since September 1 (from the 8% earlier).

Hence, for home loans up to ₹75 lakh, the effective interest rate for borrowers with a good credit score works out to 8.05% (including mark-up of 40 bps over RLLR) currently.

In comparison, the rate on SBI's MCLR-linked home loan now is 8.65%.

Takeaway 1: Loans under the new external benchmark structure will get cheaper if the RBI continues to cut rates. On the flip side, be prepared for a higher payout when the RBI starts hiking rates.

Base and spread

Borrowers should be wary of two things.

One, even if banks link lending rates to the same external benchmark, the resultant base rate would vary across banks initially due to different spreads by each bank.

For instance, consider SBI and IDBI. Both banks have already linked their home loans to repo rate. But their RLLR varies. For SBI, while the RLLR is 7.65% currently, for IDBI Bank it is 8.3%.

While any action by the RBI in future will see lending rates move higher or lower by the same quantum in both banks, since the initial base rate is different, the effective rate for borrowers would vary.

Two, banks arrive at the effective rate by assigning a mark-up over the benchmark. This is based on the risk-profile of the borrower and could also differ across banks. In case of SBI, for instance, the spread is 40 bps, in the case of IDBI Bank the spread charged over and above its RLLR is zero in case of borrowers with a high credit score of 750 and above.

Though the effective lending rate for SBI still works out cheaper, borrowers need to take note of the mark-up at all times.

Takeaway 2: Borrowers must take note of the underlying benchmark and spread while finalising the loan, and then compare across banks.

Reset rules

Under the external benchmark structure, the RBI has mandated that loans are reset at least once in three months – provided, of course, that there are changes in the underlying repo or t-bill yield. This means that your lending rate will be revised much faster. In case of SBI's home loan product, changes to lending rates happen immediately (within a month of change in RBI's repo rate).

Aside from quicker transmission, this also implies other changes in your monthly payouts.

Under a regular home loan product, your expected monthly instalment (EMI) on home loan is fairly stable. Even when the lending rate is reset based on the latest MCLR, banks usually change the tenure (lower the tenure in case of a fall in rates) of your loan rather than EMI – unless you specify otherwise. This, in effect, keeps your EMI steady.

Under SBI's RLLR, however, a minimum 3% of the principal loan amount is repaid every year. Interest charged on the loan is serviced monthly, based on the lending rate effective at that point in time. Hence, your EMI changes (in the following month) every time there is a change in RBI's repo rate.

For now, it is unclear how other banks will structure their products under external benchmarks. For instance, they could offer a steady EMI.

Takeaway 3: Look at individual products and understand their structure before deciding if predictability in EMIs is important to you.

New avatar

- Floating rate loans to be linked to repo rate
- RBI rate actions will get transmitted almost immediately
- Loans to be cheaper than under MCLR
- Monthly payouts to change

Existing borrowers

The RBI has also allowed existing borrowers under MCLR to move to the external benchmarked-loans, without levy of any charge or fee. Given that loans under the new structure will most likely be cheaper than under MCLR, in a particular bank, borrowers should consider making the switch.

However, do take note of any hidden charges (RBI has allowed some administrative/ legal costs) before making the move. Also ensure that you are offered the same lending rate as a new borrower under the external benchmark regime.

It may be prudent to also weigh in the benefits. If you are nearing the end of your existing loan, it may not make sense to make the switch. If you do not care much for volatility in your EMIs, then consider the move only if the interest savings are substantial.

Also, as of now, it appears that the no-charge/ fee mandate applies only to a switch within the same bank. If you are making a move from one bank to another, there could be additional charges.

Takeaway 4: Switch to external benchmark loans only if the remaining tenure of your loan is long and interest savings are substantial.

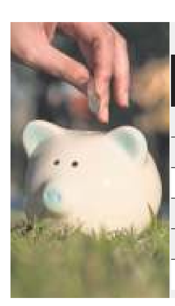
FD FOCUS: BAJAJ FINANCE

A blend of safety and attractive rates

Company pays up to 8.6% interest, higher than what comparable NBFC deposits offer

PARVATHA VARDHINI C

Fixed-income investors with an appetite for risk can consider parking a portion of their surplus in the fixed deposits of Bajaj Finance. The firm offers cumulative and non-cumulative options under its fixed deposit scheme.



TENURE (MONTHS)	MINIMUM DEPOSIT (₹)	INTEREST RATES (%) CUMULATIVE	NON-CUMULATIVE			
			Monthly	Quarterly	Half-yearly	Annual
12-23	25,000	8.00	7.72	7.77	7.85	8.00
24-35	25,000	8.15	7.88	7.93	8.00	8.15
36-60	25,000	8.60	8.28	8.34	8.42	8.60
SPECIAL DEPOSIT						
15 months	1,00,000	8.05	7.77	7.82	7.89	8.05

The tenure ranges from 12-60 months with interest rates from 7.72% to 8.6% (see table).

The offer is rated FAAA/Stable by CRISIL and MAAA (Stable) by ICRA denoting very strong degree of safety regarding timely payment of interest and principal and lowest credit risk.

The minimum deposit is ₹25,000. The firm offers 0.25 percentage points more interest for Bajaj Group staff, Bajaj Finance customers and existing policyholders of Bajaj Allianz Life Insurance. Senior citizens get an additional 0.35 percentage points.

Investors not looking for regular income can consider the 36-month cumulative option that offers 8.6% returns.

With the RBI easing repo rates by over one percentage point so far this year, deposit interest rates have been falling over the past few months.

Since interest rates are falling and are expected to be benign in the near-to-medium term, a three-year time frame will enable investors to lock into higher rates now. Besides, a three-year tenure is ideal to scout for better reinvestment opportunities if the rate cycle turns by the time the deposit matures.

The 8.6% offered by Bajaj Finance is higher than what most comparable NBFC deposits offer. The interest rates for three-year deposits in most private and public sector banks stand at 6.5-7.75% at present. For a tenure of 33 months, M&M Financial Services offers a slightly higher rate of 8.7%. But it is not an apples-to-apples comparison for two reasons – one, the tenures are not the same, and two, the 8.7% rate is offered only on deposits made online through the M&M Financial Services website.

Investors can fill up an online application form on the Bajaj Finance website or do an electronic transfer of the amount they wish to deposit.

The downloaded application form with a photo and other required documentation will be collected by a company representative. An instant online loan of up to ₹4 lakh is available against this deposit. Renewal of the deposit will fetch 0.10 percentage points over and above the rate at which the deposit is booked. However, it will be prudent for investors to weigh other options available at the time of maturity of this deposit and then take a call on renewal.

About the company

Bajaj Finance focuses on lending to consumer, rural, SME and commercial segments, with consumer loans constituting 39%. Its assets under management were at ₹1,28,900 crore as of June 30. Net NPAs stood at a low 0.64%, and capital adequacy at a robust 19.48%.

(This column is for information purposes only and is not a recommendation to invest)

BLACKBOARD: MOBILE TRADING

Investing while on the go

ASHISH RUKHAIYAR

What is mobile trading?

■ Mobile trading refers to trading in the stock market using a mobile phone. Leading brokerages now offer apps to their clients who can use them to trade in shares, invest in mutual funds or in initial public offers, and even monitor their portfolio. While the Securities and Exchange Board of India (SEBI) approved trading through mobile phones way back in 2010, traction was hardly visible in the initial years as investors preferred to trade through their dealers or relationship managers.

But the last few years have seen the share of mobile trading rise significantly, though it still accounts only for a small portion of the overall trading volume. As per BSE, mobile trading accounted for 5.1% of the total trading in August.

Two years ago, in August 2017, the share of mobile trading was pegged at 2.91%.

Why is mobile trading becoming popular?

■ First, the increased penetration of smartphones, along with the availability of cheaper data plans, has made the cellphone a popular platform for investors, especially retail, to trade in the stock markets. Second, most new-age discount broking entities prefer that their clients trade using their mobile apps, which also help the brokerages lower their overhead costs by maintaining fewer dealers and relationship managers.

Trading apps of brokerages like Zerodha, 5paisa, ICICI Direct, Upstox, HDFC Securities, Angel Broking, Sharekhan and Kotak Securities feature among the top apps in the finance category in both Android and iOS.

Is trading on the mobile safe?

■ Brokerages invest a lot in technology nowadays and hence, most trading apps have strong encryption and other security features so as to make the trading experience quite secure. Most brokerages nowadays have a chief technology officer, which was unheard of a few years ago. The apps are also regularly updated with security features, among other things.

The strong level of security is further corroborated by the fact that some of the leading brokerages now see more than 50% of their active clients trade via apps instead of the web portal.

LOOSE CHANGE

RAVIKANTH

"A penny saved is a penny earned, they say! But it is not true the other way round!"

Bank fixed deposit rates

Bank name	Highest Slab	Interest rates (%) 1-year tenure	3-year tenure	5-year tenure
SMALL FINANCE BANKS				
Suryoday Small Finance Bank	8.75	8.35	8.75	8.25
Equitas Small Finance Bank	8.30	8.00	8.30	7.00
ESAF Small Finance Bank	8.25	8.25	7.30	7.30
Jana Small Finance Bank	8.60	8.50	8.50	8.00
Fincare Small Finance Bank	9.00	8.00	9.00	8.00
Utkarsh Small Finance Bank	9.00	8.50	8.00	8.35
Ujjivan Small Finance Bank	8.30	8.10	7.50	7.00
North East Small Finance Bank	8.75	7.25	7.25	6.75
AU Small Finance Bank	8.10	7.01	8.00	7.77
Capital Small Finance Bank	7.75	7.50	7.50	7.35
PUBLIC SECTOR BANKS				
Indian Bank	6.90	6.75	6.75	6.90
Syndicate Bank	6.70	6.50	6.50	6.50
Bank of Maharashta	6.00	6.00	5.75	5.50
State Bank of India	6.70	6.70	6.25	6.25
Andhra Bank	6.60	6.60	6.50	6.50
Canara Bank	6.50	6.50	6.25	6.25
Bank of India	6.50	6.50	6.50	6.50
Union Bank of India	6.75	6.75	6.40	6.45
Indian Overseas Bank	6.80	6.60	6.80	6.80
Corporation Bank	6.90	6.80	6.50	6.50
Allahabad Bank	6.75	6.60	6.35	6.35
IDBI Bank	7.05	7.05	6.75	6.75
Central Bank of India	6.60	6.60	6.45	6.45
United Bank of India	6.50	6.50	6.25	6.00
Bank of Baroda	6.60	6.45	6.45	6.25
Punjab National Bank	6.60	6.60	6.50	6.50
UCO Bank	6.50	6.50	6.40	6.40

Bank name	Highest Slab	Interest rates (%) 1-year tenure	3-year tenure	5-year tenure
PRIVATE SECTOR BANKS				
Karnataka Bank	6.90	6.90	6.80	6.80
South Indian Bank	7.30	7.25	7.30	7.00
Federal Bank	7.25	7.00	7.00	7.00
Axis Bank	7.20	7.10	7.00	6.75
Karur Vysya Bank	7.00	7.00	7.00	7.00
City Union Bank	7.00	7.00	6.85	6.85
Catholic Syrian Bank	6.75	6.75	6.50	6.50
Yes Bank	7.85	7.25	7.25	7.25
ICICI Bank	7.10	6.70	7.10	7.00
HDFC Bank	7.10	6.90	7.10	7.00
Kotak Mahindra Bank	6.85	6.75	6.50	6.25
IDFC First Bank	8.00	8.00	7.50	7.50
DCB Bank	8.00	7.00	8.00	7.75
RBL Bank	7.75	7.70	7.50	7.50
Bandhan Bank	7.65	7.35	7.65	7.65
Dhanlaxmi Bank	6.90	6.90	6.50	6.50
Lakshmi Vilas Bank	7.60	7.50	7.50	7.25
IndusInd Bank	7.50	7.50	7.35	7.35
Tamilnad Mercantile Bank	7.10	7.10	6.75	6.75
FOREIGN BANKS				
Citi Bank	5.50	5.25	5.50	5.50
Deutsche Bank	8.00	6.50	7.00	8.00
HSBC Bank	6.00	5.00	6.00	5.00
DBS Bank	7.25	7.25	6.75	7.00

FD rates as on September 5, 2019

Source: paisabazaar.com

Home loan interest rates

(In %)

Name of lender	Loan amount (₹) Upto 30 lakh	Above 30 lakh & upto 75 lakh	Above 75 lakh
PUBLIC SECTOR BANKS			
SBI (MCLR linked)	8.35-8.75	8.60-9.05	8.70-9.20
SBI (RLLR linked)	8.05-8.40	8.05-8.40	8.60-8.75
Bank of Maharashtra	8.50-9.00	8.50-9.00	8.50-9.25
Canara Bank	8.50-8.60	8.50-8.70	8.50-8.75
BoB (MCLR linked)	8.45-9.45	8.45-9.45	8.45-9.70
BoB (RLLR linked)	8.35-9.35	8.35-9.35	8.35-9.60
PNB (MCLR linked)	8.50-8.70	8.50-8.70	8.55-8.75
PNB (RLLR linked)	8.25-8.30	8.25-8.30	8.30-8.35
UCO Bank (MCLR linked)	8.50	8.50-8.60	8.65-8.75
UCO Bank(RLLR linked)	8.30-8.40	8.30-8.40	8.30-8.40
Indian Overseas Bank	8.50	8.60	8.75
United Bank (MCLR linked)	8.40-8.55	8.40-8.55	8.40-8.55
United Bank (RLLR linked)	8.15-8.30	8.15	8.15-8.30
Andhra Bank	8.50-8.55	8.50-8.55	8.60-8.65
Punjab & Sind Bank	8.50	8.50	8.75
Syndicate Bank (MCLR linked)	8.35	8.35	8.35
Syndicate Bank (RLLR linked)	8.25-8.85	8.15-8.85	8.15-8.70
Union Bank (MCLR linked)	8.60-8.95	8.60-8.95	8.65-9.25
Union Bank (RLLR linked)	N.A.	8.25-8.30	8.30-8.35
Bank of India	8.45-9.35	8.45-9.35	8.45-9.35
Corporation Bank	8.60-8.80	8.60-8.80	8.60-9.05
Central Bank of India	8.30	8.30	8.30-8.55
IDBI Bank(MCLR linked)	8.60-9.20	8.60-9.20	8.90-9.20
IDBI Bank(RLLR linked)*	8.30-8.45	8.30-8.45	N.A.
Allahabad Bank	8.40-9.40	8.40-9.40	8.45-9.40
PRIVATE SECTOR BANKS			
ICICI Bank	8.60-9.00	8.60-9.10	9.10-9.20
Karnataka Bank	8.90	8.90	9.00
Bandhan Bank	12.41-13.33	12.41-13.33	12.41-13.33

(In %)

Name of lender	Loan amount (₹) Upto 30 lakh	Above 30 lakh & upto 75 lakh	Above 75 lakh
Axis Bank	8.90-10.60	9.05-9.55	9.10-9.55
Yes Bank	9.85-13.00	9.85-13.00	9.85-12.50
Kotak Mahindra Bank	8.60-9.40	8.60-9.40	8.60-9.40
Karur Vysya Bank	8.80-11.55	8.80-11.55	8.80-11.55
Dhanlaxmi Bank	9.80	9.80	9.80
HSBC Bank	8.65-9.15	8.65-9.15	8.65-9.15
Standard Chartered	>=9.41	>=9.41	>=9.41
Lakshmi Vilas Bank	10.05	10.05	10.05
Citi Bank(MCLR linked)	9.00-10.00	9.00-10.00	9.00-10.00
Citi Bank (TBLR linked)	8.50-9.35	8.50-9.35	8.50-9.35
DBS Bank	<=9.50	<=9.50	<=9.50
City Union Bank	10.25-13.25	10.75-13.25	11.25-13.25
Tamilnad Mercantile	8.95-9.20	8.95-9.20	8.95-9.20
Jammu & Kashmir Bank	8.75	8.75	8.75-9.10
RBL Bank	10.30-12.15	11.65-12.15	11.65-12.15
HOUSING FINANCE COMPANIES (HFCS)			
HDFC Ltd.	8.40-8.95	8.75-9.30	8.80-9.35
PNB Housing Finance	9.25-11.50	9.25-11.50	9.25-11.50
Indiabulls Housing Fin	8.80-12.00	8.80-12.00	8.80-12.00
LIC Housing Finance	8.80-9.05	8.95-9.15	9.05-9.15
Hero Housing Finance	>=9.75	>=9.75	>=9.75
Piramal Capital & Housg.	>=9.00	>=9.00	>=9.00
IIFL	>=10.25	>=10.25	>=10.25
Bajaj Finserv	8.60-11.15	9.05-11.15	9.05-11.15
Reliance Home Finance	9.75-13.00	9.75-13.00	9.75-11.00
Aditya Birla Capital	9.00-12.50	9.00-12.50	9.00-12.50
GIC Housing Finance	9.10-12.50	9.10-12.50	9.10-12.50
Repco Home Finance	>=9.25	>=9.25	>=9.25
Tata Capital	>=9.25	>=9.25	>=9.25

*Applicable from 10th Sept. 2019; Rates as on 5th Sept. 2019

Source: paisabazaar.com