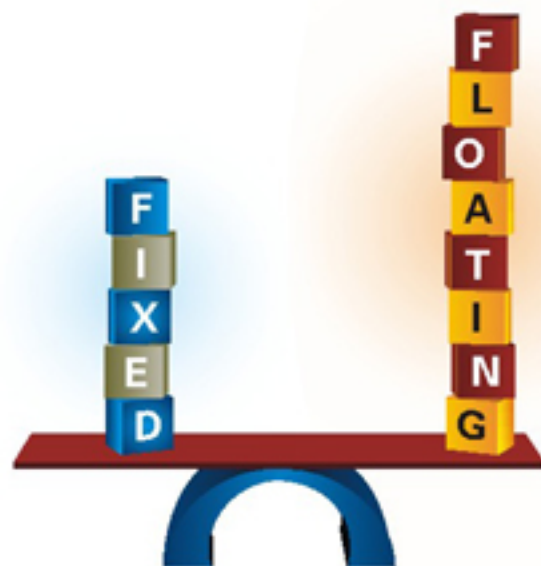


ICICI BANK CUSTOMER EDUCATION SERIES

TIMES BUSINESS ASSOCIATE COMMUNICATION

Did You Know?

You can switch from floating-rate loan to fixed-rate loan and vice versa.



Fixed or Floating?

Borrowers always like to make an optimal choice. They would like to choose a floating-rate loan before rates can fall; or lock themselves into a fixed-rate loan before rates move up. In reality, this is possible only if one can predict the future interest rates accurately – but that's easier said than done.

The choice should depend on the borrower's own situation, instead. Choosing a fixed rate would mean that the obligation to pay is well defined. In a rising inflation situation, it provides the borrower with the advantage of a fixed outgo. Any rate cut advantages are unavailable, but certainty of meeting the obligation of repayment is ensured.

In a floating-rate loan, the borrower pays the prevalent market rates. This means taking advantage of any rate cuts, but risking a rate increase. In a long-term loan, these factors may even out. What is required is the ability to service a chang-

ing amount of loan or risk a change in the number of instalments.

Choosing a fixed-rate or floating-rate loan thus depends on the ability to take risks and manage cash flows.

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 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.

Read more on this topic in the next article on December 24.



SMS CONTEST

Question: In a floating-rate loan, which of the following is changed with change in interest rates?

Answer: A. The amount of EMI
B. The number of EMI instalments
C. Both amount and number of instalments

To answer, SMS DISHAA, B or C to 53030 and win a 2N 30 holiday.*
Contest open for the day of publication.

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