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Journalist:	Gladwin Menezes	Page No:	14
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Should you fix it or let it float?

If you're house-hunting, you've probably hit the big question, what kind of interest rate is actually in your best interest? We break down the fixed vs floating debate, so you don't have to crunch numbers blindly

GLADWIN.MENEZES

@timesofindia.com



The recent cut in the repo rate has drawn attention back to the importance of the interest rate. Those planning to apply for a home loan are trying to figure out which rate of interest would be financially beneficial in the long run. While a fixed rate offers stability with predictable EMIs, a floating rate provides flexibility and potential savings when market rates drop. But the answer to 'Which one is better?' isn't simple. The answer depends on factors like the risk appetite, market conditions, and long-term financial planning.

To move from fixed to floating, borrowers typically need to pay a conversion fee, while switching from floating to fixed might come with revised interest rates

potential savings when rates decline but posing a risk if they rise.

"Theoretically, fixed rates are ideal during a low-interest rate regime, as one is already availing a home loan at an affordable rate. One can lock in at a good rate and hedge from future interest rate increases. On the other hand, during the peak of an interest rate cycle, a floating rate

cent, depending on the tenure," shares Sunil Pareek, executive director, Assetz. It is thus ideal to visit multiple lenders, check the rates they are offering and only then make an informed, calculated decision.

MARKET WAVES

A floating interest rate is directly influenced by market fluctuations, making it a dynamic and unpredictable

rates rise, EMIs increase, potentially straining finances. This option benefits those who can adapt to changing conditions and are willing to take calculated risks in hopes of lower overall interest costs.

CAN YOU SWITCH?

Borrowers often wonder if they can shift between fixed and floating interest rates to take advantage of market conditions. The answer is yes, most banks and financial institutions allow this switch, though it comes with certain terms and costs. To move from fixed to floating, borrowers typically need to pay a conversion fee, while switching from floating to fixed might come with revised interest rates. The process

involves submitting a request to the lender, agreeing to new loan terms, and covering any associated charges. While switching can help optimise repayment, it's essential to weigh the costs and benefits before making the move.

"Switching between fixed and floating interest rates can be an option, depending on the lender's policies. This flexibility allows borrowers to adjust their loan terms based on changing financial circumstances or market conditions. However, it's important to consider the fees or penalties associated with such changes and evaluate whether the switch aligns with your long-term financial goals," shares Prashant Sharma, president, NAREDCO Maharashtra.

STABILITY CHECK

For borrowers seeking financial predictability and stability, a fixed rate of interest ensures consistent EMIs, making it ideal for those who prefer structured budgeting and want to avoid market volatility. People with a secure and steady job and income who are also risk-averse can benefit the most since fixed interest rates remove uncertainty during unpredictable economic times. On the other hand, a floating rate can fluctuate based on market conditions, offering

should ideally work better, especially if the outlook suggests a downward trend in rates in the future. But practically, it does not work that way. In reality, it plays out differently. The spread between fixed and floating rates is usually around 100-150 bps. In other words, fixed rates are higher than floating rates. For instance, while a floating rate may be around 8.5 per cent, the equivalent fixed rate could be 9.5-10 per

While a fixed rate offers stability with predictable EMIs, a floating rate provides flexibility and potential savings when market rates drop

choice for borrowers. When rates drop, EMIs reduce, offering significant savings over time. However, when

