

INTEREST RATE COMPETITION AMONG HOUSING LOAN LENDING INSTITUTIONS IN INDIA

PINAKI SAMANT SINGHAR

ABSTRACT

This study attempts to test the existence of interest rate competition among home loan lending institutions in India from 2004 to 2008. Since the lending institutions charge fixed as well as floating interest rates and these rates vary by loan duration, this study specifies Cournot type rate reaction functions separately for 8 home loan rates. These reaction functions are estimated using appropriate panel data estimation procedures and data relating to 23 commercial Banks and 10 Housing Finance Companies. The results provide strong evidence for the existence of rate competition during the study period. The rates of competing institutions are strategic substitutes, meaning that the best response that a lending institution had to an average decrease in the rate charged by its competitors, was to increase its own rate.

Key Words: Home Loan Rates, Cournot reaction function, Strategic Substitutes.