THE HINDU BusinessLine

Lenders report significant jump in loans against property

K Ram Kumar

Get healthy spread of 1.5-2.5% on the base rate on such loans

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Mumbai, December 7:

Lenders seem to have taken a fancy to extending loans against property. Many lenders, be it banks or non-banking finance companies, have logged double and even triple-digit year-on-year growth in percentage terms in recent times.

For example, among public sector banks, Bank of India and Union Bank of India reported 29 per cent and 16.52 per cent year-on-year (yoy) growth, respectively, in loan against property (LAP) in the quarter ended September 2015.

Private sector banks Axis Bank and IndusInd Bank clocked 32 per cent and 43 per cent yoy increase, respectively, in LAP. LIC Housing Finance recorded a 114 per cent surge in its LAP portfolio in the first half of the current financial year over last year.

For a businessman, these loans are easier to get compared to a working capital loan, which entails the rigour of in-depth balance sheet analysis and credit ratings.

Since the last couple of years were not particularly good for micro, small and medium enterprises, their balance sheets are currently not looking good. So, if a banker strictly goes by the balance sheet ratios and credit ratings of these companies then these enterprises will not get adequate loans at competitive rates.

The loan amount for LAP is usually not more than half the value of the property mortgaged by the borrower and the spreads are better. Banks get a healthy spread of 1.5-2.5 per cent on the base rate (or the minimum lending rate) on LAP. They hardly earn any spread on home loans.

According to a senior public sector bank official, “The rate of interest on a loan is a function of the rating of the borrower. And ratings depend on the balance sheet.

“Whereas mortgage loans being more of a personal nature, ratings do not have much impact, rather, repayment capacity is a major focus area. That is the flavour of the market. The (LAP) growth is on a higher trajectory.”

The official said that his bank has pegged the maximum quantum of LAP at ₹ 10 crore. But on an individual basis the bank could also give up to ₹ 50 crore, depending on the merit of the case. Fifty per cent of the property value is given as loan. This is the general trend.

Sunita Sharma, MD and CEO, LIC Housing Finance, said her company’s LAP book is now almost 6 per cent of the (loan) book compared to a little less than 5 per cent a year ago. The LAP disbursements were ₹ 1,800 crore in the first two quarters put together.

(This article was published in the Business Line print edition dated December 8, 2015)