Home loans come to the rescue of big banks in times of default, depression

By Reuters | Jan 28, 2016, 03.17 PM IST

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MUMBAI/NEW DELHI: Domestic banks, struggling to boost mainstay corporate loans, are finding a bright spot in a home-buying spree in the country's towns that has driven mortgage-loan growth to the fastest rate in at least six years.

Top lender State Bank of India (SBI), and two big private sector peers - ICICI Bank and Axis Bank - say demand for credit from smaller centres in the country is helping grow their overall home-loans books. Outstanding home loans in India stood at $103 billion as at end-November.

The mortgage tailwind comes as India's banks are focusing on lending to individuals to counter a sluggish corporate-loan market that has been hit by a three-year long slowdown in Asia's third-largest economy. Home loans also pose lower bad-debt risks for the banks than corporate loans, data shows.

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"The Tier 2 cities are picking up," said Jayanthy Lakshmi, chief general manager for real estate lending at SBI. "Connectivity, affordability and rising employment are helping them to grow faster."

SBI expects an 18 percent growth in home loans for this fiscal year ending in March, against 14 percent growth for overall credit.

Rising income levels, increasing urbanisation, lower mortgage interest rates over the past year and easier capital regulations for loans to mid-segment home buyers are driving demand for housing units in India.

The world's second-most populous nation will need 110 million new houses by 2022, consultant KPMG forecasts, as it tries to fulfil Prime Minister Narendra Modi's ambitious plan of providing housing for all.

Central bank data shows housing loans during April-November grew 12.2 percent, their fastest pace in at least six years, and accounted for nearly a third of total loans made. By comparison, credit to industry, which includes corporate loans, was up just 0.4 percent.

Metros and leading cities account for about 70 percent of Indian banks' home loan demand. But debt-burdened developers, sharp price run-ups in the past, and record unsold stocks in some of the major cities, including the surrounding areas of national capital New Delhi, are increasing the importance of smaller centres to the lenders.

LOW DEFAULT RATE For ICICI Bank, the biggest Indian private sector lender, Agra in northern India, Rajkot in the west and Bhubaneswar in the eastern part of the country are among the smaller cities that are growing the fastest for home loans.

The bank's home-loan book, which accounts for a quarter of its total loans, is growing at 30 percent in smaller centres currently, compared with less than 20 percent in big cities, Executive Director Rajiv Sabharwal said.

The banks are rushing to tap the opportunity also because mortgage loans, being secured products, have a low default rate and delinquencies are far lesser than in corporate lending.

About 1 percent of SBI's retail loans, a majority of which are home loans, were delinquent as of end-September, compared with a total bad-loans ratio of 4.15 percent for the bank.

Banks also like the home-loans business because it helps them sell other products to households.

"Mortgage clients usually tend to be sticky and the relationship is beyond a single product," said Shyam Srinivasan, chief executive at mid-sized lender Federal Bank, which expects mortgage loans to grow about 17 percent this fiscal year, faster than its forecast 13 percent growth in overall credit.

