Small Ticket Affordable Housing Loans At Higher Risk Of Turning Bad, RBI Says

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The government's affordable housing push has led to a sharp rise in disbursement of home loans up to Rs 2 lakh, but this segment has also seen higher delinquencies, according to a Reserve Bank of India report titled 'Affordable Housing in India'. The report was released along with the central bank's monthly bulletin on Jan. 10.

According to the report, the percentage of non-performing assets for housing loan up to Rs 2 lakh, granted by public sector banks and housing finance companies, stood at 10.4 percent in 2016-17. A year ago, bad loans in this segment stood at 9.8 percent. Delinquencies in this segment are the highest among home loan slabs and also well above the average for the home loan market.

NPAs were the lowest in the housing loan slab of over Rs 25 lakh, at 0.9 percent, the report added.

The government and the RBI have been pushing growth in the affordable housing segment over the last few years. This is being done to expand access to housing and also to spur economic activity in rural and semi urban areas. One such incentive aims to provide financial assistance to private developers to boost private participation in affordable housing projects. Under this scheme, the central government provides Rs 1.5 lakh per house in the 'Economically Weaker Section' or EWS category. The RBI, on its part, has reduced the risk weight for affordable housing loans to make them cheaper.

The policies appear to have helped spur activity.

Data in the RBI report notes that the number of units completed under the Pradhan Mantri Aawaas Yojana-Urban scheme have jumped from 92,000 in April 2017 to over 2.88 lakh in December 2017.

> *The Government's recent thrust on affordable housing through policy measures, viz., government incentive schemes, accordance of infrastructure tag, interest subsidy scheme under PMAY have resulted in sharp rise in new housing projects in the affordable segment for low income groups. From the consumers' perspective, while availability of low cost credit is driving the demand for affordable housing, policies like Real Estate Regulatory Authority (RERA) Act may infuse fresh buyer interest in the reality sector.*
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This, in turn, has pushed growth in home loan disbursements.

In the case of PSBs, growth in home loans up to Rs 10 lakh stood at 30 percent in 2016-17 compared to 16 percent for housing finance companies, showed data put out by the RBI. Industry wide growth of home loans up to Rs 10 lakh stood at 23.5 percent in 2016-17, much higher than the 10.8 percent growth seen for total housing loans.

> *Responding to policy efforts, affordable housing is currently driving home loan growth in India. While the total disbursement of housing loans by public sector banks (PSBs) as well as the housing finance companies (HFCs) witnessed a deceleration in 2016-17, there was significant growth for the lower slabs. Housing loans up to Rs10 lakh recorded robust growth in 2016-17, primarily driven by the PSBs.*
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While demand for lower ticket housing loans has picked up, lenders may need to watch out for fresh delinquencies, cautioned the RBI.

"With the sharp rise in loan disbursements and number of beneficiaries in the affordable housing segment, non-performing asset (NPA) ratios of PSBs and HFCs have increased moderately in 2016-17," the report said.