

Mortgage guarantee, a boost to home-loan lenders

NS VAGEESH

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Mortgage guarantee helps the borrower get a bigger loan than what the lender may be willing to offer - NAGARA GOPAL

MUMBAI, MAY 18

Mahesh Misra, CEO, India Mortgage Guarantee Corporation, describes his business as a B2b2c company.

Mortgage guarantee provides a backstop arrangement for home-loan lenders against the possibility of default by their borrowers. In the rare event of a default by a borrower, IMGC pays the instalments to the home-loan lender for up to 2 years, by which time either the borrower will be able to regularise his repayments, or the lender will have recourse to other methods for recovery.

Default rates

Generally, housing loans are considered the safest product to lend to in the finance market. Typically no borrower wants to default on their home loan and risk being thrown out of the one asset that they spend the maximum money on. Default rates on home loans have generally been in the 1 to 2 per cent category. And home loans have remained among the most steady growth areas for banks hurt by corporate lending. At last count, home loans accounted for about 12.5 per cent of the total bank credit.

So, why would home loan companies or banks want to buy this guarantee? Mahesh explains that mortgage guarantee helps the borrower get a bigger loan than what the lender may be willing to offer under their current rules. It may also enable them to give the borrower a longer tenor for repayment, too.

For instance, it may be able to extend repayment tenor beyond the borrower's retirement years, something that lenders are loath to do now. These steps can help widen the home finance market and offer growth opportunities for lenders. There are also other advantages, including savings on risk capital if the mortgage guarantee is taken, although the amount may be less significant now.

Mortgage guarantee, as a product, is finding acceptance and is gathering traction, said Mahesh. A significant trigger has been the move towards affordable housing by many players. This is a new territory and borrower behaviour is still under watch. Home loan players are willing to look at this segment with more enthusiasm, provided they are covered by guarantee. Some NBFCs are finding that their affordable housing loan programme (loans in the ₹10-15 lakh category for affordable housing players and less than ₹30 lakh for others) seems to be growing at a faster pace, said Mahesh.

The home-loan market has been dominated by HDFC, SBI, LIC Housing Finance, ICICI, Axis and a few other smaller companies.

SBI tied up with IMGC a few months ago for mortgage guarantee – a move that is expected to help widen its home loan offering to more self-employed borrowers.

SBI's current portfolio is dominated by salaried borrowers. Other lenders are also interested and by the end of this year, Mahesh expects to sew up deals with the top lenders covering 65 per cent of the market.

Volumes are already growing by leaps and bounds, said Mahesh. In the last fiscal (FY2018), business volumes grew four times to ₹4,000 crore. This year he expects to comfortably double that once more. The target is to reach 1 per cent of the housing loan market by the end of the fiscal and gradually take it to 5 per cent over the next five years.

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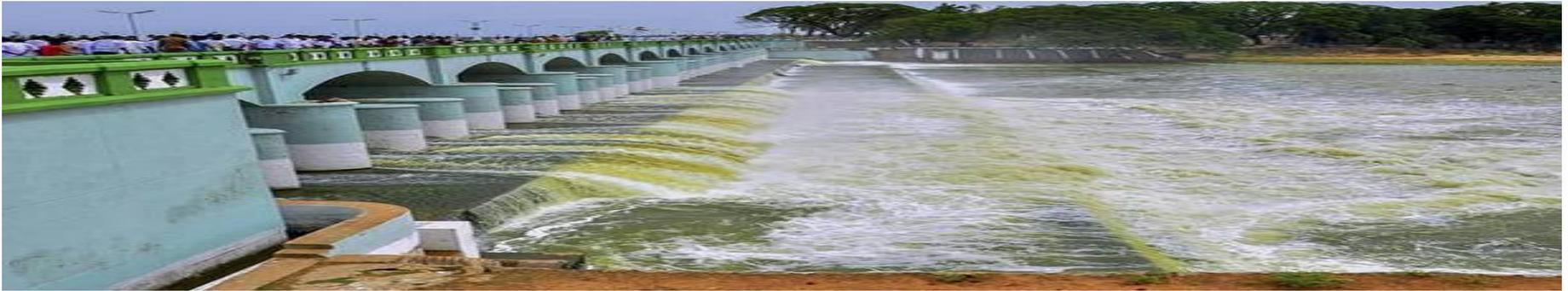
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