

Retail housing: Avoid dilution in credit standards, RBI warns banks

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Gross NPAs ratio for housing finance assets rises to 1.51 per cent in March 2018

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Alluding to the growing dominance of the retail housing segment in incremental credit allocations by banks, the Reserve Bank of India said any potential dilution in credit standards for incremental growth needs to be eschewed.

This observation, in its latest Financial Stability Report (FSR), comes in the backdrop of the central bank's warning earlier this month that the level of non-performing assets (NPAs) for a ticket size of up to ₹2 lakh has been high and is rising briskly.

According to the FSR, the retail housing segment grew to 12.7 per cent of the total non-food outstanding credit as on March 31, 2018, from 12.1 per cent on March 31, 2017. The gross NPAs (GNPAs) ratio for housing finance assets increased to 1.51 per cent in March 2018 from 1.28 per cent in March 2017.

The all-India composite House Price Index (HPI) growth moderated to 7.6 per cent (year-on-year) in Q3 (October-December) 2017-18, when compared to 8.3 per cent in the corresponding quarter of the previous year.

Referring to its analysis of the housing loans data, the RBI, in its statement on developmental and regulatory policies in early June, observed that the level of NPAs for a ticket size of up to ₹2 lakh has been high and is rising briskly. Hence, it asked banks to strengthen their screening and follow up in respect of lending to this segment in particular.

The RBI said it is closely monitoring this sector and will consider appropriate policy responses such as tightening the LTV (loan-to-value) ratio, and/or an increase in the risk weights, should the need arise.

In a recent report, credit rating agency ICRA said the ultimate credit losses in the affordable housing segment would be a function of the lenders' ability to repossess the properties and timely sell the repossessed assets, which is hitherto largely untested. "Though the ticket sizes are small, the process could be more time consuming and the recovery costs could also be high in relation to the loan amount, thereby reducing the final recovery for the lender," said the agency.

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