

# Banks shy away from lending to affordable housing under CLSS

SHOBA ROY

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A file picture of an affordable housing project in Visakhapatnam. Housing finance companies account for over 70 per cent share in disbursements for such projects. - THE HINDU

# Capital constraints, fear of default likely reasons for lenders keeping away, say experts

**KOLKATA, AUGUST 13**

Lending to the affordable housing sector under the credit-linked subsidy scheme (CLSS), a part of the government's flagship Pradhan Mantri Awas Yojana – Urban (PMAY-U), seems to have failed to catch the fancy of banks.

Under the scheme, borrowers from economically weaker section with annual household income of ₹3-6 lakh are entitled to get 6.5 per cent interest rate subsidy for home loans up to ₹6 lakh. MIG I (annual household income of ₹6-12 lakh) and MIG II (₹12-18 lakh) will get interest subsidy of 4 per cent and 3 per cent for loans up to ₹9 lakh and ₹12 lakh respectively.

The schemes for MIG are valid up to March 31, 2019. The rest are valid up to March 31, 2022.

The total disbursement under the scheme is not known. According to Sriram Kalyanaraman, MD and CEO of National Housing Bank (NHB), so far two lakh households are covered with ₹4,358 crore subsidy disbursed upfront.

Housing finance companies (HFCs) are leading from the front with over 70 per cent share in disbursements, he told *BusinessLine*.

According to Krishnan Sitaraman, Senior Director, Crisil Ratings, for a bank it is just one of the products and there is little scope for flexibility.

While HFCs have been able to come up with tailored products and processes aimed at tapping the segment, banks continue to focus on the large-ticket salaried customers for driving their home loan portfolio.

## Capital constraints

Moreover, banks may have not been able to make their mark in the segment due to capital constraints.

In fact, as many as 11 public sector banks have been put under prompt corrective action by Reserve Bank of India for breach of risk threshold including minimum capital requirement, asset quality and profitability.

The sheer size and branch network of banks might also make it difficult for them to be able to communicate the scheme and educate their customers effectively, said an industry insider.

## Fear of default

A senior public sector bank official felt banks are shying away from lending under the scheme fearing defaults.

“A lot more due diligence is required for this segment of customers as their income level is under stress and the possibility of default is slightly more. So banks have to be very careful while lending to this segment,” said Ashok Kumar Pradhan, Executive Director, United Bank of India.

Moreover, there is usually a certain time lag between subsidy claim and settlement, and till then the borrower will be required to service the entire EMI. This could put pressure on his repayment capacity, said an executive of a bank, who did not want to be identified.

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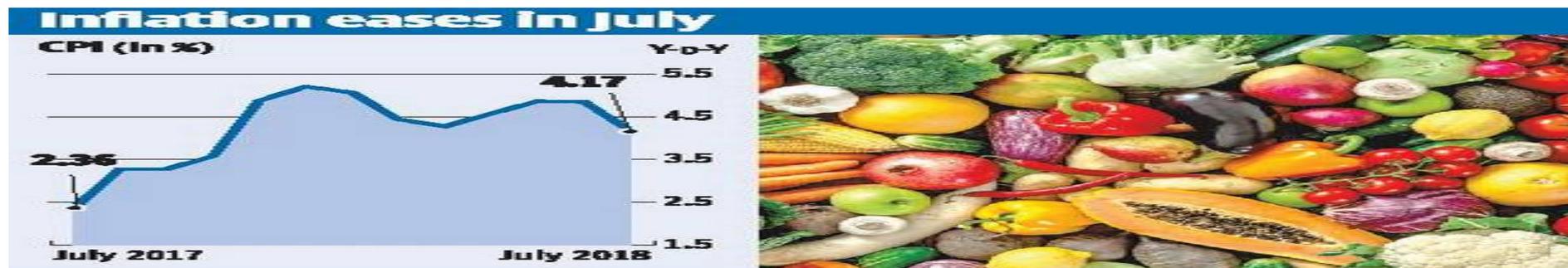
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