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In tough times, it's tougher to live on credit

BY ASHUTOSH SHYAM & SALONI SHUKLA, ET BUREAU | UPDATED: APR 21, 2020,
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MUMBAI: Living on credit through a period of salary cut or job loss is going to be tough because at least a few banks are proactively and sharply reducing credit card and personal loan limits for certain classes of customers. Also affected will be small and medium businesses as loan ceilings to them are also getting reduced.

An internal memo from Axis Bank reviewed by ET says credit limit of nearly 200,000 customers has been reduced with effect from April 15. Some Axis Bank customers ET spoke to confirmed this. Credit limits for this group seems to have been reduced by 30%-90%.

"Credit limit on my Axis Bank Vistara card was slashed to just Rs 50,000 from Rs 5,00,000 despite paying dues on time. When I inquired with their customer care, I was told that it was a technical glitch that would be rectified in a few days," said an Axis Bank customer from Mumbai on the condition of anonymity. Another customer who also didn't wish to be identified said his limit was slashed to Rs 1.5 lakh from Rs 7 lakh.

In terms of number of cards issued, Axis has a 12.6% market share while it has 10.7% share in the total credit card spending, as per its quarterly report in December 2019.

Some customers of Kotak Mahindra Bank also received communication on similar lines. "My credit limit has been revised to Rs 44,000 from Rs 75,000…the reason given is regular account review process," said a Kotak card customer.

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When contacted, a Kotak Mahindra Bank official said that this is a routine exercise. "Analysing credit worthiness and card spend behaviour of credit card holders is our regular ongoing exercise and is not unique to the current period," said Ambuj Chandna, president – consumer assets, Kotak Mahindra Bank.

"Based on credit card spends and repayment data, we analyse credit limits of customers, and offer to increase a customer's credit card limit or reduce the credit limit in certain cases," he added.

"The correction in the credit card limit is a self-correcting process for banks. Since credit limit is entirely at the bank's discretion, it is the most obvious tool to lower business risk," said Ajay Srinivasan, director, Crisil Research.

RBI data shows credit card outstanding amount reached an all-time high of Rs 1.1 lakh crore at the end of February, up nearly 26% over last year. India had more than 56 million active credit cards at the end of January. Credit card loans accounted for 1.2% of the total bank credit in the first eleven months of FY20 compared with 0.5% in FY15.

Banks are also cutting back on loans to retailers as well as merchant enterprise overdraft (loans given based on the value of billings through credit card swipes at point of sales machines).

An HDFC Bank internal memo reviewed by ET instructs its branch managers to grant such loans only to grocery stores, pharmacies and dairies till further notice.

Questions sent to Axis Bank and HDFC Bank remained unanswered till press time.

HDFC Bank has also tightened eligibility criteria and reduced limits for personal loans. The latter is 70-80% of the applicant's annual salary now, down from 100% earlier. Salaried customers constitute 80% of the bank's unsecured personal loan portfolio. For business loans, HDFC Bank has increased compliance burden by increasing the minimum number of years of income tax filings by the applicant.
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