Loan moratorium: Lenders struggling to trace low-ticket retail borrowers

BY SALONI SHUKLA & JWALIT VYAS, ET BUREAU | APR 25, 2020, 08.33 AM IST

Mumbai: Banks and shadow lenders are finding it hard to locate some of their clients, many of whom haven't been able to pay their dues on time amid the current economic distress. Financiers across the spectrum are struggling to trace low-ticket borrowers, about a fifth of their customers, through virtual means. Unless they can get hold of them, repayments stand automatically deferred. The Reserve Bank of India has announced a three-month moratorium on repayments to cope with the effects of the Covid-19 lockdown.

Agents are hunting for borrowers who have taken loans with no collateral to buy phones and white goods. Others have taken personal loans or have credit card debt.

Bajaj Finance, one of the largest financiers of consumer durables, said the 'bounce' rates for consumer loans were 2.5 times the normal. The lender has already warned delinquencies could climb 80-90% in the current lockdown.

"Most banks and NBFCs , which have targeted loans based on algorithmic lending without any real connection with the borrowers, will face a lot of issues," a senior industry official said.

Bernstein Sees 20% Bounce Rate

"We are also facing issues with our borrowers as collection agents are unable to reach them. In some cases, there could be intent to pay but no ability to pay. So, we are buying time and trying to contact them. We will have to see how this plays out when collection agents are able to reach these customers," the official said on condition of anonymity.

Bajaj Finance, Tata Capital, HDFC Bank, ICICI Bank, Shriram Capital, Axis Bank and L&T Finance did not respond to ET's queries. Gold loan NBFC (nonbanking finance companies) Manappuram Finance said that 10% of its customers couldn't be traced.

"Collections in our commercial segment have dropped significantly—about 35% compared to over 90% prior to Covid-19—because these vehicles are not able to ply," said Manappuram Finance managing director VP Nandakumar. "The self-regulatory organisation for Asirwad Microfinance (a Manappuram unit) has also taken a decision to extend the moratorium to such customers."

The CEO of another mid-sized NBFC said that it couldn't reach a tenth of its borrowers.

"Depending on the product segment, we are seeing 7-10% of the customers that are not reachable or have already moved out of the city during the lockdown," said the executive. "This probably explains why RBI has put a compulsory provision of 10% for those non-standard cases which have opted for moratorium. But the real story will begin to unfold only once the lockdown is lifted."

A report by Sanford C Bernstein said that feedback from collection teams and agents hints at initial bounce rates of 20%. With employees firing staff and delaying or cutting pay, the impact on the salaried segment is yet to play out. ET reported earlier that Axis Bank and Kotak Mahindra Bank had already slashed credit card limits by over 50%, anticipating delinquency.

Credit card outstanding balances have tripled since the global financial crisis in 2008 while the personal loan outstanding has risen five times. "Larger hit portfolios would be unsecured personal loans, consumer loans, loans by MFIs, especially in the urban pockets to the migrant workforce," said Atanu Bagchi, ex CFO, Can Fin Homes.

According to an India Ratings research, microfinance institutions (MFI) and small finance banks (SFBs) will face severe asset quality issues in the short term. MFIs are among the hardest hit in the initial period of the lockdown as their field staff cannot venture out for collections owing to the lockdown. "We are working with customers who need moratorium and also driving usage of online banking and digital payments modes for those who can pay," said Pramod Bhasin, founder, Clix Capital. "We are also running a pilot on collections remotely."