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Demonetisation, GST effects: Default surge in affordable housing temporary

LTV ratios are regulated in India by National Housing Board, which means that no loan can cover less than 50% or more than 90% of asset value

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The [affordable housing](#) segment is witnessing rising defaults as [demonetisation](#) and the introduction of the [goods and services tax](#) (GST) have affected the underlying borrowers' cash flow over the past year, according to analysts and [housing](#) finance companies (HFCs). They, however, add that the "temporary" phase will pass soon and the segment will reach its growth potential.

International credit rating agency Moody's and its Indian subsidiary, ICRA, said in a recent report that the average gross non-performing assets (GNPAs) in the [affordable housing](#) segment rose to 1.8 per cent in September 2017 from 1.4 per cent in March 2017. The asset quality of loans in the traditional (or premium) [housing](#) segment remained the same, the report noted. Karthik Srinivasan, senior vice-president, ICRA, told *Business Standard*: "Market conditions, be it [demonetisation](#) or the [GST](#) — which caused disruptions — have affected the cash flows of underlying borrowers, leading to some rise in delinquencies." According to ICRA, the GNPA levels of [housing](#) loan portfolios (all types of properties) of HFCs stood at 0.6 per cent as of September 2017.

Arvind Hali, managing director and chief executive officer, ART [Affordable Housing](#) Finance, said, "This is a temporary phenomenon, and there is a significant upside to [affordable housing](#). Most HFCs, especially newer ones, are interested in expanding their balance-sheets."

Srinivasan said one typically saw delinquencies in the first two to three years in any lending business, but rising delinquencies in the [affordable housing](#) market was a more recent phenomenon. "Till

this (buyers' cash flow) stabilises, we will probably see more of a rise in delinquencies, before things start improving," he said.

The credit collection ratio (CCR) for traditional [housing](#) loans was in the range of 98 to 100 per cent, whereas it was 94-96 per cent for the affordable segment, when ICRA-rated [housing](#) loan pools were taken into account, the report said.

"Whatever growth in competition and demand we see, is coming from those in the informal or self-employed sector. Unlike traditional customers with regular cash flows, this segment is characterised by irregular cash-flow.

Any family or business problem can cause instalment defaults," said Deo Shankar Tripathi, MD and CEO of Aadhar [Housing](#) Finance, a subsidiary of [Wadhawan Global Capital](#).

"The risks of default are factored into the loan pricing, hence the risk-adjusted return is better in the [affordable housing](#) segment than in traditional [housing](#) loans with lower NPA levels," said Tripathi.

[Affordable housing](#) loans were not like sub-prime loans or those being given to credit impaired customers, said Hali. "It's just that these customers may not have documented or regular income statements; borrowers tend to be self-employed, working in the unorganised sector."

"If we look at the subprime crisis in the US, the issue was that there was no control over the loan-to-value (LTV) ratio; you had teaser rates, [NINJA loans](#) (no-income-no-job loans) etc. If I look at my own portfolio, 60 to 70 per cent of the customers we source have CIBIL scores," Hali said.

[LTV ratios](#) are regulated in India by the National [Housing](#) Board, which means that no loan can cover less than 50 per cent or more than 90 per cent of the asset (home) value. Further, with the Pradhan Mantri Awas Yojana scheme and the credit-linked subsidy announced by the [government](#) in January 2017, both instruments have helped push the LTV down for the lender, as well as ease some of the burden off the buyer.

“The mistakes that many HFCs have made are, lending at a very early stage or that they lend more than required, given the projects’ stage of construction. Such structured [home loan products](#) definitely increase the risk. When the buyers’ equity is not up to the mark, then the risk of default becomes high,” Hali said.

The risk of an [affordable housing](#) loan portfolio can be constrained if there is more of a buyers’ equity stake in the house, or as long as the customer is not stretched in terms of having too many debt obligations.

“Given that we faced some disruption, people (companies) are strengthening their monitoring and collection teams. We will see the positive impact of these moves in one or two quarters, but, in the interim, there has been a rise in delinquencies even though the losses might not be material, as HFCs would’ve made them secured loans, with high provisioning level,” said Srinivasan.

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