HFCs to set small-ticket loans at lower rates

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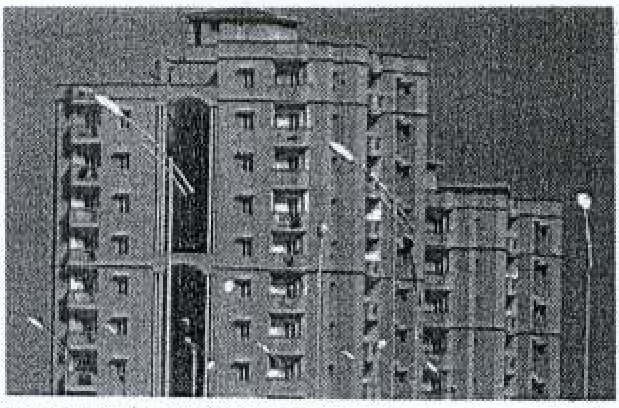
The National Housing Bank's (NHB's) mandate on risk weights linked to the loan-to-value ratio is likely to prompt housing finance companies (HFCs) to introduce interest rate differentiation. This will be based on the sanctioned amount, with smaller-ticket loans available at cheaper rates.

Also, the Reserve Bank of India's (RBI's) decision to allow banks to treat advances to HFCs for on-lending to individuals in the form of home loans of up to Rs 20 lakh will make it more attractive for these firms to price a majority of their loans at a cheaper rate.

"It is a prudent move in the context of risk management, but this will eventually lead to interest rate differentiation as it could impact capital adequacy. But we will have to take into account the capacity of a borrower to absorb the higher cost associated with higher LTV ratio," said Dewan Housing Finance Vice Chairman & Managing Director Kapil Wadhawan.

However, he added that Dewan Housing has an average LTV of 65 per cent and the new norms will be taken into account for fresh disbursals.



NHB's mandate on risk weights linked to loan-to-value ratio may bring about differential rates of interest

According to industry analysts, the interest rate differential may vary between 50 and 100 basis points, only account of the NHB prescription.

"HFCs might resort to interest rate differentiation on the account of the higher risk weightage. But the interest charged on such disbursals will depend on the appetite of the HFC to absorb the additional cost and accordingly, they may cap the disbursal amount," said LIC Housing Finance Company Director & CEO RR Nair.

On December 2, NHB had issued a circular under which any housing loans with LTV ratio more than 75 per cent would attract a risk weight of 100 per cent.

This is sure to encourage HFCs to restrict its sanctioned amount as earlier, they used to lend up to 85 per cent of the value of the property. For instance, against a property valued at Rs 10 lakh, earlier the sanctioned amount went up to 85 per cent or Rs 8.50 lakh, but under the new rules the companies would be able to sanction up to Rs 7.50 lakh, or else incur higher cost due to 100 per cent risk weight.

Hence, a borrower pursuing higher sanctioned amount will now have to incur a higher rate of interest.

"This will put a limit to the sanctioned amount as in order to get the benefit; companies would not like to sanction an amount more than 75 per cent of the value of the property, so that the LTV ratio stays within 75 per cent," Nair added.

Moreover, with the property price depreciating sharply over the last six months, the LTV of a certain property too has moved southward and in this scenario, this move might further add to the woes of the middle-income borrower.

"We are working out the details as to what would be the additional cost for LTV ratio above 75 per cent since most of our loans are below Rs 30 lakh, but the LTV ratio is between 80-85 per cent and of late, it is on a rise due to the falling property prices. So will have no choice but to pass on the cost," said an HFC head who did not wished to be named.

However, the biggest HFC in the country, HDFC might pass on the cost. "Each entity will, have to take a call on that (charging different interest). But we are well-capitalised and would not pass on the cost to the needy borrowers," said HDFC Vice Chairman & MD Keki Mistry.