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COMMENT HFCs need to take prudent measures in maintaining the asset quality as they sharpen focus on loan against property

Beware of the bubbles in the affordable housing segment

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Everyone is trying to grab a piece in the affordable housing pie, but one has to be careful and follow strict risk management policies to select the right set of clients in the segment.

The Reserve Bank of India (RBI) recently issued a stern warning to the banks to strengthen their underwriting norms in respect of lending to borrowers in the affordable housing segment. The RBI made its intention clear that if banks don't tighten their risk management standards and find ways to keep delinquencies in check, it will make it more expensive for them to give small-ticket loans under the affordable housing scheme.

There is no doubt that banks and the housing finance companies (HFCs) are seeing immense opportunity in the affordable housing segment and, the Pradhan Mantri Awas Yojana (PMAY) has made the affordable housing segment attractive to borrowers and lenders by providing subsidies upfront. This has seen both banks and HFC rushing in with their credit offerings. Rating agency Crisil earlier said that ability of the HFCs to tap into the massive opportunity in affordable housing, and slower credit growth by banks have led to tremendous growth for HFCs in the last fiscal. HFCs saw a growth of around 24% in assets under management (AUM) in the last fiscal. According to Icra, AUM rose by 22% in the home loan segment, which translated into a CAGR of 20% over the past 3 years. Consequently, the market share of HFCs in the home loan segment also increased by around 200 bps to 39%.

Better safe than sorry

While this growth numbers on the back of affordable housing are heartening, HFCs need to ensure that they take prudent measures in maintaining the asset quality, as they sharpen focus on loan against property (LAP) segment, low ticket-size home loans, and increased lending to the self-employed customer segment.

For the self-employed segment, funding only based on their current cash flows instead of projected (future) cash flows will mitigate chances of future slippages. Similarly, for construction finance, careful selection of the construction projects is a must.

Having a dedicated Real-Time Risk Monitoring (RTRM) team in place can help the companies to identify and review sanctioned cases with high-risk factors and implement a standardised underwriting system to maintain high asset quality. The RTRM team checks whether there is consistency in terms of decisions being taken for the same kind of risk appetite across locations but has a system in place for notifying the senior managers and supervisors whenever an exception is made. RTRM can become a point of reference for making policy changes by the company. The frequent deviations, which have no major impact from the risk point of view, can be incorporated in the policy itself.

Technology can be deployed for fraud checks as well. The need of the hour is the use of algorithms, big data and artificial intelligence to assess the client profile before sanctioning the loan. Technology has become a necessity to understand the credit worthiness of a borrower and importantly to check the ability of the borrower to repay.

With the emphasis on retail segment, which has resulted in an exponential increase in volume across all products, this has also necessitated strict policy measures to be put in place.

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