

Guarantee fund for the urban poor

The National Housing Bank (NHB) will set up a loan guarantee fund of Rs 1,200 crore for the urban poor. The broad contours of this proposal announced during the Budget 2011-12 guarantees housing loans up to Rs 5 lakh for the urban poor in metros and other cities.

“The scheme (which will not cover the rural populace) should help mitigate the risk perception that banks and finance companies have while funding the urban poor,” said NHB chairman and managing director R V Verma.

The bank will set up a trust that will provide loan guarantee of 90 per cent for loans up to Rs 2 lakh and 85 per cent for loans Rs 2-5 lakh. The trust will be funded largely by the Centre, in association with state governments. The scheme, which is awaiting Cabinet approval, will be a default guarantee scheme whereby banks and financial institutions, who fund houses to the urban poor up to Rs 5 lakh and area of 430 square ft.

However, the lender can only avail of this facility after two years of paying the last installment. If the loan turns bad before that, the application will be admitted within 90 days (after the completion of the mandatory two years) and 75 per cent of the amount will be reimbursed to the lender immediately.

For the rest 25 per cent, the lender will have to go through the procedures in the Securitisation, Asset Reconstruction and Enforcement of Security Interest (Sarafaesi) Act and sell the property. The amount recovered from the sale proceeds will used to repay the financial institution and NHB’s trust. If the recovery is more than 100 per cent, the balance amount will be paid to the borrower.

A senior manager in a housing finance company said most banks and HFCs were currently not comfortable funding this segment because of default perception. “As a result, the pricing is also much higher for this segment,” he told Business Standard. If a trust guarantees the loan, there will be more action in this segment.” The risk perception has even had public sector banks wary about this segment. The average loan size of the country’s largest bank, State Bank of India, is Rs 12 lakh. Even housing finance companies and private banks are also not too keen to lend to this segment. HDFC’s average loan size is Rs 18 lakh.

Such a scheme can resolve some of these issues. “Financial institutions will get a guarantee 85-90 per cent that will give them capital relief, as there will not have to set aside capital for these loans,” said NHB’s Verma. “This, along with risk mitigation should reduce the price of loans for this segment of borrowers.”

At present, financial institutions have to set aside 75 to 100 per cent as risk weight for home loans, which will not be required if the loan is guaranteed, thereby saving them capital. However, if the loan turns into a non-performing asset, the financial institution will have to provision for it. “The two-year lock in that is being proposed is due to the fact that financial institutions should do their due diligence properly before providing the loan,” Verma added (Business Standard 9-11-11).