

## **RBI allows 90% loan to value ratio on home loans up to Rs30 lakh**

The decision is in line with RBI's statement on 29 September that it was reviewing these norms and will release guidelines shortly.

The Reserve Bank of India (RBI) on Thursday increased the amount banks can advance for a property purchase and also reduced the so-called risk weights attached to some categories of home loans in a move that will likely make more credit available to borrowers and improve sentiment in a struggling real estate market.

In a notification, RBI allowed a loan-to-value ratio (LTV) of up to 90% for home loans of Rs.30 lakh or less. Earlier, 90% LTV was allowed only for loans up to Rs.20 lakh.

LTV denotes how much of the property value a bank can lend to a borrower. A 90% LTV indicates that the buyer will have to shell out only 10% of the property value and the rest can be financed through banks.

Loans up to Rs.30 lakh fall under the "affordable" category in urban areas. While some banks add stamp duty and registration amount to calculate the total property value and disburse a loan accordingly, some banks exclude government costs.

If the LTV is between 80% and 90%, the risk weight—the capital required to be set aside by banks—attached to such loans will be 50%. If the LTV is below 80% for loans of Rs.30 lakh, the risk weight falls to 35%.

As risk weights rise, a bank has to make more provisions and thus the banks' ability to lend gets restricted.

For loans above Rs.30 lakh and up to Rs.75 lakh, the LTV stands at up to 80%. Loans above Rs.75 lakh will have an LTV of 75%. The risk weight for loans between Rs.30 lakh and Rs.75 lakh, which have an LTV of up to 75%, has also been reduced marginally.

The move by RBI to relax LTV norms and risk weights comes at a time when the property sector is battling to emerge from a prolonged slowdown, with tepid sales and rising inventory. The slowdown followed a larger economic downturn.

Although apartment prices in Mumbai city and its suburbs continue to be out of reach for salaried individuals, rising construction costs and land prices and delays in project completion have led developers to hold on to prices. In terms of inventory, the region has 5,400 ready-for-possession apartments, according to a 5 October note by brokerage firm Elara Capital Securities (India) Pvt. Ltd. Housing sales also saw a steep decline in the NCR centred on Delhi in the first half of this year.

"Decreasing risk weights attached to home loans and increasing loan amount are important steps keeping the homebuyer in mind. This is very significant in today's situation, particularly in markets like NCR where customer confidence is lacking and needs a trigger to improve the overall sentiment," said Manoj Gaur, president of Confederation of Real Estate Developers Associations of India (Credai)-NCR, a lobby group.

The decision is in line with RBI's monetary policy statement on 29 September, the day it cut its key interest rate by half a percentage point, that it was reviewing these norms and will release guidelines shortly.

RBI's move comes in the wake of a government plan, called Housing for All, to build 20 million houses for the urban poor by 2022, which coincides with 75 years of independence.

"With a view to improving 'affordability of low-cost housing' for economically weaker sections and low-income groups and giving a fillip to 'Housing for All', while being cognisant of prudential concerns, it is proposed to reduce the risk weights applicable to lower value but well collateralized individual housing loans," the central bank in its monetary policy statement on 29 September.

Some bankers have been seeking relaxations from the regulator in light of a slowdown in the real estate sector. At a conference in August, Arundhati Bhattacharya, chairperson of State Bank of India, pitched for the reintroduction of teaser loans which could help improve demand for homes at a time when the real estate sector is struggling with high inventories.

"I am told that real estate stock is at a two-year high and I was thinking if it is possible something of this (teaser loan) kind could be allowed given the fact that this is one of the portfolios where NPAs (non-performing assets) are the lowest," Bhattacharya said on 21 August.

Teaser home loans are offered at a fixed low-rate of interest in the initial years and are subsequently adjusted to a higher floating rate for the rest of their tenure. SBI and other lenders withdrew the offer in 2011 because of concerns expressed by RBI that such loans were riskier and carried a higher probability of default.

While RBI hasn't yielded to those requests, the reduction in risk weights could improve the affordability of such loans marginally.

"Prices of real estate have gone up since the time they had introduced that 90% LTV for Rs.20 lakh loans. It is a good idea to adjust the LTV now to realign with the existing prices and this should help banks and customers both," said R.K. Bansal, executive director at IDBI Bank Ltd.