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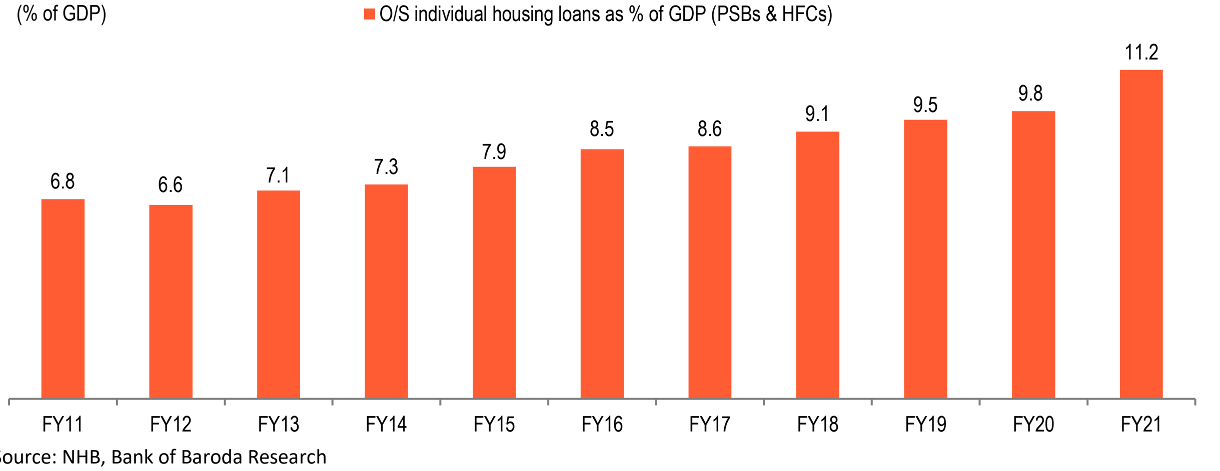
Housing loan scenario in India

The real estate sector plays an important role in the economy, especially true for a developing economy like India with a huge population, implying an ever increasing demand for housing. Demand for housing comes hand-in-hand with the demand for housing credit. In this respect, we study the housing loan segment in India and analyze the trends thereof. More specifically, we observe that while SCBs remain the key player in the housing loan segment with over 60% share, other players such as HFCs have also been playing a key part in meeting the credit requirement of the sector. Despite charging higher interest rates, HFCs have been able to maintain a share of above 30% in the housing loan market, by providing quicker and simpler loan turnaround process.

Housing loans in India:

The growing importance of home loans can be gauged from the fact that the ratio of outstanding individual home loans by Scheduled Commercial Banks (SCBs) and Housing Finance Companies (HFCs) in India's GDP has grown substantially in the last ten years (Figure 1). From about 6.8% of GDP in FY11, this ratio has risen to 9.5% in FY21. Even in FY20, despite the adverse Covid-19 shock in FY20 which badly affected the housing sector, ratio of housing loans rose to 9.8%. In the succeeding year, the sector noted a remarkable recovery from the pandemic and the ratio of housing loans in GDP rose to 11.2%.

Figure 1: Housing loans as % of India's GDP

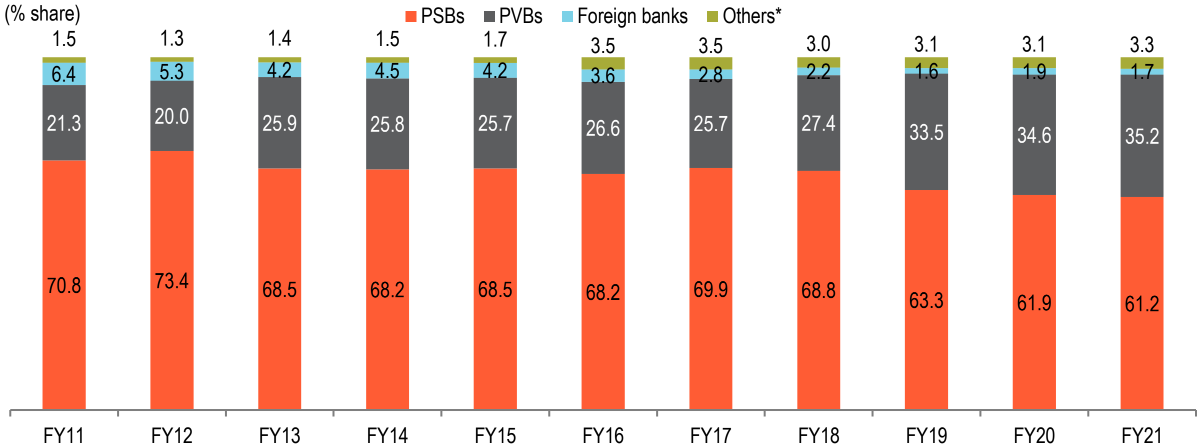


Source: NHB, Bank of Baroda Research

Trends in housing loans by SCBs:

From Rs. 3.45 lakh crores in FY11, the housing loan portfolio of SCBs has increased to Rs. 15 lakh crore in FY21, registering an impressive CAGR of 14.3%. PSBs are the dominant market player in the housing loan segment accounting for 61.2% of the total housing loan portfolio of SCBs in FY21. However, it must be noted that the share of PSBs has seen a sequential dip in share from ~70% in FY11. On the other hand, Private Banks (PVBs), have gained market share from PSBs. From 21.3% in FY11, market share of private banks has increased to 35.2% in FY21. It is also interesting to note that while housing loans by PSBs grew at 12.8% CAGR in the period, PVBs registered a higher CAGR growth rate of 19.6%.

Figure 2: Housing loans by Scheduled Commercial Banks (SCBs) in India



Source: CEIC, Bank of Baroda Research | Note: * Others includes Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)

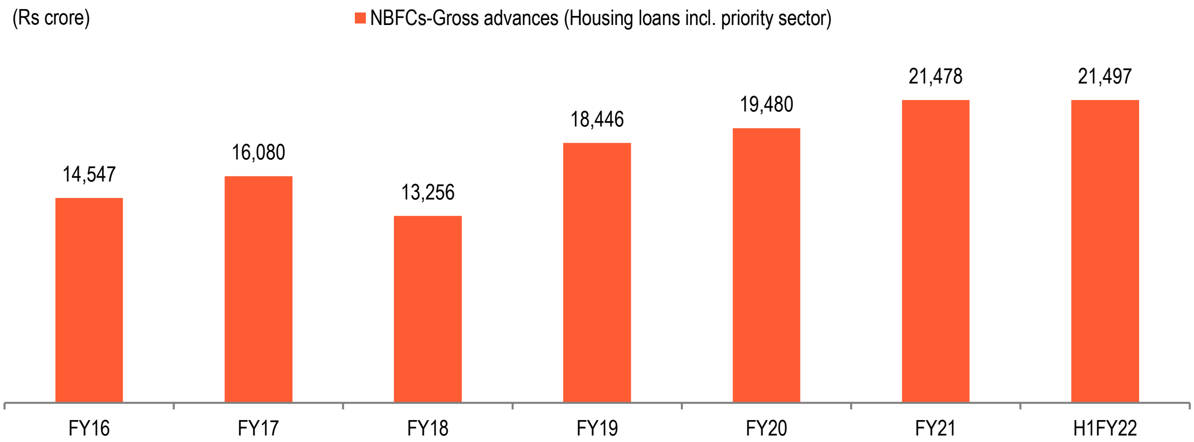
Foreign banks have only a small share in the overall housing loan portfolio. These have also lost market share to PVBs. In FY11, foreign banks share in the overall housing loan portfolio was 6.4% which has declined substantially to only 1.7% in FY21.

Regional Rural Banks (RRBs) account for only a small portion of the housing loans in India. From Rs. 5 thousand crores in FY11, housing loans by RRBs have swelled to Rs. 25 thousand crores in FY21, registering a CAGR growth of 15%. More recently, Small Finance Banks (SFBs) have also entered the housing loan segment. However, at Rs. 3 thousand crores in FY21 (0.2% of overall housing loans by SCBs), they remain a miniscule player in the segment.

Gross advances by NBFCs:

In recent times, NBFCs have also emerged as a player in the housing loan segment. Data from FY16 onwards shows that, excluding FY18 which saw a dip, NBFCs' gross advances to the housing sector has been increasing. From Rs. 14,547 crore in FY16 it increased to Rs. 21,478 crore in FY21. With a pickup in housing loan demand thereafter, there has been a sharp pickup in housing loans from NBFCs as the gross advances in H1FY22 (upto Sep'21) have already exceeded the level of FY21. Despite the rapid pace of expansion of NBFCs in the housing loan segment, their contribution to the overall credit requirement in this sector remains limited.

Figure 3: Gross advances by NBFCs for the housing loan segment

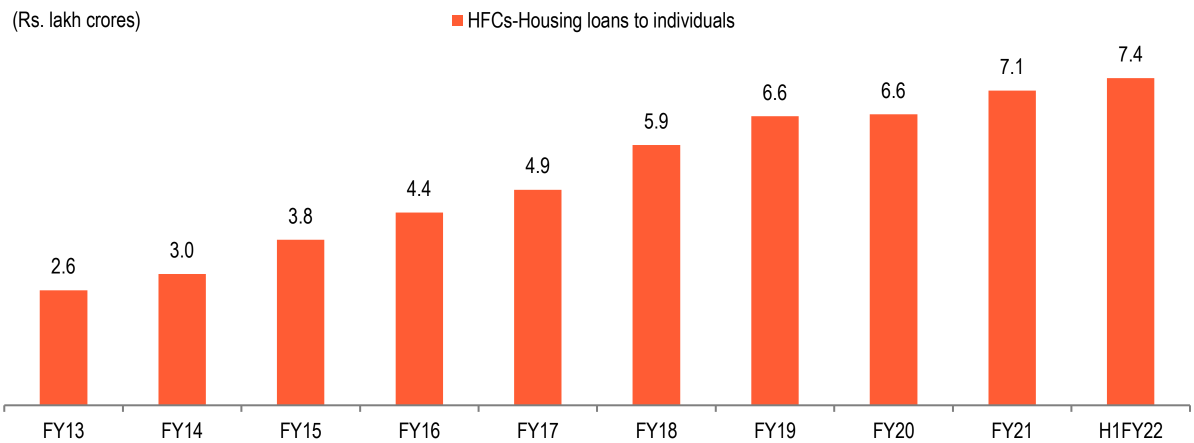


Source: CEIC, Bank of Baroda Research

Housing Finance Companies (HFCs):

HFCs are specialized institutions providing housing finance to individuals, co-operative societies, corporates and lease commercial and residential premises to support housing activity in the country. Outstanding individual housing loans by HFCs have noted a sharp pickup in the last few years. From Rs. 2.6 lakh crores, the housing loan portfolio of HFCs rose to Rs. 6.6tn in FY19 and remained stagnant at the same level in FY20. In FY21, outstanding home loans by HFCs rose moderately to Rs 7.1 lakh crores as housing demand remained muted to the Covid-19 pandemic. Even so, between FY13 to FY21, the CAGR growth has been an impressive 11.8%. With easing restrictions and a resurgence in demand for housing, housing loan portfolio of HFCs has surged to Rs. 7.4 lakh crores in H1FY22 alone.

Figure 4: Individual housing loans outstanding by HFCs



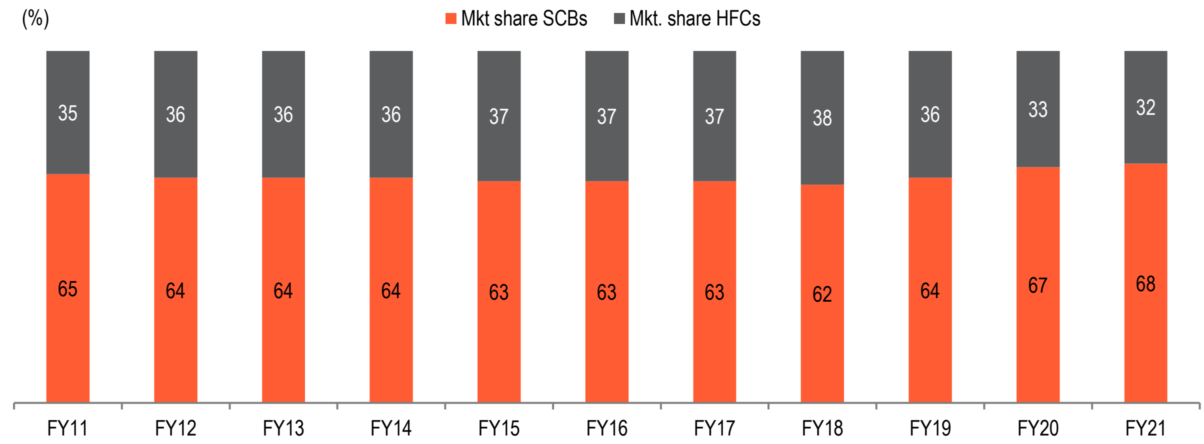
Source: NHB, Bank of Baroda Research

HFCs versus SCBs:

The chart below maps the respective market shares of SCBs and HFCs in outstanding housing loan. It can be seen that SCBs have remained the dominant player in the market accounting for over 60% of the total outstanding housing loans, while HFCs account for the rest. An interesting thing to note is that in the last two years i.e. FY20 and FY21, the market share for SCBs has increased. From 64% in

FY19, SCBs market share increased to 67%in FY20 and 68% in FY21. On the other hand, HFCs lost market share.

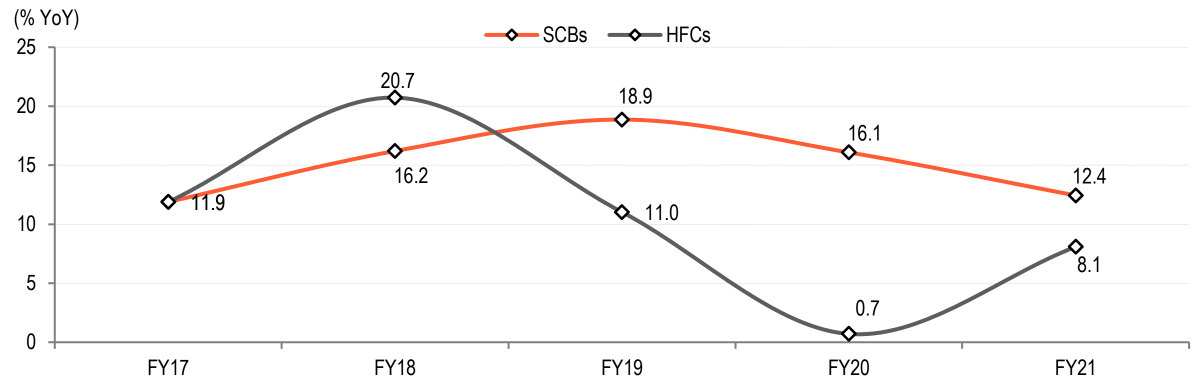
Figure 5: Individual housing loan outstanding by HFCs



Source: NHB, Bank of Baroda Research

Figure 6 below shows the growth rate in outstanding housing loans of SCBs and HFCs in the last 5 years. It is interesting to note that while outstanding housing loans of both SCBs and HFCs rose at the same pace of 11.9% in FY17, there has been significant divergence in the later periods. In FY18, while housing loans by SCBs grew by 16.2%, HFCs recorded a much higher growth in home loans at 20.7%. In the period thereafter, SCBs have continued to perform better than HFCs in terms of YoY growth in home loans outstanding. However, in FY21, while home loan growth for SCBs moderated from 16.1% to 12.4%, HFCs noted a sharp uptick in loan growth from 0.7% to 8.1%.

Figure 6: Growth in housing loan outstanding SCBs versus HFCs

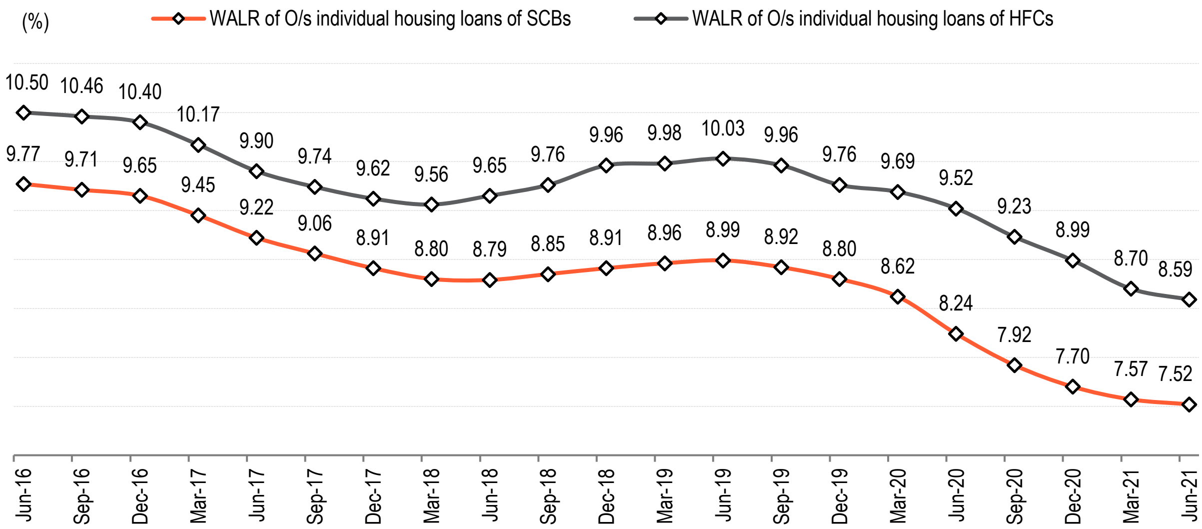


Source: NHB, CEIC, Bank of Baroda Research

Lending rates:

As can be seen from Figure 7 below, the Weighted Average Lending Rate (WALR) charged by HFCs is higher than the interest rate charged by SCBs. However, both the rates tend to move in tandem. Further, the difference between WALR of HFCs and SCBs was less than 100 bps between Jun'16 to Sep'18. This increased to above 100 bps in the later period, which saw a rapid decline in interest rates for both HFCs and SCBs amidst a cut in policy rates by RBI. This was in response to the slowdown in growth and the Covid-19 pandemic. However, since SCBs were more responsive to the cuts in repo rate due to external benchmarking with the repo rate, the difference in lending rates with HFCs widened in this period. On the other hand, lending rates of HFCs are linked to the Prime Lending Rate (PLR), which is less responsive to changes in repo rate.

Figure 7: WALR of banks and HFCs



Source: NHB, Bank of Baroda Research

The housing loan segment may well be a fast growing segment for PSBs. However, banks face competition from HFCs providing a much hassle-free experience to consumers, thus increasing their attractiveness to potential borrowers. Table 1 below provides a list of states which account for over 80% of the HFCs total outstanding housing loan portfolio in FY21. SCBs, more specifically PSBs with their vast geographical coverage, can look at opportunities to tap these states to expand their coverage in this segment.

State-wise housing loan outstanding by HFCs as on 31 March 2021

State	Housing loan o/s by HFCs as on 31 Mar 21 (Rs. Crore)	% share
Maharashtra	1,72,370	24.1
Tamil Nadu	78,167	10.9
Karnataka	73,420	10.3
Uttar Pradesh	63,302	8.9
Telangana	57,738	8.1
Gujarat	49,629	6.9
Rajasthan	30,755	4.3
Haryana	29,521	4.1
Delhi	26,292	3.7
Madhya Pradesh	24,734	3.5
Total	**7,14,379**	**100.0**

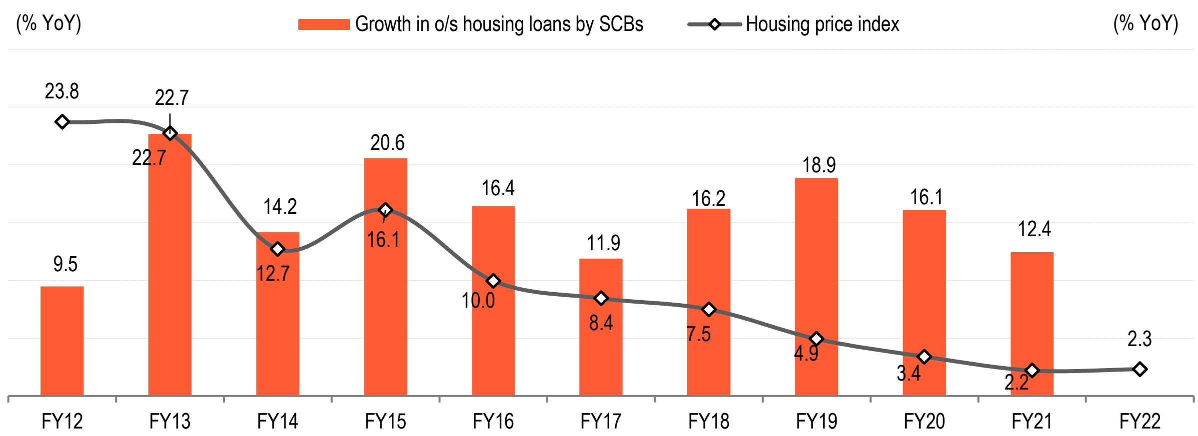
Source: NHB, Bank of Baroda Research

Housing prices:

Demand for housing loans is also impacted by housing prices. In the chart below, we juxtapose the growth in outstanding housing loans by SCBs and housing prices as measured by RBI's housing price index (HPI). Following observations can be made:

- In terms of CAGR growth while HPI rose by 12.1%, growth in outstanding credit was higher at 14.5%.
- In the next 5 years between FY17 to FY21, housing prices moderated quite a bit. In terms of CAGR, while outstanding loan growth by SCBs was 12.5%, HPI growth was much lower at 3.6%.

<u>Figure 8: Housing prices and housing loan growth by SCBs</u>



Source: CEIC, Bank of Baroda Research

RBI data for the period FY14 to FY22 shows that the average outstanding ticket size of home loans has increased from Rs 8.30 lakhs to Rs 15.34 lakhs during this period. The number of accounts increased by 7.2% (CAGR) while the amount outstanding increased by CAGR of 15.7%. it is possible to say that during the first phase of the this period, higher growth in loans was aided also by steady increase in home prices while in the second phase it was more due to a larger customer base given that the housing price index does indicate a slowdown in growth.

<u>Concluding remarks:</u>

The above analysis shows that the housing segment has shown resilience post pandemic. The strong momentum in housing loans by both PSBs and other financial institutions also points to the same. Government and RBI measures to support this sector, along with lower prices and interest rates helped cushion the impact of the Covid-19 pandemic on this sector. It is interesting to note that HFCs have started to emerge as an important player in the housing loan segment, accounting for about 32% share. Furthermore, NBFCs and RRBs too have a small albeit growing share in this segment.

With normalization of economic activity and a pickup in growth, demand for housing is poised to grow, suggesting more demand for housing loans. On the other side, higher interest rates may deter some borrowers from the housing market, the demand for housing as a safe investment is likely to offset this. Besides individual home buyers will be prepared for interest rates to move up and down during the tenure of their loan and hence may not be deterred from such purchases.

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