Press Clipping

Publication : Mint
Date : 27/08/2008
Edition : Mumbai
Page No. : 1 & 5

NEW VENTURE

Reliance Cap to spin off mortgage biz

The firm's consumer finance arm has a loan book of Rs8,100 cr, with home loans accounting for 31% of its portfolio

BY K.P. NARAYANA KUMAR & BAIJU KALESH

NEW DELHI/MUMBAI

Reliance Capital Ltd, India's largest asset management company with interests in stock brokerage and insurance, has decided to spin off its home loans business into a new company, Reliance Home Finance Pvt. Ltd.

The home finance business is currently clubbed with the consumer finance business of Reliance Consumer Finance Ltd, a 100% subsidiary of Reliance Capital.

Reliance Capital, controlled by billionaire Anil Ambani, has sought the approval of National Housing Bank (NHB), the mortgage market regulator, to form a new company to offer home loans.

"We have decided to float a separate company for home finance that will come under NHB," said Sam Ghosh, chief executive of Reliance Capital.

Ghosh declined to comment on whether this focus on the mortgage business is part of Reliance Capital's larger plan of becoming a commercial bank as and when the Reserve Bank of India, or RBI, allows it to do so. Under existing banking laws, a corporation cannot hold more than 10% in a bank.

AFP

Business plan: *Reliance Capital's Sam Ghosh says the company will initially focus on the metros.*

Reliance Consumer Finance has 24 branches and a loan book of Rs8,100 crore that includes loans for commercial vehicles, passenger cars and mortgages. Home loans account for some 31% of its book, according to an investor presentation made by Reliance Capital in August.

Reliance Capital is one of six firms that have sought approvals from NHB, between January and July of 2008, to enter the home loan business.

TURN TO PAGE 5

New venture: Reliance Capital to spin off mortgage business

▶ FROM PAGE 1

A senior official at NHB, who didn't want to be named, said: "The applications filed by all these companies will now go through an elaborate scrutiny. We cannot specify how much time it would take to process the applications as it depends on how well the applications have been drafted."

Until last year, the mortgage market here was growing by at least 40% but was 6% of India's gross domestic product, or GDP. The comparative number in other countries is much higher. According to a 2007 presentation made by India's oldest mortgage firm **Housing Development Finance Corp. Ltd**, or HDFC, to its foreign investors, in Denmark, mortgages or home loans are 94% of the country's GDP; in the UK, 80%; and in the US, 71%.

Among Asian countries, it's 50% in Hong Kong, 37% in Taiwan, 36% in Singapore, 26% in Malaysia and 16% in Thailand. In China, home loans account for about 11% of GDP.

Rising inflation and interest rates have slowed growth in the Indian mortgage market to around 15% this year. Wholesale price-based inflation is now at a 16-year high of 12.63% and the central bank has raised its policy rate by 125 basis points and banks' cash reserve ratio (CRR), or the money that commercial banks need to keep with it, by 150 basis points since the beginning of this fiscal year. Following this, banks have raised their home loan rates. A basis point is one-hundredth of a percentage point.

HDFC, along with **ICICI Bank Ltd**, India's largest private sector lender, and **State Bank of India**, the country's biggest commercial bank, account for more than 75% of the home loan market.

Despite the increase in interest rates and rising defaults by borrowers, analysts do not see any long-term impact on the market. This is because India's mortgage market is unique in many ways.

First, the loan-to-value ratio is always modest and since most homebuyers end up paying a certain amount in cash, the actual loan-to-value ratio is even lower than is officially known. For instance, if a consumer shows the price of the flat that he is buying as Rs50 lakh, he may have paid another Rs10 lakh in cash to the builder. So, when he takes a home loan of Rs40 lakh (80% of the value of the property), he is actually putting in 33% of her own equity (Rs20 lakh of Rs60 lakh), and not 20%.

Second, no Indian bank or pure mortgage player offers the interest-only payment option to consumers. In the US, where mortgages account for more than 70% of GDP, the interest-only payment is a very popular product. Since consumers pay only interest for the first few years, in case of a default, the bank may end up booking losses even after taking over the property and selling it, in case the price of the property has gone down. In the Indian context, part of the equated monthly instalment (EMI) that a home loan borrower pays always goes towards payment of the principal amount. With the passing of each year, the principal component goes down, making it easier for banks to recover their money in case of a default.

Two other factors that contribute to the robustness of the Indian mortgage market are the rising income level and the falling average age of home loan consumers. In 1995, the average price of a property was 22 times the annual income of a homebuyer. Now, it is 5.1 times. And the average age of a borrower has come down from 43 years in 2000 to 35-36 years now.

"Initially, we will focus on metros and as business grows, will go beyond it," said Ghosh who recently joined Reliance Capital from Bajaj Allianz Life Insurance Co. Ltd.

A senior HDFC official said the housing finance business cannot simply be replicated like a credit cards or consumer finance business. The official, who didn't want to be named, said skills in assessing the property market, loan recovery and maintaining titles are crucial in the mortgage business.

According to him, having a bank in the family is an advantage for HDFC as the mortgage firm sources a large portion of its home loans from affiliate **HDFC Bank Ltd**.

narayana.k@livemint.com