Housing Finance Companies

No material impact of recent regulatory changes on HFCs

August 2024

List of abbreviations and legends used

AIF	Alternative investment fund
AHFCs	Affordable housing finance companies
CDS	Credit default swaps
CoR	Certificate of registration
CP	Commercial paper
CRE	Commercial real estate
DA	Direct assignment
HFCs	Housing finance companies
NBFCs	Non-banking financial companies
NCD	Non-convertible debentures
NHB	National Housing Bank
NoF	Net owned funds
OTC	Over the counter
RBI	Reserve Bank of India
SCBs	Scheduled commercial banks
YTD	Year till date

For the analysis in this note, ICRA has analysed data of following major deposit accepting HFCs.

Aadhar	Aadhar Housing Finance Limited*
Can Fin	Can Fin Homes Limited
ICICIHFC	ICICI Home Finance Company Limited
LICHFL	LIC Housing Finance Limited
PNBHFL	PNB Housing Finance Limited
Sundaram HFL	Sundaram Home Finance Limited

**not accepting deposits since FY2020*

Highlights

ICRA

Click to Provide Feedback

Changes in risk weights for HFCs unlikely to impact reported capital significantly. The affordable housing finance companies (AHFCs) could witness marginal release of capital.

No material impact envisaged on the deposit-accepting HFCs, given their adequate on-balance sheet liquidity and their deposits being within the prescribed ceiling.

- The RBI released two notifications on August 12, 2024 announcing the change in risk-weights for the HFCs and harmonising regulations applicable to deposit-accepting HFCs and NBFCs. The latter notification is the final guidelines subsequent to the draft issued in January 2024 and applicable from January 1, 2025.

- The changes in the risk-weighted assets for undisbursed amount of housing loans/other loans would lead to some increase in reported Tier I capital (0.5% - 2%) for the AHFCs, which have a significant share of the portfolio at 35% risk weight. However, the impact is unlikely to be significant as the share of undisbursed loans is relatively low at 5-10% for most AHFCs and these AHFCs are comfortably placed on the capital front.

- The final norms for deposit-accepting HFCs are broadly in line with the draft norms issued earlier, except that of entities being given an additional time to comply with the requirements. The changes for deposit-accepting HFCs are largely around improving the security cover for deposit holders, better operating controls and restricting the leverage of HFCs by way of public deposits.

- In ICRA's view, the notified changes are unlikely to have any material impact on the deposit-accepting HFCs given the already adequate on-balance sheet liquidity available and their deposits also being within the prescribed ceiling. However, there could be a higher cost of compliance.

- The proposed changes for all HFCs are related to enabling provisions for derivatives, fee-based income avenues and strengthening of systems.

Changes in risk weights for HFCs

Impact unlikely to be significant, given the low share of undisbursed loans

Changes in the risk weights for HFCs

ICRA

RBI vide its circular dated August 12, 2024 made changes in risk weights for HFCs, effective immediately

Risk weighted assets for undisbursed amount of housing loans/other loans

- Risk-weighted assets (RWAs) for undisbursed housing loans/other loans to be computed after applying applicable credit conversion factor (CCF)
- However, the so computed RWA for undisbursed loan shall be capped at the RWA computed on a notional basis for an equivalent amount of disbursed loan

Risk-weight applicable for some part of the undisbursed loan could reduce to 35% from 50% at present

Risk weight for Commercial Real Estate – Residential building

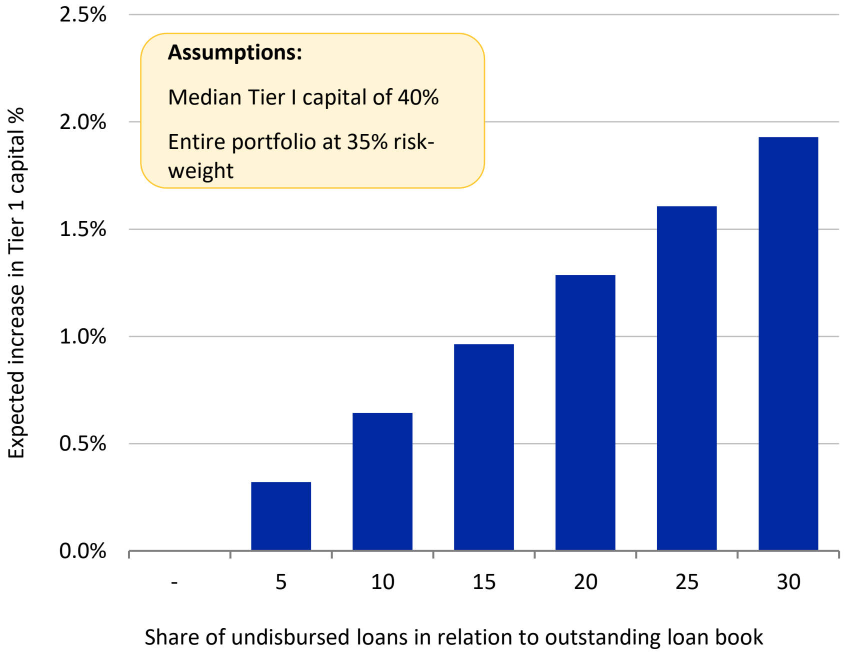
- Risk weight of fund-based and non-fund based **'standard'** exposure to CRE- Residential building to be 75%
- For **'Non-standard'** exposures, the risk-weight to be as per 'Other Assets' (which is currently 100%)

Higher capital allocation for non-performing assets

Marginal release of capital for HFCs

- The HFCs with a higher share of housing loans qualifying for 35% risk-weight could witness some capital release. Thus, the AHFCs are expected to be benefited more compared to prime HFCs.
- Extent of benefit on Tier I capital could vary across entities based following factors –
  - Share of undisbursed loans in relation to the loan book (industry level at present estimated around 5 to 10%)
  - Current capital position
- ICRA estimates that the present level of Tier 1 capital (%) for the AHFCs could witness an improvement by 50 to 200 bps; however, the benefit for prime HFCs is expected to be even lower.
- At present, the HFCs are comfortably placed on the capitalisation front; hence, the benefit may not be significant.

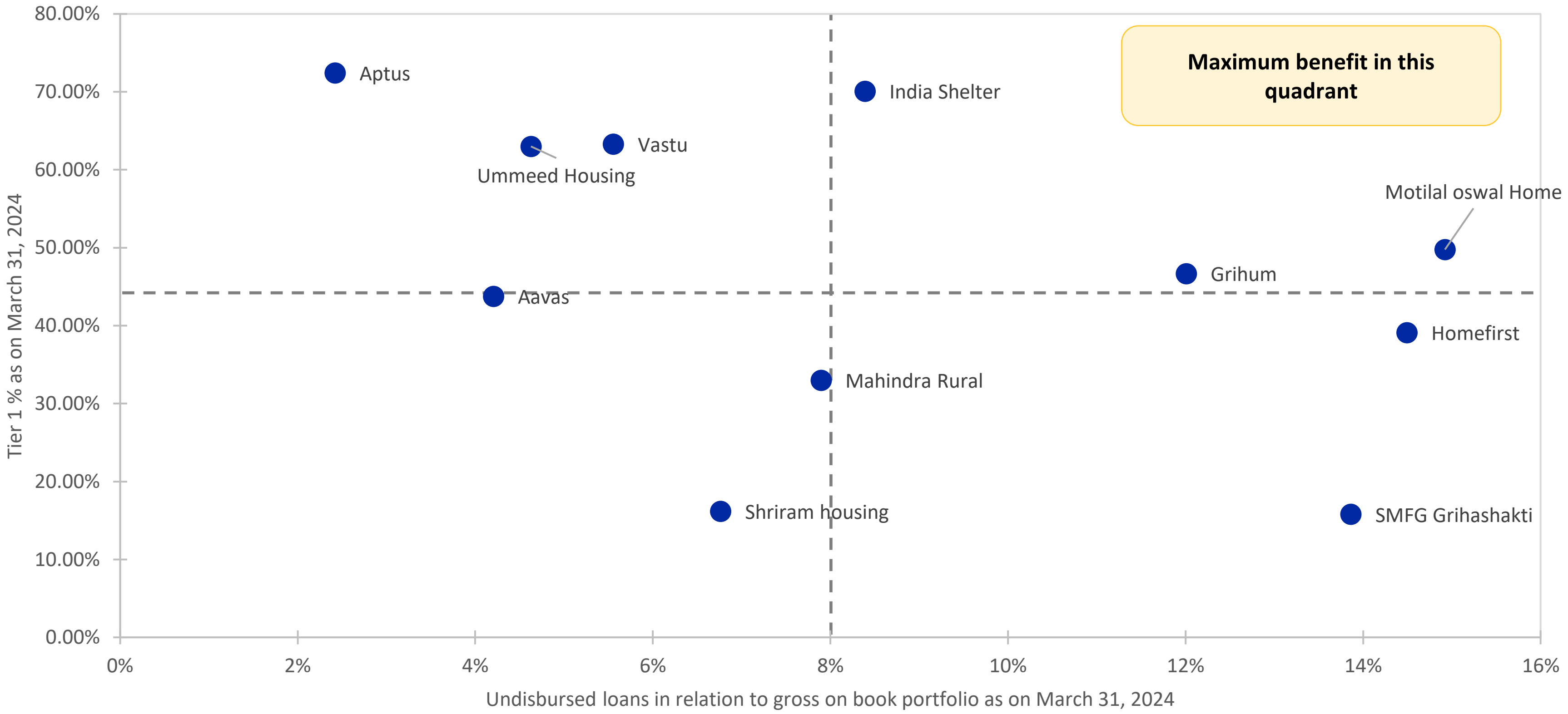
Exhibit: Estimated increase in Tier I capital at various levels of undisbursed loans (as % of loan book)



Source: ICRA Research

Comparative position of some AHFCs

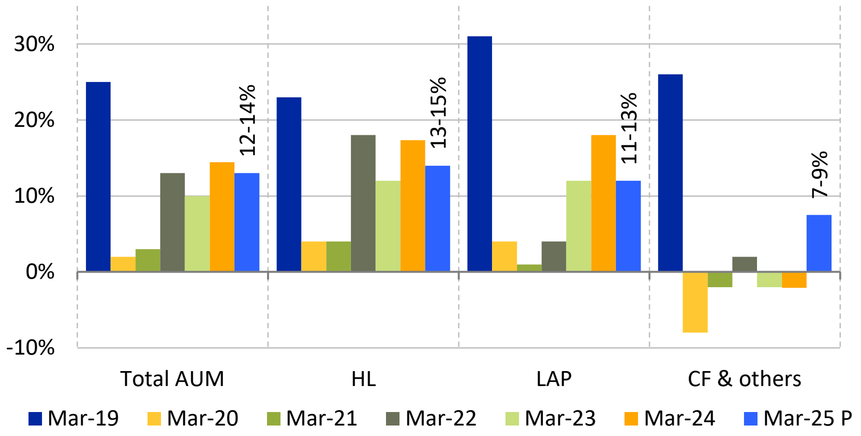
ICRA



Source: ICRA Research and annual reports of AHFCs

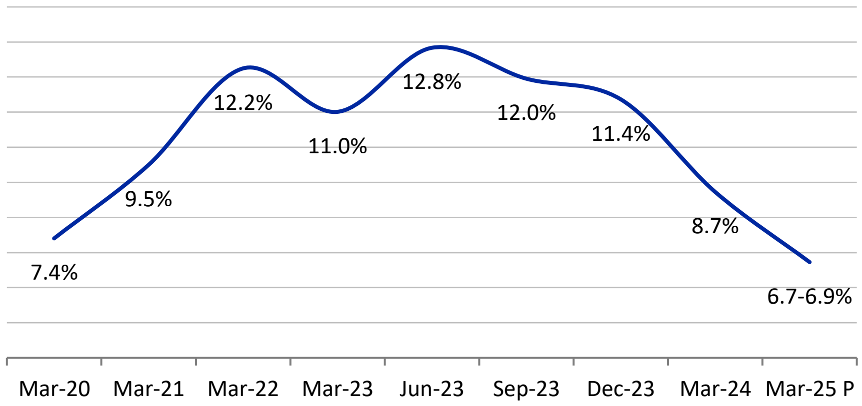
No material impact on capital requirement for HFCs

Exhibit: Key Segments for HFCs– YoY Growth Trends and Outlook



Source: Financials/investor presentations of HFCs, ICRA Research

Exhibit: Trend in construction finance NPAs for HFCs



Source: Financials/investor presentations of HFCs, ICRA Research

- Higher risk-weights for ‘**non-standard’** CRE – residential building exposures are unlikely to have any material impact on capital requirement for the HFCs, given the low share of CRE exposures and limited NPAs remaining from the segment.
- The CF segment (CRE – residential building being a sub-set of the same) has witnessed shrinkage in the past few years due to asset quality pressure and regulator’s Principal Business Criteria (PBC) requirement. Further, the segment has witnessed a decline in NPA on account of write-offs, sale to asset reconstruction companies (ARCs) and some recoveries.

Tightening of norms for deposit-accepting HFCs

Changes unlikely to materially impact the companies

Tighter norms for deposit-accepting HFCs

RBI harmonises various limits of deposit-accepting HFCs with similar NBFCs

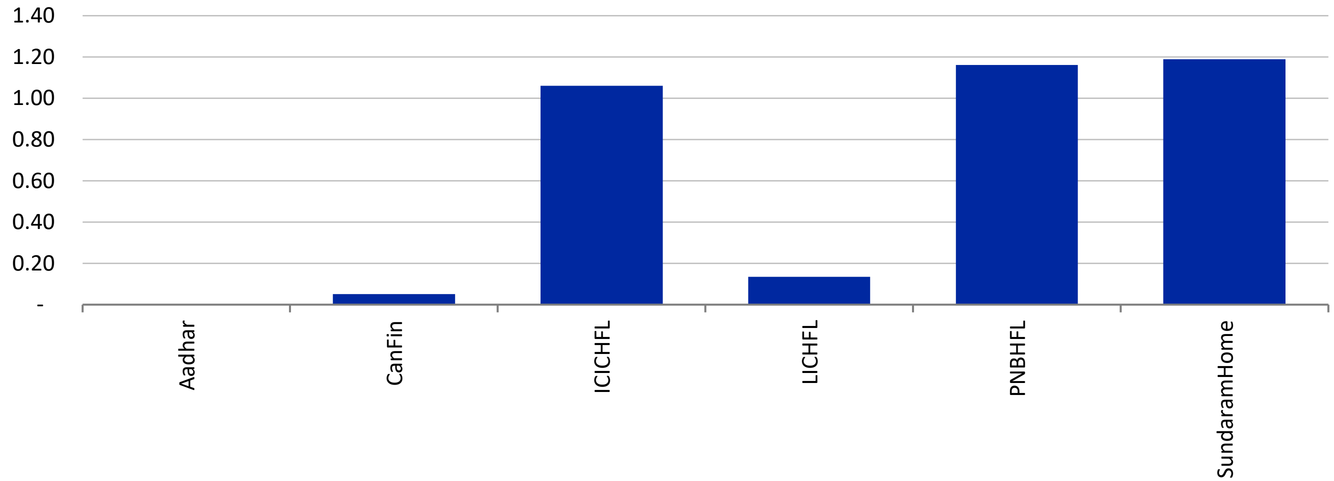
Earlier norm	vs	Revised norm
3 times of NoF	Deposit Ceiling	1.5 times of NoF
>=12 months but <=120 months	Deposit Tenure	>=12 months but <=60 months
>13% of public deposits	Liquid Assets	>15% of public deposits

No material impact seen on these HFCs

Source: RBI, ICRA research

HFCs already at lower levels than prescribed thresholds

Exhibit: Public deposits/Tier 1 Capital* of HFCs as on March 31, 2024



Source: ICRA Research, RBI, annual reports of HFCs; used tier 1 capital (net-worth in absence of tier 1) as proxy for NoF

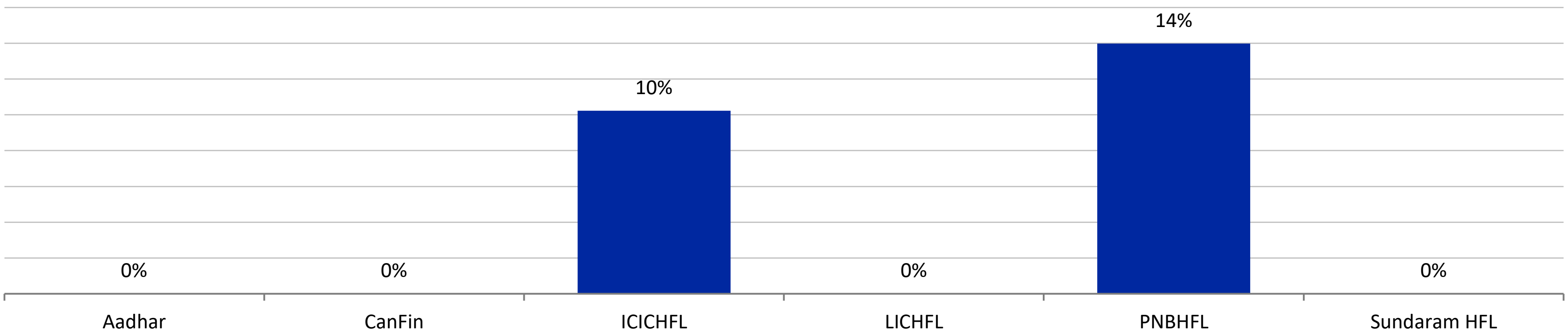
- The RBI has reduced the limit for public deposits to 1.5 times of the NoF from three times earlier. This is in line with the limit applicable for deposit-accepting NBFCs.
- The HFCs holding deposits beyond the said limit shall not accept fresh public deposits or renew their existing ones till the quantum of the deposits is below the revised limit. However, the existing excess deposits will be allowed to run off till maturity.

For some HFCs, deposits form a healthy source of funding; however, their public deposits are already within the prescribed ceiling. Thus, the reduced cap on the quantum of funds to be raised from deposits is not expected to materially impact the overall funding profile of deposit-accepting HFCs.

Maximum tenure for public deposits reduced to five years

- Earlier, all deposit-taking HFCs were allowed to accept or renew public deposits for a period greater than 12 months but less than 10 years.
- The RBI has now reduced the maximum tenure to five years from 10 years, with the minimum tenure remaining the same.
- Existing deposits with maturity beyond five years shall be repaid as per their existing repayment profile.

Exhibit: Deposits > 5 years/total deposits of HFCs as on March 31, 2024



Very limited deposits were raised by the HFCs for more than five-year tenure; hence the notified change is unlikely to impact HFCs.

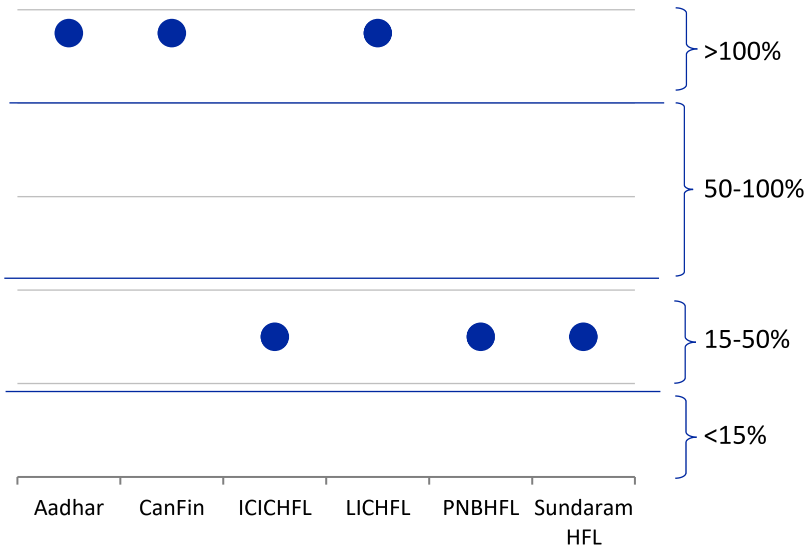
ICRA research; HFCs annual reports

Maintenance of minimum liquid assets: no material impact

- The RBI had proposed (in Jan 2024) to increase the requirement for maintaining liquid assets against public deposits held by them from 13% currently to 15% of the public deposits held by them, in a phased manner as specified below.
- The RBI has relaxed the timelines by four months (from the ones given in the draft proposal issued in January 2024).

Timelines	Unencumbered approved securities, to be held as a per cent of public deposits	Total liquid assets along with unencumbered approved securities to be held as a per cent of public deposits
At present	6.50%	13%
January 01, 2025	8.00%	14%
July 01, 2025	10%	15%

Exhibit: Liquid assets/public deposits of HFCs as on March 31, 2024



All major deposit-taking HFCs are already compliant with a significant margin above the required limit

Source: ICRA Research, RBI, annual reports of HFCs

Other proposed changes for deposit-accepting HFCs

The changes are expected to increase compliance burden; however, impact is not expected to be material

Regulations on safe custody of liquid assets for the HFCs to be aligned with those of the NBFCs

HFCs to maintain full asset cover, for public deposits accepted by them, and NHB to be informed of any shortfall

The HFCs would have to obtain minimum investment grade rating at least once a year, if they want to renew or accept deposits

Regulations pertaining to opening of branches and appointment of agents to collect deposits, as applicable to the NBFCs, shall now be applicable to the HFCs also

The HFCs are to fix board-approved internal limits, within the direct investment norms, for investments into unquoted shares of another company

Other proposed changes for all HFCs (including non-deposit accepting HFCs)

The proposed changes are enabling features for HFCs. In addition, some changes are directed towards strengthening of controls

1
Besides trading in OTC market, HFCs to be allowed to participate in exchange-traded currency derivatives & interest rate futures to hedge their underlying exposures.

2
The HFCs to be permitted to participate in the CDS market as users only to hedge their credit risk on corporate bonds they hold.

3
The HFCs to be selectively allowed to issue co-branded credit cards with SCBs.

Potential fee income for the HFCs likely provided there is adequate interest from the SCBs.

4
Audit committee to ensure that an information system audit is conducted as per the prescribed periodicity. Also, the HFCs are expected to adopt prescribed technical specifications for participation in account aggregator ecosystem.

Strengthening of IT systems & control

5
Investments made by the HFCs in entities of same group through an AIF (subject to certain conditions), to be treated as direct investment for adjustments in NoF.

Annexure 1 - List of HFCs granted COR with permission to accept public deposits

ICRA

S. No.	Name of the HFC	ICRA Rating (as on August 21, 2024)
List of HFCs having granted CoR with permission to accept public deposits		
1	Can Fin Homes Limited	[ICRA]AAA (Stable)/ [ICRA]A1+
2	Cent Bank Home Finance Limited	NA
3	Aadhar Housing Finance Limited	[ICRA]AA (Stable)/ [ICRA]A1+
4	Housing and Urban Development Corporation Limited	[ICRA]AAA (Stable)/ [ICRA]A1+
5	ICICI Home Finance Company Limited	[ICRA]AAA (Stable)/ [ICRA]A1+
6	LIC Housing Finance Limited	[ICRA]A1+
7	Manipal Housing Finance Syndicate Limited	NA
8	PNB Housing Finance Limited	[ICRA]AA+ (Stable)
9	Sundaram Home Finance Limited	[ICRA]AAA (Stable)/ [ICRA]A1+
List of HFCs having valid CoR with permission to accept public deposits but required to obtain prior written permission before accepting any public deposits from the NHB		
10	GIC Housing Finance Limited	[ICRA]AA (Stable)/ [ICRA]A1+
11	REPCO Home Finance Limited	[ICRA]AA- (Stable)/ [ICRA]A1+
12	Saral Home Finance Limited (erstwhile Vishwakriya Housing Finance Limited)	NA

Source: ICRA Research, NHB

ICRA

Click to Provide Feedback

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President, Group Head	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice President, Co-Group Head	a.karthik@icraindia.com	+91-44-4596308
Manushree Saggar	Senior Vice President, Sector Head	manushrees@icraindia.com	+91-124-4545316
Prateek Mittal	Assistant Vice President, Sector Head	prateek.mittal@icraindia.com	+91-33-71501100
Jatin Arora	Senior Analyst	jatin.arora@icraindia.com	+91-124-4545846

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

Thank You!