

New norms on foreclosure fee to hit lenders' profits

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The Reserve Bank of India's (RBI's) draft circular barring prepayment penalty on retail and small business loans would result in a drop in fee income for lenders and dent profitability, in addition to customers switching to other lenders, analysts said.

The hit on non-banking financial companies (NBFCs) would be larger compared to banks, they said.

On Friday, RBI issued a draft circular mandating lenders to permit foreclosure or prepayment of all floating rate loans sanctioned to individuals for purposes other than business, without levying any penalties or charges.

Moreover, banks and NBFCs cannot charge for foreclosure for floating rate loans to micro, small and medium enterprises (MSMEs) of up

to ₹7.5 crore.

According to a report by Macquarie, NBFCs are more likely to be impacted by the norms as most of the large banks do not charge penalties or foreclosure charges on floating rate loans.

The banks are also expected to have a MSME portfolio much larger than the sanctioned limit of ₹7.5 crore.

In case of home loans, prepayment penalties are not allowed on floating rate loans. Hence, this does not impact housing finance companies, NBFCs or bank floating rate mortgage books.

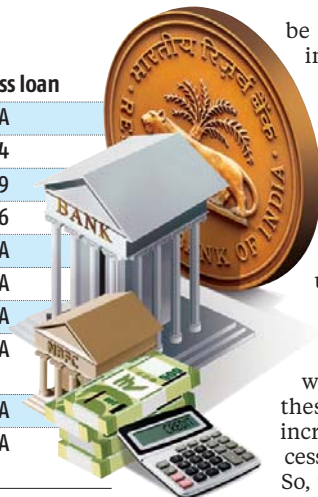
Meanwhile, the brokerage believes it could have an impact to some extent on the fee income of NBFCs and some banks.

Analysts also expect the implementation to reduce profitability of loan against properties (LAPs), loans to small and medium enter-

LOAN LOOK Lenders' exposure (in %)

	SME loan	LAP	Business loan
State Bank of India	12	NA	NA
HDFC Bank	19	NA	14
ICICI Bank	NA	NA	19
Axis Bank	11	7	6
Bank of Baroda	11	2	NA
Bajaj Finance	12	3	NA
Aditya Birla Finance	29	26	NA
Cholamandalam Investment & Finance	4	22	NA
LIC Housing Finance	NA	12	NA
Mahindra & Mahindra Financial Services	5	NA	NA

SME is small & medium enterprises; LAP is loan against property



Source: Macquarie Research

prises, and business loans due to increased competition.

IIFL Capital said, "These segments constitute 5-25 per cent of

assets under management (AUM) for NBFCs and housing finance companies (HFCs). NBFCs having lower cost of funds and parentage should

be able to partially offset it by increasing the share of more granular and higher yielding customers through balance transfers from smaller peers."

Another analyst said, "The implementation of norms will have an impact on the profitability of the lenders and they will try to recoup it using operating efficiencies.

Maybe they might start lending to slightly higher yielding assets. This is to offset whatever loss they may have in these segments. Or, they may increase lending rates or some processing fees by a few basis points. So, there will be multiple ways by which they can try to recoup the impact of this circular."

The RBI has invited comments and feedback from stakeholders and the public on the draft circular by March 21.