

# HOUSING FINANCE INDUSTRY

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**Rising interest rates unlikely to have  
severe impact on asset quality**

**NOVEMBER 2022**





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*Limited headroom to increase loan tenures; thus, EMIs would have to be revised upwards*

*Asset quality indicators of mortgage lenders unlikely to be significantly impacted as increase in EMIs expected to be range-bound*



- The policy rate has gone up by 190 basis points (bps) in the current fiscal with the expectation of another rate hike by the Reserve Bank of India (RBI) in the December 2022 policy meeting.



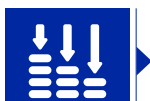
- In case of a rising interest rate scenario, the lenders can either increase the tenure or they can increase the equated monthly instalments (EMIs). Lenders usually extend the tenure first in order to keep the borrower's debt burden in check.



- However, there is limited headroom to increase the tenure as incremental loans in the prime home loan segment already have long tenures. In case of affordable home loans, the extension of loan tenures can lead to negative amortisation, given the high interest rates.



- As per ICRA's analysis, with a 150-250-bps increase in interest rates, EMIs could go up by ~8-20% across different segments of home loans.



- Even with revised EMIs, the fixed obligation to income ratio (FOIR) is expected to remain under control, unless the original loans were given at aggressive FOIRs.



- FOIRs could also be supported by the expected increase in the income levels with the improvement in the operating environment.



- Overall, ICRA expects that the asset quality indicators of HFCs will not be significantly impacted by the rise in the interest rates.



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