

# 'Homebuyers are owners, not creditors

RERA is clear on buyer rights; IBC ordinance removes apprehension: chief of Sundaram BNP Paribas

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*Housing is a vital clog in India's economic growth. Of late, a combination of factors has pushed this sector into prime focus. How are things playing out in this crucial field? Srinivas Acharya, MD, Sundaram BNP Paribas Home Finance, a TVS group firm, discusses the current environment. Excerpts:*

**What is the scenario for loan disbursements? What are the prospects for this year?**

■ We registered strong growth in disbursements in all geographies last year. We grew disbursements by 43% last year to ₹2,625 crore.

We did exceptionally well in all the four southern markets. We are seeing a similar trend in Q1 as well. We have to wait and watch if this positive growth story will continue into the rest of the year. In the salaried space, we are seeing stability in the manufacturing sector as compared to the IT sector.

There is no job-related unsteadiness. Hiring continues to happen. Employment stability is one of the factors that is driving demand. This year too we are targeting good growth.

Our plan is to expand and strengthen our presence in all the geographies where we are already present. Conservatively, we are looking at a 15% growth this year and disbursements of at least ₹3,100 crore.

**Has the average ticket size been growing for you?**

■ Our average ticket size is now around ₹22-23 lakh. It has been growing in recent years. We are also into fi-

ancing affordable housing in a limited way, though it is still an untested area. Results are yet to emerge in terms of the possibility of defaults. Hence, we are treading a cautious path on affordable housing.

**Are you also looking at disbursements growth in the second-hand flats segment?**

■ Yes, there has been growth in financing of second-hand flats. Interestingly, there has been a spurt in the sale of second-hand flats given that there is no GST for completed and second-hand flats. A lot of transactions are happening. Currently, financing of second-hand sale constitutes 18-19% of our overall disbursements, and that is continuing to grow.

**How much are you likely to raise this year to fund your growth? What is the funding mix?**

■ We are looking to raise at least ₹3,500 crore through a mix of term loans from banks, commercial papers, NCDs, subordinated debt and deposits. NHB refinances one-third of our funding requirement. Our deposit base has grown to ₹1,068 crore. We added ₹387 crore (gross) last year.



**What has been the impact of RERA on the real estate sector?**

■ RERA has had a positive effect, and has brought credibility to the sector. Each approval [of projects above a certain size] has to pass through RERA. A builder cannot advertise a project unless he has got a RERA certificate. They also cannot start booking flats without RERA certification. Builders have not typically [followed] project-wise accounting but RERA will require them to do so. [It] will lead to consolidation among builders.

They are likely to become more organised in the future. We disburse loans to only RERA-certified properties. Deviations are likely to come under control. RERA acts like an immediate court for buyers to file complaints on service deficiencies.

RERA requires the builder to register the undivided share of the property in the name of the buyer, upfront.

**If a project is delayed, buyers can get together and hand it over to another developer**

Hence, there is a sense of ownership for the buyer at a very early stage.

**What are the lessons from the IBC Ordinance for homebuyers? What does it mean for housing finance companies?**

■ The Ordinance has actually helped those lenders who have been left in the lurch all this while. It seeks to protect the gullible public. When a payment is paid into the escrow account, one is deemed to have received the money and ceded the charge for every buyer to the extent of the money received.

In all those cases where banks or financial institutions have funded the project, to the extent of the money received in the escrow account, those homebuyers

are not creditors but owners.

There is no question of multiple ownership or status of creditor. If they have followed the due process, there is nothing to be rattled about. There are nuances in terms of compliance process. If the buyer has followed all the minute details, he stands on a much stronger footing and is to be looked at as an owner as against a multiple charge holder.

Interestingly, in the RERA, there is a provision that states that if the builder does not complete the project on time, the buyers who have booked the flats can join together and hand over the project to another developer. The housing finance companies' documentation as it is takes care of the secured nature of their lending.

This is further strengthened by the requirement under RERA where project-based escrow accounts have to be maintained. HFCs don't lend for flats unless they get an NOC from the project lender; this results in transfer of the charge from the project lender to the flat lender. The ordinance immediately removes the negativity of the buyers suddenly finding themselves on a par with unsecured creditors.

I continue to believe that they are to be seen as owners and not creditors. This is very positive for HFCs as more buyers are likely to go through the HFC route to homebuying as they believe that HFCs follow due processes and that the due diligence will be taken care of.