Housing Microfinance in India:
Benchmarking the Status

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Vibhu Arya

Published by

ACCESS-ASSIST
28, Hauz Khas Village,
New Delhi-110 016
http://www.accessassist.org

Photo Credit:
Micro Home Solutions

Printed by:
Elegant Enterprises
infoelegant@yahoo.co.in

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Foreword

The report "Housing Microfinance in India: Benchmarking the Status" is an important endeavor to provide useful insight on the emerging practice of housing microfinance in India through the lens of scale, sustainability, and specialization. The preference for affordable housing is increasing among the poor and is widely recognized by policy makers, housing finance companies, MFIs and donors as a medium for improving the social standing of the poor, in supporting livelihoods and in its potential for bringing positive changes in the lives of the poor through cascading effects in ensuring their safety, health and well being.

Though these developments are a welcome sign for the sector, the challenge before us is significant considering the difficulties in structuring the housing finance product suite, mobilizing funding support, resolving land title issues, addressing procurement problems, finding skilled construction workers, building awareness and creating ready access to housing technologies. This is exacerbate by lack of regulatory and policy environment to facilitate and fuel an accelerated growth of the sector.

The initiatives of the microfinance sector, especially the efforts of leading MFIs like Guardian, Equitas, Ujjivan, Janalakshmi, ESAF, Grameen Koota and Growing Opportunity in piloting housing improvement, water and sanitation loan products and services is a great beginning. Habitat for Humanity's USAID funded project HMFTAC and Micro Home Solutions, both are providing excellent institutional and construction technical assistance to MFIs and their clients, respectively. However unless a full regulatory regimen for micro-housing finance is put in place, the supply will take a long time to match the demand.

The report is expected to help develop fresh perspective among policy makers, regulators, investors, donors, social entrepreneurs, MFIs (both commercial and non-profit), funders, networks, associations in building an inclusive micro-housing solutions for the poor and low income households.

I would like to thank Vibhu Arya, for taking up this assignment of writing the report within the tight timeline and in bringing useful information and in documenting the interventions of different institutions, pilots, case studies, which will be very useful for stakeholders who are keen to design a micro-mortgage/HMF product. Rakhi Sahay for helping with the editing and finalising the report from her base in Jakarta.

I would also like to thank IFC for supporting this report, IFC team led by Dr. Jennifer Isern as also Harish Khare, Shilpa Rao and Srijan Kaushik, who contributed hugely to the report by providing timely, valuable suggestions and critical detailed feedback. This adds to the already ongoing collaborations between IFC and ACCESS-ASSIST on several fronts.

I am optimistic that the report will provide new insight and help in developing fresh perspectives in this growing field of micro-housing for the poor.

Radhika Agashe
Executive Director
ACCESS-ASSIST
New Delhi

Acknowledgements

I want to thank Vipin Sharma, CEO, Access Development Services for entrusting me with the responsibility of the report "Housing Microfinance in India: Benchmarking the Status". Radhika Agashe, Executive Director, ACCESS-ASSIST for her unflinching support; Ashim Kumar Roy and Juhi Natu, ACCESS-ASSIST, and Lalitha Sridharan, ACCESS Development Services.

We would like to thank the IFC Team - Harish Khare, Shilpa Rao and Srijan Kaushik for their valuable comments and contribution towards this report. Rita Bhattacharya, AGM and Magesh Kumar, Manager of the National Housing Bank, both of them provided valuable inputs on the role of National Housing Bank.

Microfinance institutions, specialist housing finance companies and others i.e. Guardian, Grameen Koota, Growing Opportunity, Equitas, Ujjivan, Janalakshmi, ESAF, Sewa Grih Rin, Swarn Pragati, MicroBuild India, HMFTAC for sharing information of their housing microfinance products and experiences.

I thank Milroy Paul for inputs and agreeing to run a join query on United Nations Solutions Exchange to receive inputs on experiences, practitioner's perspectives on Housing Microfinance. Thanks to Navin Anand and Mohammad Anas, Resource Team of the Microfinance Community at the Solution Exchange, UNDP, New Delhi for happily extending cooperation. I thank Rakhi Sahay for helping with the editing of the report.

I thank Alok Prasad, CEO, MFIN for his support; Sugandh Saxena, Pallavi, Nikhil, Rohini and Praveen Kumar of Microfinance Institutions Network for their support with insights on the sector.

A special thanks to Madeleine Klinkhamer, CEO and Eileen Miamidian, COO, Ayani, Inclusive Financial Sector Consultants BV for my baptism in Housing Microfinance; Rajan Samuel, Habitat for Humanity, Henry Waller, Director and K Davidson, Manager at HMFTAC for sharing their experiences.

Vibhu Arya

Executive Summary

The right to adequate housing is founded and recognized under international law. In India, enunciated under article 25(1) of the Universal Declaration of Human Rights, "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control"

Former World Bank Housing Advisor, Bertrand Renaud best defined the housing finance problem as "the need to reconcile three partially conflicting objectives: affordability for the households, viability for the financial institutions, and resource mobilization for the expansion of the sector and the national economy" (Renaud, Bertrand 1984[1]).

Low segment housing sector in many developing countries is undeveloped and constrained by several factors such as access to housing finance, fund mobilization, stringent regulatory framework, land title, difficulties in procuring building materials, finding skilled construction workers, awareness and access to housing technologies. Some surveys on low-income households conducted in developing countries indicate that priority for housing is higher than education and health (Ferguson, Bruce and Haider, Elinor 2000[2]). In developing countries, historic constraints in the supply of traditional housing finance and recent demand opportunities revealed by the successes of microfinance underlie the recent rise of housing microfinance.

'Research has clearly demonstrated that in most regions housing has the potential of becoming an engine of economic growth because of its high yield on invested resources, a high multiplier effect, and a host of beneficial forward and backward linkages in the economy'[3] (UN, 2000). Housing can be a major instrument for economic development in a developing nation like India.

As per Government of India estimates, the total housing shortage in the urban areas is 26.53 million units and 42.69 million units in the rural areas. About 99 per cent of the urban housing shortage pertains to the Economically Weaker Section (EWS) and Low Income Group (LIG) categories and 90 per cent of the rural housing shortage is in respect of Below the Poverty Line (BPL) categories.

Access to housing for the poor not only improves social standing and provides a sense of dignity, but also helps the owner incrementally build an appreciating asset, a potential place for work and for generating livelihoods. Further housing ensures safety and positive health implications through reduction of incidences in diseases via access to clean water and sanitation.

1 World Bank Staff Working Papers Number 658
2 Mainstreaming of Microfinance of Housing, Housing Finance International, 2000
3 United Nations Centre for Human Settlements (Habitat), Rainer Norberg 2000, Volume 6, No 4

Low income households build their homes incrementally, one stage at a time. According to Franck Daphnis of Development Innovations Group, Housing microfinance is defined as the provision of unsecured microcredit to meet the demand of low-income households to repair or improve their existing homes or build their own homes over time. These loans are typically unsecured, and credit assessment is similar to the same cash flow and character analysis process applicable to individual entrepreneurs for small business loans but often includes some documentation to verify residence, a list of building materials and an estimate for labor.[4]

MFIs have offered various products to suite the requirements of their clients such as micro enterprise loans, emergency loans, small business loans and even education loans in addition they provide insurance benefits, remittance services and investment advisory. The next logical step for MFIs is to offer housing loans to fulfill a huge unmet demand for housing. A well developed and managed housing microfinance product can ensure happy clients.[5]

Housing Microfinance is an emerging practice in India with leading MFIs like Guardian, Equitas, Ujjivan, Janalakshmi, ESAF, Grameen Koota and Growing Opportunity piloting housing improvement, water and sanitation loan products and services. Habitat for Humanity's USAID funded project HMFTAC and Micro Home Solutions, both are providing institutional and construction technical assistance to MFIs and their clients, respectively. MicroBuild India is a HFC that provides wholesale debt financing to MFIs willing to take up housing microfinance as a potential product offering.

I began writing the Housing Microfinance in India: Benchmarking the Status with a survey exercise to deduce the extent of housing microfinance in India. The survey results showed that 75% of the MFI respondents concurred that 'up to 25% clients use the average MFI loan (both housing and non-housing loans) for home improvement purposes'. About 33% of the surveyed MFI respondents accepted offering loans for Housing Improvement. 66% of the surveyed MFI respondents agreed that home improvement loans are "productive[6]" in nature. 58% of the surveyed MFI respondents believed that an enabling regulatory environment, for e.g. Priority Sector[7] Qualification Status to "Bank loans to MFI for extending HMF" will catalyze Housing Microfinance in India.

The objective of the report is to look at the emerging practice of housing microfinance through the lens of scale, sustainability and specialization. This report begins with a context of India – rising incomes, declining poverty levels, urbanization trends and need for housing. It then moves to the shortage for housing, in both rural and urban India. The report then summarizes the extent of demand in urban and rural areas. The next

4 Bankable Frontier Associates: Capitalizing Housing for the Poor: Findings from Five Focus Countries
5 Henry Waller, HMFTAC
6 Wherein "productive" denoting Improvement in Health of Client Household
7 Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

section identifies the role of the central and state governments in building access to low cost housing in India, followed by a detailed discussion of different schemes. The subsequent section introduces the concept of housing microfinance and further lists out some of the successful housing microfinance programs run by MFIs in India. The next section covers the regulatory aspects and the role of the National Housing Bank. The penultimate section deals with the other benefits of improved access to housing such as reduced incidences of diseases and improved health.

The report concludes that there are several housing microfinance pilots initiated by MFIs across India which proves the significant demand for housing microfinance; there is an urgent need for stakeholders like MFIs, Donors, Funds and Specialists to come together and build a healthy eco-system for housing microfinance in India. The government and Reserve Bank of India need to do their bit by building an enabling regulatory environment for the housing microfinance sector. The evolving regulatory and policy environment in India can create an opportunity for financial institutions to play a more vibrant role.

Chapter 1 India - Key Socio - Economic Drivers For Housing

The Indian economy is the world's tenth-largest by nominal GDP and third-largest by purchasing power parity (PPP). Following market-based economic reforms in 1991, India became one of the fastest-growing economies. However, it continues to face the challenges of poverty, corruption, financial exclusion, malnutrition and inadequate public healthcare. There are various socio-economic factors that drive demand for housing and housing finance in India, discussed below:

Rising Population

India is projected to become the world's most populous country much earlier than previously estimated and equaling China's population by 2028.[8]The total population of India is expected to rise to 1.3 billion (according to Population projection for India and states 2001 – 2026. The increase in life expectancy due to improved medical services and access to health care has directly impacted the increase in population.

Further, with declining fertility, the proportion of population aged less than 15 years is projected to decline from 35.4% in 2001 to 25.1% in 2021. The proportion of the middle (15-59 years) and older age (60+) population, on the other hand, is expected to increase substantially by 2020. In fact, the proportion of population in the working age group (15-59 years) is expected to rise from 57.7% in 2001 to 64.2% in 2021.

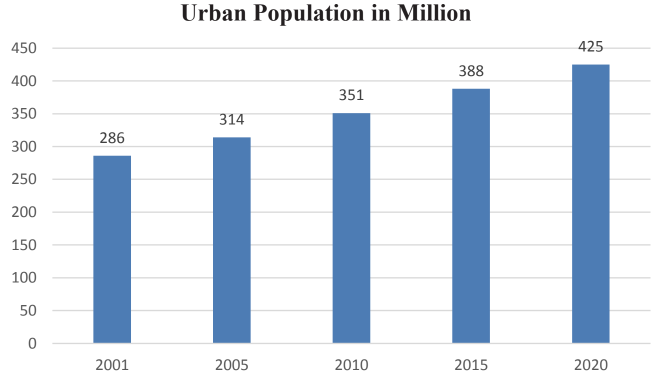
The increasing population and specifically rise in the working age population augurs well for higher demand for housing and housing finance. A reduction in dependency ratio also indicates for more and more people taking up individual houses. Rise in working age population is also a reflection of the growth momentum of the Indian economy going forward, as it will result in ample supply of labor for productive purposes and in turn lead to rising income levels.[9]

Urbanisation Trend

Out of India's 1.21 billion populations, 377 million people are urban dwellers. With rapid industrialization and development of Tier II and Tier III cities, urban population is set to outgrow overall population growth. India's urban population has grown at a CAGR of 2.8 percent over 2001-2011, resulting in an increase in the urbanization rate from 27.8 percent to 31.2 percent.[10] The Federation of Indian Chambers of Commerce (FICCI) estimates that by 2050, the country's cities would witness a net increase of 900 million people.[11] Furthermore, over 2012-2050, the pace of urbanization is likely to increase at a CAGR of 2.1 percent – double than that of China.[8]

8 World Population Prospects: the 2012 Revision
9 India's Macro Economic Outlook 2020
10 Census of India 2011
11 Urban Infrastructure in India, FICCI, October 2011

Figure 1: Growing Urbanization in India

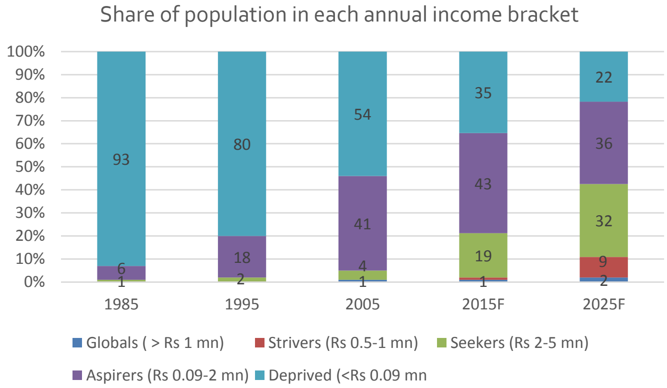


Source: Census of India, population projection 2001-16

of 50 million to 583 million people.[12] The swelling middle class creates a large population base that will require basic necessities to meet their living standards and housing becomes one such major aspect.

The projected rise in urban population will lead to multifold increase in demand for amenities like low income housing, water and sewage treatment in all types of cities. The estimated increase in urbanization will therefore create demand for housing and housing finance.

Figure 2: Rising Income Levels in India



Source: The bird of gold, the rise of Indian consumer market, 2007

Rising Incomes

Figure 2 illustrates the rising income levels and shrinking population of the deprived segment (annual income less than Rs 0.09 million). As Indian incomes rise, the shape of the country's income pyramid will also change dramatically. Over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will swell by more than ten times from its current size

Declining Poverty

Poverty levels across India have decreased by 15 percentage points, approximately 2 percentage year over year, between 2004-05 and 2011-12, as per the National Sample Survey Organization (NSSO) figures[13]. The percentage of the population living below the poverty line declined from 37 per cent in 2004-05 to 22 per cent

12 Mckinsey: The 'bird of gold': The rise of India's consumer market, May 2007

13 The Planning Commission has periodically estimated poverty lines and poverty ratios for each of the years for which Large Sample Surveys on Household Consumer Expenditure have been conducted by the National Sample Survey Office (NSSO) of the Ministry of Statistics and Programme Implementation. These surveys are normally conducted on quinquennial basis. The last quinquennial survey in this series was conducted in 2009-10 (NSS 66th round). However, since 2009-10 was not a normal year because of a severe drought, the NSSO repeated the large scale survey in 2011-12 (NSS 68th round). The summary results of this survey were released on 20th June 2013.

in 2011-12. Rural poverty has declined faster than urban poverty during this period.

In 2012, the total number of people below the poverty line in the country was Rs 26.89 Crore as against 40.73 Crore in 2004-05. In rural areas, the number has reduced from 32.58 Crore to 21.72 Crore. The declining poverty percentage point and levels indicates larger mass coming in the bracket that would have higher purchasing power for amenities and requirements.

Figure 3: National poverty estimates (% below poverty line) (1993 – 2012)

Year	Rural	Urban	Total
1993 – 94	50.1	31.8	45.3
2004 – 05	41.8	25.7	37.2
2009 – 10	33.8	20.9	29.8
2011 – 12	25.7	13.7	21.9

Source: National Sample Survey 68th Round, NSSO, Ministry of statistics and programme implementation

The housing condition of people is an important indicator of the socio-economic development of a country. The National Sample Survey Organisation (NSSO) collects data on housing condition and basic amenities available to dwelling units. Statistical data on housing condition in qualitative and quantitative terms are needed periodically for assessment of housing stock and formulation of housing policies and programs.

Figure 4: Indicators of housing condition at a glance 65th Round 2008-09

Indicators	Rural	Urban	Rural+ Urban
Percentage of households with 'tap' as major source of drinking water	30	74	43
Percentage of households with 'tube well/ hand pump' as major source of drinking water	55	18	44
Percentage of households who got sufficient drinking water from first major source	86	91	88
Percentage of households who had access to drinking water within premises	41	75	51
Percentage of households with no latrine facility	65	11	49
Percentage of households with electricity for domestic use	66	96	75
Percentage of households who were residing in own dwelling	95	62	85
Percentage of households who were residing in hired dwelling	3	30	11
Percentage of households who lived in pucca structures	55	92	66
Percentage of households who lived in semi-pucca structures	28	6	21
Percentage of households who lived in katcha structures	17	2	13
Per capita floor area (sq. mt.)	8.39	9.45	8.67
Percentage of households with availability of separate room to each married couple	75	76	75
Average monthly rent (Rs.) payable for hired dwelling (excluding employers' quarter)	560	1,149	1,045
Percentage of households who undertook residential construction* during last 365 days	12	4	10
Average number of residential constructions* undertaken per reporting household during last 365 days	1.02	1.01	1.02
Average cost (Rs.) per residential construction*	32,000	69,000	37,000

*Includes preparation of site, new building, addition of floor space and alteration, improvement and major repair of existing building

Source: 65th Round National Sample Survey, NSSO 2008-09

The NSSO surveys are conducted in the form of rounds extending normally over a period of one year though in certain cases the survey period has been six months. The organization has already completed 69th rounds and the 70th round survey is in progress. There have been significant changes in the scope and coverage of the surveys over the years, attempting to capture the changing scenario with regard to housing and access to amenities and assets.

The reports of the 65th round for the year 2008-09 is comprehensively dedicated to all India survey on housing conditions. It covers aspects of basic housing amenities available to households, characteristics and structural conditions of the dwellings, micro-environmental elements surrounding the units and cost of construction undertaken by the households etc.[14]

Defining Katcha-Pucca Structures:

Pucca Structure: A Pucca structure is one whose walls and roofs are made of pucca materials such as cement, concrete, oven burnt bricks, hollow cement / ash bricks, stone, stone blocks, jack boards (cement plastered reeds), iron, zinc or other metal sheets, timber, tiles, slate, corrugated iron, asbestos cement sheet, veneer, plywood, artificial wood of synthetic material and poly vinyl chloride (PVC) material.

Katcha Structure: A structure which has walls and roof made of non-Pucca materials is regarded as a Katcha structure. Non-Pucca materials include unburnt bricks, bamboo, mud, grass, leaves, reeds, thatch, etc. Katcha structures can be of the following two types:

Unserviceable Katcha structure includes all structures with thatch walls and thatch roof i.e. walls made of grass, leaves, reeds, etc. and roof of a similar material

Serviceable Katcha structure includes all Katcha structures other than unserviceable Katcha structures.

Semi-Pucca Structure: A structure which cannot be classified as a Pucca or a Katcha structure as per definition is a semi-Pucca structure. Such a structure will have either the walls or the roof but not both, made of Pucca materials.

As of March 30, 2009, only 55 per cent of rural Indian households stay in Pucca structures and 92 per cent of the urban Indian households lived in Pucca structures.

Figure 5: Distribution of households with respect to Katcha (non-concrete) & Pucca (concrete) categories

	1991			2001			2009		
	Pucca	Semi-Pucca	Katcha	Pucca	Semi-Pucca	Katcha	Pucca	Semi-Pucca	Katcha
Urban	85.7	10.6	3.7	88	9.1	2.9	91.7	6.2	2.1
Rural	48.8	28.7	22.5	49.8	21.4	18.8	55	28	17

14 The survey based estimates arrived at using the NSS data have certain limitations. The population figure and that of the number of households obtained from the NSS are usually found to be underestimates when placed against the Census numbers. As a result, general practice is to pick up the rates and ratios derived from the NSS and apply these on the Census numbers, to obtain the figures for disaggregated categories that are not available in the Census.

The National Urban Housing and Habitat Policy 2007 (NUHHP) has officially recognized 'Affordable Housing for All' as its goal. In fact, NUHHP seeks to promote, sustainable development of habitat with a view to ensure equitable supply of land, shelter and services at affordable prices to all sections of the society. Affordable housing is a combination of the following three elements:

1. Affordable land and infrastructure
2. Affordable building design, technology, material, labour, etc.
3. Affordable housing finance

Defining Affordable Housing

Affordability in the context of urban housing would mean provision of "adequate shelter" on a sustained basis ensuring security of tenure within the means of the common urban household. Affordable and low-cost housing are often used interchangeably, though they have a different target audience and price points.[15]

MHUPA[16] defines affordable housing in three categories, houses ranging from about 300 square feet (super built up area) for EWS, 500 square feet for LIG and 600 square feet to 1,200 square feet for MIG, at costs that permit repayment of home loans in monthly installments not exceeding 30% to 40% of the monthly income of the buyer. In terms of carpet area, an EWS category house would have a minimum 269 square feet (25 sq . m),an LIG category house would be limited to a maximum of 516 square feet (48 sq. m) and an MIG house would be limited to a maximum of 860 square feet (80 sq.m).

Figure 6: Definition of Affordable Housing – MHUPA (2011)

Category	Size	EMI/ Rent
EWS	Minimum 300 sq. ft. SBUA[17] Minimum 269 sq. ft. CA[18] (25 sq. m)	Not exceeding 30-40% of gross monthly income of buyer
LIG	Minimum 500 sq. ft. SBUA Maximum 517 sq. ft. CA (48 sq. m)	
MIG	600 – 1200 sq. ft. SBUA Maximum 861sq. ft. CA (80 sq. m)	

Source: Report of Task Force on Promoting Affordable Housing, MHUPA, GOI, November 2012[19]

The Demand Supply Mismatch

The level of urbanization in India has increased from 27.81% to 31.16% in the last decade with nearly 30 per cent of the country's population living in cities and urban areas.[20] Increasing urbanization has led to tremendous pressure on land, civic infrastructure, transport, open spaces etc. especially on Housing for Poor/EWS/ LIG segments. Major policy concern is the widening gap between demand and supply of affordable housing units and inadequate housing finance solutions. "Affordable Housing" has crucial implications for the country as the market needs balanced and sustainable funding models, and pro-active participation of all stakeholders.

A 2010 McKinsey report[21], "India's urban awakening: Building inclusive

15 RICS Research: Making Affordable Housing Work
16 Ministry of Housing and Urban Poverty Alleviation
17 Super Built Up Area
18 Carpet Area
19 http://mhupa.gov.in/W_new/AHTF%20REPORT%2008_07_2013.pdf
20 Rural Urban Distribution of Population: Census of India, 2011
21 India's urban awakening: Building inclusive cities, sustaining economic growth

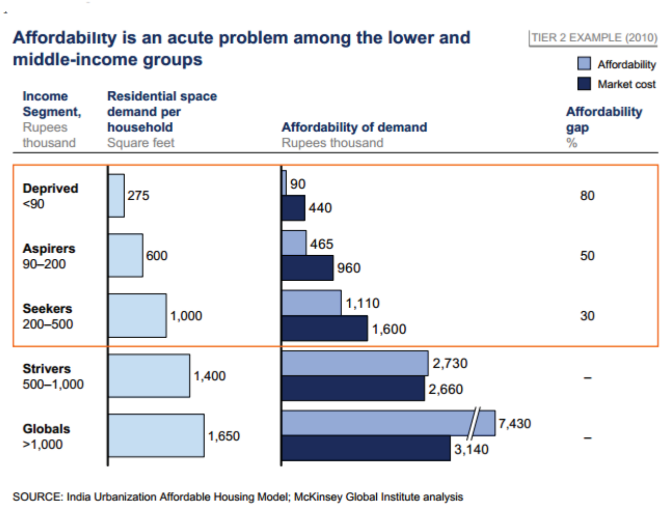
cities, sustaining economic growth" illustrates the glaring mismatch between affordability, demand and supply. In the deprived segment earning less than Rs 90,000 per annum has affordability of house worth Rs 90,000[22] whereas the available market price for a house of 275 sq.ft is Rs 440,000[23] i.e. an 80% affordability gap.

Urban Housing Shortage

The total Urban Housing shortage is estimated at 18.78 million units (MHUPA, Report of the Technical Group, 12th Five Year Plan) which can be categorized as Households in Homeless Condition, in Non-serviceable Condition, Obsolete Houses[25], and those living in Congested Houses[26]. The estimate is based on Census & NSS 65th Round results on Housing conditions and Urban Slums (July 2008 - June 2008) with inputs like obsolescence factor, congestion factor & homeless households.

The Obsolescence Factor: All bad houses excluding those that are less than 40 years of age (1.39 per cent NSS 65th Round results) and all houses aged 80 years or more (1.43 per cent – NSS 65th Round results) constitute the obsolescence factor (2.27 Million). The estimated figure

Figure 7: Affordability of housing in India[24]



Source: India's Urban Awakening: Building Inclusive Cities, Sustaining Economic Growth, McKinsey Global Institute Analysis, April 2010

22 To determine the maximum house price that is affordable, the analysis is based on a combination of serviceable loan and saving that a household can deploy. The maximum affordable outlay for lowest income household towards housing is assumed to be 25 percent of household's monthly income and an interest rate of 18-20 percent. An LTV factor is not considered for this segment as financial saving are a constrain; instead, saving of Rs.10,000 per household are added to the loan value serviceable to arrive at the maximum house value affordable.

23 For the purpose of analysis, the report considers a basic housing unit to comprise 275 square feet in carpet area with attached sanitation and piped water. The market price thus determined for Tier 3&4 is 370,000, Tier 2 is Rs,440,000, Tier 1 is Rs. 650,000

24 India urbanization affordable housing model; Mckinsey Global Institute Analysis, India's urban awakening: Building inclusive cities, sustaining economic growth (April 2010)
While estimating space demand, the reports have not factored in affordability as constraint. The report followed a top-down approach to estimate residential demand for space and used regression equation derived from strong correlation between space per capita and GDP per capita for more than 14 countries. This was used to estimate residential demand based on global benchmarks. This equation was used for different income brackets to estimate space required by each income bracket, assuming a minimum area of 5 square meters of space per capita, especially for lower income segment. Income distribution for the residential demand estimate has been derived from the MGI's India econometric model.

25 The 9th Plan Working Group (1998-2002) observed the congestion factor as the percentage of households in which each married couple does not have a separate room to live. The Obsolescence factor has been defined by the 9th Plan Working Group as the percentage of households living in the dwelling units aged 80 years or more. These units are deemed to be unfit for habitation.

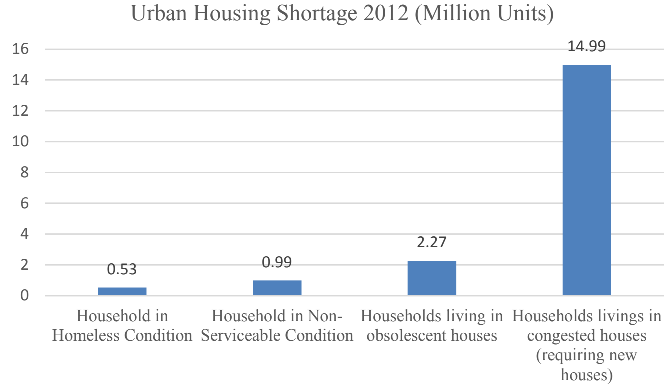
26 The 9th Plan Working Group and the 10th Plan Working Group observed the congestion factor as the percentage of households in which each married couple does not have a separate room to live. The Obsolescence factor has been defined by the 9th Plan Working Group as the percentage of households living in the dwelling units aged 80 years or more. These units are deemed to be unfit for habitation.

regarding the same works out to be 3.26 million as on March 01, 2012.

The Congestion Factor: The ratio of households that are residing in unacceptably 'congested conditions' from physical and socio cultural view point (viz. married couples sharing the room with other adults etc.) was worked out using NSS results – 65th round. The number of households requiring a separate dwelling unit on account of congestion comes out to 14,986,312 (18.42 per cent congestion rate from NSS was applied to the estimated population on March 01, 2012 based on Census 2011 & inter census growth rate).

Homeless People: Census 2001 data of 0.8 million homeless people has been assumed to remain constant during 2001-11. Considering that half of the homeless are single migrants and the other half have average household size of three, Technical Group calculated total housing requirement of 0.53 million (0.4 Million for single migrants and 0.13 for rest with average household size of 3).

Figure 8: Urban Housing Shortage India



Source: Report of the Technical Group on Urban Housing Shortage (TG-12) on Urban Housing Shortage 2012-17, MHUPA, September 2012

The housing shortage in India can further be categorized by socio-economic segments i.e. EWA, LIG, MIG and HIG

Figure 9: Housing shortage in India by categories

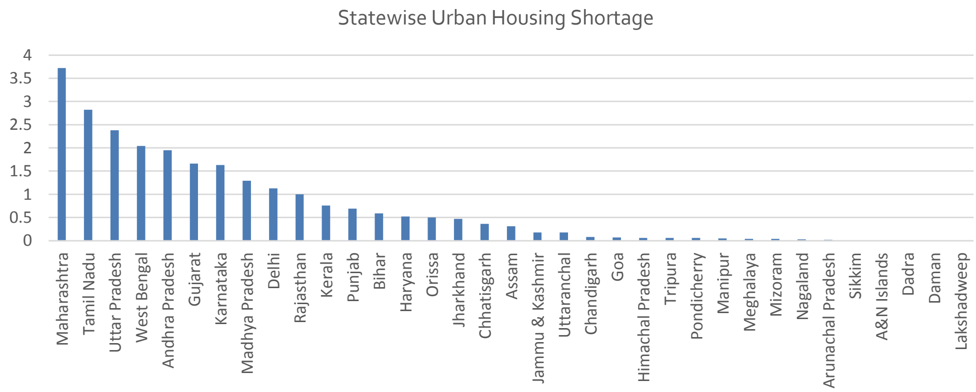
Category	Shortage (Millions of Units)	Shortage (%)
EWS (Economically Weaker)	10.55	56%
LIG (Low Income)	7.41	39%
MIG (Middle Income)	0.82	4%
HIG (High Income)	0%	0%
Total	18.78	100%

Source: Report of The Technical Group On Urban Housing Shortage (TG-12) on Urban Housing Shortage 2012-17, MHUPA, September 2012

The state-wise data shows a mixed picture where both developed as well as less developed states have families living in poor housing conditions. Uttar Pradesh has a housing shortage of over three million homes followed by Maharashtra (1.97 mn), West Bengal (1.33 mn), Andhra Pradesh (1.27 mn) and Tamil Nadu (1.25 mn). The top 10 states, in terms of urban housing shortage, contribute to 14.3 million or 76 percent of total housing shortage.[27]

27 Report of the Technical Urban Group (TG-12) on Urban Housing Shortage (2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012)

Figure 10: Statewide Housing Shortage (2012)



Source: Report of the Technical Urban Group (TG-12) on Urban Housing Shortage (2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012)

Market Size of Affordable Housing Finance (Urban)

The market for affordable housing finance in urban housing is estimated at Rs 7,043 billion. For EWS, as per the Task Force on Affordable Housing, the average cost of an affordable house is calculated at Rs 506,150.4, wherein the super built-up area is 361.54 sq ft and the cost of a dwelling unit is Rs. 1,400 sq.ft.

Figure 11: Potential financing opportunity in affordable housing pan-India

Housing finance opportunity calculation	
Housing shortfall (million units)[28]	18.78
Average cost of an affordable house (Rs mn)[29]	0.50
Loan-to-value ratio[30]	75%
Average loan per house (Rs mn)	0.38
Total financing requirement (Rs bn)	7,043

Rural Housing Shortage

Despite increasing urbanization, rural population constitutes over 68% of India's total population and has significant housing requirements. As per the working group on rural housing for the 12th Five Year Plan(FYP), total shortfall in rural India stands at 43.7mn units, out of which 90% (39.30 million) is on account of the Below the Poverty Line Population (BPL families). One of the main reasons behind this shortfall (apart from high poverty levels) is the lack of institutional financing mechanism and framework.

28 Report of The Technical Group On Urban Housing Shortage (TG-12) on Urban Housing Shortage 2012-17, MHUPA, September 2012

29 The average cost of an affordable house has been calculated as per the Task Force on Affordable housing calculations wherein the Super built up area in sq ft for an EWS is 361.54 sq ft and the cost of a dwelling unit is Rs. 1400 sq.ft which translates into Rs. 506150.4.

30 For analysis, assuming the average Loan to value (LTV) of 75 percent.

Figure 12: Rural housing shortage (2012 -2017)

Factors	Shortage (million)
No. of households without houses - 2012	4.2
No. of temporary houses - 2012	20.2
Shortage due to congestion - 2012	11.3
Shortage due to obsolescence - 2012	7.5
Additional housing shortage arising between 2012-17	0.6
Total housing shortage - 2012 to 2017	43.7

Source: Working group on rural housing -12th five year plan, Planning Commission

One of the major reasons for continued shelterlessness in India is shortage of financial resources. Accorrding to the NSSO, about 66% financing of new construction in rural areas in the last one year was done by rural families with their own resources; about 27% constructions had some amount financed from noninstitutional agencies such as money lenders, family and friends while 9% of new constructions were financed by institutional channels such as government schemes, banks etc The market for affordable housing finance in rural housing is estimated at Rs 4,260 billion calculated as below. There is a shortfall of 43.7 million units, if the cost of each unit is Rs 0.13 million and with a loan-to-value ratio of 75%, the average loan per house is Rs 0.09 million.

Figure 13: Estimated Financing Requirement In Rural Housing

Total housing shortage (mn)	43.7
Average cost of rural house (Rs mn)[32]	0.13
Loan-to-value ratio[33]	75%
Average loan per house (Rs mn)	0.09
Total financing requirement (Rs Billion)	4,260

31 Working Group on Rural Housing for the XII Five Year Plan

32 As per NSSO 2004 report on Housing condition in India, on an average, a rural household spent about Rs 1.13 lakh for a Pucca new building with an average floor area of 42 sq. m.

33 For analysis, the loan to value (LTV) considered for rural area is 75 percent

In the past decade or so, the central and state governments have taken a plethora of initiatives to promote housing and housing finance in the country. Some of the key schemes being implemented by the Government of India summarized from the 2011 Report of the Working Group on Rural Housing for the XII Five Year Plan and various central and state government websites are as follows:

Indira Awas Yojana (IAY): This scheme is targeted at BPL families by providing them cash subsidy to build low-cost houses. Funding is jointly provided by the central and state governments in the ratio of 75:25. Launched in 1998-99, the scheme intends to build 2mn additional houses subdivided into 1.3mn in rural areas and 0.7mn in urban areas.

Golden Jubilee Rural Housing Finance Scheme (GJRHFS): This scheme was announced in 1997 to improve access to housing finance in rural areas. During 1997-2012, a total of 35mn housing units were financed by HFCs, banks and cooperative sector institutions achieving 94% of the targeted 37.3mn units. The scheme has been instrumental in providing increased access to institutional credit in rural areas at the pan-India level.

Bharat Nirman: This program was launched in 2005 with the vision of accelerating infrastructure development (including housing) in rural areas. The scheme has been a success so far with 7.2mn houses constructed in the first phase (2005-09) against a target of 6mn units. The scheme has been extended till 2014 with 12mn additional houses targeted to be built during 2009-14. The second phase is also progressing well with 9.5mn houses already built till Oct'12.

The National Urban Housing & Habitat Policy, 2007: This policy aims to achieve affordable housing for all by promoting public-private partnerships.

Affordable Housing Partnership: This scheme introduced by the GoI, envisages construction of 1mn houses for the economically weaker and low income households with total outlay of Rs5bn.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM): JNNURM was launched in December 2005 with the aim of improving infrastructure facilities in urban areas across the country. The programme has been launched in 63 cities and also includes construction of houses in rural areas.

Rajiv Awas Yojana (RAY): This scheme has been introduced with the objective of providing basic housing facilities to the urban poor and provides for funding assistance to states for implementing slum re-development and affordable housing projects. During the 12th Five-Year Plan (FYP) period, the scheme is expected to be rolled over 250 cities.

Case Study: Golden Jubilee Rural Housing Finance Scheme

The objective of the Scheme is to address the problem of rural housing through improved access to housing credit which would enable an individual to build a modest new house or to improve or add to his old dwelling in rural areas. "Rural Area" for the purpose of the Scheme is the area comprised in any village including the area comprised in any town, the population of which does not exceed 50,000 as per the 1991 Census. The Scheme envisages at normal rates of interest, the provision of institutional credit to individuals desirous of constructing/acquiring new dwelling units and for improving or adding to existing dwelling units in rural areas.

There are two channels for implementing the scheme. The first channel comprises exclusively the commercial banks and the second channel will comprise institutions like the ARDBs, ACHFS, RRBs and HFCs. At the time of formation of the Scheme, it was envisaged that the commercial banks being the largest mobilisers of savings in the economy and having a vast network of branches, including "rural" would play an important and extensive role in successful implementation of the Scheme. It was therefore, envisaged that they may take a major share of the proposed disbursements under the Scheme.

The performance under the Scheme is being closely monitored by the NHB. The Primary Lending Institutions (PLIs) were required to report the progress on quarterly basis to the NHB in the prescribed format. Besides, the Reserve Bank of India advised the Conveners of all State Level Bankers Committee (SLBC) to closely monitor the progress of the scheme in the SLBC meetings.

Outreach: The annual targets under the Scheme (in terms of number of units financed) are set by the Government of India and NHB sub-allocates the targets to implementing agencies and monitors its implementation. For the FY 2012-13[34], 4,18,784 units against a target of 4,00,000 units have been financed. Cumulatively, more than 2.2 million dwelling units have been constructed.

Institution	FY 12-13	
	Target	Achievement
	No. of units	No. of units
HFC	1, 40,000	2,02,941
PSB's & RRBs	2, 60,000	2,15,963
TOTAL	4,00,000	4,18,784

Source: State Of The Housing And Housing Finance Sector In 2012-13; NHB

[34] State of the Housing and Housing Finance Sector in 2012-13, NHB

State Government Initiative(s)

Several state governments have also taken steps to make affordable housing a reality especially for the weaker sections of the society. More than 15 states have separate rural housing schemes and during the 11th Five Year Plan period (2007-12), 3 million houses were built under various state governments' schemes. Some of the initiatives taken by the states summarized from the Report Working Group on Rural Housing for the XII Five Year Plan and various central and state government websites are as follows:

Uttar Pradesh: The UP Urban Housing Policy aims at encouraging cost-effective measures to make affordable housing a reality for EWS/LIG families. Under the policy, every EWS/LIG plot would also include the provision to set up a shop or a business unit.

Andhra Pradesh: As per the Master Plan regulations relating to EWS/LIG housing, at least 5% of the developable land is to be reserved for EWS housing with maximum plot size of 50sqm. Additionally, 5% of the land has to be made available for LIG housing with maximum plot size of 100sqm. With regard to group housing projects, at least 5% of the total units would be reserved for EWS and LIG housing each with maximum plinth area of 25sqm and 40sqm, respectively.

Gujarat: The Gujarat Town Planning & Urban Development Act (GTPUDA) provides for development of housing facilities on a public-private partnership basis. Re-development of slums is permitted for the rehabilitation of the urban poor. The Gujarat government had introduced nine housing schemes complementing the IAY. In 2009, the local government decided to bring all the different schemes under one fold with uniform financial assistance of Rs 55,000.

Madhya Pradesh: As per the Madhya Pradesh State Housing and Habitat Policy 2007, 30% of the developed land is to be reserved for EWS/LIG segments if the land has been provided by the government at concessional rates. Also, in case the land has been purchased by private/ cooperative sector developers, 15% of it is earmarked for EWS/LIG housing.

Maharashtra: Under the Maharashtra State Housing Policy 2007, the Mumbai Metropolitan Regional Development Authority (MMRDA) promotes small rental housing projects to be made available at reasonable rent. Such projects can be launched by a land owner, an MMRDA-approved agency or MMRDA itself as per various models formulated by MMRDA.

Rajasthan: Under the Affordable Housing Policy 2009, the government targets to build 125,000 houses for the lower and middle income households over the next few years. Around 60% of the housing units would be constructed for the EWS/LIG section via PPP mode. As a complementary scheme to IAY, in 2011 the "Mukhya Mantri Gramin BPL Awaas Yojana" was launched with the objective of providing 1.0mn houses to rural BPL families over a course of four years. The state government has arranged a loan of Rs 34bn from HUDCO to finance the scheme.

Kerala: The Kerala Housing and Habitat Policy 2007, envisages eradicating homelessness and providing housing for 1.0mn families. Under the EMS housing scheme, financial assistance of up to Rs 125,000 is provided to poor families from the backward communities.

Tamil Nadu: The Kaliagnar Housing Scheme (KVVT) introduced in 2010 aims to replace all temporary houses in rural areas by permanent construction.

Karnataka: The government runs two different schemes (“Basava Vasathi Yojane” and “Ambedkar Housing Scheme”) targeted at special occupational groups and economically weaker sections. Under both the schemes, the total financial assistance is capped at Rs 63,500.

Indiramma[35], Andhra Pradesh

Indiramma or Integrated Novel Development In Rural Areas and Model Municipal Areas (INDIRAMMA) is a mass housing scheme introduced by the Government of Andhra Pradesh in the year 2006 with the aim to make the state “Hut-free”. It covers people living in rural Andhra Pradesh. The program focuses in providing pucca houses, drinking water supply, individual sanitary latrines, drainage and power supply to every village household. It also covers road facilities for transport, pensions to eligible old age persons, weavers, widows and the disabled, primary education to all, special nutrition to adolescent girls/pregnant and lactating women and better health facilities in all villages over a period of three years in a saturation mode, aimed at improving the living standards of the people significantly.

The unit cost under Indiramma housing programme has been enhanced for open category (upper castes) and Backward Classes from Rs 45,000 to Rs 70,000 in rural areas and from Rs 55,000 to Rs 80,000 in urban areas, including Nagara Panchayats.

Bhavanashree, Kerala

Bhavanashree is a micro housing loan program initiated by Kudumbashree with the support of banking institutions. The target group under this scheme comprises people who are members of Kudumbashree Neighborhood Groups (NHG) across the state. Loan amount is issued for construction of new house and repair and maintenance of existing house. The loan amount varies in both cases. However the interest rate and maturity remain the same. The identification of the beneficiaries is done through the Community Development Societies / NGOs. Bhavanashree is administered as “Term Loan” or loan on bulk lending norms. The banks lend to Community Development Society (CDS) who can on-lend it to pre-determined beneficiaries. The security for this loan is in the form of “mortgage” of land and house of individual beneficiaries.

[35] Integrated Novel Development in Rural Areas and Model Municipal Areas
[36] http://housing.cgg.gov.in

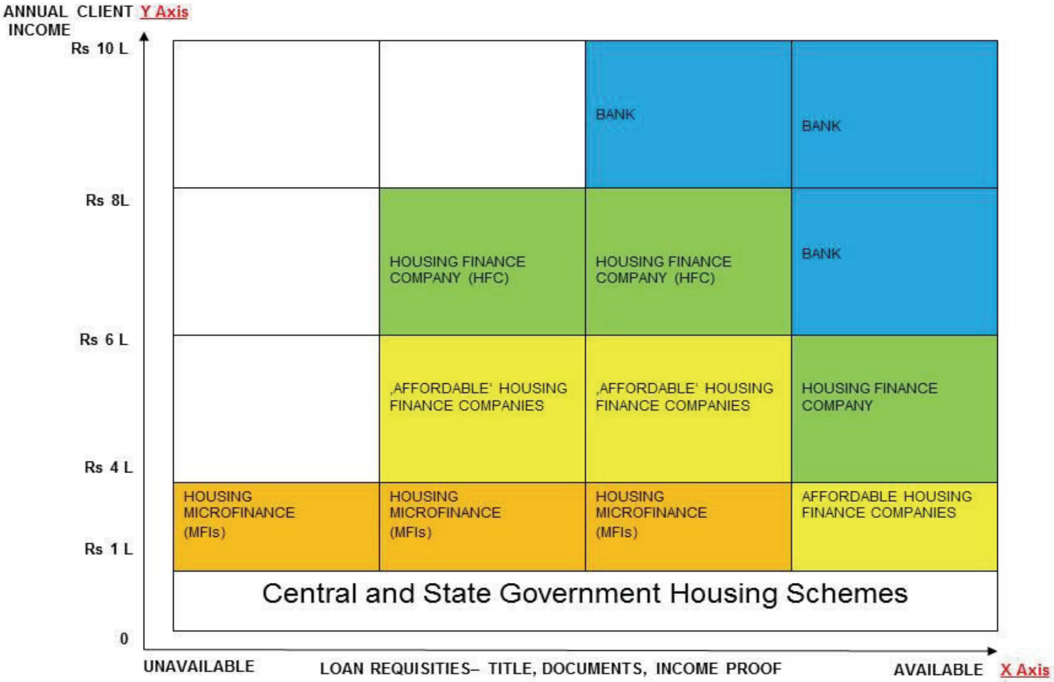
Chapter 5 Supply of Affordable Housing Finance

The solution to the 'problem of housing' is not one that maximizes the production of housing units, but one that deals with the affordability and appropriateness of the housing that is produced. The element that binds these forces together is responsiveness: Responsiveness to family budget constraints, to traditional life-styles, to economic potentials, to creativity, to the multiplication of choice. H.T. Parekh, Founder, HDFC.

The below matrix illustrates the fitment of banks, housing finance companies, affordable finance companies and the clients they serve. The Y Axis shows the Annual Client Income whereas the X Axis shows the availability of loan requisites – title documents, income proof etc. and the resultant blocks show the space occupied by the various suppliers of Housing Finance in targeting clients. The bottom row represents largely rural, very poor households earning up to Rs 1 lakh per annum who cannot afford credit (but could still benefit from subsidized construction technical assistance if it were available). The next layer represents the MFI clientele earning up to Rs 1-4lakhs per annum derived from informal employment sources and possess informally recognized documented rights to their land.

The next market segment consists of borrowers earning Rs 4-6 lakhs per annum who derive their incomes primarily from semi-formal employment and who also reside on semi-formally titled land who often have access to affordable housing finance companies. The next segment consists of borrowers who derive their incomes primarily from formal

Figure 14: The Housing Finance Matrix- Fitment of Bank, HFC and MFI



employment and also reside on formally titled land with access to housing finance companies and sometime banks. The top segment comprises of high income people earning greater than Rs 10 lakhs per annum, with formal employment and formal titles to their land with access to banks for housing loans.

The following summarizes the total banking sector credit in India and the credit to the housing sector.

Figure 15: Total Outstanding Housing Loans (Rs. Crore)

Type of Institution	2009-10	2010-11	2011-12
Public Sector Banks	202,356	239,079	273,012
HFCs	153,188	186,348	194,360
Private Sector Banks	98,573	107,031	115,008
Total	454,117	532,458	582,380
Total Gross Bank Credit	3,088,570	3,731,470	4,371,350
Category Share			
Public Sector Banks	45%	45%	47%
HFCs	34%	35%	33%
Private Sector Banks	22%	20%	20%

Source: Housing Finance Companies: ICICI Research 2013

Banks and HFC - Affordable Housing Finance (Sub Rs. 5 Lakhs)

The following tables summarizes the trend in total housing loans disbursements and loans outstanding by Public Sector Banks viz-a-viz, disbursement/outstanding of housing loans in the loan slab up to Rs. 5 lakhs within the housing loan category.[37]

Figure 16: Trend of housing loans Less than 5 lakh (Disbursement and Outstanding)

Public Sector Banks	2009-10		2010-11		2011-12	
Public Sector Banks	Disbursed (No's)	O/S as on 31.3.2010	Disbursed (No's)	O/S as on 31.3.2011	Disbursed (No's)	O/S as on 31.3.2012
Total Housing Loans	71875	202356	75171	239079	73831	273012
Housing Loans up to Rs 5 Lakhs	15031	52946	17096	57749	10825	45277
as a % of total Housing Loans	20.90%	26.20%	22.70%	24.20%	14.70%	16.60%
HFCs						
Total Housing Loans	45569	130218	55200	147431	68228	194360
Housing Loans up to Rs 5 Lakhs	4439	24085	4929	23903	2288	18067
as a % of total Housing Loans	9.70%	18.50%	8.90%	16.20%	3.40%	9.30%
Total of Public Sector Banks and HFCs						
Total Housing Loans	117444	332574	130371	386510	142059	467372
Housing Loans up to Rs 5 Lakhs	19470	77031	22025	81652	13113	63344
as a % of total Housing Loans	16.60%	23.20%	16.90%	21.10%	9.20%	13.60%

Source: Housing Finance Companies: Housing Finance Companies: ICICI Research 2013 and Report of Trend and Progress of Banking in India, RBI, 2011-12

[37] Housing Finance Companies: ICICI Research 2013

From the above table, it may be observed that of the total housing loans disbursed by public sector banks in 2010-11, 22.7% were disbursed in the loan category of housing loans up to Rs. 5 lakh which has declined to 14.7% in the year 2011-12. Similarly, in case of HFCs, this percentage has also registered decline from 8.9% in 2010-11 to 3.4% in 2011-12.

In view of the above, outstanding housing loans up to Rs 5 lakhs which constituted 24.2% of the total outstanding housing loans of public sector banks as on March 31, 2011 has declined to 16.6% as on 31st March 31, 2012. Similar trend was observed in case of HFCs during this period registering decline from 16.2% as on March 31, 2011 to 9.3% as on March 31, 2012. It may, therefore, be reasonably concluded that the share may even be lower for foreign banks and private sector banks.

Moreover, the above classification is only based on the size of the loan; the income levels of the borrowers are not known. There is no formal data available at the national level to show how much of these small ticket loans actually went to the EWS/LIG category. It may also be noted that the above information is on an all India basis and includes housing loans in rural areas also, which is likely to consume smaller size loans. Therefore, EWS/ LIG housing in the urban sector receives a much lesser share than the calculations shown above.

Specialized Housing Finance Companies

The market for Housing Loans under the affordable Housing segment for the self-employed client is very large. This segment has not been very attractive to Banks and other HFCs since it consists of buyers who are not very organized and need a different approach both to credit appraisal as well as collections. Traditional methods of appraisal based on documents as evident with the salaried class would not work in this segment. This calls for a field level assessment of each and every client both in terms of his/her income &cash flow and also of

Figure 17: Affordable Housing finance companies as on September, 2013

Company/ Organization	Size of Loan Book (in Rs. Cr)	% Portfolio <10 lakhs	Average Ticket Size (in Rs. Lakh)	NPAs
Micro Housing Finance Corporation	102	100%	Rs. 4.2	0.4%
Gruh Finance	5727	NA	Rs 8.50	0.05%
Muthoot Housing Finance	200	80%	Rs. 6.45	<0.1%
Shubham Housing Development Finance Company	91.7	100%	Rs. 5.5	0.037%
India Shelter Finance Corporation Limited(ISFC)	78	100%	Rs 1.45	<0.1%

Source: Various ICRA debt Rating Report of Housing Finance Companies, September 2013 the security offered for the loan, which calls for significant investment in human resources and training and is also a time consuming affair and hence unattractive for most HFCs and Banks.

According to research by the Monitor-Deloitte Group, It was estimated that a housing finance company (HFC) serving low income markets could achieve a Return on Equity (RoE) of 18-25%), which the researchers saw as encouraging that services will continue in these low income markets even when demand of higher income groups increases.[38]

Rural/ suburban housing finance or finance for self- employed or low income customers remains a highly under-penetrated market. There are a few players which have started to tap into these opportunities and scaled up.

The biggest draw of such niche market positioning is the sheer size of the growth opportunity. The borrower profile for these affordable housing finance companies consists of relatively low income customers, who would normally fall out of the ambit of traditional lending institutions due to a lack of formal income proofs. While the credit assessment of these borrowers requires special skill sets and may entail higher risk, the credit profile of the borrowers could be volatile to lack of stability in income as well as due to their low disposable incomes and limited cushion available to meet the unforeseen expenses. To mitigate these risks, these HFCs have developed adequate credit appraisal norms (like restrictions on Loan-to-Value (LTV) ratios based on registered values, focus on personal discussion at borrower's residence to ascertain the income and expense levels to arrive at the disposable income etc.) and portfolio tracking systems.[39] However, gestation periods remain long and operating expenses are high for most players. Having said that, few of these businesses have achieved some critical mass, making them well placed for acceleration in growth. Some of the players are described below:

GRUH Housing Finance India is an established housing finance company [HFC] with a loan portfolio of Rs. 5,727 Crore and Profit after Tax of Rs. 145.88 Crore as on June 30, 2013. Gruh has a distribution network of 136 retail offices across seven states. GRUH primarily lends to salaried individuals, which constituted 57% of the total portfolio as on March 31, 2012, followed by self-employed segment (39%), and builders (4%). GRUH's portfolio typically consists of 'small ticket' home loans spread across the rural and semi urban regions of western India, where the yields are relatively higher. GRUH's average ticket size of loans was Rs. 8.50 lakh as on March 31, 2013. Despite the difficult operating environment and given the segment in which GRUH operates, it has been able to control NPA% which stand at 0.05% as on June 30, 2013.[40]

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[38] Deb, A., Karamchandani, A. & Singh, R(2010), Building Houses, Financing Homes: India's Rapidly Growing Housing and Housing Finance Markets for the Low-Income Customer, Monitor Inclusive Markets

[39] ICRA

[40] ICRA Rating 2013

Dewan Housing Finance Corporation Ltd which has focused on housing finance in tier-2 and tier-3 cities and metro peripheries on self- employed and non tax-paying customers has recently set up **Aadhar Housing Finance** for serving the most underserved segment through six low income states in India viz; UP, MP, Bihar, Chhattisgarh, Jharkhand, and Orissa, by focusing on Low income segment of customers with a maximum ticket size of loans capped at RS.0.6mn to maintain the focus on the low income segment.[41]

India Shelter Finance Corporation Limited is a Housing Finance Company, engaged in providing home loans and Loans against property to low income borrowers for a period of up to 15 years. These loans can be used by borrowers for home improvements, home extension and for construction of dwelling units on plots owned by borrowers. The company is promoted by Mr. Anil Mehta and Mr. Srinath Mukherji. ISFC is operating out of 28 branches as on August 31, 2013 and the head office being Gurgoan. The company has branches in areas of Rajasthan, Chhattisgarh, Maharashtra and Madhya Pradesh. The company had a loan portfolio of Rs 58.48 Crore as on March 31, 2013. The company reported a profit of Rs 0.32 Crore on an asset base of Rs 70.6 Crore vis-a-vis loss of Rs 4.3 Crore on an asset base of Rs 30.9 Crore in 2011-12.

Shubham Housing Development Finance Company Private Limited (SHDFC) is a housing finance company. The company is engaged in providing retail home loans to low income borrowers for a period of up to 15 years. These loans can be used by borrowers for purchasing a ready property, home improvements, home extension and for construction of dwelling units on plots owned by borrowers. The company is promoted by Mr. Sanjay Chaturvedi and Mr. Ajay Oak. Four private equity funds namely - Helion Ventures Partner, Elever Equity, Accion Frontier and Saama Capital have invested about Rs. 52 Crore in the company in the form of compulsorily convertible preference shares (CCPS). SHDFC is currently operating out of 40 branches which are spread in the 9 states / Union Territories of Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh and Maharashtra, Chhattisgarh and Uttarakhand with the Head Office at Gurgaon. The company had a loan portfolio of Rs. 91.7 Crore as on June 30, 2013. For the year ended March 31, 2013, the company reported a net profit after tax of Rs. 0.13 Crore over an asset base of Rs. 78.39 Crore as compared with a net loss of 1.41 Crore on an asset base of Rs 18.92 Crore for 2011-12. For the quarter ended June 30, 2013, the company reported a net profit after tax of 0.31Crore over an asset base of Rs. 110.53 Crore. SHDFC reported a capital adequacy of 81.7% (Tier I% of 80.9%) and a gross NPA% of 0.37% as on June 30, 2013.[42]

[41] ICRA Rating 2013
[42] ICRA Rating 2013

Swarna Pragati Housing Microfinance Pvt Ltd is promoted by a team of senior bankers. Swarna Pragati, operational in states of Maharashtra, Karnataka and Orissa, has a portfolio of Rs 18.5 Crore and has built a customer base of over 3,000 borrowers since it became operational in 2011. The company is targeting one lakh households by 2018 with a focus on rural dwellings. Swarna Pragati partners with local microfinance institutions (MFIs) in various geographies to leverage their relationships with borrowing groups. The company gives loans averaging Rs 40,000-Rs 80,000 with average terms of 36-48 months. It gives out loans in tranches called incremental housing or progressive build. The housing loans are provided both for fresh construction and renovation/repairs/up-gradation of existing houses. They add water and sanitation facilities to a basic house, improve roofing and gradually add new rooms. This incremental build concept forms the foundations of the concept of housing microfinance products. Loan amounts average Rs. 25,000 to Rs. 1,00,000 with average loan terms of 36-42 months, slightly larger and longer term than typical microenterprise business loans, but far smaller and shorter term than traditional mortgages.

Swarna Pragati has innovated housing finance and mortgage systems to overcome the hindrances that impede the flow of credit to this segment. It is leveraging the grassroots community institutions to evolve simple, flexible cost effective and fault proof mechanisms for administration of housing finance to this segment. Swarna Pragati has integrated the Panchyati Raj Act with help from grassroots organizations like Gram Sabha (Village Assembly), Gram Vikas Samiti (Village Development Council), etc. which are also constitutionally mandated for community ownership/development.

The key features of the model are:

- Finance for incremental housing and consequently short duration affordable installment loans
- Productive housing loans for increasing income generation to service the loan
- Pioneering the use of social collateral in housing loans through use of SHG/JLG platforms
- Pioneering the use of community institutions for creating non-formal titles and use of these for collateralization

Swarna Pragati Business Portfolio as on September 2013

States	No. of Village	No. of SHG/JLG	No. of Borrower	Total Disbursed Amount (Rs)
Karnataka	11	34	38	2,179,445
Maharashtra	36	735	3038	222,868,500
Orissa	52	288	363	32,690,000
Total	99	1057	3439	257,737,945

Source: Swarna Pragati

[43] Sewa Grih Rin offer housing loan termed as S1, S2, S3 and M1

- Technical assistance along with finance to ensure quality and cost efficiency

The Company does not require a title to guarantee the loan and is willing to accept less formal types of collateral, making financing accessible to low-income borrowers. Borrowers complete the construction of their homes through a series of loans. Swarna Pragati model also extends loans to clients where the title of the land is in the name of the husband/or other family members or there are joint rights to the land/house without specific title documents, on the basis of the Panchayat certificate and an indemnity bond/undertaking executed by the husband/concerned family members.

In Swarna Pragati model, security is created through a set of components:

1. A document that establishes the right of ownership and explicit community acceptance of that right
2. Loans are for relatively small amounts and a function of the purchasing power of loans with short repayment periods that are at par with mid and high-end microfinance individual loans and relatively low monthly payments
3. Loan pricing covers the real, long run costs-operational and financial-of providing the service but are tailored to meet the needs of habitat in an incremental manner
4. Loans are not heavily collateralized, if at all, and collateral substitutes are often used

SEWA GRIH RIN is a housing finance company and was registered under the Company's Act 1956 on July 18, 2011 with its headquarters in Delhi. SEWA Grih Rin (SGR) with a new housing model is dedicated exclusively to poor households in India. It plans to meet the vast and largely unmet housing finance needs of informally housed and employed women. In pursuing these goals, SGR benefits from the successful experience of SEWA Bank and the Mahila Housing Trust (MHT) in providing affordable housing finance for members. SGR intends to scale-up by expanding to other geographies and increased product focus. Currently SGR is in the process of mobilizing the net owned funds required to obtain a Housing Finance Company (HFC) license from NHB, and establishing an organizational infrastructure to begin lending activities.

SGR started its operations from Delhi & Rajasthan (Jaipur &Jodhpur) and expanded to Madhya Pradesh, Bihar, and Jharkhand& also in those areas/ districts of Gujarat where SEWA Bank is not working. They plan to gradually grow in other states as well and aim to have a PAN India presence. It is expected that during a span of 7 years, SGR would have a potential customer base of around 15,000 borrowers & thereby disbursing loan amount of 155 Crores (approx.).

Figure 18: Sewa Grih Rin Products

Product Name[43]	S1	S2	S3	M1
Loan sizes (Rs.)	10,000-30,000	30,001-1,00,000	1,00,001-3,00,000	3,00,001-5,00,000
Envisaged Purpose	Basic infra-structure & services, small house improve-ments	Home improve-ments	Home improve-ments, land purchase, legal formalization of existing tenure	New construction, top-off loan to buy subsidized new housing with legal title
Average amortization period (years)	2	3	5	7
Maximum amortiza-tion period (years)	3	5	10	15
Interest rate	18%	18%	18%	17%
Status of title	Flexible	Flexible	Flexible	Clear title required

Source: Sewa Grih Rin

SEWA members, above 18 years of age, who are involved in formal or informal occupations are eligible to get loans from SGR. There are informal checks to ensure the income of the target members like Peer knowledge, track record review, possession of existing original papers, fixed deposit, life insurance policies, NSC, legal title documents etc.

Equitas Housing Finance Pvt Ltd

Equitas has taken the approach of setting up a wholly-owned Housing Finance Company subsidiary for the purpose of providing home loan to low income households across India. Equitas HFC's focus is on the self-employed and salaried segment. The company also focuses on its existing large MF client base for housing loan products. The typical target household has a monthly income of around Rs 10,000 to Rs 30,000.

Existing Equitas branches are engaged to mobilize new members and forward proposals to the credit team for approval. The approval is based on valuation of the property, legal title clearance, income levels and installment paying ability over a sustained period of time. In spite of the informal and temporary income gaps of clients, Equitas believes willingness and desire to repay is highest amongst its clients. This approach is helping them create long lasting relationship with clients. Their loan product is fully secured, yet the focus is on the quality of loan origination and subsequent monitoring.

The focus is primarily on financing clients to enable them build their homes but extension and improvements to existing dwelling are also encouraged. Loan amount ranges from Rs 50,000 to Rs 500,000 with a minimum tenure of

[44] Wherein "productive" denoting "Improvement in Health of Client

3 years to a maximum of 7 years. All borrowers are covered under a reducing cover Mortgage Insurance where clients bear one time upfront premium cost. All properties financed are covered under General Insurance product to safe guard the property from fire and natural disasters. The one time upfront premium for the cover is borne by the client. Equitas does not charge administration fees / commission for insurance coverage.

As of August 31, 2013, Equitas made available this product to 603 clients with a total loan disbursed Rs. 11.77 Crores in Tamil Nadu and Maharashtra. The average loan size is Rs. 2.7 lakhs.

Microfinance Institutions and Housing Finance

A survey for the State of the Sector Housing Microfinance Report 2013 was conducted to deduce the extent of housing microfinance in India, which reveals that 75% of the MFI respondents concurred that 'up to 25% client's use the average MFI loan (which includes housing and non-housing loans) for home improvement. 33% of the surveyed MFIs accepted offering loans for Housing Improvement. 66% of the surveyed MFI respondents agreed that home improvement loans are "productive[44]" in nature. 58% of the surveyed MFI respondents believed that an enabling regulatory environment, for e.g. Priority Sector[45] Qualification Status to "Bank loans to MFI for extending HMF" can catalyze Housing Microfinance in India.

Microfinance institutions (MFIs) have long observed that clients use loan proceeds to incrementally improve their homes, suggesting that the economically active poor people can finance their needs in a manner that is incremental and affordable and under conditions that allow the MFI to cover all associated costs, thus Microfinance has potential beyond income generating (enterprise) uses and can apply to personal asset building (housing).[46]

Definition: According to Franck Daphnis of Development Innovations Group "Housing microfinance is defined as the provision of unsecured microcredit to meet the demand of low-income households to repair or improve their existing homes or build their own homes over time. These loans are typically unsecured, and credit assessment is similar to the same cash flow and character analysis process applicable to individual entrepreneurs for small business loans but often includes some documentation to verify residence, a list of building materials and an estimate for labor."[47]

Figure 19: Key Features of Housing Micro Loans

Size	Varies, but generally 2-4 times larger than average working capital loans
Term	Usually 2-24 months for home improvements, and 2-5 years for land purchase or construction
Interest	Same as standard working capital loans or slightly lower
Delivery Method	Almost always provided to individuals, rather than to groups
Collateral	Mostly unsecured; co-signers often used; real guarantees may be used; formal ownership of dwelling or land may be required; savings sometimes used as a guarantee (may be compulsory)
Target Clientele	Low-income salaried workers; micro entrepreneurs primarily in urban areas; poor people
Other Services	Sometimes accompanied by land acquisition, land registration, and construction (including self-help building techniques)

Source: CGAP Donor Brief 20, 2004, Housing Microfinance

Household

45 Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

46 DIG, CGAP Working Group on HMF

47 Bankable Frontier Associates: Capitalizing Housing for the Poor: Findings from Five Focus Countries

Housing microfinance intersects both housing finance and microfinance. The emerging practice encompasses financial services that allow poor and low-income earning people to finance their habitat needs with methods adapted from the microfinance experience. These loans are mainly used for renovation or expansion of an existing home, construction of a new home, land acquisition, and basic infrastructure (e.g., water and sanitation). Most of the successes in this new field have been with home improvement loans.[48]

The key features housing microfinance loans are[49:]

(1) Small loan amounts that are based on clients' capacity to repay and tend to finance habitat needs in an incremental manner;

(2) Short repayment periods (especially in comparison to mortgage lending) and are at par with mid- to high-end microfinance individual loans;

(3) Loan pricing is expected to cover the real, long run costs--operational and financial--of providing the service;

(4) Loans are not heavily collateralized, if at all, and collateral substitutes are often used;

(6) If the provider is an MFI, credit services for housing can be linked to prior participation in savings or more traditional microenterprise loan services.

Higher interest rate on account of non-collateralized lending is a big impediment to scaling beyond the traditional MF market. Further, pricing constraints for MFIs are:

- Lack of income documentation
- Instability and Informality of Income
- Lack of housing collateral
- Systemic risks associated with subsidized housing

Housing microfinance holds fundamental importance from two perspectives[50]. First, it can help meet the effective demand for shelter and settlement finance of low income households in emerging countries. Second, HMF can contribute to the business development strategy of financial institutions that have low/ moderate-income households as their target clientele, particularly microfinance institutions.

The demand for housing microfinance is high. Indeed, microfinance institutions say that clients already channel a good portion of microenterprise loans to home improvement.

The importance of housing microfinance lies in[51:]

- Shelter is a basic human need that helps ensure personal safety and health. Housing microfinance offers small, incremental loans that fit with the way poor people build: progressively and over time.
- The home is a personal asset that usually appreciates in value over time. Thus, home improvement not only enhances living conditions, it is an investment.
- Micro entrepreneurs often use their homes as productive assets in generating income. The home can be a place to produce goods, store inventory, and conduct business.

[48] CGAP Donor Brief No. 20, 2004
[49] CGAP Donor Brief No. 20, 2004
[50] Bruce Ferguson: Scaling Up Housing Microfinance, "The Key Importance of Housing Microfinance"
[51] Scaling up housing microfinance: A guide to practice By Bruce Ferguson, The World Bank

Comparison of Housing Microfinance, Mortgage Financing and Microenterprise Finance[52]

Housing and micro enterprise loans may sometimes be indistinguishable: first, many micro businesses are conducted in whole or in part from the home, and secondly, many micro lenders have learned that some portion of their enterprise loans are being used for housing.[53]

Figure 20: Comparison of Housing Microfinance, Mortgage Financing and Microenterprise Finance

	Mortgage Financing	MicroenterpriseFinance	Housing Microfinance
Borrower	Middle- and upper- income households	Low- and moderate-income households	Low- and moderate-income households
Originator	Savings and loan associations and, sometimes, commercial banks	Credit unions, NGOs, cooperatives, regulated and non- regulated micro financial institutions, micro banks	Credit unions, regulated and non-regulated micro financial institutions, micro banks, cooperatives, some savings and loan associations, land developers and building suppliers
Use of loan funds	Typically, purchase of a new, commercially developed single- family unit	Working capital, equipment and stock for the microenterprise, and household economy, in general	The stages in the progressive construction of housing-purchase of land, improvement, expansion, construction of a bas0ic unit etc.
Saving requirements and importance	Typically 10% to 30% of unit's value; sometimes, contract savings	Often, savings are required in order to qualify for the loan	Often, savings are required in order to qualify for the loan
Underwriting	Evaluation of individual household income, and of property title and value. Mortgage payments must not exceed 25% of household income.	Evaluation of individual creditworthiness, family's net worth, and household income	Evaluation of individual's income and creditworthiness. Payments must not exceed 25% of household income
Amount	One-time loan of $10,000 and above.	A series of loans of $50 to $500	From one to three credits of $250 to $7,000 (average of $1,000 to $2,500)
Interest rate[5]	12-14%	28%	12%-28%
Term	15-30 years	1-2 years	1 - 8 years, average of 2 to 3 years
Collateral	Mortgage	Personal guaranties, goods, cosigners	Personal guaranties, goods, cosigners
Collection	In charge of collection department, based in the process of foreclosure of the mortgage	In charge of the credit officer, that is compensated on the basis of its portfolio, and that visits each of its 360 borrowers (average) monthly	In charge of the credit officer, that is compensated on the basis of its portfolio, and that visits each of its 360 borrowers (average) monthly

Source: Scaling up housing microfinance: a guide to practice, Bruce Ferguson, The World Bank, 2004

[52] Scaling up housing microfinance: A guide to practice By Bruce Ferguson, The World Bank
[53] Microfinance for Housing: BK Sahu, BIRD (2007)

Scaling up Housing Microfinance: Issues

The Pre-requisites for large scale market penetration of housing microfinance are[55]:

- Large and profitable microfinance industry
- Supportive regulatory framework and enabling environment
- Access to dedicated debt funding for HMF products
- Institutional champions such as MFIs, NBFIs and HFCs

In India, group lending remains the dominant product, especially in rural areas. As long as group lending remains profitable, many MFIs in particular may be reluctant to adopt the cash flow analysis techniques necessary for successful HMF lending. Management information systems may also be weak in adapting to new individual loan products. Absorptive capacity is a concern among smaller MFIs as human capacity and equity are relatively scarce; these institutions are especially dependent on government wholesalers and some commercial lenders, but mid-size MFIs with good credit ratings will constitute a sustainable market for investors.[56]

Due to the large loan amounts and longer repayment period makes it challenging for MFIs to extend housing loans. Typically, housing microfinance loans would be in the range of Rs 75,000 to Rs 1 lakh with a term of 3-4 years, whereas MFI livelihood loans ranges between Rs 10,000 to Rs 35,000 with a term of 1-2 years. Housing Loans are usually for longer period (typically between five to seven years minimum) as against usual micro loans that are for one to two years.

The restrictive funding to MFIs for on-lending further acts as a deterrent. Bank lending to MFIs is considered priority sector only if, “Not less than 85% of its net assets are in the nature of “qualifying assets”, which caps the maximum loan size to Rs 50,000 and without collateral.

However, there is hope, as RBI’s Deputy Governor HR Khan summed up, “MFIs are considered to be the next best alternative for financing the EWS and LIG category.”[57]

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[54] The interest rate range have been modified as per the existing practices and applicable regulations in India
[55] Maximizing Choice: Diverse Approaches to the Challenge of Housing Microfinance: USAID MiCroreport#97
[56] Capitalizing Housing for the Poor: Findings from Five Focus Countries: Bankable Frontier Associates
[57] Enabling Affordable Housing for All – Issues & Challenges, HR Khan, April 2012
[58] Shelter Finance for the Poor Series, CIVIS, April 2003

Sri Kshetra Dharmasthala Rural Development Project

Shri Kshethra Dharmasthala Rural Development Project, popularly known as SKDRDP, is a charitable trust that aims to empower rural women by organizing them into Self-help Groups (SHGs).They follow the Joint Liability Groups (JLBs) methodology of Bangladesh and provide infrastructure and finance through micro credit to the rural people.

SKDRDP is presently working with 27,18,000 families and 2,37,003 SHGs is operating throughout the state of Karnataka. These members contribute loan margins, borrow money, share it among themselves and repay at weekly intervals. As on March 31, 2013 the micro finance outstanding was Rs. 2,593.00 Crores.

Through mass awareness programs, SKDRDP enables its members to use sanitation units all over its project area. A total number of 70,000 sanitation units (toilets) were constructed during the financial year 2012-13 by SHG members. This achievement was possible because of Government grants to the users coupled with motivation from SKDRDP and small grant from SKDRDP for all the units. SKDRDP also extended necessary credit to unit households.

A total of 92,000 members have been financially assisted under for house repair, new construction, extension and renovation, electrification of the houses etc. during the financial year 2013-13.

As of August 2013, SKDRDP offers long term (up to 10 years) housing loan product of (up to Rs. 1 lakh) with weekly installments at 12 percent, which makes installments small and easily repayable. One of the key factors for the success of this product is ability to raise long term funds from banks at reasonable interest.

SKDRP Loan Products Outreach

Loan purpose	FY 13	Since inception
Agricultural Development Program	26,049	7,06,224
Irrigation Program	5,888	1,80,210
Housing and Sanitation	39,061	9,63,839
Self-Employment	16,838	5,55,022
Other Programs	74,615	25,20,388
Total	1,62,451	49,25,683

GAURDIAN

Gramalaya Urban and Rural Development Initiatives and Network (GUARDIAN) is a micro finance institution (MFI), registered under Sec. 25 of Companies Act 1956. Promoted by Gramalaya NGO, GUARDIAN started operations from November 06, 2007 with its Administrative office in Raja colony, Trichy. The organization is functional in both rural and urban Trichy. Gramalaya is a pioneer in the field of water and sanitation for more than two decades in the Tiruchirapalli District.

GUARDIAN is the first MFI in India to engage in micro lending for the creation of individual toilet and water connection facilities. With support of nationalized banks, communities, NGO and donor agencies, GUARDIAN lends through women self-help groups (SHG) and women joint liability groups (JLG).As of September 2013, GUARDIAN reached out to 44,154 women clients with total loan disbursement of Rs. 35.50 Crores for household water and toilet facilities.

Guardian water and sanitation program Outreach

Product	Outreach
New toilets	27,746 households
New water connections	11,797 households
Renovations	2,756 households
Others (water purifiers, RWH)	1,855 households
Total households reached	44,154

GAURDIAN Loan products:

Loan Products	Urban Rs.	Rural Rs.	Interest rate (APR)	Loan processing fees	Insurance for 2 year
New Water connection	7000	5000	21%	1%	100
New Toilet Construction	10000	10000	21%	1%	100
Renovations (Water / Toilet)	5000	5000	21%	1%	100
Rain water harvesting	5000	5000	21%	1%	100
Water purifier	3000	3000	21%	1%	100
Bio-Gas Plant	10,000.00	10,000.00	21%	1%	100

Water.org, USA has supported GUARDIAN with grant fund to meet its operational costs, institutional development support and services. For on lending activities, GUARDIAN has mobilized debt from Indian Overseas Bank, Acumen Fund, USA, Milaap, Bangalore, FWWB and Maanveeya.GUARDIAN is expanding its operations beyond Trichirapalli district to adjacent districts namely Namakkal, Perambalur and Pudukottai with NGOs tie-ups and other agencies. GUARDIAN aims to provide water credit to 100,000 members aimed at individual water and sanitation access over a period of 4 years under water credit initiatives.

Grameen Koota

Grameen Koota's (GK) mission is to transform and uplift the lives of poor and low-income families with microfinance and other developmental services. It aims to be a sustainable and trusted provider of affordable, need-based services. GK has been working for the last decade and aims to help clients raise their social and economic status in Karnataka, Maharashtra, Tamil Nadu.

Based on research findings on client demands, interest levels and repaying capacity, Grameen Koota designed products and started supporting home improvement activities with the launch of water and sanitation loans in FY10. Based on pilot project, Grameen Koota extended water and sanitation facilities on larger scale. GK's housing finance portfolio is supported by Water.org and IFC through technical assistance and grant funding.

In the first half of 2013, Grameen Financial Services Pvt Ltd (GFSPL), NBFC-MFI of Grameen Koota, conducted a survey for market demand assessment and based on the results fostered partnerships and business models to increase home loan portfolio. Grameen Koota has home improvement loans up to Rs. 25,000 for the purposes of repair, renovation and minor extensions and house construction loans up to Rs. 2 lakh for the purpose of new construction and home extension. Home loans higher than Rs. 25,000 have recently been extended through partnership with Swarna Pragati Housing Microfinance, HFC registered with National Housing Bank.

GK works closely with organizations– Water.Org, FINISH, and FWWB to promote good hygiene and sanitation habits amongst its clients and general public. Navya Disha – a Non-profit Trust supported by GK spreads awareness on these issues among various stakeholders by conducting – street plays, taluk-level workshops, panchayat members, Kendra-level workshops for the clients and also conducts capacity building workshops for masons. Technical assistance and financial assistance are extended for toilet construction and availing water connection. As of March 31, 2013, Grameen Koota had disbursed over 25,000 sanitation loans with a loan portfolio of over Rs. 16.8 Crore; 1,700 Grameen Niwas loans with a loan portfolio of over Rs. 3.6 Crore.

Features of the GK Loan Products	Sanitation loan	Grameen Niwas	Grameen Niwas Plus
Loan amount	Upto Rs.10,000	Upto Rs.25,000	Upto Rs 200,000
Loan purpose	Toilet construction	For repairs and renovation and b) Minor extensions/additions.	For construction of new house, extensions, repairs and renovation of existing house.
Interest rate	22 % pa. on reducing balance	22 % pa. on reducing balance	
Processing fee and service tax	1.1% of loan amount	Processing fee of 1%+Service Tax on the loan amount	
Repayment frequency	Weekly/Bi-weekly /Four Weekly- at the choice of the member		
Repayment period	24 Months	48 Months	60 Months
Moratorium (repayment holiday)	One installment-For principal	One installment-For principal	1 to 6 Months

Janalakshmi

Janalakshmi Financial Services (JFS) Private Ltd is a Micro-Finance company (NBFC-MFI) providing financial inclusion services to the urban underserved customers in India. Janalakshmi was registered as a Private Limited Company in July 2006.

Janalakshmi's market-based approach to financial inclusion is defined by three distinct characteristics: first, an exclusive focus on servicing the needs of the urban poor; second, a strong customer-value driven approach in designing financial products and services; third, the centrality of technology and processes as the foundation of a scalable enterprise.

Home Improvement loan

The home improvement product is an initiative to provide financial support to existing customers of Janalakshmi for home improvement purposes. This product is offered to loyal customers of Janalakshmi who have been with the organization at least for 2 years and who have a proven track record along with appropriate repayment capacity.

Home improvement loan is extended for external housing structures, interior changes and renovations. This short term loan for a period of 12-24 months is for salaried people, small business owners, self-employed and professionals who have been in this occupation for at least 3 years. The interest charged is 26 per cent, with a non-refundable fee of Rs. 1,000 and an upfront processing fee of 2%. Maximum loan size is capped at Rs. 75, 000.

Janalakshmi has established an affordable housing loan product which is focused on providing loans to customers to purchase of flat constructed by builders. Janalakshmi focuses on project based funding such as Janaadhar Constructions Pvt Ltd (JC Shubha) in Bangalore, M/s Garg group under their Dinesh Nagar Affordable Housing Project, Pilkhuwa, Ghaziabad, and DBS Affordable Home. (Umang Narol Extension Project) in Ahmedabad and Umang Sachin Project in Surat.

Based on segmentation studies, Janalakshmi has divided its customers into 4 segments and family income is one of the important criteria.

The customers having average income of Rs.15,000 to Rs. 45,000 per month are considered for housing loan product. It is mandatory to have a woman as applicant or as co-applicant (family members like spouse, parents, major children, brother/ sister of immediate blood relation).

Following are some of the product features of Housing loan:

Product features	Janadhaaar Constructions Shubha	Other builders
Loan Amount	Up to 10lakhs	UP to 10 lakhs
LTV	80 - 85%	75 - 80%
Rate of Interest	For LTV = 80%, ROI is 12%	For LTV = 75%, ROI is 13%
	For LTV = 85%, ROI is 12.5%	For LTV = 80%, ROI is 13.5%
Term	Up to 20 years	Up to 20 years
Charges:		
a. Processing Fee	1.60%	1.60%

Total Portfolio as on August 31, 2013

	No. of Loans	Sanctioned Amount	Disbursed Amount	Portfolio Outstanding
Home Improvement	55	37,75,000	37,75,000	36,55,450
Housing Loan	144	8,01,31,500	7,79,35,041	7,33,08,880
Total	199	8,39,06,500	8,17,10,041	7,69,64330

Janalakshmi has partnered with Janaadhar (India) Pvt Ltd for housing finance for Jaanadhar's affordable housing projects. Janaadhar (India) Pvt. Ltd. is an affordable housing development company that seeks to blend market principles with a not-for-profit spirit. Janaadhar aims to build affordable, high-quality homes - to create an inclusive society, and a better quality of life. Janaadhar has been floated by Jana Urban Foundation (JUF) - a Section 25 not-for-profit company - for implementing the affordable housing projects. Janaadhar brings the expertise of Jana Urban Foundation, Sterling Developers Private Limited and Venkataramanan Associates - in this breakthrough venture.

Janalakshmi has received grant support from International Finance Corporation (IFC) for developing internal systems, process and operations to manage and scale up the affordable housing, provide responsible finance strategy including financial awareness / customer education specifically targeted towards housing clients in low income segment.

Janalakshmi plans to scale up the product to meet customer demand for affordable housing as part of broader financial inclusion objective.

Ujjivan

Ujjivan Financial Services Private Limited was launched in 2005 with the objective to cater to urban and semi-urban populations. With the head office in Bangalore, Ujjivan has regional offices located in New Delhi, Kolkata and Pune. As on July 31, 2013, it had 324 local branches in 21 states, including 47 under-banked districts across India. Ujjivan provides a range of financial products and services to cover its customers' needs. Their business model combines the Grameen Bank methodology of selecting and servicing customers in the field with modern retail banking technology and processes in the back office. As on July 31, 2013, they had a total of 3,862 employees and an overall customer outreach of over 1.1 million and cumulative disbursement has reached Rs. 52,903 million.

To meet customer requirements, Ujjivan has designed and evolved its products and services portfolio. Given below is a brief snapshot of the portfolio mix as on March 31, 2013.

Loan Portfolio Composition of Ujjivan

Product Basket	FY12-13
Business Loans	73.50%
Education Loan	0.30%
Family Loans (includes Emergency Loans)	22.10%
HUL Pure-it Loans	0.00%
Home Improvement Loans	0.80%
Individual Business Loans (include Bazaar loans & Short term business loans)	2.10%
Livestock Loans	1.20%
Total	100.00%

Ujjivan had introduced a Home Improvement loan product in June 2007 and re-introduced it again in the first half of FY 2012-13 with operational and capacity building assistance from International Finance Corporation (IFC). They reviewed the past program and assessed its impact to design the new implementation strategy, appraisal methodology and plan.

As of July 31, 2013, Ujjivan extended home improvement loans in 75 branches of 6 states (Karnataka, Tamil Nadu, Kerala, Delhi NCR, Rajasthan, and Uttar Pradesh servicing 2890 active women borrowers with an OSP of RS. 98.53 million with a nil PAR > 90 days.

Primary objectives as stated for housing improvement loan by Ujjivan are as follows:

- Gauge demand for housing finance (for both residences and businesses)
- Determine current practices, constraints and common aspirations among customers
- Define the attitudes of Ujjivan customers and the general public at this socio-economic level toward housing finance
- Develop products and variants incorporating regional variations, resource allocation and capacity building of existing/new personnel
- Assess implementation, scalability and potential for wider, pan-Ujjivan programs

Key features of home improvement loan of Ujjivan

Particulars	Description
Purpose	Any repairs, improvements, extensions, part construction, business premises renovation. May include repairs such as sheet roof repairs, installation of RCC roofing, installation of a toilet, painting, reinforcement of walls or floors, addition of room/ floor, etc.
Ticket size	Upto Rs. 1 lakh
Tenor	Upto 24 months
Eligibility	Existing Ujjivan clientele base
Security	Nil
LTV	Max. 90%

Key target clientele for home improvement loan product

Particulars	Description
Target Clientele	Ujjivan' s existing urban & semi-urban women customer base
Age	20 to 57 years
Annual Household Income	Min. Rs. 10,000
Occupation	Varied Occupation base, ranging from self-employed (owning small shops, tailoring businesses, etc.) to employed (as housemaids, piece rate workers in garment factories, salaried, etc.)

Growing Opportunity

Growing Opportunity was one of the first MFIs to pilot test a housing microfinance (HMF) product with technical assistance from Habitat for Humanity's HMFTAC. This helped Growing Opportunity to launch affordable HMF products and also assisted homeowners to make decisions about improving their homes.

As of May 31, 2013, Growing Opportunity had distributed 300 housing loans averaging Rs 50,000. Additionally, 850 clients had received technical services. Sixty six percent of these clients paid a fee for the housing support services.

Growing Opportunity Housing Microfinance Product

Loan Amount	**Rs 10,000 to Rs 50,000 Individual loan, graduated from group**
Term	12-24 months
Repayment	Monthly
Interest Rate	24% declining
Fee	1% of loan amount
Guarantee	Cash flow based loan with guarantors and co-applicants. In the absence of title, the following documents are accepted: Purchase Agreement, Property Tax receipts, Government Allotment, EB / water bill copy; Identification; One Guarantor. These documents only serve as surrogate documents for proof of title.
Technical Services Fees	Rs 200 per engineer's visit
Eligibility	Excellent repayment record for 2-3 cycles in the group setting
Loan Purpose	Minor and major repairs Extensions/Additions House completions and Improvements (including water and sanitation) Incremental/progressive Build

Growing Opportunity has rolled out the product in nine branches across three districts (Urban and Rural) in Tamil Nadu. Growing Opportunity has one housing loan manager who liaises directly with the technical team. The Client Relationship Officers (CROs) promote the housing loan product and source applications with support from Branch Manager. The Housing Loan manager currently oversees 9 branches.

Technical assistance to clients is delivered at three points of contact: pre-application orientation (90 minutes); technical assessment visit (45 minutes); and loan utilization and outcome observation visit (30 minutes). Each plays a specific role in helping Growing Opportunity clients to access housing while also reducing the lending risk.

Pre-Application Housing Support Services - This service helps clients in real estimation of loan amount as per their requirement. The effort has had a positive impact on prioritizing household's needs matched with affordability and reducing undue loan burden.

HMFTAC recommended a pre-application orientation to improve the efficiency of the loan process and make the home improvement loan procedures transparent to clients. The orientation session is marketed to successful group lending clients those have minimum two to three successful loan periods. The session is facilitated by the Housing Loan Manager and a HMFTAC staff member. The pre-loan orientation covers the following topics: Home Improvement Loan Orientation; Basics of Financial Education; Introduction to Home Improvement technical considerations; and Q & A. The Housing Loan Manager assists applicants in completing the housing loan application.

Pre-Loan On-Site Technical Visits - HMFTAC conducts on-site construction technical visit to assess the construction technical considerations for the home improvement needs of the client. Research revealed that 90 percent of clients were unable to determine the correct loan amount on their own because they did not have the technical knowledge to estimate the costs.

The technical visit helps clients through personalized technical information by using a customized assessment sheet to assess the existing housing condition, the proposed housing improvements and estimated costs. The first visit is a preliminary assessment where this sheet is filled and later becomes part of the client's loan application. Recommendations regarding loan usage and amount are provided by a technical team, and a second visit is arranged in high-complexity cases. The technical visits are an opportunity for the technical team to raise any risk concerns such as structural damage that may affect the loan. The value of the 'door step' service is that the client receives a preliminary assessment technical sheet, estimated costs and materials as well as any booklets or formal document on relevant home improvement needs. Additionally, a helpline is available for clients to access advice any time after the loan has been disbursed.

Loan utilization visit - The loan utilization visit is made by a construction technical team member. This is an opportunity to verify loan usage as well as to review with the client any outstanding construction activities and potential next steps. The pilot revealed that 60 percent of improvements fall between a low and medium complexity level.

Debt Wholesaler: Micro Build India

Habitat for Humanity International, a world-wide NGO which has helped build or repair more than 600,000 houses and served more than 3 million people around the world and ASK Group of Mumbai, a financial service group predominantly into Wealth and Investment Advisory services have come together to start MicroBuild India. Habitat Micro Build India Housing Finance Company Private Limited (MBIND) was incorporated on November 2010 with the objective to reduce poverty housing and improve health and living environments for low-income households across India. The company is registered as a Housing Finance Company (HFC) with National Housing Bank (NHB) and has received the Certificate of Registration (COR) on June 2012.

MicroBuild India works closely with Indian financial intermediaries serving low income populations and offers wholesale debt financing to fill funding gap and ensure housing products and services meet quality standards. The vision of Microbuild India is to catalyze innovative, scalable financial solutions to poverty housing in India. It aims to achieve this by stimulating the retail financial services market to develop and innovative housing finance solutions, through a combination of wholesale finance and technical assistance to institutions wanting to offer retail housing loan products. The current capital base of the organization is Rs.100 million and the entity is expecting an additional infusion of Rs.60 million by 2014.

Over three years, MicroBuild India will step up its capital to reach Rs 25 Crores ($5.56 million). Majority ownership of MicroBuild India will be held by HFHI, with a controlling 51% stake of shares.

MicroBuild India will start with a small number of investees as it builds capacity and develops systems and procedures. It is expected that in the first year, approximately 5- 6 deals will be completed. Over time, MicroBuild India will borrow from socially responsible investors to eventually achieve a leverage of over three times its equity through borrowing at concessional rates that share MicroBuild India's objectives, including the National Housing Bank.

MicroBuild India offers wholesale debt financing to MFIs which, in turn, offer affordable HMF loans to low-income families and ensures that products and services meet housing quality standards.

Attractive pricing creates an incentive for borrowing institutions to engage in the untested field of housing lending by reducing their cost of funds. MicroBuild India ensures the quality of the product to the end-user (a house or housing improvement) by pairing borrowers with Habitat India's Housing Finance Technical Assistance Center (TAC). Where the borrower has construction technical assistance expertise, either in-house or sub-contracted, the TAC will serve as MicroBuild India's quality control mechanism.

MicroBuild India financial services will enable MFIs/intermediaries to:

1) Pursue housing loan opportunities without diverting financing from their core products;

2) Limit risk in developing and testing housing loan products;

3) Increase client outreach and cross-selling by offering new housing products designed to address existing demand;

4) Understand and respond to existing client demand through product design and marketing strategies.

MicroBuild India has succeeded in building a pipeline of loans to 5 MFIs worth RS. 250-300 million, due to be disbursed by 2014. The first loan of RS. 12.5 Million has been disbursed to Grameen Financial Services Private Ltd. MBIND targets to reach out to 60,000 low income families accessing HMF over 5 years.

Insitutional/Construction Technical Assitance: Housing Micro Finance Technical Assistance Center (HMFTAC)

Habitat for Humanity India, with seed funding from USAID, established Housing Micro finance Technical Assistance Center (HMFTAC) in 2009 aimed to provide Institutional Technical Assistance (ITA) and Construction Technical Assistance (CTA) to promote and catalyze the housing micro finance sector, and thus disseminate these learning to a wider, international global partnership as well as with various Indian MFIs, having plans to launch or expand into HMF.

The evolution of HMFTAC was a result of a study conducted in 2007, by the 'Center for Micro finance (IFMR)' on Low Income housing in India revealed that even though micro finance has expanded exponentially in India, there remains limited access to housing microfinance at the bottom of the pyramid (BOP), primarily due to two main factors viz., a) lack of dedicated capital for HMF and b) MFIs lacking experience in designing, managing/ delivery of HMF products and Construction Technical Assistance (CTA).

The HMFTAC conducted a market research with 425 families to understand the needs and decision making of low income housing and identify various types of home improvements, repairs, renovations and incremental additions that could be fitted into a HMF loan product, relevance and need for construction technical assistance and client's willingness to pay fees for CTA.

HMFTAC worked closely with 3 MFIs (Grameen Koota, Growing Opportunity and Capstone) to pilot test Housing Support Services. The following Housing Support services are provided by TAC to the clients of an MFI:

- Financial Literacy and Technical Orientation
- Doorstep technical support by TAC
- Booklets to manage Home Improvement work
- Advice on Estimation and material options during disbursement of Loan
- Helpline for technical issues, where needed.
- Loan Utilization Assessment.

HMFTAC has developed a complexity matrix that classifies CTA services based on the level of complexity of the work involved requiring different kinds of intervention, for which the qualification and experience of the CTA engineer / technician, the number of visits required, time spent in the field and therefore the cost involved would differ substantially. Low complexity CTA needs can be met by trained loan officers, while high complexity CTA should be outsourced to a specialist organization like HMFTAC.

The enabling environment for housing microfinance can be grouped into the following three broad categories:[58]

1. Housing and property issues: the set of laws, regulations, processes and institutions that define whether and how poor households can acquire land and build a home upon it.

2. Household issues: the income levels of poor household's relative to the cost of housing and households' ability to finance the necessary steps in acquiring land and building a home.

3. Financial service provider issues: the laws and regulations that define the activities of financial service providers, the number of providers that serve the poor and the appropriateness of the housing finance products relative to the needs and means of the poor.

This section discusses NHB refinance schemes and the various state and central government initiatives for rural and affordable housing finance that ensure that the sector remains a policy prerogative.

National Housing Bank

National Housing Bank (NHB), a wholly owned subsidiary of Reserve Bank of India (RBI), was set up by an Act of Parliament in 1987. NHB is an apex financial institution for housing. It commenced its operations in July 09, 1988. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith NHB registers, regulates and supervises Housing Finance Company (HFCs), keeps surveillance through On-site & Off-site Mechanisms and co-ordinates with other Regulators.

The vision of National Housing Bank is "Promoting inclusive expansion with stability in housing finance market" with three mutually synergic roles: (i) Financing, (ii) Promotional, and (iii) Regulatory and Supervisory.

NHB is aimed at confidence-building among Savers, Borrowers, Lenders and Investors; Policy Makers & International Stakeholders through a multi-pronged Simultaneous intervention on both the demand (financial) and supply (real) side of the housing sector by financing HFIs and Construction Agencies

Recent Initiatives:

- NHB's refinance policies are oriented towards low and middle income segments. About 90% of NHB's refinance is deployed for loans up to Rs. 10 lakhs.
- NHB's direct lending to Housing Projects is nearly 100% for EWS/ LIG Housing.

[59] Housing, Health and Happiness, WPS4214, Impact Evaluation Series No 14

- NHB has funded PPP projects focusing on Affordable Housing for targeted segments.
- NHB has launched the Special Refinance Scheme for Urban Low Income Housing. The Scheme aims to provide refinance in respect of loans up to Rs.5 lakhs at concessional rates on interest to borrowers having monthly income up to Rs.15,000.
- NHB has decreased its PLR considering the reduced cost of funds so that the benefits of interest reduction can be passed on the ultimate borrowers by the HFIs.
- As per the latest RBI Guidelines NHB will be facilitating ECB borrowings for Affordable Housing Projects and Retail

NHB has the following refinance schemes:

Figure 21: NHB Refinance Schemes

No	Code	Scheme Name
1	RH1	Liberalized Refinance Scheme (LRS)
2	RH2	Golden Jubilee Rural Housing Refinance Scheme (GJRHRS)
3	RH3	Rural Housing Fund (RHF)
4	RH4	Energy Efficient Housing Refinance Scheme (EEHRS)
5	RH5	Special Refinance for Urban Low Income Housing
6	RH6	Refinance Scheme for Installation of Solar Water Heating
7	RH7	Refinance Scheme for Women
8	RH8	RH8 Refinance Scheme for Construction Finance for Affordable Housing

Source: Report on Trend and Progress of Housing in India 2012, national housing bank, 2012

NHB's Cumulative Refinance Disbursements have crossed Rs. 1 lakh Crore. NHB Disbursed Rs. 15,750 Crore under its various refinance schemes in FY 2012-13, of which, rural areas accounted for 43% and loans below Rs.15 lakh accounted for 75.63%. A total of Rs. 4000 Crore has been allotted under RHF in FY 2012-13 of which Rs. 3224.62 Crore have been disbursed up to March 31, 2013 covering more than 1 lakh housing units.

Under its Housing Micro Finance (HMF) programme, 40210 housing units located both in urban and rural areas have been financed through MFIs.

NHB, as a Central Nodal Agency for ISHUP, a scheme of MoHUPA, has disbursed subsidy claims amounting to Rs. 7.85 Crore covering 8885 beneficiaries across 8 states In 2012-13, NHB as a Nodal Agency for 1 % Interest Subvention Scheme, has disbursed Rs.380 Crore up to March 31, 2013 to banks & HFCs

NHB will be managing the Credit Guarantee Fund Trust for Low Income Housing (CRGFTLIH) set up by MoHUPA, GOI and GRGFS as notified by GOI, 31 MLIs have signed MoU.

For the benefit and use of all stake holders of the housing industry, NHB has been releasing Residential Price Index known as NHB-Residex since 2007. The Index is released on quarterly basis and now covers 26 cities. The latest Index released is for January-March 2013.

NHB Housing Micro Finance Programme

NHB believes, micro finance institutions are slowly bringing the poor, especially poor women, into the formal financial system and enabling them to access credit and fight poverty. NHB has focused on Micro Finance Institutions (MFIs) as a major target segment for reaching out to the low income groups in both rural and urban areas. MFIs can serve as a useful channel for extending housing loans to the low income groups, as they establish credit history of such groups by enabling them to complete 2-3 consumptive loan cycles and inculcating in them the habit of taking and repaying loans.

NHB has been at the forefront of HMF (Housing Micro Finance) initiatives by giving financial assistance to MFIs in various parts of the country. As of now most of the MFIs/NGOs have not ventured into housing as the amounts involved are large and the agencies are not equipped to deal with long term debts. NHB has taken a series of initiatives to engage the MFIs/ NGOs in housing by providing long term financial support and technical assistance and training in housing finance.

Target Clientele: Under NHB's HMF programme, the beneficiaries include farmers, housemaids, petty traders, artisans, dairy workers and other low income segments. More than 90% of the beneficiaries are women. Approximate income level of the beneficiaries range between Rs. 3,000 to 7,000 per month.

End Loan Product: The housing loans are provided by the MFIs to Self Help Group (SHG) or Joint Liability Group (JLG) member attached to the MFIs either for fresh construction or for renovation/ repair of their existing houses. The loan amount ranges from Rs 10,000/- to Rs 150,000/- per borrower with an average tenure ranges from 3-7 years. Work sheds form an integral part of all housing projects with necessary water and sanitation facilities. The financial assistance from NHB to various Micro Finance agencies are provided subject few criteria laid down by the Bank like, due diligence, internal rating, experience in micro lending, etc.

Outreach: As on 30.06.2013, the Bank has sanctioned HMF assistance to 31 agencies amounting to Rs 97.42 Crores and disbursed Rs. 45.29 Crores. The loan portfolio outstanding is Rs 20.50 Crores. The above projects will result in construction/renovation of 30210 dwelling units (housing & sanitation) of which 10,918 dwelling units will be in urban areas and 19,292 dwelling units will be in rural areas. The projects are scattered across various States like, Andhra Pradesh, Karnataka, Tamilnadu, Maharashtra, Orissa, Gujarat, Kerala, West Bengal, Uttar Pradesh, Madhya Pradesh and Assam.

Through its HMF window, National Housing Bank intends to cover all areas in the country in the near future. But, as the program is routed through MFIs/NGOs and the attached SHGs, an intensive SHG movement is a pre-requisite for the HMF programme of NHB.

NHB believes there is a strong need for scaling up the scope of HMF so as to cater to its increasing demand and effectively address housing related issues of the poor/weaker sections. Some of the possible measures to achieve scale are discussed as under

- Need to establish linkages with formal sector institutions
- Need to incorporate HMF as an integral product of MFIs
- Need to overcome funding constraints
- Legality of Titles
- Construction Services and Technical Assistance
- Awareness building measures
- Bank-SHG linkage programme
- Information exchange mechanism

World Bank (IDA) – NHB $ 100 Million Low Income Housing Finance Project

The objective of the project is to provide access to sustainable housing finance for low income households, to purchase, build or upgrade their dwellings.

The project will have three components. First is financial support for sustainable and affordable housing for National Housing Bank (NHB) to, directly or indirectly through qualified intermediary institutions, refinance low income housing loans made by Qualified Primary Lending Institutions (QPLIs) to primary borrowers to purchase, build or upgrade their dwelling. Second is capacity building of the NHB, Qualified Intermediary Institutions, and QPLIs, and third, project implementation.

Expected results to be achieved at the end of the project include an increase in the number of primary lenders active in the low-income segments, volume of loans to lower income borrowers, and the number of borrowers in these segments.

Financing for the project will create incentives for lenders to focus on lower income households through a net all-in reduction of the lenders' cost of funds of approximately 200-300 basis points. (100 basis points = 1%). It is a financial intermediary loan for an implementation period of 5 years. NHB is the implementing agency.

Credit Risk Guarantee Fund

The Credit Risk Guarantee Fund was launched in May 2012 by the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) with the National Housing Bank (NHB) as the manager and facilitator of the fund. The scheme is effective from June 21, 2012. The scheme offers multi-fold benefits to both the lenders and the borrowers. Transfer of credit risk to this fund leads to reduction in risk-weighted assets for the lenders easing the burden of managing the statutory capital adequacy ratios. Borrowers from low-income groups benefit by getting access to organized means of financing (at lower interest rates) which would normally not be available to them.

Key highlights are as follows:

- The Credit Risk Guarantee Fund has been created with a corpus of Rs 1,000 Crores.
- This Fund itself is expected to secure loans worth Rs 60,000 Crores, assuming non performing loans at 5% and loan loss at 33.33%. Even with a conservative estimate of off-take from this fund over the next five years, an annual incremental demand of Rs 12,000 Crores from the EWS/ LIG segment could be generated and planned for.
- Assuming an incremental adjusted net bank credit of Rs 6,00,000 Crores per annum, an allocation of 2% would be required to meet the incremental demand generated from the Credit Risk Guarantee Fund.
- This fund will provide credit risk guarantee to lending institutions for loans up to Rs 5 Lakhs disbursed to new borrowers in the economically weaker and low-income categories in urban areas without any security of collateral or third party guarantee.
- Guarantee cover of 90% of the amount in default for loans up to Rs 2 Lakhs
- Guarantee cover of 85% of the amount in default for loans above Rs 2 Lakhs and up to Rs 5 Lakhs
- Eligible lending institutions include commercial banks, regional rural banks, urban cooperative banks, NBFC-MFIs, HFCs and apex cooperative housing finance societies

Central Asset Transaction Registry

The Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) has been established by the Government of India for the registration of security interest over property, securitization and asset reconstruction. This Central registry has been set up under the SARFAESI Act, 2002. The government has also notified SARFAESI (Central Registry) Rules, 2011, which contains the operative guidelines, applicability of fee for registration, etc.

CERSAI has been set up to prevent frauds involving multiple loans from different financial institutions against the same property. This kind of malfeasance is generally facilitated by creating multiple mortgages by deposit of title deeds as well as sale of property without disclosing the security interest over the property. The registry is operational since March 31, 2011 and all transactions which are entered into on or after this date are required to be registered with it. Also, all transactions prior to March 31, 2011 which are subsisting and related to mortgage by deposit of title deeds are required to be registered.

In the long run this reform may structurally improve credit penetration, reduce due diligence costs and build a database for sector level analytics.

Income Tax Rebates For Housing

Under the Income Tax Act 1961, buyers can avail of the following tax benefits while purchasing a house through a mortgage loan:

- Under Section 80C, repayment of principal amount of home loan by an Individual/Hindu Undivided Family (HUF) is tax deductible up to Rs 100,000. However, this is inclusive of all other deductions allowed under Section 80C (i.e. Public Provident Fund, Long-term Fixed Deposits, ULIPs, etc.).

- Under Section 24, tax deduction on payment of interest on a housing loan is allowable up to Rs150,000 per annum.

- In order to boost affordable housing in the country, the GoI introduced a new section 80EE during the FY2013-14 Union Budget. Under the scheme, first-time home buyers can available addition tax deduction of Rs100,000 provided the loan is sanctioned during FY14 (i.e. between April 01, 2013 to March 31, 2014). Also, the amount of housing loan should not be more than 2.5mn with the value of residential property capped at Rs4.0mn. Further, the buyer should not be owning any other house on the date of sanction of loan.

20% of the profits of a housing finance company are tax exempt Section 36(1)(viii) of the Income Tax Act 1961, allows deduction in respect of special reserve created and maintained by a specified entity, an amount not exceeding 20% of the profits derived from eligible business (housing finance in this case) computed under the head "Profits and Gains of Business and Profession" (before making any deduction under this clause) carried to such reserve account. Provided that where the balance lying in special reserve account on the 1st day of the previous year exceeds twice the paid-up capital and general reserve of the specified entity, no allowance under this clause shall be made in respect of such excess. This means that the allowable deduction would be the lower of the following:

- Amount transferred to special reserve account created under Section 36(1)(viii)
- 20% of profits accruing from the eligible business
- 200% of the paid-up capital and general reserve as on the last day of the previous year minus balance lying in special reserve account on the first of previous year

Priority Sector Lending for Affordable Housing Projects

Priority sector lending has been an institutional mechanism since late 1960s for allocating credit to sectors that have high potential for generating employment and improving livelihood. The outcome has been quite encouraging so far.

The Reserve Bank of India has classified the following sectors as eligible for consideration under priority sector: (i) Agriculture; (ii) Micro and Small Enterprises; (iii) Education; (iv) Housing; (v) Export Credit; (vi) Others-such as overdrafts against 'no-frills' accounts, loans to distressed persons, etc. Banks are directed by the Reserve Bank to target 40% of their advances (Adjusted Net Bank Credit-ANBC) to these sectors as per norms issued by it from time to time.

The Union Budget 1999-00 expressed the intent to target 3% of incremental deposits of Banks as loans to the housing sector. Though this has not been formalized as a sub-target in priority sector lending, credit to housing in Gross Bank credit has gone up from 3% (Rs 11,404 Crores) in 1999 to 9.28% (Rs 3,46,110 Crores) in March 2011 but witnessed decline to 8.88% (Rs.3,88,020 Crores) as on March 31, 2012.

As per the RBI notification of July 20, 2012 numbered RBI/2012-13/138, RPCD.CO.Plan.BC 13/04.09.01/2012-13, the eligibility of housing loans under priority sector lending has been laid out to be as follows:

(i) Loans to individuals up to Rs. 25 lakh in metropolitan centres with population above ten lakh and Rs 15 lakh in other centres for purchase/ construction of a dwelling unit per family excluding loans sanctioned to bank's own employees.

Loans for repairs to the damaged dwelling units of families up to Rs 2 lakh in rural and semi-urban areas and up to Rs. 5 lakh in urban and metropolitan areas.

Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs 5 lakh per dwelling unit.

The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which do not exceed Rs 5 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs 1,20,000 per annum, irrespective of the location, is prescribed".

The fourth clause has been added to give an impetus for the EWS/LIG segment housing and was not in the earlier notification dated July 01, 2011 with the number RBI/2011-12/107, RPCD.CO.Plan.BC 10/04.09.01/2011-12.

Interest Subsidy Scheme for Housing the Urban Poor (ISHUP)

In 2008, The Government of India launched the Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) as a key policy instrument for channelizing the flow of credit to address the housing needs of the EWS/LIG segments in urban areas. This scheme was a pioneering attempt towards enabling the weaker sections in the urban areas to gain access to formal sector credit, at affordable cost through the use of the banking industry in the country. The schemes is implemented through banks and selected HFCs, provides an interest rate subsidy of 5% per annum for loans up to Rs. 0.1mn during the entire duration of the loan (15-20 years).

1 percent Interest Subvention Scheme

In order to stimulate housing demand in the country, especially in middle and lower income segments of population, the Union Finance Minister, during discussion on Budget Proposals for 2009-10, had announced a Scheme of 1% Interest Subvention on Housing Loan up to 10 lakh. In the Budget Speech for the year 2011-12, the Hon'ble Finance Minister announced extension of the Scheme till March 31, 2012. For Financial Year 2011-12 interest subvention of 1% will be available for housing loans up to 15 lakh, provided the cost of house does not exceed 25 lakh. In the Budget 2012-13, the scheme was extended for another year with a budgetary provision of Rs 400 Crore.

The scheme provides for 1% interest subvention on individual housing loans up to Rs. 15 lakh with cost of unit capped at Rs. 25 lakh. The scheme is implemented through commercial banks and HFCs and is applicable across the length and breadth of the country. In FY 2012, 300 Crore was disbursed benefitting 155,482 home loan clients.

Chapter 10 The Impact of Improved Housing on Health

Housing as a basic human right demands that urban dwellers should have access to decent housing, defined as one that provides a foundation for, rather than being a barrier to, good physical and mental health, personal development and the fulfillment of life objectives (Seedhouse, 1986)

Research has shown that one's health is directly linked to housing and housing related basics such as water and sanitation. Researchers at the World Bank[59] found that replacing dirt floors with concrete floors improved the health of children, including a 20 per cent reduction in parasitic infections, a 13 per cent reduction in diarrhea and a 20 per cent reduction in anemia. Housing provides:

- Stability for families and children.
- Sense of dignity and pride.
- Health, physical safety, and security.
- Increase of educational and job prospects.
- Clean, warm housing is essential for prevention and care of diseases of poverty like HIV/AIDS, malaria, tuberculosis & diarrhea.
- The process of securing land tenure helps to increase access to credit.
- Safe homes and neighborhoods help to build social stability and security.

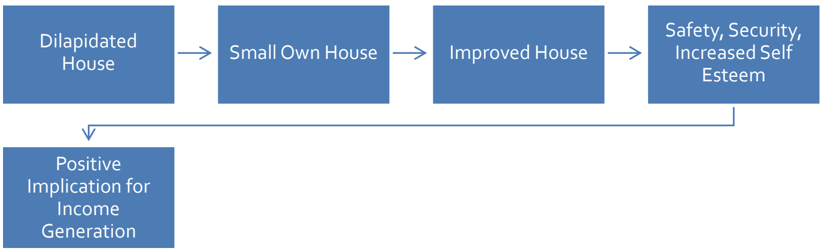
Case Study: Piso Ferme

Inexpensive flooring change improves child health in urban slums[60]

According to a study conducted for the University of California, Berkeley's Center of Evaluation for Global Action (CEGA), replacing dirt floors with cement in the homes of urban slums makes for more comfortable living - but more importantly, it significantly improves children's health by interrupting the transmission of intestinal parasites and boosts youngsters' cognitive abilities.

The CEGA researchers note that inadequate housing poses serious health risks around the globe for 600 million urban residents, almost half of them living in slums. These problems also contribute to the deaths of 3 million children every year from parasitic infections associated with diarrhea, malnutrition

Figure 22: Positive Impact of Housing Microfinance on Low Income Household



[60] Housing, Health, and Happiness(Matias D. Cattaneo, Sebastian Galiani, Paul J. Gertler, Sebastian Martinez, and Rocio Titiunik, February 2009, American Economic Journal: Economic Policy)

and micronutrient deficiencies such as anemia, a widespread problem that slows cognitive development.

They tracked a Mexican government program, “Piso Firme” or “firm floor,” that sought to improve living standards and health in high-density, low-income communities by offering homeowners with dirt floors up to 538 square feet of concrete flooring. The program cost the government about $150 per home. The owners prepared and laid the new flooring themselves, or with volunteer help.

Mexico launched Piso Firme in the northern state of Coahuila in 2000. By 2005, the program had covered more than 34,000 homes in 650 neighborhoods and 200 suburban communities. It expanded into other Mexican states starting in late 2003 and installed cement floors in about 300,000 of the 3 million homes identified in the country’s 2000 census as having dirt floors.

Researchers collected information about children’s incidences of diarrhea, results of fecal samples, blood tests for anemia, and height and weight data to reveal stunting of growth, and also assessed the youngsters’ communication and language abilities. They compared the statistics for youths under the age of 6 both in the Coahuilan city of Torreón, where Piso Firme was enacted, and in the cities of Gómez Palacios and Lerdo in the same urban area but located on Coahuila’s border with state of Durango, where Piso Firme was still not fully under way in 2005.

Additional data came from a cross-sectional household survey conducted with the Mexican National Institute of Public Health in spring 2005, the 2000 Mexican census, vital statistics mortality files and national household surveys taken from 1994 to 2000.

Key Takeaways

- Homeowners in Torreón reported a nearly 20 percent reduction in the presence of parasites, and when compared to their neighbors, their children under the age of 6 showed the following improvements:
- Almost 13 percent fewer episodes of diarrhea
- A 20 percent reduction in incidences of anemia
- Higher scores of 30 percent on language and communication skills for toddlers ages 12 to 30 months
- Scores 9 percent higher on vocabulary tests for youths ages 36 to 71 months
- Replacing dirt floors with cement appears to be at least as effective for health as nutritional supplements and as helpful for brain development as early childhood development programs.
- Not only are young children better off when their homes have concrete rather than dirt floors, but the study also found that their mothers are less depressed, less stressed and happier.

These results also indicate that housing has a significant effect on welfare, which would not be captured by standard monetary indicators such as income, consumption or assets, or by the types of health outcomes used in this study

The findings offer an important direction for the cost-effective allocation of public resources by countries seeking to upgrade slums and improve housing for the poor.

The study cautions that the dirt-to-cement strategy probably would not have the same results in areas without access to safe water supplies.

Chapter 11 Epilogue

India remains primarily rural, with 68.4% of the population in rural areas[61], where housing is often a challenge. One out of every five rural households is living in poorly constructed buildings made of mud, thatch, grass or other non-lasting natural materials. Urbanization, however, is on the rise, bringing with it new issues in terms of poverty and housing. Urban poor often live in slum areas, where no adequate housing is available. With an increasing and urbanizing population, this shortage can be expected to grow[62]. In India there is inadequate housing finance at lower segment resulted in huge gap in demand and supply of housing credit. Economically weaker and low income families who are interested in home ownership face the following problems, such as:[63]

1. Entry barriers for securing home loans (lack of identity proof, address proof, income proof, etc.), due to them being employed in the informal sector and living in informal settlements.

2. Entry barriers in terms of the disinclination of financing agencies/ banks to provide home loans to EWS/ LIG families, due to the higher perceived risk of lending to a segment that has fluctuations in their income and the higher costs of servicing the smaller loans affordable by this segment.

3. Lack of financial literacy, particularly in the matter of taking and repaying loans from formal establishments such as housing finance companies, due to the limited education and lack of exposure to formal institutions.

4. Vulnerability to fluctuations in income often resulting in the inability to hold on the home, due to the informal nature of their employment.

Housing Microfinance has emerged as one of the sources for housing credit for low-income groups. Housing Microfinance represents reliable housing finance from formal sources to those who do not qualify for a mortgage, but are solvent enough to borrow in order to improve the quality of their existing dwelling. Access to housing microfinance is an important input to the self-build incremental construction process, and is a driver of the improvement of housing conditions for the informal sector poor in India.

The important issues and challenges for the housing microfinance market are complexity of the low segment housing market, conservative (risk averse) approach of credit institutions, prominence of progressive housing among low income groups, stark differences between housing microfinance and microcredit loan, organizational and operational structure for launch of HMF, and scale of HMF products and competition from non-housing credit lending institutions.[64]

Although the Indian microfinance sector is one of the most vibrant in the world, covering nearly 65 million low income borrowers, financial intermediaries are reluctant to offer housing finance to low income communities. Housing improvement credit remains run as "pilot

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[61] UNDP, Human Development Report 2013, p196
[62] Habitat, India Country Profile: http://www.habitat.org/where-we-build/india
[63] Task force on Promoting Affordable Housing, MHUPA
[64] Dr. Basanta K. Sahu, CMF, BIRD

programmes" despite the presence of significant demand. Availability of these products is limited primarily by funding possibilities (Home Improvement Loans are not priority sector) and a lack of knowledge of housing microloan product development.

Despite this apparent potential of Indian Microfinance Sector, all components of a potentially enabling environment—priority sector status, refinance etc. that encourages, both the potential demand and the potential supply of housing microfinance are absent. For all the reasons outlined above, housing microfinance has limited outreach in India until now.

Institutional capacity and commitment can be a major determinant of the success of a HMF product[65]. Given the extensive costs and organizational changes that can be required to implement a new product such as housing, institutions must be committed and have the necessary institutional capacity to launch the product. Given the huge amount of the housing shortage in India and also budgetary constraints of the Government, public sector efforts alone are not adequate to face the above challenge. Rather, a 'multi-stake holders' approach involving the stakeholders like Social Investors, Donors, Private Sector, Banks, Entrepreneurs is essential . Recommendations of a report "Access to Housing at the Base of the Pyramid report (Ashoka, 2011)" for various stakeholders along the affordable housing value chain[66] are tabulated below:

Provided cooperation amongst various stakeholders and supplemented with an enabling regulatory environment, the

Recommendation of Access to Housing at the Base of the Pyramid report (Ashoka, 2011)	Financial Insititutions			Others				Investors and Funders			
	Banks	HFC	MFIs	CSO	Real Estate Developers	Building Materials Manufacture	Public Sector Actors	Multilaterla Development Agencies	Donors	Social Investors	Private Investors
Design/create a specific product/service for the low-income market	*Yes*	*Yes*	*Yes*		*Yes*	*Yes*					
Create/establish a dedicated/specialized unit to service for the affordable housing market	*Yes*	*Yes*	*Yes*								
Offer/encourage technical assistance service to your affordable housing customers as a value added service		*Yes*	*Yes*	*Yes*		*Yes*					
Develop a comprehensive offering for low-income clients					*Yes*	*Yes*					
Work with CSOs and communities to gain a deeper understanding and penetration of the affordable housing market	*Yes*	*Yes*	*Yes*		*Yes*	*Yes*	*Yes*				
Focus efforts in market enabling ways				*Yes*			*Yes*	*Yes*	*Yes*	*Yes*	
Create or work with governments to create a favorable policy enironment and/ or to interest in common goods, or advance infrastructure					*Yes*		*Yes*	*Yes*	*Yes*	*Yes*	
Consider making equity investments in promising affordable housing enterprises and intermediaries								*Yes*	*Yes*	*Yes*	*Yes*

microfinance sector in India can work towards increasing the percentage of microfinance portfolio in housing microfinance from the current estimated 1%, far lower than countries in Latin America.

Housing microfinance can result in several million households gaining access to improved shelter in India.

[65] Maximizing Choice: Diverse Approaches to the Challenge of Housing Microfinance, Usaid Microreport #97
[66] Access to Housing at the Base of the Pyramid: Ashoka: Innovators for the Public 2011

Abbreviations

AUDA Ahmedabad Urban Development Authority
BPL Before Poverty Line
DHFL Dewan Housing Finance Corporation Limited
GOI Government of India
HMF Housing Microfinance
HUDCO Housing and Urban Development Corporation (public housing)
IASC Indian Association of Savings and Credit
IGP Income Generating loan product
MCHF Micro-Credit to Housing Finance (approach to housing microfinance)
MFI Microfinance Institutions
NABARD National Bank for Agriculture and Development
NBFC Non Banking Finance Company
NGO Non-governmental organization
NHB National Housing Board (public housing)
NURM National Urban Renewal Mission
SEWA Self Employed Woman's Association
SIDA Swedish International Development Cooperation Agency
AHDP Affordable Housing Development Plan
AHP Affordable Housing in Partnership
AHTF Affordable Housing Task Force
ASI Archaeological Survey of India
AVL AvasVikas Limited
BSUP Basic Services for Urban Poor
CREDAI Confederation of Real Estate Developers' Associations of India
CTA Construction Technical Assistance
DU Dwelling Unit
ECS Electronic Clearing Services
EDC External Development Charges
EMI Equated Monthly Installment
EWS Economically Weaker Section
FAR Floor Area Ratio
FICCI Federation of Indian Chambers of Commerce and Industry
FSI Floor Space Index

GoI Government of India
HDFC Housing Development Finance Corporation Limited
HIG Higher Income Group
HMDA Hyderabad Metropolitan Development Authority
HUDCO Housing & Urban Development Corporation Limited
ITA Institutional Technical Assistance
IHSDP Integrated Housing and Slum Development Programme
ISHUP Interest Subsidy Scheme for Housing the Urban Poor
IT Information Technology
JNNURM Jawaharlal Nehru. National Urban Renewal Mission
LAA Land Acquisition Act
LIG Low Income Group
MGI McKinsey Global Institute
MHFC Micro Housing Finance Corporation Ltd.
MIG Middle Income Group
MMR Mumbai Metropolitan Region
MOHUPA Ministry of Housing and Poverty Alleviation
NAREDCO National Real Estate Development Council
NBC National Building Code
NGO Non-Governmental Organization
NIUA National Institute of Urban Affairs
PPP Public Private Partnership
PPSU Policy and Programme Support Unit
RAY Rajiv AwasYojana
SJSRY Swarna Jayanti Shahari RojgarYojana
SNPUPR Support to National Policies for Urban Poverty Reduction
SRA Slum Rehabilitation Authority
Task Force on Promoting Affordable Housing
TDR Transfer of Development Rights
ULB Urban Local Body
VGF Viability Gap Fund

Other Definitions:

Household: A group of person’s normally living together and taking food from a common kitchen constituted a household. The members of a household might or might not be related by blood to one another.

Dwelling Unit: A accommodation availed of by a household for its residential purposes. It might be entire structure or a part thereof or consist of more than one structure.

Pucca: A structure whose walls and roof were made of pucca material such as cement, concrete, oven burnt bricks, hollow cement/ash bricks, stone, stone blocks, metals, asbestos cement, wood, plywood etc.

Katha structure: The structure whose wall and roof, both, are made of non pucca material.

Unserviceable Katcha: Unserviceable Katcha structure is the structure with thatched walls and thatched roof.

Serviceable Katcha: A Katcha structure other than the unserviceable Katcha is serviceable Katcha.

Semi-pucca: A structure which could not be classified as a pucca or a Katcha structure as per definition is semi-pucca. Such structure had either the wall or the roof, but not both, made of pucca material.

Living Room: A room with floor area of at least 4 square metre, a height of at least 2 metres from the floor to the highest point in the ceiling and used for the living purpose. A bedroom, sitting room, prayer room, dining room, servant room meeting the size criterion, are considered at living room. A room used in common for living purpose and as kitchen or store was also considered as living room.

Obsolescence factor: Percentage of households living in the dwelling units having age 40-80 years and are in bad condition and percentage of households living in all structures aged 80 plus years, irrespective of condition of structure, taken together is taken as obsolescence factor for the purpose of the report. The Ninth Plan Working Group on Urban Housing had adopted the obsolescence factor as “percentage of households living in 80 plus years old dwelling units”

Congestion factor: Percentage of households in which at least one couple is not having a separate room to live in. This includes the households in which couples are sharing the room with 10 plus age member of the household. The Ninth Plan Working Group on Urban Housing had adopted the factor as “percentage of married couples require separate room/house”.

About the Author

Vibhu Arya is the founder of 'The Flat Pyramid', an inclusion and 'markets for poor' consulting practice. The Flat Pyramid is aimed at architecting 'inclusive' public-policy and resource allocation decisions within political, economic, and social systems and institutions. His work spans across Microfinance, Housing Microfinance, Branchless Banking, and Impact Investing. He has completed assignments for Ayani, The Microfinance Institutions Network (MFIN), GIZ, ShoreBank International, Access Development Services and Habitat for Humanity. Vibhu has previously worked for a decade with Baxter, BHP Billiton, General Electric and Citibank, where he managed the microfinance institutions lending business for North, East and West India.

Housing Microfinance is an emerging practice in India with leading Microfinance Institutions (MFIs) piloting housing improvement, water and sanitation loan products and services. Institutional stakeholders are providing technical assistance to MFIs and their clients, respectively. Specialized Housing Finance Companies (HFCs) are providing wholesale debt financing to MFIs willing to take up housing microfinance.

This report aims to inform various financial inclusion and development sector stakeholders' i.e. investors, donors, social entrepreneurs, MFIs (both commercial and non-profit), funders, networks, associations, policy makers and government about the need, demand, supply and potential of affordable housing finance for low income communities.

The study presents various pilots in housing microfinance; it further highlights the need for multiple stakeholder cooperation to scale-up housing microfinance in India.

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