UNDERSTANDING HOUSING FINANCE FOR THE URBAN POOR

A TRAINING MANUAL

YUVA

INDIAN HOUSING FEDERATION

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HOUSING
FEDERATION

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LIST OF ABBREVIATIONS

ACHF	Apex Cooperative Housing Federation
AHP	Affordable Housing in Partnership
BLC/E	Beneficiary-Led Construction/Enhancement
BSUP	Basic Services for the Urban Poor
CAGR	Compound Annual Growth Rate
CHFS	Cooperative Housing Finance Societies
CIBIL	Credit Information Bureau India Limited
CIC	Credit Information Company
CLSS	Credit Linked Subsidy Scheme
CNA	Central Nodal Agency
COR	Certificate of Registration
CRGFS	Credit Risk Guarantee Fund Scheme
DSA	Direct Selling Agent
EMI	Equated Monthly Instalment
EWS	Economically Weaker Section
FSI	Floor Space Index
GIC	General Insurance Corporation
GSS	Global Shelter Strategy
GST	Goods and Services Tax
HDFC Ltd	Housing Development Finance Corporation Limited
HFA	Housing for All
HFC	Housing Finance Company
HFI	Housing Finance Institution
HIG	High Income Group
HPTI	House Price to Income

HUDCO	Housing and Urban Development Corporation
IAY	Indira Awas Yojana
IHSDP	Integrated Housing and Slum Development Program
IMGC	India Mortgage Guarantee Corporation
ISHUP	Interest Subsidy for Housing the Urban Poor
ISSR	In Situ Slum Redevelopment
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LIC	Life Insurance Corporation
LIG	Low Income Group
LTI	Loan to Income
MFI	Micro Finance Institution
MIG	Middle Income Group
MoHUA	Ministry of Housing and Urban Affairs
NBFC	Non-Banking Financial Corporation
NCHF	National Cooperative Housing Federation of India
NGO	Non-Government Organisation
NHB	National Housing Bank
NHP	National Housing Policy
NUHHP	National Urban Housing and Habitat Policy
PLI	Primary Lending Institution
PMAY	Pradhan Mantri Awas Yojana
RAY	Rajiv Awas Yojana
RBI	Reserve Bank of India
RERA	Real Estate Regulatory Authority
RoI	Rate of Interest
RRY	Rajiv Rinn Yojana
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest
SECC	Socio Economic and Caste Census
ULB	Urban Local Body
VAMBAY	Valmiki Ambedkar Malin Basti Awas Yojana

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CHAPTER 1
UNDERSTANDING THE PROBLEM OF HOUSING

1.1 INTRODUCTION

Housing has been recognised as a human right rather than as a basic need of human beings. Housing connotes a physical structure that provides shelter, including basic amenities such as the supply of safe drinking water, sewerage system, electricity, and other basic infrastructure required to lead a good quality life. In a broader sense, housing provides more than shelter. As a tangible element, it becomes an integral part of a neighbourhood and the social, cultural, and economic environment. It defines a space of social reproduction that necessarily reflects gender, familial and other types of social relations. It provides security against changing climatic conditions and protects the belongings of the households. It can also function as a place of contact, leisure, education, and religious observance, of ordered social interactions. Good housing, thus, reflects the general welfare of the community.

In India, rapid urbanisation is characterised by limited resources, lack of futuristic urban planning measures, distorted land markets, concentrated economic centres, and complex legal and bureaucratic processes. Against this backdrop, the demand for adequate housing has emerged as one of the biggest needs in urban areas, especially in low-income communities.

Housing loans have helped millions of people around the world have a safe roof over their heads, as most people do not have the liquidity to purchase a house from their sources. Housing loans provide financial assistance to avail a house based on future earning potential, willingness to repay and the habit of promptly repaying debts. 'Housing loans' are also referred to as 'mortgages' in other parts of the world, as the terms are similar in concept. Human creativity has brought about varied dimensions and nuances to bring in a multitude of variations in types of 'home loans/mortgages' and in the way they are structured.

'Housing loans' as it exists, has origins around the 1930s. The English law, as old as AD 1190 illustrates the beginning of the basic mortgage system and demonstrates how the creditor was protected in the property purchase agreements. The housing loans were structured differently in the early days, as the homeowners had to pay 50 per cent down payment. And they had to pay only the interest on the balance of 50 per cent for the 5-year housing loan. A balloon payment of the entire principal to close the housing loan.

One of the pervasive challenges of delivering the affordable housing solution is the incompetence of the housing finance markets to cater to the large segment of the low-income population in need of financial support to access adequate housing. In the affordable housing sector, this is one of the issues in the larger perspective of the affordable housing sector that most of the stakeholders like civil society organisations (CSOs), primary lending institutions (PLIs), local and state governments, implementing agencies and beneficiaries are trying to solve.

1.2 URBAN GROWTH STORIES

India's urban population escalated at a compounded annual growth rate (CAGR) of 2.8 per cent during 2001–11 as against the total population growing at a CAGR of 1.63 per cent. The urban population share of India also increased from 27.81 per cent (Census 2001) to 31.16 per cent (Census 2011). In absolute terms, for the first time since India's independence, the urban population (90.99 million) share increased than in the rural areas (90.84 million) during 2001–11. Figure 1.1 shows the growth trend in urban areas between 2001 and 2011, according to the Census data.

As per a World Bank report, the urban population of India increased to 34 per cent in 2017. 40.7 per cent of India's population is expected to reside in urban areas by 2030 (UNFPA 2007).

Urbanisation indicates an increase in the geographical spread of urban agglomerations. It encompasses a series of transitions, which involve industrialisation, employment generation, the development of suburbs and new social neighbourhoods, better transportation facilities, along with the development of suitable housing types as per the future population and also for people affected by the urbanisation process. The percentage of urbanisation is as high as 75 per cent in some developed economies (United Nations, 2014). This highlights the importance and requirement for efficient urban planning practices to cater to the housing needs of the increasing urban population, so that people can be productive members of society, children can learn and families can thrive.

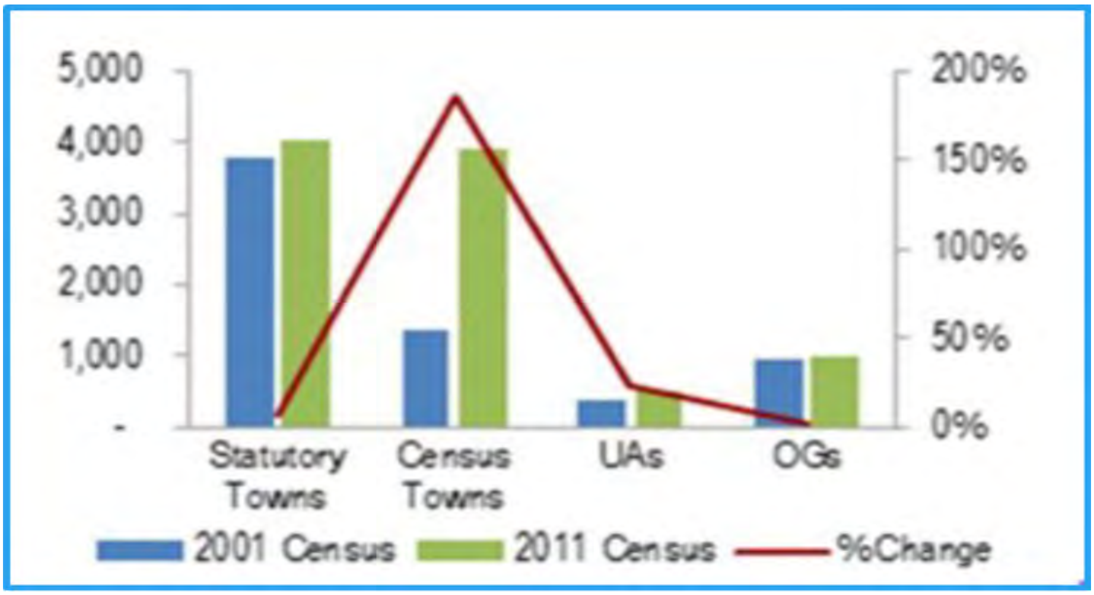

Figure 1.1: Growth in urban areas, 2001–2011

(Source: PRS Legislative)

1.3 SCALE OF HOUSING SHORTAGE

Around 590 million people would reside in Indian cities by 2030 (National Institute of Urban Affairs, 2020). Existing resources would be strained due to rapid urbanisation, with rural-urban migration and population growth. The provision of formal affordable housing has lagged behind household projections.

The Ministry of Housing and Urban Poverty Alleviation constituted a technical group to assess the urban housing shortage for the Twelfth Plan (TG-12). The responsibilities of the technical group are to review the methodology adopted for estimation of urban housing shortage and propose sustainable and viable methods, appraise the housing shortage and housing requirement at national and state levels in urban areas during the Twelfth Plan period, and to suggest a mechanism for strengthening the system of collection of housing statistics and develop a national database for urban areas.

The total housing shortage in India was calculated as 18.78 million dwelling units by the technical group on urban housing shortage (2012–2017), with over 96 per cent belonging to the economically weaker section (EWS) and low-income group (LIG) categories (see Table 1.1) (Ministry of Housing & Urban Poverty Alleviation, 2012). The 18.78 million units also refer to the housing demand in urban areas. The assessment of housing demand at various income levels is imperative to solve the housing issues.

The gap between the need and demand of housing in the affordable housing market has been misinterpreted by the real estate developers, by equating the housing shortage as demand for new units. This has resulted in the creation of a large number of unsold inventories over the past few years. According to a study by Anarock Research, 36 per cent of the 0.65 million unsold units in India's top seven cities are in the affordable homes

Distribution of estimated urban housing shortage in India (million)	
Factors	**As at end-2012**
Households living in non-serviceable katcha houses	0.99
Households living in obsolescent houses	2.27
Households living in congested houses	14.99
Households in homeless condition	0.53
Total Urban Housing shortage	**18.78**
I. Economically Weaker Sections (EWS)	10.55 (56%)
II. Low Income Group (LIG)	7.41 (40%)
III. Medium and High income group (MIG+ HIG)	0.82 (4%)

Table 1.1: TG-12 findings on urban housing shortage

Note: Values in parentheses are percentage shares.

Source: Report of Technical Group (TG-12) on Estimation of Urban Housing Shortage 2012. Ministry of Housing & Urban Poverty Alleviation.

segment (defined by the real estate industry as units priced below INR 4 million) (see Figure 1.2). The top seven cities include Delhi–National Capital Region, Mumbai Metropolitan Region, Pune, Bengaluru, Hyderabad, Chennai, and Kolkata (Ishwarbharath, 2020).

The housing shortage assessment methods are different by the TG-12 and the real estate consultants. There is no proportionate supply from the industry towards the target segments as per the findings by the TG-12. According to the TG-12 report, the real estate industry provides minimum supply to the lower two income segments in dire demand of adequate housing.

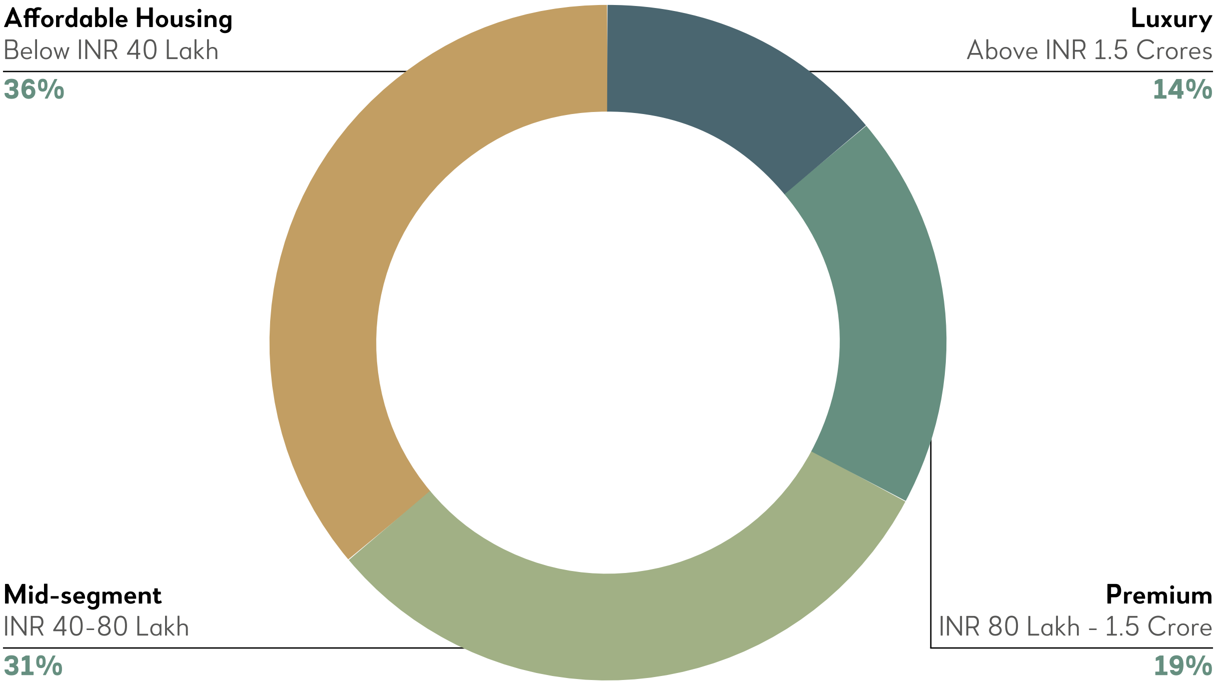

Figure 1.2: Demand projections of target groups for housing, top 7 cities

Source: Anarock Research, Copyright © Bloomberg Quint

1.4 SHORTFALL, NEED AND DEMAND

Within India's complex geography, the housing market system is perplexing as sub-markets exist within markets and micro-segments within segments. A comprehensive understanding is indispensable to position various housing types accurately and enable the flow of investments to the most in-demand segments.

The government realised that a prodigious thought process is required to enable realistic housing options for the lower-income segments of the population. The Pradhan Mantri Awas Yojana (PMAY) demand survey undertaken in 2017 was a step in this direction. The urban housing demand estimated across India is 1.12 crore to achieve the 'Housing for All' mission as per the PMAY demand survey (Ministry of Housing and Urban Affairs, n.d.). The categories under the PMAY demand survey enable a keen understanding of the micro-segments present as a pyramid within the pyramid. This helps to get the focus right.

1.4.1 SUPPLY SIDE

The Indian housing industry is exacerbated by persistent issues such as insufficient delivery of serviced land and improper pricing, irregularities in the transaction, lack of access to finance, and cumbersome approval processes. Private developers are more oriented towards luxury, high, and upper-middle-income segments to avail high returns as compared to low-income segments. Developers always focus on real estate developments as the demand is for real housing. This leads to a situation where the inventory at hand is taking a higher number of months to sell due to the slowing sales pace. At the same time, the segment of the population who require real housing is left to avail adequate housing for themselves. The inadequacy of the formal housing market results in the informal market, which exclusively services the lower-income segment. Informal markets cater to the housing need of the economically weaker sections of society, although the supply through the informal market is not an ideal way of bridging the housing gap.

India's increasing trend in the house price to income (HPTI) ratio depicts the fall in housing affordability. As per the residential Asset Price Monitoring Survey by the RBI in July 2019, the HPTI ratio increased from 56.1 in March 2015 to 61.5 in March 2019. Also, the movement of the median loan to income (LTI) ratio moved from 3.0 in March 2015 to 3.4 in March 2019, which indicated the declining trend in housing affordability (Reserve Bank of India, 2019). Figure 1.3 illustrates the significance of the multiplier effect with respect to real estate and the difference with 'real' housing.

MULTIPLIER EFFECT

Real Estate	vs	REAL Housing
Investment		Access to Livelihoods
Economic Activity in Cement, Steel Industries etc.		Access to Basic Services & Mobility
Churning in Banking System		Access to Market, Social Infra
Creation of Jobs		Four Walls & a Roof

Figure 1.3: The multiplier effect—real estate vs real housing

Source: IHF

Both real estate and 'real' housing is important to the economy, and the right balance needs to be struck to maximise the positive effect of construction activities on the economy. The construction industry has strong linkages with other sectors of the economy. The economic impact of construction activities is distributed over sectors from which they obtain their inputs. One impact of construction is that of increasing employment and the aggregate economic output.

The role of construction in providing wage-related jobs is significant with the sector being considered the second largest employer after agriculture. Real estate is dependent on the banking system to fund its sustenance and growth. Consumption has to

play a lead role in driving growth. The key to increase consumption in construction is to evolve ways to make credit accessible to the informal sector of the economy. Once the informal sector sees that there is a clear road ahead for a better livelihood and future, the economy will start moving forward.
The National Housing Bank (NHB) has estimated a requirement of about INR 8.5 lakh crore for the construction of affordable housing in slum and slum areas (Warade and Walvekar, 2018). As government resources are limited, administrative structures and policy frameworks facilitate and encourage resource mobilisation from the market and private sector.

1.4.2 DEMAND SIDE

High land prices within cities render housing unaffordable for the lower-income group and economically weaker section. This scenario results in low-income housing projects in the outskirts of the city, which often disconnect the poor from their employment centres, thus discouraging them to shift from slums and unauthorised colonies.

A house provides safety, security, and dignified living. It should enable reasonable access to places of livelihood, basic civic infrastructure facilities like water and sanitation, mobility, market, and social infrastructure, etc. The household may want the best of all these factors in their choice, but in reality not all of these may be available or even be the need of the family. More importantly, these requirements are to be made available with reasonable efforts from the family. The ability of the family to pay for such a house will then become an important factor. 'Reasonable effort', when seen from different stakeholders' points of view, especially from the family's point of view, will be a key determinant. Efficient and productive housing solutions will happen where a need converts to an actual demand with the willingness and ability to pay for the suitable housing product.

Figure 1.4: Key factors to convert need to want and then to demand

Source: IHF

Figure 1.4 illustrates the key principles required for efficient housing solutions. Figure 1.5 illustrates that the housing solutions needed will be in demand where there are means of sustaining livelihoods. It depicts how urban agglomerations are one of the key focus areas for efficient housing. The demand for housing gets increased where people want to stay and wish to stay. People prefer to settle in places with better livelihood access.

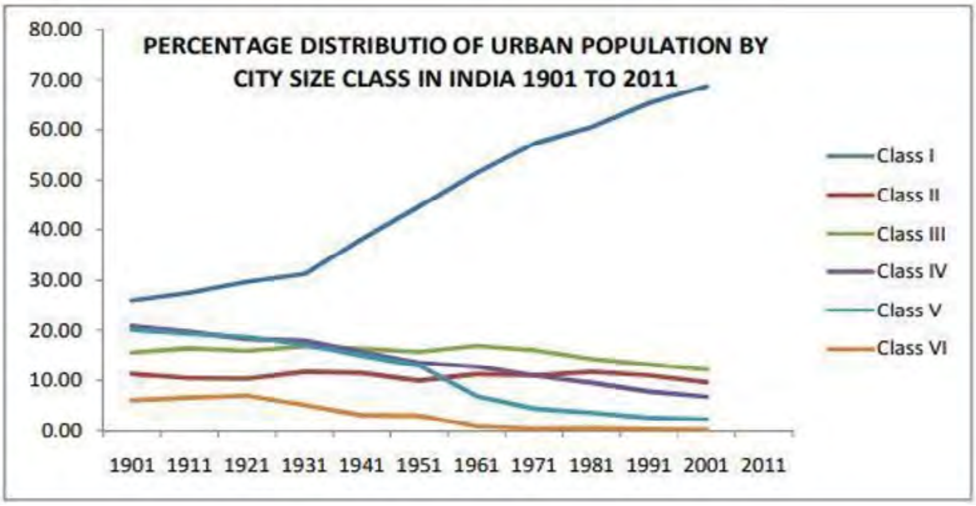

Figure 1.5: Distribution of urban population by city size

1.5 INITIATIVES TO PROMOTE AFFORDABLE HOUSING

The government introduced many initiatives to provide affordable housing. Some of the efforts are National Housing Policy (1994), Jawaharlal Nehru National Urban Renewal Mission (2005), Rajiv Awas Yojana (2013), and the latest mission, Pradhan Mantri Awas Yojana (PMAY) in 2015. PMAY subsumes all the previous urban housing schemes and aims for 'Housing for All', to be achieved by 2022. When the PMAY–U mission was launched, it sought to address the total housing shortage of 20 billion units.

In 2015–16, a demand survey was conducted by the states and urban local bodies (ULBs) as part of the PMAY–U mission, and it highlighted a requirement of 11.2 million units to fulfil the total demand under the mission. To achieve the goal of 'Housing for All', all these houses have to be sanctioned, subsequently grounded (funds released and construction to be carried out), and eventually be completed. The incomplete sanctioned units under the previous missions are subsumed and also funded under the PMAY–U mission. Figure 1.6 illustrates the four components of the PMAY–U mission.

1. **In-situ slum redevelopment (ISSR)**

   In the ISSR component, the land is used as a resource. With the help of this component, the eligible slum dwellers are provided dwelling units by redeveloping the existing slums on public/private land. The central government provided financial assistance to the planning and implementing authorities of the states/UTs is a grant of INR 1 lakh per unit.

2. **Credit-linked subsidy scheme (CLSS)**

   CLSS is the component that provides smooth institutional credit provision to EWS, LIG, and MIG households. CLSS helps purchase dwelling units with interest subsidy, credited upfront to the borrower's account through primary lending institutions (PLIs), effectively reducing the quantum of housing loans and the amount of equated monthly instalments (EMI). The idea behind CLSS is to make financing costs more affordable for first-time homeowners. Table 1.2 details of the CLSS component.

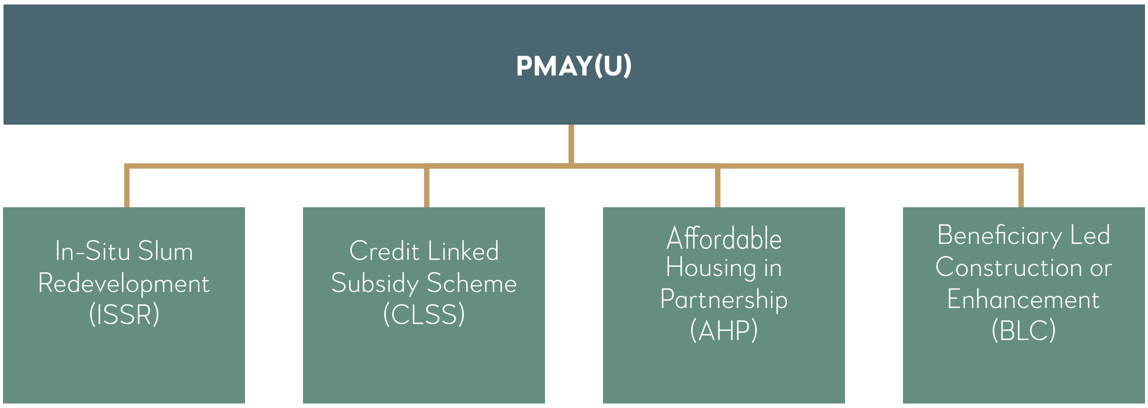

Figure 1.6: Components of PMAY–U

Source: IHF

Type	Income Interest (per annum)	Interest Subsidy (%)	Up to loan amount (₹ lakh)	Up to carpet area (sq.m.)
Economically Weaker Section (EWS)	Up to ₹ 3 lakh	Up to ₹ 3 lakh	Up to ₹ 3 lakh	Up to ₹ 3 lakh
Low Income Group (LIG)	3-6 lakhs	3-6 lakhs	3-6 lakhs	3-6 lakhs
Middle Income Group 2 (MIG-I)	6-12 lakhs	6-12 lakhs	6-12 lakhs	6-12 lakhs
Middle Income Group (MIG-II)	12-18 lakhs	12-18 lakhs	12-18 lakhs	12-18 lakhs

Table 1.2: Credit linked subsidy scheme

3. Affordable housing in partnership (AHP)

AHP aims to provide financial assistance to green field projects under public private participation to enhance the supply of affordable houses. INR 1.5 lakhs is provided per dwelling unit by the central government as financial assistance in addition to state government assistance. At least 35 per cent of the units should be for the EWS category in AHP projects. The objective behind the AHP concept is to bring scale to affordable housing, by bringing public-private sector involvement. Affordable housing in this context is that which is exclusively for the EWS segment, which is otherwise not on the radar of the private sector.

4. Beneficiary-led construction or enhancement (BLC)

The BLC scheme provides financial assistance for new dwelling units or renovation of the existing units for the EWS/LIG. The central government gives financial support of INR 1.5 lakh per family and the state government adds a subsidy component from their side. The mission completed a significant number of houses under this component of PMAY–U as of March 2021.

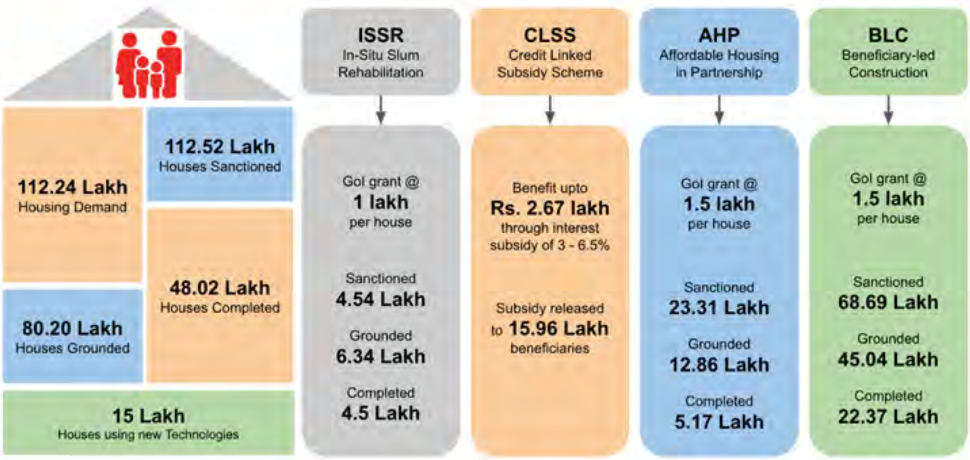

Figure 1.7: PMAY–U Mission achievements at a glance (as of 31 March 2021)

Source: MOHUA

Figure 1.8: PMAY–U Mission YoY physical progress

Source: MOHUA

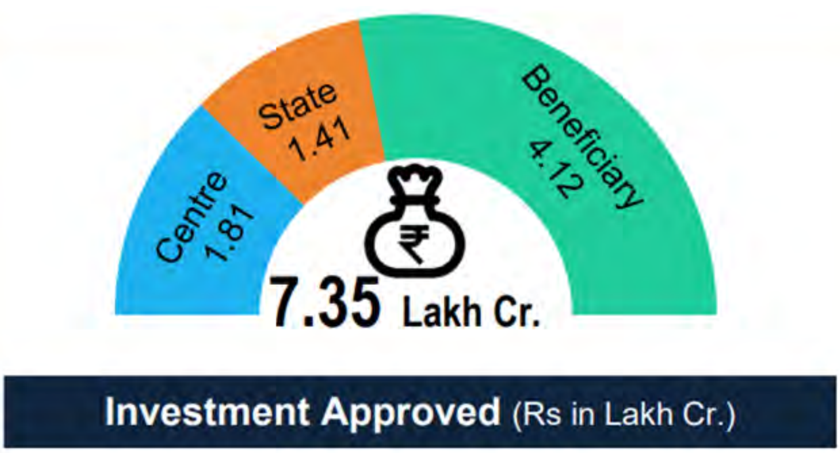

Figure 1.9: PMAY–U Mission overall investment by stakeholders

Source: MOHUA

1.6 ISSUES AND CHALLENGES

Economic growth can be expedited through the development of affordable housing as it is directly related to the sectors of the economy. The residential construction sector has higher output multipliers than sectors like agriculture, electricity, trade, railways, communication, and banking and insurance. Residential construction provides the highest direct employment linkage coefficient among all other sectors, although this sector generates informal employment.

The move towards affordable housing initiatives by the government's policy measures and missions results in the growth of such housing projects for low-income groups. Recent government initiatives provide incentives to private developers and interest subsidies for beneficiaries. The availability of low-cost credit facilities increases the demand for affordable housing. However, from the beneficiaries' point of view, policies like the Real Estate Regulatory Authority (RERA) Act may impact fresh buyer's interest in the realty sector.

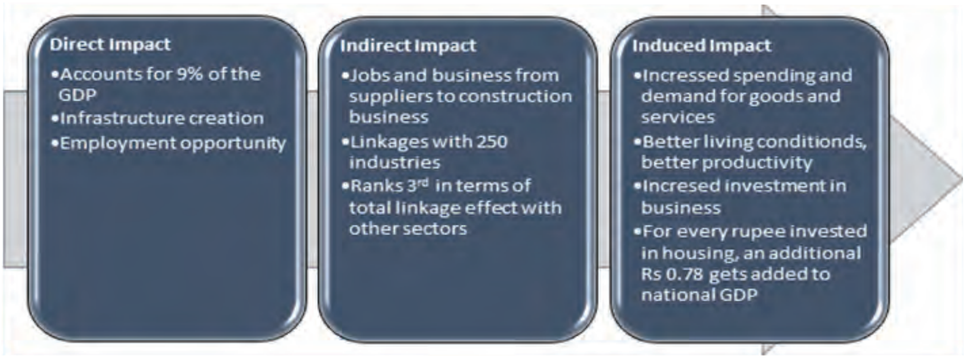

Figure 1.10: Impact of the housing sector

Source: IHF

The efforts of the Government and the Reserve Bank of India (RBI) to enhance affordable housing have generated positive outcomes. Initiatives in recent years, mentioned as follows, have contributed to making the progress towards 'Housing for All' possible.

i) According 'infrastructure' status to affordable housing

ii) Tax exemption for developers in affordable housing

iii) Reduction in goods and services tax (GST) for affordable housing

iv) Adequate funding through the Affordable Housing Fund for lending to lower-income segments etc.

However, the pace of affordable housing development in India is affected by various factors and restricting private sector participation. According to a Deloitte 2016 report, the following factors need to be addressed to make the demand for 2 crore homes a reality:

(i) lack of suitable low-cost land within the city limits

(ii) lengthy statutory clearance and approval process

(iii) shortcomings in development norms, planning, and project design

(iv) lack of participation of large organised real estate players due to low-profit margins

(v) high cost of funds for construction finance, making the projects unviable

(vi) lack of a suitable mechanism for maintenance

(vii) challenges in beneficiary selection

(viii) capacity constraint or inadequate capacity of the implementing agencies.

All these factors have an important role in housing affordability and they are a subset of the larger need for adequate housing. While the higher end of the low-income segment can be catered by the formal sector solutions, a major part of the lower-income segment is left out from access to adequate housing.

1.7 THE WAY FORWARD

Housing development and basic infrastructure facilities like public transport, roads, drainage, sanitation, and waste management are key factors of urbanisation and act as catalysts for overall socio-economic development. The development of affordable housing gets influenced by the realty market in the respective area. And this realty market gets influenced by mobility and other basic infrastructure projects.

The establishment of single window clearance, easier land acquisition, rationalised direct and indirect tax structure and other tax-based incentives for the housing sector will enable competitive pricing for the end-user. The introduction of innovative financing models can bolster the role of the private sector in developing affordable housing infrastructure.

The way forward is to resolve varied issues along the entire value chain of housing. These issues lie in different domains like legal, regulatory, finance, policy, and implementation. And they require equally diverse solutions driven by the relevant stakeholders concerned with those domains. This study focuses on housing finance and deconstructs its concepts, so that practitioners in this space can understand, learn and apply these in their work towards making housing accessible and affordable for the urban poor.

CHAPTER 2
BASICS OF HOUSING FINANCE

2.1 INTRODUCTION

Affordability of housing is a key determinant to access housing. While government schemes and subsidies are providing reduced cost or part funding on housing, the end-user is still expected to contribute their share to complete the construction/ acquisition of the house. Majority of the housing shortfall is among the economically weaker section (EWS), characterised by informal, fluctuating and unstable incomes and thereby repaying capacities. In this context, access to housing finance at reasonable terms, cost and effort is required.

Lenders provide importance to different factors associated with either their cost and/or revenue. This includes profitability, future expansion plans, operational cost, sourcing the sufficient funds for lending, asset-liability management, operational area focus, staff sourcing model and team strength, training, ability to collect, infrastructure development, market segments to focus on, product types, level of customer service, underwriting strategy, level of technology use, channel management, co-origination strategy, revenue strategy, developer tie-ups, margins, and risk management. This section of the document will cover the relevant topics which are essential for a basic understanding.

2.2 SOURCING FUNDS TO LEND

Formal sector targeting lenders are more entrenched and widespread in the housing finance system. They are having a large number of branches with more predictable operations, with the ability to source a large amount of public savings and current account deposits regularly without any additional effort in the normal course of business. Commercial banks are a typical example for lenders who have access to low-cost savings.

As per the Certificate of Registration from National Housing Bank (NHB), a limited number of established home loan companies have permission to accept deposits from the public. The majority of these home loan companies are Housing Finance Companies (HFCs) which are focused on formal sector borrowers. The cost of funds of the lender majorly determines the rate of interest for the borrower. The interest rate has been traditionally lower for the lenders who lend to the formal segment of customers than for the set of lenders who target the informal segment of borrowers.

In addition to bank borrowing and refinance, large HFCs have access to the bond markets. Smaller lenders, whose borrowers are in the informal sector, have to depend on their own funds or bank finance and NHB refinance for funding. Small lenders also have a higher branch expansion requirement, with relatively newer branch operations with lesser productivity, happening in parallel to get themselves deeper into the unserved areas to provide financial services and assistance to people.

2.3 BORROWER'S PERSPECTIVE

From the borrower's perspective, the cost of a loan is included with the rate of interest cost, cost of time, and resources spent by the borrower for applying and following up the procedures to receive the loan. This cost is higher for the informal sector borrowers compared to the formal sector borrowers.

The processes are stringent to avail the loan from the formal sector borrowing system. They have intense documentation requirements to sanction a loan. Although they have policies to cater to the informal sector, they tend to be selective to minimise the risk associated with the informal sector.

The loan availing processes in the informal sector are simpler compared to the formal sector, but with a very low probability of availing the loan. The willingness of a lender is time consuming in the case of a borrower from the informal sector, since there is a higher risk associated with the informal sector borrower, resulting in tedious processes for the borrower like meeting with multiple lenders and requesting to grant a loan. Looking from a borrower's perspective, the cost of the loan is not limited to the interest cost alone, but also includes the cost of time and effort spent by the borrower to avail the loan. This is higher for borrowers belonging to the informal sector versus formal sector borrowers.

Borrowing from the formal sector focussed lenders is more cumbersome since they have higher documentation requirements and even if they have policies to cater to the informal sector, such lending tends to be selective.

A borrower from the informal sector will prefer a lender who is willing to lend than following up with multiple lenders who are hesitant, resulting in costs of time and effort for him with no result. He may be willing to pay a higher cost for a predictable acceptable result. He will prefer a lender who can understand and support than another lender whose processes are cumbersome for him.

2.4 COST OF LENDING TO THE INFORMAL SECTOR

The administrative cost of lending to the informal sector customer is higher, since the information about the borrowers is often insufficient. One of the cornerstones of lending is the ability of the lender to assess the borrower's ability to repay, which in the formal segment is established by income proofs. In the low-income informal segment, in the absence of documented sources of income, added with fluctuating nature of income, the lenders' ability to assess repaying capacity becomes that much more tedious.

Groundwork and field-level expertise become important skills in such cases in the decision to lend. Another factor adding to costs is the multiple follow ups from the PLI, made essential in order to underwrite the loan to the borrowers. The informal sector borrowers also would need a higher level of handholding, which puts a high level of importance on training of the field force on the various efforts and tasks required to be carried out in a systematic fashion. With lower loan sizes, lenders have to make many more loans, which is a greater effort, to earn the same quantum of profits. While studies especially in the microfinance markets have shown that the repayment performance in the low-income segments have been good, in reality compared to formal middle/higher-income segment housing, finance to the low-income segment is riskier.

2.5 RISK MANAGEMENT

Risk management is associated with the understanding and organisation of risks, with sufficient tracking mechanisms. This is inevitable in risk management processes. The character assessment of the borrower is also an essential action point to ensure proper risk management. An amount of cost is associated with the proper risk control system and selection procedures. Risk management is also important in the collection aspect. Many small-ticket borrowers are connected to the lending/collection team to understand the fundamentals of the systematic collection procedures. The feedback mechanisms are built-in for the interventions to train the customers in credit discipline.

For the informal sector borrowers, the higher differential risk premium for loans with or without collateral helps the PLI to provide suitable loan products. The process of creation of security or collateral to the lender requires a proper legal system and procedures, which also adds to the cost of risk. The PLIs need to organise a proper system for long-term follow-up with the borrower. This will help in the regular repayment at specific intervals due to the longer tenure duration. A cost is associated with these procedures for structuring the mechanisms. The quality of the title document and the marketability of the collateral also plays a major role in the calculation of the lending amount and interest rate.

2.6 CREDIT ASSESSMENT

The assessment of repayment capacity helps to minimise bad debts. The ability to service a housing loan is estimated by subtracting all debt liabilities from a regular income source and also by considering the disposable income. The borrower's credit risk and profile are determined by the behavioural and attitudinal factors.

The calculation of credit risks has few components, which play a vital role in credit assessment methods. The components are the ability to pay, willingness to pay, and enforcement of security. The following section will describe the components in detail with examples.

2.6.1 ABILITY TO PAY

The ability to pay is more or less objective as it entirely relies on the borrower. And it can be estimated by assessing the income and repayment capacity of the borrower. This component encompasses the affordability concept and disposable income associated with the borrower. Based on the different income segments, an array of principles is involved in the estimation of ability to pay.

SAMPLE CASE 1:

If the monthly income of Household A is INR 30,000 and Household B is INR 5,000 and both the households are applying for a loan of INR 1,00,000 and if the bank has to choose one applicant over the other, then Household A will be given more preference over Household B as A has a higher monthly income.

SAMPLE CASE 2:

If the monthly income of Household A is INR 30,000 with a loan obligation of INR 10,000 per month and that of Household B is INR 30,000 and both the households are applying for a loan of INR 1,00,000, Household B will be given more preference over Household A as B has a higher disposable income.

SAMPLE CASE 3:

If the monthly income of Household A is INR 30,000 and an aged dependent is present in this household whose medical expenses take up to INR 15,000 per month, and that of Household B is INR 30,000 and both the households are applying for a loan of INR 1,00,000, Household B will be given more preference over Household A as the disposable income of Household A is considerably decreased due to medical expenses.

2.6.2 INTENT TO PAY/ BEHAVIOUR AND ATTITUDE TOWARDS AVAILING CREDIT

According to the risk perception of the appraising officer the willingness to pay is subjective and this cannot be quantified in simplified terms of ratio, numbers, etc. But the assessment is done by the appraising officer based on a combination of quantitative and qualitative parameters. The appraising officer should be satisfied with the loan repayment capability of the borrower, without any problem in the recovery of the loan. An array of assessment methods is incorporated, like documenting the savings record, municipal service payment record, housing aspirations, compliance with law and order, attitude towards housing credit, etc. to ensure the repayment capability.

SAMPLE CASE 1:

Consider the monthly income of Household A and Household B is INR 30,000 each and both households are applying for a loan of INR 1,00,000. Household B has a history of having taken a loan of INR 50,000 and of paying it at regular intervals and clearing the loan. If the bank has to choose one applicant over the other, then Household B will be given more preference over Household A as B has a demonstrated track record of proper repayment of the loan in the past.

SAMPLE CASE 2:

If the monthly income of Household A and Household B is INR 30,000 each, and both households are applying for a loan of Rs 1,00,000 and if Household B has a history that they had taken a loan of INR 40,000 and had defaulted in paying the loan instalments regularly, which led to a write-off of INR 30,000 for the lender, then more preference will be given to Household A over B, as B has an established poor track record of not properly repaying a loan in the past.

2.6.3 ENFORCEMENT OF SECURITY/COLLATERAL

With the enforcement of security when giving loans for buying moveable assets such as vehicles, consumer durables etc. the bank has an opportunity to seize the asset from the borrower in case of loan default. While considering the case of housing finance, the primary security is the property financed which is going to be constructed or acquired and is immovable, which increases the significance of assessment of security. With each property having its own legal and technical parameters, the assessment of security being clear and marketable is an important step in the administration of housing finance.

The various securities permissible can include but are not limited to property, pension, insurance, savings, subsidies, etc. (UN Habitat, 2008b). Securities can belong to either the loan applicant, or the co-applicant, or a third-party guarantor. Good security is the one that motivates the person taking the credit to repay in time not to lose possession of the security. The emotional value of the applicant to the security plays a major role in the lenders' decision making.

SAMPLE CASE 1:

If the monthly income of Household A and Household B is INE 30,000 and both the households are applying for a loan of INR 1,00,000, and the security offered by Household A is clear and marketable than the security documents provided by Household B, then Household A will be given more preference over B, due to the possibility of better enforcement of security in case of default.

CHAPTER 3
INSTITUTIONAL FRAMEWORK OF HOUSING FINANCE

3.1 INTRODUCTION

Traditionally, informal sources of financing played a major role in the process of financing a house construction/acquisition. Housing was considered more as a family affair and private investment. The investment required was limited and met either from the family savings or borrowings from informal sources. The evolution of formal housing finance began with the establishment of public sector agencies for housing by both central and state governments. The financial assistance for housing from the government had been centralised and directed through the State Housing Boards and development authorities in initial phases. The authorities introduced initiatives to organise Co-operative Housing Finance Societies (CHFS) at the primary level, Apex Co-operative Housing Federations (ACHFs) at the state level, and National Cooperative Housing Federation (NCHF) at the national level, with an Act of Parliament to deploy housing credit to their members. During the first three Five-Year Plan periods the major source of financing for housing is the co-operatives.

The nationalisation of the insurance sector in the late 50s and subsequently the commercial banks influenced the housing finance system in India. This helped improve the implementation of social housing schemes by the governments and increase the volume of financing for housing activities in the country. The Life Insurance Corporation (LIC) was authorized to invest 25 per cent of its control funds in socially oriented schemes, including housing development activities through the government. Similarly, the General Insurance Corporation (GIC) was statutorily required to invest 35 per cent of its investment funds through state governments for housing and loans, bonds, debentures, and preference shares of Housing and Urban Development Corporation (HUDCO). Another vital source of housing finance for the salaried class was the Employees' Provident Fund (EPF). The housing scenario was still in a bad shape during the fifties and sixties despite these developments. Living conditions of the economically weaker section population were gruelling as they did not have access to adequate housing and basic services. The hike in the cost of building materials and construction made housing inaccessible to the lower-income segment. Financial inadequacy impeded housing construction by the State Housing Boards and other housing agencies.

3.2 THE INSTITUTIONAL FRAMEWORK

Systemically essential organisations in the housing finance institutional framework are depicted in Table 3.1 and further detailed in Annexure I.

Institution	Key Role
Reserve Bank of India	Regulator of the banking sector, including HFCs
National Co-operative Housing Federation (1969)	Apex national level organisation for promoting, developing, and coordinating the activities of housing cooperatives in the country.
Housing and Urban Development Corporation (1970)	Premier techno-financing public sector enterprise in the field of housing and infrastructure
Housing and Development Finance Corporation (1977)	Enhances the residential housing stock in the country through the provision of housing finance systematically and professionally and promote homeownership.
Insurance Act Amendment (1987)	Government of India amended the Insurance Act of India to allow the Life Insurance Corporation (LIC) and the General Insurance Corporation (GIC) to enter the housing finance business. LIC through its subsidiary LICHFL is one of the major players playing a pivotal role in the development of the sector.
National Housing Bank (1988)	Housing specialised institutions vested with powers of supervision, promotion, and refinancing of HFCs
Expanding the horizons of housing finance (1989)	RBI allowed commercial banks to issue large loans for housing without imposing rigid restrictions on the interest rate or loan quantity ceiling. UTI (Unit Trust of India) is a Housing Construction Investment Fund for direct investment in construction projects and real estate development

Figure 3.1: Institutional framework of housing finance in India

3.3 HOUSING FINANCE - SPREADING ITS WINGS

In India, housing is considered one of the engines of economic growth, which has strong linkages with other industries. The housing sector contributes 78 paise in every rupee of the gross domestic product. The Indian housing finance sector consists of various agencies, which can be broadly divided into formal housing finance sector and the informal housing finance sector.

Housing Finance Institutions (HFIs) like National Housing Bank, Housing and Urban Development Corporation, various housing finance companies like Housing Development Finance Corporation (HDFC), Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC), commercial banks, co-operative banks, etc. are included in the formal housing finance sector. Personal savings, borrowings from money lenders or friends or relatives, disposal of existing property, etc. are included in the informal housing finance sector.

After independence, the social fabric of India gave importance to savings as an emotional aspect. Owning a piece of land or house is considered part of this emotional and social safety as well as a financial asset. Over the years, the tendency of buying land near people's place of employment or livelihood has increased. The accumulated provident fund of salaried employees was used as a loan towards building their homes. There were not many housing finance options available at that time. People used their accumulated retirement emoluments to buy their own houses. Considering the needs and aspirations of people intending to buy houses, the home loan markets slowly began to take shape.

The government has an active role to play by creating institutions with structured approaches to foster a robust housing finance market. Housing finance becomes the engine for economic growth by fulfilling the aspirations of people. Institutional formulations and evolutions in the acts and laws by the government help in the development of the housing finance sector.

Due to a higher number of branches throughout the country, commercial banks have a vital role in the housing finance sector. The housing finance sector attained momentum after incorporating the National Housing Bank in 1988. Later, the National Housing Bank became the apex institution in the field of housing finance. Figure 3.1 shows the evolution of housing finance institutions in India.

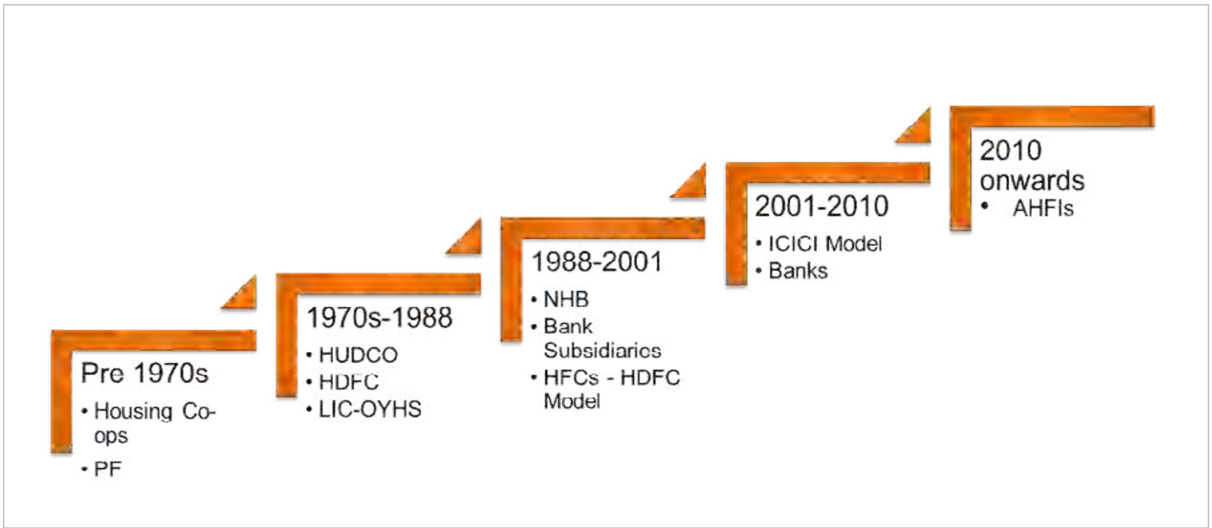

Figure 3.5: Evolution of housing finance in India

3.4 MAJOR HOUSING FINANCE COMPANIES IN INDIA

Specialised Housing Finance Institutions developed due to the demand for finance to purchase/ construct a house. Stepping up the lending capability of Housing Finance Companies (HFCs) is vital in the growth of the housing sector. Their strength lies in their skills to lend exclusively for the housing sector. The revolutionary development in the housing market led to the growth of the Indian housing finance market, which helps attract a large number of companies to come into the picture. Commercial banks' entry into the sector leads to stiff competition in the field of housing finance. Most of the commercial banks started operating in the housing finance segment with specialised subsidiaries.

The government focussed on the sector through inclusion in the Priority Sector Lending targets for the banks. Tax incentives for people to build or buy their homes added to the traction and caused tremendous growth in the segment. Specialised Housing Finance Companies (HFCs) are registered under the National Housing Bank Act, 1987. Ninety-Nine HFCs are operating through a network of 6,266 branches spread across the country as of 31 March 2019.

Hundred housing finance companies were issued the Certificate of Registration (COR) as of June 2020. The COR is essential to carry out housing finance business in India under section 29A of the National Housing Bank Act, 1987. The list of companies issued COR can be accessed on the NHB official website: https://nhb.org.in/report-on-trend-progress-of-housing-in-india-june-2000/list-of-companies/

There are two broad categories of COR of housing finance companies issued by the National Housing Bank. They are:

1) Housing Finance Companies with permission to accept public deposits
2) Housing Finance Companies without permission to accept public deposits

Only 11 housing finance companies have full permission to accept public deposits among the 100 COR holders. To accept public deposits, 6 of the Housing Finance Companies required prior written permission from the National Housing Bank. 83 HFCs with the COR are not allowed to accept public deposits. Annexure-II describes the major players in the housing finance market.

CHAPTER 4
NATIONAL HOUSING MISSIONS

4.1 INTRODUCTION

The importance of an individual's economic, social and cultural rights is endorsed by the United Nations' Universal Declaration of Human Rights in 1948 (United Nations, 1948). The individual's right to an adequate standard of living, including adequate food, clothing, housing, medical care, and necessary social services is recognised globally by this declaration for the first time. In 1966, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social, and Cultural Rights (ICESCR), which came into force in 1976, augmented the individual's rights to an adequate standard of living. India also ratified ICESCR in 1979, Article 11(1) of which sanctions the right to adequate housing as part of the right to an adequate standard of living (United Nations, 1976).

'The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing, and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international cooperation based on free consent.'

Article 11(1) of the ICESCR

There is no legal right to guarantee adequate housing in India. Hence, the courts in India, especially the Supreme Court, have expanded the purview of Article 21 of the Constitution to include the right to housing in it.

4.2 EVOLUTION OF HOUSING POLICIES IN INDIA

Some elements related to housing per the Seventh Schedule of Constitution of India,comes under the Concurrent List , while most others fall under the State List , making housing primarily a state government subject (Government of India, n.d.). Items included under the concurrent lists are other than agricultural land for the transfer of property deedregistration and documents. And except agriculturalland-related contracts, the contracts including partnership, agency, contracts of carriage, and other special forms of contracts are there in the concurrent list. Excluding the rates of stamp duty, duties or fees collected through judicial stamps are also there in the concurrent list. The items under the state list will include the details regarding land rights, land tenure (including the relation of the landlord and tenant), the collection of rents of property, planning norms and building bye-laws. The details of agricultural land transfer, alienations, land improvement, agricultural loans, and colonisation on the property, and property taxes are also included in the state list.

Since independence, housing in India has been the focus of planners. Many Five Year plans allotted a specific amount of funds to the housing needs of the country. From 1985 onwards, the urban housing shortage and slum development programmes have been receiving a special focus specifically from the Five Year Plans.

4.2.1 GOVERNMENT AS THE SOLE PROVIDER

Post-independence and in the following decades, governments at the national and state levels took up the direct responsibility of producing and supplying shelter through state-led affordable housing projects. With the state being a welfare state, these were mainly undertaken by the state housing boards in the 1970s and 1980s.

The government's role as a provider for the vulnerable section of people began to gain prominence with the introduction of the National Housing Policy (NHP) in May 1988. During the same time, the United Nations General Assembly launched the Global Shelter Strategy (GSS) with the adoption of resolution 43/1 XI. The GSS is coordinated by UN-Habitat (United Nations Centre for Human Settlements, n.d.). With the inception of GSS, the first-ever NHP which slightly altered the government's position as a total welfare state for housing was announced in India. The eradication of homelessness, improving the housing conditions, and provision of adequate basic amenities are among the long-term goals of NHP 1988. For the economically vulnerable sections, the government acts as a provider and a facilitator for other income groups and the private sector by providing an adequate supply of land and services.

4.2.2 GOVERNMENT AS A FACILITATOR

In 1993, the World Bank published a report 'Housing Enabling Markets to Work' by which the banking system was encouraged to play an active role in housing finance (World Bank, 1993). By then, the role of the government had moved to being a facilitator of private investment. The government's role changes from financing, constructing, and maintaining housing to improve the housing market efficiency and the housing conditions of the poor (Ibid.). Consequently, several national governments, including India, across the developing world began to deliver affordable housing at scale to the market.

The NHP 1994 encouraged resources from private sector participation for the growth and development of the housing sector, which resulted in increasing the supply of serviced land with minimum basic services to promote a healthy environment. This is where a shift in the government's role as a regulator and facilitator started. In 1998, the National Urban Housing and Habitat Policy (NUHHP), an exclusive policy for the urban area, was introduced instead of NHP. The NUHHP emphasises the aspect of 'Habitat' as a supplementary focus to housing.

4.2.3 GOVERNMENT AS A REGULATOR

The government acts as a regulator in the aspect of regional planning. The present policy NUHHP 2007 attempts to enhance the focus on the 'habitat' with a 'Regional Planning approach' and tries to expand the role of the government as a facilitator and regulator. The policy also emphasises earmarking 10–15 per cent land or 20–25 per cent floor space index (FSI), whichever is higher, for the economically weaker section (EWS)/lower-income group (LIG) in new housing projects. These reforms are possible to incorporate in the bye-laws with respect to the state governments. The NUHHP 2007 gave focus on the involvement of multiple stakeholders in the provision of housing solutions. The private sector, co-operative sector, industrial sector for labour housing, and institutional sector for employee housing are some of the stakeholders involved in the housing solutions. This is where the idea of regional planning became prominent, at least on paper. It acknowledges the realities of cities expanding, urban villages and peri-urban areas getting subsumed, and the interaction between the city and satellite towns. This is the most comprehensive policy, from which most policies and schemes ideas are still derived and carried out.

Despite all the policy drive and government schemes, the progress at the ground level in addressing the housing shortage has been found wanting. Urban homelessness in the country continued to increase from 6.19 lakhs in 1981 to 7.25 lakhs in 1991, 7.89 lakhs in 2001, and 9.43 lakhs in 2011 as per Census data. The total urban housing shortage in the country, estimated by the Technical Group on Urban Housing Shortage 2002–07 (TG-07) was 24.71 million.

4.3 MAJOR HOUSING POLICIES AND PROGRAMMES IN INDIA

Due to the rising housing challenges, the government decided to launch dedicated centrally sponsored schemes for the housing sector. Some of the major housing schemes are discussed in the following section of the manual. Apart from the Centrally Sponsored Schemes of the Government of India, every State had the mandate to develop its own housing policies that cater specifically to the state's local context. These policies can be in line with the national-level schemes or they can be implemented independently. Housing initiatives over the years are depicted in Table 4.1.

Sl. No	Housing Policy/Programme	Year
1	National Housing Policy	1988
2	National Housing and Habitat Policy	1998
3	Valmiki Ambedkar Awas Yojana	2001
4	Jawaharlal Nehru National Urban Renewal Mission	2005
5	National Urban Housing and Habitat Policy	2007
6	Interest Subsidy Scheme for Housing the Urban Poor	2008
6	Rajiv Awas Yojana	2009
7	Rajiv Rinn Yojana	2013
8	Affordable Housing in Partnership	2013
9	Pradhan Mantri Awas Yojana: Housing for All by 2022	2015

Table 4.1: Timeline of housing policy evolution in India

4.3.1 TWO MILLION HOUSING PROGRAMME

This programme was launched in 1998 and it particularly stressed on the needs of the economically weaker sections (EWS) and lower-income group (LIG) categories. It was a loan-based scheme and envisaged facilitating the construction of 20 lakh additional units every year. Around 7 lakh dwelling units in the urban areas and 13 lakh dwelling units in rural areas were targeted. The Housing and Urban Development Corporation Ltd. (HUDCO) was to meet the target of 4 lakh dwelling units in urban areas and 6 lakh dwelling units in rural areas annually. The target of 2 lakh dwelling units in urban areas was required to be met by the housing finance institutions (HFIs) recognised by the National Housing Bank and public sector banks. The balance of 1 lakh dwelling units in urban areas would be met by the co-operative sector through the National Cooperative Housing Federation (NCHF).

4.3.2 VALMIKI AMBEDKAR MALIN BASTI AWAS YOJANA (VAMBAY)

VAMBAY was launched in December 2001 with an aim to provide welfare to the slum dwellers. The scheme aims to provide assistance in the construction and up-gradation of the units for slum dwellers and to provide an adequate healthy living environment through the provision of basic amenities like public toilets, etc. Public toilets are provided under the component of the scheme Nirmal Bharat Abhiyan. The central government provided a subsidy of 50 per cent, and the balance 50 per cent was contributed by the respective state governments. There were prescribed ceilings on the costs of both dwelling units and community toilets. During 2003–04, central subsidy to the extent of INR 239 crore had been released under the scheme. INR 522 crore had been released as a subsidy by the central government for 2,46,035 dwelling units' construction and up-gradation processes and 29,263 toilet provisions under the scheme until May 2004.

4.3.3 JAWAHARLAL NEHRU NATIONAL URBAN RENEWAL MISSION (JNNURM)

In December 2005, the JNNURM was launched for the period 2005–12. The Basic Services for the Urban Poor (BSUP) and Integrated Housing and Slum Development Program (IHSDP) are the two sub-missions under the mission. BSUP aims to extend the security of tenure at an affordable price and provide houses at affordable cost in the identified 63 mission cities. The mission aimed to extend similar facilities in the non-mission cities through the IHSDP sub-mission. INR 11,469.55 crore was released as the central share under BSUP and INR 6,437.14 crore under IHSDP, taking the total central assistance to INR 17,906.69 crore, with which 11,05,195 dwelling units got completed. A total of 7,11,344 dwelling units under BSUP and 3,93,851 under IHSDP were constructed.

4.3.4 INTEREST SUBSIDY SCHEME FOR HOUSING THE URBAN POOR (ISHUP) AND RAJIV RINN YOJANA (RRY):

In December 2008, the ISHUP scheme was launched to enable the urban poor access long-term institutional finance. The ministry planned to incorporate the revised form of the ISHUP in the Twelfth Five Year Plan (2012–17) as the scheme was slated to be closed in 2012. The lack of interest in the provision of loans to the EWS and LIG by the banks resulted in the poor performance of the scheme. Across the states, such as in Andhra Pradesh, Chhattisgarh, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh, and Kerala a total of only 8,734 beneficiaries were covered under the scheme.

ISHUP scheme worked in tandem with Rajiv Awas Yojana (RAY), the government's flagship programme for a slum-free India from June 2011. The scheme provides subsidised loans for 15 to 20 years for a maximum amount of INR 1,00,000 for an EWS individual for a dwelling unit of at least 25 sqm area. Additional loans, if needed, were to be provided at unsubsidised rates. A maximum loan amount of INR 1,60,000 for a LIG individual for a dwelling unit of at least 40 sqm area was admissible. However, the subsidy was provided for loan amounts up to INR 1 lakh only. The additional loan requirements are allowed at unsubsidised rates.

The Rajiv Rinn Yojana (RRY) was formed by revising the ISHUP scheme by the Ministry of Housing and Urban Poverty Alleviation, Government of India. RRY addresses the housing needs of the EWS/ LIG segments in urban areas with an increase in the limit of eligible housing loans from INR 1–5 lakh. The scheme RRY was effective from 2013, in which the loan was revised up to INR 5 lakh for EWS and INR 8 lakh for LIG beneficiaries. However, the interest subsidy was available for a maximum of INR 5 lakh for both categories of beneficiaries. In April 2015, the RRY scheme was closed to make way for Pradhan Mantri Awas Yojana (PMAY).

4.3.5 RAJIV AWAS YOJANA (RAY)

The Rajiv Awas Yojana was launched with a motto of slum free cities. The scheme aims to improve all existing slums. The provision of basic amenities is for both the notified and non-notified slums. The major objectives of the scheme were to address the failures of the formal system that causes the creation of slums by providing housing stock and initiating the changes in policies required for facilitating the same. To expand the institutional credit linkages for the urban poor, the scheme provided an auxiliary environment. The scheme institutionalises prevention in the formation of slums, including the provision of affordable housing stock. RAY strengthens the institutional and human resource capacities at the municipal, city, and state levels through comprehensive capacity building and strengthening of resource networks. It helps in empowering the community by ensuring their participation at every stage of decision-making by strengthening and nurturing slum dwellers' associations or federations.

RAY has two phases in the implementation procedures. The preparatory phase where cities came up with the Slum Free Cities Plans of Action (SFCPoA) and from 2013 onwards was the implementation phase. The improvement of existing slums was done with the help of SFCPOA, and the formation of new slums is prevented through Affordable Housing in Partnership (AHP).

The Government launched a scheme of AHP as a part of RAY in 2013 to increase the supply of affordable housing stock. An estimation of INR 5,000 crore in the construction of one million houses for the EWS/LIG/MIG category of people with at least 25 per cent for the EWS category was made. The scheme facilitated a partnership between various agencies, government, parastatals, urban local bodies (ULB), developers for realising the goal of affordable housing for all.

4.3.6 PRADHAN MANTRI AWAS YOJANA (PMAY)

PMAY was introduced with the focus of achieving 'Housing for All' by 2022 and the scheme is implemented in the urban areas as PMAY–U and in rural areas as PMAY– Gramin. PMAY, when commenced, declared that 50 million houses will be built for the poor by 2022, out of which 30 million houses will be in rural areas and 20 million in urban areas. The mission period is from 2015 to 2022, and the central government provides support to the respective state and UTs with the Urban Local Bodies (ULBs) and other implementing agencies.

4.3.6.1 PRADHAN MANTRI AWAS YOJANA–URBAN (PMAY–U)

The 4 major components of PMAY–U are,

1. In-situ Slum Redevelopment (ISSR), which aims for the redevelopment of existing slums using land as a resource through private participation.
2. Credit Linked Subsidy Scheme (CLSS), which is implemented with the assistance of PLIs and controlled by NHB, HUDCO and SBI which are the central nodal agencies.
3. Affordable Housing in Partnership (AHP), which provides new housing supply
4. Beneficiary-Led Construction (BLC), which provides a subsidy for the individual house construction/enhancement.

The annual income of the EWS is up to INR 3,00,000 and a dwelling having a carpet area of up to 30 sq.m. In the case of lower-income group (LIGs), the annual income ranges between INR 3,00,001 up to INR 6,00,000 and a dwelling unit having carpet area up to 60 sq.m.

ISSR plans to replace the existing tenable and viable slums with good quality housing to accommodate the existing slum dwellers. The CLSS component targets facilitation of institutional mechanisms of housing finance to EWS and LIG home aspirants. The AHP component under the PMAY–U promotes public-private partnerships for supply of green-field new housing. According to the guidelines of the mission, an 'affordable housing project' should have a minimum of 35 per cent of the houses for the EWS category. BLC provides subsidy to EWS households to get a pucca house built/enhanced in their own piece of land.

4.3.6.2 PRADHAN MANTRI AWAS YOJANA–GRAMIN (PMAY–G)

Indira Awas Yojana (IAY), a scheme for rural housing, was revamped and launched as PMAY–G in April 2016. The PMAY–G scheme granted assistance to the beneficiaries in constructing pucca dwelling units with basic amenities like drinking water, sanitation and power supply. PMAY–G builds dwelling units which are low-cost, disaster-resilient, and in line with the socio-cultural and geo-climatic conditions of the region. The people having dilapidated houses in rural areas, except for Delhi and Chandigarh, are eligible under PMAY–G.

The unit cost will be shared between the central government (60 per cent) and the state government (40 per cent) for plain regions. For rural areas in the north-eastern and three Himalayan states of Himachal Pradesh, Uttarakhand, and Jammu and Kashmir, the central government will provide 90 per cent of the cost, and 10 per cent will be borne by the state government. For the construction of units in hilly states, difficult areas, zones in the Integrated Action Plan for selected tribal and backward districts, the amount of monetary assistance offered is INR 1.30 lakh, whereas in case of the plain regions INR 1.20 lakh per unit is provided. In union territories, including in the newly formed UT of Ladakh, 100 per cent financial assistance is provided by the central government.

PMAY–G beneficiaries can avail wages worth unskilled labour for 90–95 days under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The scheme is linked to other central government schemes such as Swachh Bharat Mission–Gramin (SBM–G). Through this collaboration, assistance of INR 12,000 was provided for the construction of toilets. Houses constructed under the PMAY–G scheme will have a minimum area of 25 sq.m. Basic amenities, including clean cooking space and power supply will be provided. Beneficiaries of PMAY–G will be finalised considering data from the Socio-economic and Caste Census (SECC) 2011. Beneficiaries are required to have an Aadhaar-linked bank or post office account to avail of the payments.

Beneficiaries can apply for a loan at a subsidised rate by registering under PMAY–G. A loan of up to INR 70,000 can be availed from financial institutions by beneficiaries through the scheme. Under the Rural Housing Interest Subsidy Scheme, a component of PMAY–G they will get an interest rate subsidy of up to 3 per cent on a maximum loan amount of INR 2 lakh. The loan can exceed INR 2 lakh as the subsidy applies to INR 2 lakh only. The tenure period can go up to 20 years.

The criteria for the selection of beneficiaries under PMAY–G is as follows:

- The family should not possess a pucca house in the country.
- Dwelling units with a kutcha wall and roof with zero, one, or two rooms are eligible to apply.
- Literate adults above 25 years of age should not be there in the family to apply for the scheme.
- Households without a working male or adult members in the age range of 16–59 years can apply.
- Households with a disabled member and which do not have other adult working persons can apply.
- Households without land and which have an income from casual labour can apply.
- Priority will be given to beneficiaries having the worst living conditions as per the SECC data of 2011 by the government.
- Households with a motorised vehicle, agricultural equipment, or even a fishing boat, are not eligible for this scheme.

Further, the beneficiaries are excluded from the scheme if:

- They have a Kisan Credit Card with a spending limit that is greater than or equal to INR 50,000.
- The household has a government employee earning more than INR 10,000 per month.
- The household has a member eligible to pay professional or income tax.
- The households has a landline connection and owns a refrigerator.

4.4 FINANCIAL INCENTIVES FOR HOUSING FINANCE

A deduction is provided to an individual, assessed on the interest on the housing loan availed from any financial institution for the acquisition of residential house property as per section 80EEA of the Income Tax Act. If section 80EE claimed an interest deduction, no further deduction is allowed under any other provision of the Act for the same or any other assessment year.

4.4.1 FINANCIAL INCENTIVES FOR AFFORDABLE HOUSING

The goods and services tax (GST) was reduced to 5–12 per cent without the input tax credit for the ongoing projects that don't fall under the affordable housing segment and from 8– 1 per cent under the affordable housing segment. The reforms in the sector created a dedicated affordable housing fund and credit incentives to low-income groups. Affordable housing is redefined as the residential unit of a carpet area of up to 90 sq.m. in non-metros, and 60 sq.m. in metros. And both the categories have a maximum price tag of up to INR 4.5 million. The provision of exemption of profits from tax under Section 80-IBA for builders has been getting extended year-on-year, enabling claiming 100 per cent tax deduction on profits from affordable housing projects. A total of INR 20,000 crore special funding is available for the affordable and mid-income projects, which are 60 per cent complete and non-performing assets or in the national company law tribunal under special funding window. Customer-centric policies or acts like Real Estate Regulatory Authority (RERA), revitalise the trust of customers in the sector. The interest rate reductions are done by the PLIs, following the Reserve Bank of India (RBI) rate cuts. The RBI has strictly instructed the bankers to provide information on the policy rate deductions to the borrowers and pass on any interest rate reduction to the end customers. A special liquidity scheme of INR 30,000 crore is available for Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs) and Micro-Finance Institutions (MFIs). NBFCs and MFIs have the partial credit guarantee scheme 2.0 for liabilities. Reduction in TDS rates is also applicable in this scenario. Figure 4.2 illustrates the key initiatives by the government to enhance the housing scenario, particularly in the finance sector.

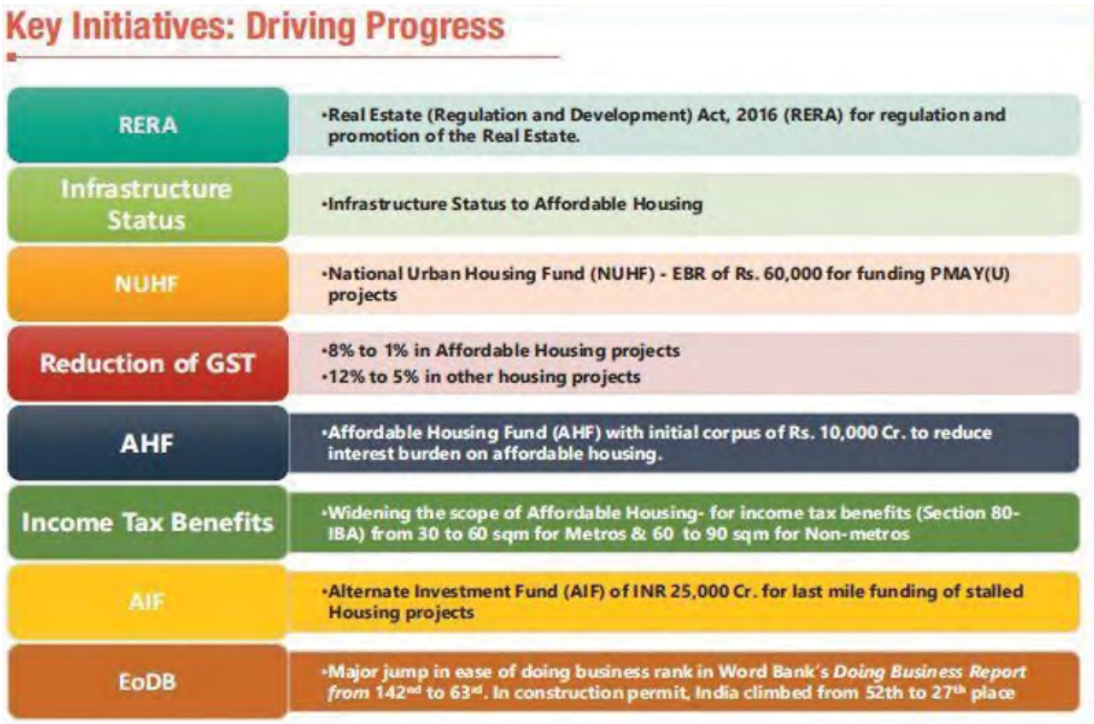

Figure 4.1: Key initiatives of the government to drive progress in housing

4.5 CREDIT ENHANCEMENT

Credit enhancement is a strategy to improve the credit risk profile of a borrower, usually to obtain better terms for repaying debt. It reduces the credit risk associated with the debt while providing reasonable and required security to the lender and hence lowering interest rates. This helps increase the overall credit rating of the borrower. The benefits of the credit enhancement are lower repayment risk and the introduction of new borrowers to the market.

4.5.1 CREDIT ENHANCEMENT IN INDIA

Credit enhancement has different forms in India. Currently, the housing sector is operating through a partial guarantee system, where a guarantor is either the third-party like any company or government. A third-party guarantee is needed when the borrower fails in the repayment of the loan to the lender. The third-party guarantee promises to pay all or a portion of the borrower's debt. The third-party is neither the lender nor the borrower. They are known as the guarantor of the borrower's loan. Individuals, partnerships, corporations, or governments can be the guarantor. Except in the case of governments and some well-capitalised corporations, lenders usually will expect the guarantors' guarantee as long as the guarantor has pledged its security to ensure repayment of the loan. Lenders commonly require the guarantor further to securitise the loan by providing the lender with a secured interest in assets of the guarantor or by pledging stocks and bonds. An example of a third-party guarantee company is the India Mortgage Guarantee Corporation (IMGC) described in the following section.

4.5.1.1 INDIAN MORTGAGE GUARANTEE CORPORATION (IMGC)

India's first mortgage guarantee company is the India Mortgage Guarantee Corporation (IMGC). The vision of IGMC is in facilitating early homeownership by mitigating credit risk for home loan lenders.

IMGC operations started in 2014 and were controlled by the Reserve Bank of India under the mortgage guarantee guidelines issued in 2008. The company works with 14 lender partners with the top 5 originators, which includes banks, Housing Finance Companies, and NBFCs. As of now, they have guaranteed home loans of above INR 7604 crore and have benefitted more than 44,612 households. The quality of individual loans and bulk mortgage portfolios improved with the comprehensive product offerings. Mortgage guarantees provide protection to the lenders from defaults by the borrower by compensating them in return for a fee.

IMGC plays around the gap in the risk estimation. They map the risk associated with the borrower more precisely, whereas large players don't want to dive deeper due to various costs. The IMGC cannot anticipate being viable without charging a high fee as compensation for the losses on banks going for a guarantee due to the wrong risk estimation by the banks. The IGMC is forced to increase charges due to the high risks causing the banks to limit the guarantee to the high-risk loans. This vicious cycle is also known as the 'lemons problem' by economists, which causes the mortgage guarantee to be a difficult proposition in its current version. Due to this a mortgage guarantee is mandated for all loans with a high loan-to-value ratio in foreign countries.

Further information can be retrieved here: https://www.imgc.com/

4.5.1.2 CREDIT RISK GUARANTEE FUND SCHEME (CRGFS)

The Government of India has extensive loan guarantee programmes referred to as mortgage insurance. Under these programmes, the federal government ensures that on default of a loan to the mortgagee (the lender) by a borrower, the government will make a certain percentage repayment of the loan. Such a scheme is the Credit Risk Guarantee Fund Scheme (CRGFS) by GoI.

The government of India launched the Rajiv Awas Yojana (RAY) to create a slum-free India. The EWS and LIG households were experiencing difficulty in availing housing loans from the Primary Lending Institutions (PLI) in the urban areas. Hence, the government decided to introduce the CRGFS in May 2012 for the low-income population for housing loans up to INR 5 lakh to new individual borrowers. The upper limit of INR 5 lakhs got upgraded to INR 8 lakh in 2014. The objectives of the CRGFS were to enable the availability of bank credit without collateral or third-party guarantee, to strengthen the credit delivery system, and facilitate the flow of credit to low-income housing, and considering default guarantee as a risk mitigant.

The benefits of lenders through the scheme are the credit risk transferred to the trust, capital relief, and mobilisation of funds through securitisation. The benefits of the borrowers through the scheme are credit enhancement, affordable interest rate at reduced risk, and increased availability and accessibility of institutional credit.

Further details about the scheme can be checked here: https://nhb.org.in/government-scheme/credit-risk-guarantee-fund-scheme/

CHAPTER 5
RETAIL HOUSING FINANCE SYSTEMS/FUNCTIONS

5.1 INTRODUCTION

As housing finance markets evolved, new players came into the industry and new methods of doing business were adopted. Efficiency increased on all fronts and new management techniques were incorporated in the field of housing finance. To expand the distribution across the wide geography of India new initiatives were identified. There were new approaches in assessing the credit worthiness of a customer. The latest marketing techniques were adopted in the industry to increase coverage and productivity. Builder tie-ups had become a massive measure in the industry, especially in large cities. New home loan products were devised, targeting the needs of customers from different profiles. Customer-centricity received a whole new thrust. The generation of new employment opportunities also led to a new set of developments in the sector.

Data sharing started happening in the industry to manage delinquent customers and this led to the evolution of better legal systems. New acts, laws, and institutions were created to address the most important aspects and to provide a platform for all industry players. Grievance resolution mechanisms were created. Regulators understood the risks and new mechanisms started evolving to manage them as they learned about the newer risks in the sector. New methods of raising funds to grow institutions were formed and housing loan companies were able to tap the capital markets in a big way. The entire real estate industry received a thrust due to the turbo charge provided by the housing finance institutions. The following section describes in detail the activities carried out in a typical housing finance organisation.

5.2 SOURCING, SALES AND DISTRIBUTION

A new development in the Indian housing finance sector over the years has been the introduction of aggressive marketing for sourcing, sales and distribution. So far, to reach out to new customers, peer recommendations and verbal referrals of users were the most effective way. The trend changed with filmstars getting hired as brand ambassadors by the financial firms to popularise brand names. Financial firms started spending a lot of resources on the promotion of loan products. The market has settled with more mature marketing strategies in recent periods. Today, lenders resort to electronic and print media and mobile telephony to attract new customers and announce promotional offerings. Property exhibitions, with collaboration among developers and financial firms, are considered a common marketing strategy in large cities.

Housing loans are different from other types of consumer loans and the house is considered to be the largest asset which has the highest liability. Customers applying for a home loan typically do not look only for funding. They require loan counselling to identify a suitable property, to determine the loan amount eligible for them and required technical advice to check the condition of the building, whether the builder has requisite approvals in place, etc. A borrower is required to seek legal advice to ensure the documents of the property being considered for purchase are in order or not. For this, the borrowers prefer approaching professionals for advice regarding the housing loan.

Drastic changes have happened in the distribution of housing loans in India. In earlier times, housing finance institutions were preferred to be in proximity to the potential borrowers to increase the number of customers. Fewer branches were maintained by the housing finance companies compared to the commercial banks. Large networks are an advantage because a customer looking for a housing loan shall approach a bank branch as part of routine banking functions. The skill sets of the staff in the bank and housing finance institutions are different, as the bank staff has done an array of functions compared to staff in the housing finance institutions (HFIs). Many of the public sector banks, on entering the housing credit market, were not very customer-centric. Due to the increased competition in the market, most banks have improved in recent times by customer-friendly systems.

With more offers and a plethora of options, a formal sector borrower is in a position to negotiate terms and conditions with the lender, as the market becomes a buyer's market. Banks and HFCs have started approaching customers with their direct executives, which is known as the 'feet on the street' approach. This has also led to the introduction of a new distribution system, that of Direct Selling Agents (DSAs), an indirect channel. DSAs, through their dedicated team, provide services to the individual who requires doorstep service. The DSA setup made good headway in the housing loan business and several institutions in the sector handed over the responsibility of sourcing to DSAs. Understandably, a DSA's objective is to maximise his/her revenue/commission. Some DSAs neither had the requisite skills nor training to sell housing loans. In India, DSAs were not required to undergo any formal training and were not regulated by any authority. This led to some challenges in the sector. Despite these challenges, DSAs remain a powerful sales force for the banks and housing finance companies. Many lenders have also augmented the distribution options with their own dedicated teams. A combination of distribution methods is deployed by the lending institutions.

In India, increased competition brought an increase in cross-selling of products and services. The offering of privileged savings accounts and credit cards is included in cross-selling. But this could be an opportunity to take advantage of the strong harmony among housing and insurance. Because of this harmony, home loans are promoted, bundled with life and home insurance products. Some of the larger commercial banks and HFIs have insurance subsidiaries and dedicated cross-selling arms. In the case of smaller housing finance companies, they have a provision of special arrangements with external insurers to provide insurance products to the customers (UN Habitat, 2008a).

5.3 TYPES OF RATE OF INTEREST

Loans have different rates of interest—fixed, fixed with reset and variable.

5.3.1 FIXED RATE OF INTEREST

The unchanging rate charged on a loan is known as the fixed rate of interest. For the entire loan duration, the equated monthly instalment (EMI) is the same in the fixed rate of interest calculation.

It is based on the lender's assumptions about the average discount rate over the fixed-rate period. Borrowers are attracted towards the fixed rate as they don't want their interest rates fluctuating over the term of their loans, potentially increasing their interest expenses and, by extension, their loan payments. This rate helps in avoiding the risk associated with a floating or variable interest rate.

The loan having a fixed rate as the rate of interest has a fixed EMI. Hence, for the repayment of a loan, the total cash outflow can be planned. The fixed EMI is stagnant during the inflation and interest rate fluctuations over the loan period. In case of reduction in the interest rate in the market, it does not impact the fixed EMI and hence does not provide any benefits to the borrower.

5.3.2 VARIABLE RATE OF INTEREST

A variable interest rate is also called an adjustable or a floating rate and is an interest rate on a loan or security that fluctuates over time. The rate payable on a debt obligation can vary, sometimes unexpectedly because it is based on an underlying benchmark interest rate or index, which changes periodically depending on externalities (Investopedia, 2021a). These rates are often associated with an external benchmark rate such as Bank Reference Rates/ Prime Lending Rates in India or the London Interbank Offered Rate (LIBOR) or the federal funds rate elsewhere. The obvious advantage of a variable interest rate is that if the underlying interest rate or index declines, the borrower's interest payments also fall. Conversely, if the underlying index rises, interest payments increase. Unlike variable interest rates, fixed interest rates do not fluctuate over their term (Investopedia, 2021b).

The EMI of a floating rate loan changes with changes in market interest rates. If market rates increase, your repayment increases. When rates fall, your dues also fall. The floating interest rate is made up of two parts—the index and the spread. The index is a measure of interest rates generally (based on say, government securities prices), and the spread is an extra amount that the banker adds to cover credit risk, profit mark-up, etc. The amount of the spread may differ from one lender to another, but it is usually constant over the life of the loan. If the index rate moves up, so does your interest rate in most circumstances and you will have to pay a higher EMI. Conversely, if the interest rate moves down, your EMI amount should be lower.

Also, sometimes banks make some adjustments so that your EMI remains constant. In such cases, when a lender increases the floating interest rate, the tenure of the loan is increased (and EMI kept constant). Some lenders also base their floating rates on their Benchmark Prime Lending Rates (BPLR) (Reserve Bank of India, n.d.). Most housing loans currently being done in India are made using floating interest rates.

5.3.3 FIXED WITH INTEREST RATE RESET

A fixed-rate loan with interest rate reset is a lending product using a scheduled reset date. A reset date is a predefined scheduled date that a borrower and lender must agree for a rate reset. This is predefined and contracted in the loan agreement. These loans offer borrowers a fixed rate for pre-defined periods and a new fixed rate for another predefined period and this process of fixed rate reset at specific periods continues over the life of the loan (Investopedia, 2020). Here, the interest rate on the loan remains fixed for the specified period and shifts to another fixed rate after a specifically defined period (MyLoanCare, n.d.). This continues to remain fixed until the next defined reset period.

5.4 EMI

The financial agreement between a lender and a borrower is known as a loan. Under this deal, the lender gives the borrower a fixed sum of money to get the sum lent paid back in monthly payments over a predetermined period by the borrower. The payment which the borrower makes every month towards loan repayment of the loan is the equated monthly instalment (EMI). EMI constitutes the principal amount, along with the accrued interest which increases and decreases respectively over the predetermined period. The loan amount and the interest rate are directly proportional to the payment of EMI. The tenure of the loan is inversely proportional to the EMI.

$$\text{EMI} = \frac{[P \times r \times (1 + r)^{n}]}{[(1 + r)^{(n-1)}]}$$

In this formula the variables stand for:

EMI is the equated monthly instalment

P = Principal or the amount that is borrowed as a loan

r = R/100 (R is rate of interest that is levied on the loan amount, interest rate should be a monthly rate)

n = Tenure of repayment of the loan (tenure should be in months)

For instance, consider a home loan of INR 5 lakh for 5 years at an interest of 15 per cent per annum.

To calculate the monthly interest rate, we divide the annual interest rate by the number of months in a year, i.e. 12, so monthly 15/12 = 1.25% per month

The 5-year loan tenure must also be converted into months before integrating into the formula i.e. 60 months

$$\mathrm{EMI} = \frac{[P \times r \times (1 + r)^{n}]}{[(1 + r)^{(n-1)}]}$$

$$\mathrm{EMI} = \frac{[5{,}00{,}000 \times {}^{1.25}/_{100} \times (1 + {}^{1.25}/_{100})^{60}]}{[(1 + {}^{1.25}/_{100})^{(60-1)}]}$$

EMI = INR 11,895

In case the borrower makes a prepayment through the tenure of a running loan, either the subsequent EMIs get reduced or the original tenure of the loan gets reduced or a combination of both is possible. When the borrower skips an EMI through the tenure of the loan (EMI holiday or cheque dishonour/ bounce or insufficient balance in case of auto deduction of EMI or a default) reverse will happen at that time. In that case, either the subsequent EMIs rise or the tenure of the loan increases or a mix of both, apart from inviting a financial penalty, if any.

Similarly, in case the rate of interest reduces through the tenure of the loan (as in the case of floating rate loans) the subsequent EMIs get reduced, or the tenure of the loan falls or a combination of both. The reverse happens when the rate of interest rises.

5.4.1 PRE-EMI

Sometimes, the loan is disbursed in instalments, depending on the stages of completion of the project. Pending final disbursement, one may be required to pay interest only on the portion of the loan disbursed. This interest is called pre-EMI interest. Pre-EMI interest is payable every month from the date of each disbursement up to the date of commencement of EMI only for the amounts disbursed thus far.

However, many banks offer a special facility whereby customers can choose the instalments they wish to pay for under-construction properties till the time the property is ready for possession. Anything paid over and above the interest by the customer goes towards principal repayment. The customer benefits by starting EMI payment earlier and hence repays the loan faster. It needs to be checked with the banker whether these options are available at the time of availing the loan (Reserve Bank of India, n.d.).

5.4.2 AMORTISATION

Amortisation is the process of spreading the repayment of a loan over a specific timeframe and deriving a predetermined yield taking into consideration the present value of the money. This is usually derived over a set number of months or years, referred to as instalments, depending on the conditions set by the banks. Amortisation will often incur interest payments at rates set at the discretion of the lender and agreed by the borrower at the time of loan processing. Amortisation is often paid in the form of consistent instalments. This means that the same amount will be repaid each month or year until the debt is fully repaid with interest also serviced (IG, n.d.).

SAMPLE CASE 1

Let us suppose that borrower A has an outstanding debt of INR 5 lakh. If A repaid INR 1 lakh of that loan every year, it would be said that INR 1 lakh of the debt is being amortized each year. However, A would also need to pay interest on the loan. In this case, if we suppose that the interest rate is set at 10 per cent, then A would need to repay INR 1,37,411 per year for 5 years, for the debt to be fully amortized by the end of the fifth year.

5.5 STEPS OF THE HOME LOAN PROCESS

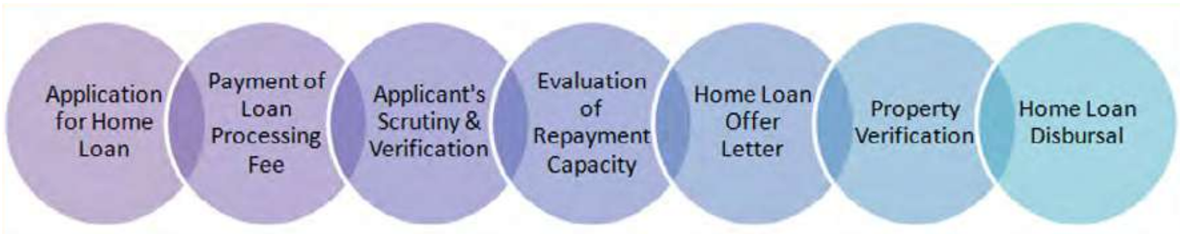

Figure 5.1: Steps of the home loan process

5.6 PRODUCTS AND VARIANTS

Name of Loan Product	Description / Purpose	Interest Rate Type
Loans for purchase of land	To buy a plot of land on which the loan applicant is looking to construct a house	Fixed, floating or hybrid
Loans for home purchase	To buy a residential property	
Loans for construction of a house	To construct a house on a plot that is owned or co-owned by them	
House expansion or extension loans	To extend a house owned by the applicant	
Loans for home improvement	To improve/renovate a house, including value additions	
NRI home loans	To assist NRIs in buying residential property in India	
Home conversion loans	For existing home-loan borrowers to move into another property - to buy a new house.	

Table 5.1: Types of loan products

Source: What are the types of home loans available? The Times of India (21 December 2018)

5.7 FEES AND CHARGES

In addition to rate of interest, several fees and charges are applicable as part of availing housing loans. A sample illustration of various types of fees and charges are illustrated in Table 5.2.

Type of Fees and Charges	Description	Indicative Charges (Illustrative Purposes Only)
Processing Charges	The processing fee is a one-time charge to be paid by a home loan borrower to the lender. The fee is charged to cover the costs incurred by the lender for loan application processing. It is usually a non-refundable amount.	Typically, 0.5% for salaried and 1–2% for self-employed with an upper limit based on institutional policy + GST
Documentation Charges	For getting the loan agreement signed, getting the repayment mandate activated and a few other formalities of required documentation, some lenders charge this fee	Ranges from INR 2,000 to INR 5,000 + applicable GST
Legal, Valuation, and Technical Charges	Most lenders engage firms to scrutinise borrowers' legal documents, which incur a legal fee. For high-value properties, more than one technical valuation and legal appraisal are done. Some PSU lenders charge a fee for doing this evaluation	0.5% or 1% paid to the nominated expert directly or collected by the PLI Usually around INR 5,000 + GST. Some PLIs include this as part of the processing charge.
CERSAI Charges	Fees incurred for registration of security interest under CERSAI Act	INR 250+ GST for loans<5 lakh and INR 500+GST for loans >5 lakh
Statutory/ Regulatory Charges	All applicable charges on account of Stamp Duty/ Memorandum of Deposit of Title Deeds (MODTD) or such other statutory/regulatory bodies and applicable taxes	Varies from 0.1% to 0.5% of loan amount based on the concerned state subject to maximum limits.
Charges for Delayed Payments	Charges incurred due to delayed payment of interest or EMI	Penal interest is usually in the range of 18% to 24% per annum on the delayed amount.
Incidental Charges	Incidental charges and expenses are levied to cover the costs, charges, expenses, and other monies that may have been expended in connection with the recovery of dues from a defaulting customer	Usually charged on actual expenses + GST
Cheque Dishonour Charges	Charges levied in the instance of EMI debit instructions getting returned due to insufficient funds	Varies from INR 200 to INR 1,000 based on PLI for each instance

Type of Fees and Charges	Description	Indicative Charges (Illustrative Purposes Only)
List of Documents	The charges incurred for providing a document 'consisting of the list of documents provided by the borrower to the lending bank at the commencement of loan'	Varies from INR 250 to INR 1,000 based on PLI for each instance
Photocopy of Documents	Fees for the photocopies of the documents	Varies from INR 250 to INR 1,000 based on PLI for each instance
Disbursement Cheque Cancellation Charge Post Disbursement	Charges for cancelling a cheque post disbursement on customer request	Varies from INR 250 to INR 1,000 based on PLI for each instance
Re-Appraisal of Loan after "n" Months from Sanction	The charges incurred during the re-evaluation of the proposal of the loan to find out the repayment capacity of the borrower after the original 'n' months validity.	Varies from INR 2,000 to INR 5,000 based on PLI for each instance
Increase / Decrease In Loan Term	The fees to be paid to change the tenure of the loan	Varies from INR 500 to INR 1000 based on PLI for each instance
Prepayment/Part Payment	The penalty is induced if the borrower significantly pays down or pays off the loan before the tenure of the loan	For variable rate loans no charges are applicable for part/full prepayment of loans. Fixed rate loans usually attract 2% charges on the amount being prepaid.
Conversion Fees	The charges which are incurred when the borrower changes the rate of interest from fixed to variable or vice versa	Fixed to Variable: Around 1% of Loan O/S+GST Variable to Fixed: Around 1.5% to 2% of Loan O/S + GST.

Table 5.2: Fees and charges by housing finance companies

* These are sample fees and charges and would change according to the lending institutions

5.8 CREDIT APPRAISAL

The analysis of the creditworthiness of the borrowers is known as credit appraisal. The borrower's payment history and establishing the quality and sustainability of his income are involved in the credit appraisal process. The lender also satisfies themselves about the good repayment intentions of the borrower, usually through an interview in case of self-employed. An appraisal is essential from the point of view of the lending institution because of the critical reasons listed as followed:

- To cover them against the business risks
- To keep a healthy portfolio that could be liquidated at a better rate in the market (securitized), if the need arises
- It is an aide to overall business risk management

5.8.1 CREDIT BUREAU

A Credit Bureau is a company that contains a repository of an individual's credit information collected from banks or other financial institutions and would provide them with a credit information report or credit score so they can decide on granting loans. Currently, four Credit Information Companies (CICs) are functioning at scale in India. They are Credit Information Bureau (India) Limited (CIBIL), Equifax Credit Information Services Private Limited, Experian Credit Information Company of India Private Limited, and CRIF High Mark Credit Information Services Private Limited, which are granted with the Certificate of Registration by the Reserve Bank of India.

Every credit institution should become a member of at least one CIC, according to section 15 of the Credit Information Companies (Regulation) Act, 2005 (CICRA). A CIC can seek and obtain credit information from its members (Credit Institution/ CIC) under section 17 of the CICRA. This results in obtaining the credit information on a particular borrower/client from a CIC, that has been provided to the CIC by its members as defined in CICRA and Credit Information Companies Regulations, 2006. The information regarding the credit history shall also include information related to the non-member credit institutions with which the borrower/client has/had a current or past exposure. To rectify the lack of complete credit information, the RBI made a mandatory rule according to which all credit institutions should become members of all CICs and moderate the membership and annual fees suitably (Reserve Bank of India, 2015).

5.9 TECHNICAL APPRAISAL

The technical appraisal determines the financial viability of the property and is done to ensure coverage of loan amount if and when the security is enforced in the event of default. The civil engineering aspects such as the location of the property, matching the location with the property documentation, valuation of the property, and the physical condition of the property are considered for the technical appraisal.

The main characteristic of technical appraisal is the statutory requirement and compliance. A technical expert would confirm compliance with notified technical standards. The next aspect that is considered is the valuation of property to cover for the money extended as loan when the lending institutions try to auction the property in case of default by the borrower. The property offered as the security to the lending institution on which loan is given should have more realisable value than the loan amount. The third aspect in an inspection is to monitor the end-use of funds, to serve the purpose of housing finance towards the construction of a house and not deviating from that intent. The funds are released periodically for each section of the house constructed.

5.10 LEGAL APPRAISAL

The process of legal appraisal revolves around the ability of the lender to enforce security in case of default. A lawyer/legal expert would evaluate the documents such as ownership transfer certificate, encumbrance certificate, sale deeds, khata certificates, and other property related matters in the process of legal appraisal. This is to ensure that the borrower is the absolute owner of the property that needs to be financed and the lender secured a 'clear and marketable title'. The validation of the succession of titles from earlier owners to the present owner is also done as part of this process (Ghosh, 2014).

5.11 OPERATIONS AND CUSTOMER SERVICE

Operations and customer service involves:

1. Services related to loan customers like income tax certificates, loan account statements, issuance of NOCs, EMI and interest revisions, prepayment, and resolving other related queries.
2. Maintenance of customer records, updating of details on customers' addresses and phone numbers
3. Ensure the on-time release of loan/title documents, issuing the no due certificate during the closure of accounts and undertake custodianship of executed loan documents, title deed /equitable mortgage (EM)/document registers, vouchers etc.
4. Custody and maintenance of all MIS pre and post disbursement of loan.
5. Management and tracking of the day-to-day branch operations and other systems-related support.

5.12 COLLECTIONS AND RECOVERY

In case of borrowers defaulting the loan, the recovery is done through various modes such as tele-calling, reminding letters, personal visits, follow-up visits with guarantors, employees, associates, besides taking legal action which is the higher level of recourse. Repossession of security is done to recover the dues according to the guidelines stipulated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI) Act, 2002, an Indian law. The auction of residential or commercial properties of the defaulter to recover loans is allowed by the banks and other financial institutions. Valuation of the property is done by government approved valuers to avoid the instances of disposing of the property at lower rates than the distress value. Excess money recovered from the sale of properties after adjusting for all the payment dues to the financial institutions is refunded to the borrowers (SARFAESI Act, 2002).

5.13 THE IMPORTANCE OF INSURANCE IN HOME LOANS

An insurance plan helps to mitigate risks both for the homeowner and the lender, in any turn of events that are unexpected and are beyond anyone's control. Insurance helps to smoothen the proceedings and ensures peace of mind for the borrower's family and also protects the risk for the lender. The key responsibility of the borrower or the borrower's family is to continue to pay the EMIs of the home loan regularly to continue to enjoy peaceful possession of the property without any legal hassle.

When a home loan is given, there is a registered lien marked on the property. If the borrower or borrower's family defaults on the monthly repayments, the entity which gave the home loan has legal recourse to possess the property and sell it to get their funds back and has the responsibility of paying any excess money realised from such sale to the borrower or borrower's family. If there is appropriate insurance coverage that protects the borrower or the borrower's family against the various risks, that will help them to tide over the critical phase smoothly. The various risks can be loss of life, loss of earning capacity due to critical illness, an accident leading to disability and/or unemployment, a natural calamity that destroys/ damages the property, and even defective titles. There are suitable insurance products to cover each of these risks.

5. 14 TYPES OF INSURANCE

The various products covered under insurance are described in the following section.

Term Insurance for Life

Term insurance is the cheapest mechanism for protecting the borrower's home and family in the event of an untimely death. As long as the premiums (annual or one-time) are paid regularly, the borrower is protected with the coverage amount which will help the family to repay the loan amount and protect their dream home. There are low-cost add-on riders available that multiply the sum insured in the event of an accident that causes loss of life or major disability.

Critical Illness Cover

This insurance protects the borrower against loss of earning capacity. Critical illness cover helps meet the emergency medical expenses and to continue to pay the monthly EMIs for a predefined period in the event of a critical illness and sometimes due to accidents.

Property Insurance

The financial reimbursement to the owner of a structure and its contents in case of damage or theft is provided under the property insurance. The damage can be due to a natural calamity, fire, or other reasons. The property insurance policy will help in claiming procedures and either reimburse the policyholder for the actual value of the damage or the replacement cost to fix the problem.

Personal Accident Cover

Personal accident cover is a policy that provides compensation in the event of injuries, disability, or even death caused solely by violent, accidental, external, and visible events.

Credit Insurance

Credit insurance is purchased by a borrower to pay off one or more existing debts in the event of death, disability, or in rare cases, unemployment. Credit insurance can be a financial lifesaver in the event of certain catastrophes. It is temporary relief in case of loss of job, hospitalisation, etc. It is usually a pure loan cover and is not available if not taken along with a loan.

Title Insurance

Title insurance protects both borrowers and lenders against any property loss or damage they might experience because of liens, encumbrances, or defects in the title to the property. Title insurance can help provide the home buyer and/or the mortgage lender necessary protection against losses resulting from unknown defects in the title to your property that occur before the closing of a real estate transaction.

Unknown defects in a title, such as any outstanding liens on the property, like unpaid municipal taxes by a prior owner or encumbrances that might hinder the owner's right of ownership (e.g., errors or omissions in deeds, undisclosed errors, fraud, forgery, mistakes in examining records), can result in additional costs in the future or even invalidate a home buyer's right of ownership in the property, and might also invalidate the lender's security interest in the policy. This product is in a very nascent stage in India and substantial work needs to be done to create an infrastructure of legal documentation for such products to be introduced and popularised.

CHAPTER 6
HOUSING SUPPORT SERVICES

The practice of facilitating people, usually belonging to lower-income segments, in accessing adequate housing is known as Housing Support Services. It broadly covers five thematic areas and is described along with examples in the following sections.

6.1 ACCESS TO INFORMATION ON GOVERNMENT SCHEMES AND SUBSIDIES

There are several government housing schemes at both the national and state levels to assist low-income households to improve their housing scenario. At the implementation level, these schemes have many challenges in attaining targets. Marginalised households rarely get the right inputs to benefit from the schemes. At times, improper and inefficient systems of government result in the failure of access of the schemes to the targeted people.

Under the Pradhan Mantri Awas Yojana (PMAY) Housing for All (Urban) scheme, urban local bodies are expected to run information campaigns on the benefits of the mission to improve awareness among the beneficiaries with respect to the eligibility criteria, and methodology by which a potential beneficiary gets access to benefits under the scheme. To increase the Mission outreach, community mobilisation can be done by the ward representatives and local NGOs as well. This approach helps ensure all potential beneficiaries' participation in the mission and that they are not left out from deriving benefits. More organisations are required to conduct the study on relevant central and state government housing policies as well as other schemes that find the intersection with housing requirements so that the beneficiaries can be rightly informed and educated.

EXAMPLE

Indian Housing Federation successfully enumerated more than 3,000 households as part of the PMAY(U) demand survey in the town of Morigaon in Assam, in strong adherence with the PMAY(U) mission guidelines.

As mandated in the Mission, the Government of Assam had rolled out a demand survey earlier but this was limited to only the top 9 towns of the state. This activity is considered to be the initial phase for the Mission in Assam. However, many documentation and process-related challenges faced by the state created bottlenecks in implementation. Consequently, the Government of Assam was actively seeking a competent entity to help it understand, conceptualise and implement the demand survey in the then 97 towns of the state.

As a relevant organization that has the contextual experience, IHF was identified and entrusted to demonstrate a robust demand survey methodology in Morigaon, a mid-sized town in Assam. Morigaon is administered by Morigaon Municipal Board and has a population of 29,164 as per the 2011 census. The current population then was expected to be around 40,000. The objective of this partnership was to conceptualise and implement a robust, efficient, and inclusive housing demand survey model. And this model could be replicated pan-Assam, as well as to explore ways in which the urban local bodies could take charge of the overall implementation of the Mission in their respective cities or towns.

The front-end survey team was formed with the local NGO staff and students by IHF. For the pilot demand survey, mainly 3 approaches were used, such as an awareness camp at ward-level with door-to-door form collection, a door-to-door awareness camp with door-to-door form collection, and a door-to-door awareness camp followed by a centralised form collection. The final approach was determined to be the most efficient in terms of resource efficiency, degree of awareness camps, and many forms were collected using this approach. This approach also helped bring in discipline among the survey participants and help in crowd management.

IHF also brought in innovation to streamline the process by replacing paper surveys with digitized tab-based surveys for improving data accuracy and geotagging the kutcha houses and prepared an innovative document checklist to deconstruct the complex provisions given in the mission guidelines for the benefit of people and came up with a systematic documents' checklist catering to each of the 4 verticals of PMAY-U.

6.2 ACCESS TO LAND TITLE/TENURE

Land tenure rights or ownership is a prerequisite for availing benefits under the Beneficiary-led Construction/Enhancement vertical of the PMAY-U mission. While many people have access to land, they may not necessarily have the documentation that can substantiate their claim for land tenure right or ownership. This would lead to a situation of genuine deserving beneficiaries being deprived of the benefit under the mission and of them continuing to live in their current kutcha houses.

Security of tenure is a key challenge that prevents households from improving the quality of their housing. Due to the uncertainty of tenure, households do not prefer investing too much money into their house and continue living in shabby surroundings, even if they have the resources to improve their housing. Inadequate tenure also prevents many financial institutions from lending to clients with such properties. As a result, any investment in home improvement is made on a compulsory stop-gap basis.

There is a wide scope for work with the concerned government authorities to acknowledge the issue at hand and address the gaps in the system and in motivating the beneficiaries to update their outdated land documents and obtaining indisputable proofs of land tenure rights or ownership.

Access to adequate shelter for every person is encouraged under 'Housing for All' by the government. The removal of homelessness, housing upgradation, provision of security of tenure, protection from forced evictions, provisioning of basic amenities and infrastructure facilities, reservation of land for housing for the poor, and supply of new units are some of the measures under the mission.

EXAMPLE

The government of Odisha enacted the 'Land Rights to Slum Dwellers Act' in 2017. Tata Trusts partnered with the Housing and Urban Development Department, Government of Odisha, to support the implementation of the Odisha Liveable Habitat Mission or 'Jaga Mission'. The Jaga Mission aims to transform slums into liveable habitats with civic infrastructure and services at par with developed areas within the same urban local bodies. The Mission aims to continuously improve the quality of civic infrastructure and services and provision better livelihood opportunities. The Mission also focuses on leveraging and converging various schemes, programmes, and funding opportunities by strengthening collaboration between the concerned government departments, urban bodies, NGOs, financial institutions, international agencies, trusts, communities, and other stakeholders.

The technical support by the Tata Trusts to the Government of Odisha, helps in the promotion of sustainable habitat development through equitable and affordable supply of land, shelter, and services.

The support from Tata Trusts for the programme extended in the provision of technical support for drone surveys, slum mapping, holistic habitat planning, and designing the housing and common spaces. To build and maintain the habitats within the ULBs, the government itself established suitable institutions and procedures. Support in the capacity building of ULBs, NGOs, and the Slum Dwellers Associations, who are the primary stakeholders in the execution of the Land Rights Act and the transformation of slums into a liveable habitat was also provided. Help to conduct community mobilisation and district-level inception meetings to create awareness among stakeholders to ensure their participation was also given. Learnings from this exercise helped to develop a strategy for the scale-up of the programme in all 30 districts of Odisha.

6.3 ACCESS TO FINANCE—MICRO HOUSING FINANCE

In India, the informal segment of the population is involved in a wide variety of jobs and needs to work for their daily needs. Many of them are living in rented homes or informal living communities, based on their financial wherewithal, family situations, and life outlook. Many of them belong to the EWS or LIG socio-economic segments. Over the years, some of them have gained access to their piece of land either through earnings and savings or in some cases through family inheritance. Some may live even in temporary housing that they have created using their limited resources on their own piece of land either through earnings and savings or in some cases through family inheritance. Some may live even in temporary housing that they have created using their limited resources on their own piece of land. In certain cases, the structure of the building or premises is very old and may not have a sound structure.

Individual house construction has received a boost in India, by the government's initiative 'Housing for All'. All the economically poor people who are looking to own their first home which is structurally sound can get financial assistance from the government. The government construction assistance is linked to usually four defined stages of construction and will be fully disbursed only after the building is completed and finished in all respects.

The financial assistance provided by the government is limited and may not be enough to complete the core house. The beneficiary should also contribute some portion in the form of labour, wherever possible, and in cash in most cases. This may not be possible for most of the beneficiaries and that will lead to a situation of either construction not starting, or half-built, incomplete houses. Either of these situations is undesirable and will lead to the failure of the mission.

A similar challenge is faced under the green-field housing where there is a requirement of a beneficiary share ranging from INR 1 lakh in a few states to as high as INR 5–7 lakh in several states. EWS families struggle to mobilise this funding in one go and in the absence of too many formal loan options, struggle to make this payment and acquire the house.

Only a few innovative financial products are currently available in the market to tackle this problem. However, there is an information gap between solution providers like financial institutions and banks, and the solution seekers i.e., the beneficiaries. Interventions that could bridge this gap and access gap funding from financial institutions are needed. The establishment of financial linkages with banks and housing finance institutions to enable access to housing credit for the construction/purchase of the house is needed.

EXAMPLE

Interventions from the Indian Housing Federation have supported the enabling of a well-coordinated programme of bringing all the stakeholders to one place to facilitate interactions and thus reduce the information gap. Indian Housing Federation has energised several credit camps in Coordination with the nodal agency and enabled the nodal agency to organise these camps where several thousands of beneficiaries have participated across the state of Tamil Nadu. Overall, about 15 Primary Lending Institutions participated in these camps.

Indian Housing Federation has encouraged and enabled the nodal agency to publicise these credit camps among deserving people through news articles in popular local language newspapers, through recorded announcements in local language done through vehicles in local areas, and by using banners and pamphlets. The nodal agency also helped by reaching across to all the targeted beneficiaries via scheduled messages sent to their mobile phone numbers either through WhatsApp and/or through SMS.

The effectiveness of the camp is evident from the number of inquiries generated and the home loan applications taken. This was a grassroots-level activity that demonstrated the relevance of a one-stop source that can help ensure collaboration between the various stakeholders. Such programmes can be executed on a much wider scale and can fill a critical vacuum, by empowering access to home microfinance for the EWS and LIG segments by enabling collaboration and communication between the relevant stakeholders.

The success of such activities can also help encourage more PLIs to come forward to cater to the micro housing finance requirement of the informal EWS and LIG segments with suitable home loan products which are more inclusive. This will provide the much-needed fuel in empowering 'Housing for All' and will universalise housing finance.

6.4. ACCESS TO CONSTRUCTION TECHNICAL ASSISTANCE

Self-built housing is the way the majority of people choose to live when they have small land parcels. The size of houses of the people belonging to the economically weaker section and low-income group is small, and due to financial constraints, they can build a new house in many cases only incrementally.

Much of this housing is of low quality, and if the structure is in a disaster-prone geography, it may lead to structural failures, property damage and even loss of life. In many neighbourhoods, due to the incremental nature of construction, essential factors like ventilation, sanitation, and piped drinking water are not well planned out. In many cases, access to the entrance through a road with a minimum vehicle becomes a challenge, and this may lead to unforeseen difficulties in medical emergencies and during fire hazards. There is no dearth of such examples across the country. In many such cases, the unplanned expansion is vertical, and unsound construction techniques can lead to the collapse of structures leading to loss of life and damage to nearby properties. In some situations, oversight and greed can lead to unfit and inhabitable construction and can lead to the development of social issues over time.

The issue of low resilience of individual construction endeavours of EWS/LIG people can be addressed by mobilising various stakeholders in the housing industry to encourage better construction practices and by making critical construction information easy to access through targeted training and interventions in critical deserving areas.

The aspirations of such homeowners often change over time due to the changes in the family situation and financial situation. Many of them would also tend to undertake incremental construction in the future. The house needs to be designed in a way that the beneficiaries can take full advantage of the government-provided subsidy of the present day and should have provisions for appropriate incremental construction in the future as needed by changing family and financial circumstances.

Access to good-quality construction materials will also improve the quality of the house. Aggregated supply of material and making it locally available at reasonable prices will also improve the benefits available to the beneficiary family. The beneficiaries can also be introduced to alternative materials and technologies that could potentially give them a cost-benefit and also ensure a better quality of life. There are construction methods that can significantly speed up the construction and can help the people occupying their homes faster. This leads to increased productivity in their regular jobs and thus helps to increase earning potential.

The self-construction context presents an opportunity for the various stakeholders to influence housing quality by enabling safer construction practices. The key actors of the self-construction practice are the masons and material suppliers. Working with masons and exposing them to technical knowledge for safe construction and spreading awareness about good construction practices is a legitimate way to improve the safety in the construction. Material suppliers have a major role in the disclosure of safe construction practices and providing financial and technical support to mason's program.

EXAMPLE

In 2010, mHS CITY LAB conceptualized a product named Design Home Solutions (DHS), to bring construction finance and technical assistance to informal households supported by Michael and Susan Dell Foundation. The technical assistance comprised of customized architectural and engineering solutions, including pre-construction advice and monitoring during construction. The housing loan for the pilot was provided by the partnership with BASIX-BSFL, a micro-finance institution. The need for finance was intended to drive customer's participation in the program, and technical assistance was provided as a mandatory service that would monitor the construction process and control the release of loan amounts.

The objective of the pilot was to identify a path to scale and learn about the nature of the market, especially the customer's receptivity and preferences. The DHS concept was tested on a pilot project in Mongolpuri, Delhi. While the interdisciplinary team at mHS had expertise in project design, community engagement, architecture, and urban design, there was the need for the financial part of the product and the community reach. BSFL, one of the eight different entities of BASIX and in partnership with a local NGO, Dr. AV Baliga Trust, facilitated a process to bring community awareness about the product and bring the opportunity to their customer base. Other stakeholders that were involved in the self-construction process were reached. These stakeholders include the community leader or Pradhan, the government agencies, material suppliers, masons, and contractors.

The conceptualization and implementation of the DHS pilot were done in four different stages. The stages are customer acquisition, pre-construction, construction, and post-construction. In the client acquisition stage, the BASIX team scouted the neighbourhood of Mongolpuri for households with a desire to upgrade their homes. The team explained the product to the clients, including the technical assistance component and conducted an internal assessment of the client's creditworthiness, critical to the long-term impact of the project. If the client passed the internal review, the mHS architectural team conducted an initial client visit to assess the technical feasibility of the case and provide cost estimates to the MFI. If the client passed both the technical and financial audits and agreed to the terms of the product, they became a DHS client.

While many clients used the funds to implement small repairs and expansions, few families agreed to rebuild their houses rather than adding additional floors. The mHS team worked closely with the client to draft the architectural plans that were both structurally sound and met the needs of the family. Simultaneously, BASIX sanctioned the loan, ready for disbursal once the construction began. An initial investment of 20 per cent as a sign of commitment was funded by the clients, before the disbursement of the first stage of the instalment by BASIX which leads to the construction of the foundation. The construction phase was the most intensive phase for the mHS team; there was the need to be on-site every other day for 3 months to monitor construction and ensure the structural soundness of the building.

The DHS pilot was designed to provide feedback to both mHS and BASIX about the value proposition of such a product, including the pricing, marketing, communication strategy, and incorporating feedback from the day-to-day operational challenges. The pilot validated the proof of concept on the value proposition of providing technical assistance. The mHS team began to reconsider the delivery model of technical assistance by leveraging technology and mobile-connected platforms to be more cost-effective. The technology could offer a huge potential by providing design and engineering expertise to low-income communities through applications on mobile platforms, which has become an essential device in most households, and is becoming increasingly affordable.

6.5 SUPPORT IN OPERATIONS AND MAINTENANCE

The construction of a dwelling unit is the major work involved in habitat development. The proper maintenance and effective way of using the house is also a task that needs to be accomplished by the beneficiary family. If one goes around in any urban area there is no scarcity for poorly maintained housing complexes. This is true even in middle-income segments and living quarters belonging to employees in certain sectors.

Over the years the residential buildings whether small or large start developing minor problems, which if left unattended leads to a larger issue. A leakage if left unattended develops corrosion and leads to larger leakages. A drainage or sanitation issue if left unattended leads to health-related problems.

In a large community of diverse people, common area utilities and maintenance are expected to be handled by the association of residents. However, in the communities of EWS/LIG segments, there is often a lack of cooperation in pooling resources for the proper maintenance of the building and surroundings.

There is a tendency to expect the state agency or the respective urban local dody to provide support for the operations and maintenance. While the urban local body will take care of common civic amenities, the maintenance of the house and the neighbourhood is the responsibility of beneficiary families. There is a large opportunity for the right community organisations or in some cases for the right service providers to work with communities on community development, community welfare and ensure continual support by establishing systems, processes and required manpower with proper complaint redressal mechanism. This initiative can provide large-level organized employment opportunities to the target segment as well. This is the creation of wealth for the community since the activity that was previously not done will be undertaken by the community themselves. This will also lead to improvement in society since overall cleanliness and visual appeal gets improved. This brings in a significant improvement in the outlook of society in general and can lead to increased productivity levels.

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ANNEXURE I
KEY INSTITUTIONS IN THE HOUSING FINANCE DOMAIN

1. NATIONAL CO-OPERATIVE HOUSING FEDERATION (NCHF 1969)

The NCHF was established in 1969, as an apex national level organization for the entire cooperative housing sector. The main objective was to promote, develop and co-ordinate the activities of housing cooperatives in the country. NCHF was registered under the Multi-State Co-operative Societies Act-1984. Now this Act is replaced with Multi-State Co-operative Societies Act- 2002. The Ministry of Housing and Urban Affairs is controlling the activities of NCHF.

OBJECTIVES:

- To provide a common forum for dealing with technical, financial, and practical problems relating to housing cooperatives and devise ways and means of solving them.
- To carry on publicity and promotion of cooperative housing movement and for that purpose to arrange for publication of periodicals, news bulletins, and journals, exchange statistics and information relating to cooperative housing.
- To promote apex cooperative housing federations in those states where such organizations do not exist.
- To organize cooperative education, training, and information programmes for its members, directors, employees, and personnel of housing cooperatives.
- To organise conferences, conventions, seminars, working groups as well as research work relating to cooperative housing and allied matters.

2. HOUSING AND URBAN DEVELOPMENT CORPORATION LTD (HUDCO 1970)

HUDCO was established by the Government of India against the backdrop of the housing deficit in the 1960s and 70s, to address the issue of housing finance and to accelerate residential construction activity in the country. The vision is to be a leading techno-financial institution promoting sustainable habitat development for transforming the lives of people. And the mission is to promote sustainable habitat development to enhance the quality of life.

OBJECTIVES:

- To provide long-term finance or undertake direct construction of houses for residential purposes in urban and rural areas.
- To finance or undertake wholly are partly, the setting up of new satellite towns.

- To subscribe to the debentures and bonds to be issued by the State Housing Boards, ACHFs, and other housing agencies for financing housing and urban development programs.
- To finance or undertake the settings up of building materials industries.
- To administer the funds received, from time to time, from the Government of India and other sources as grants or otherwise for financing or undertaking housing and urban development programs in the country.
- To promote, assist, collaborate and provide consultancy services for designing and planning programs for housing and urban development.
- HUDCO provides finance for the setting up of new towns and also works as consultancy services for the projects of designing and planning relating to Housing and Urban Development programs in India as well as abroad.
- 55 per cent of the housing finance of HUDCO was designed to be allocated to economically weaker sections and low-income groups.

3. HOUSING AND DEVELOPMENT FINANCE CORPORATION (HDFC - 1977)

The establishment of Housing Development Finance Corporation Limited (HDFC Ltd) was a pioneering development in the history of the Housing Finance Sector and its development. It has been a role model of an Institution for the entire sector and specifically the private sector in housing finance. The primary objective is to enhance the residential housing stock in-country through the provision of housing finance systematically and professionally and to promote home ownership. The aim is to increase the flow of resources to the housing sector by integrating the housing finance sector with the overall domestic financial markets. HDFC is an Indian financial services company based in Mumbai, India. It is a major provider of finance for housing in India. HDFC was promoted by the Industrial Credit and Investment Corporation of India (ICICI). HDFC was incorporated on October 17, 1977, under the chairmanship of Sh. H.T. Parekh. It was registered under the Indian Companies Act, 1956. The aim was to be in the business of mortgage finance for housing. This marked the beginning of organization without financial assistance from the government.

OBJECTIVES:

The primary objective of HDFC is to enhance residential housing stock and to promote house ownership by providing individual households/ families with long-term mortgage loans at a commercially viable rate.

It aims to finance low and middle-income groups of people to purchase or construct a single-family dwelling unit, for their occupation.

It also aims to grant loans to the cooperative sector for housing its employees.

It also aims to increase the flow of resources to the housing sector by integrating the housing finance sector with the overall domestic financial markets.

4. INSURANCE ACT AMENDMENT – ENABLING NEW PLAYERS IN HOUSING FINANCE (1987)

In 1985, the RBI made many recommendations for liberalisation in the housing finance system based on the report of the Chakraborty Committee.
In 1987, the Government of India amended the Insurance Act of India to allow the Life Insurance Corporation (LIC) and the General Insurance Corporation (GIC) to enter the housing finance business. LIC through its subsidiary LICHFL is one of the major players playing a pivotal role in the development of the sector.

5. NATIONAL HOUSING BANK (NHB 1988)

The Vision of National Housing Bank (NHB) is to promote inclusive expansion with stability in the housing finance market. The mission is to harness and promote the market potentials to serve the housing needs of all segments of the population with the focus on low and moderate-income housing. During the Seventh Five Year Plan (1985-90), a sub-group appointed to study the problems in housing finance identified that the lack of a national level institution stands as a hindrance for the development of the housing sector. As such, the committee proposed the establishment of a national-level agency. The Government of India constituted a High-Level Group under the Chairmanship of Dr. C. Rangarajan, to examine the proposal. This committee also recommended the setting up of the National Housing Bank as an autonomous housing finance institution. NHB was incorporated in the year 1988, as per the provisions of the National Housing Bank Act – 1987, as a subsidiary of the RBI. Set up in July 1988 with equity support from the RBI, NHB is intended to act as the apex institution for coordinating and developing the housing finance schemes.

OBJECTIVES OF NHB

- To promote a sound, healthy, viable, and cost-effective housing finance system to cater to all segments of the population.
- To promote a network of dedicated housing finance institutions.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.
- To augment resources for the sector and channelize them for housing.

REGULATION OF HOUSING FINANCE COMPANIES BY NHB:

The NHB Act 1987, empowers the NHB to monitor the functioning of housing finance companies to protect the depositors and the other stakeholders. To achieve this, the NHB is empowered to determine the policy and give directions to the housing finance companies. Some of the important provisions for regulation of HFCs by the NHB under the NHB Act, 1987 are,

- Requirement of registration with the NHB apart from registration with the Registrar of Companies.

- Requirement of bringing in a minimum net owned fund of INR 200 lakhs.
- Maintenance of a percentage of assets in specified securities as per NHB regulations.
- Creation of a reserve fund by the HFCs to which they are required to transfer at least 25 per cent of their profits before any dividend is declared.
- Regulation on issue of prospectus or advertisements soliciting deposits from the public. Making prudential norms for HFCs.
- Giving directions to the auditors of the HFCs relating to financial statements and disclosure requirements.
- Penalty for violation of the provisions or the directions issued and filing of winding up petition against defaulting HFCs.

In 2019, the National Housing Bank has been fully taken over by the government as per the Narasimham II committee report recommendations, which said that RBI can't own the entities which were regulated by RBI. The Finance (No.2) Act, 2019 (23 of 2019) amended the National Housing Bank Act, 1987 conferring certain powers for regulation of Housing Finance Companies (HFCs) with the Reserve Bank of India (RBI). The Central Government has since issued a notification appointing August 09, 2019, as the date on which the relevant part of that Act, namely, Part VII of Chapter VI shall come into effect. The RBI shall come out with revised regulations in due course after reviewing the extant regulatory framework applicable to the HFCs. In the meantime, HFCs have been advised to continue to comply with the directions and instructions issued by the National Housing Bank (NHB). After the transfer of regulatory powers to RBI, NHB will continue to carry out supervision of HFCs and HFCs will continue to submit various returns to NHB as hitherto. The grievance redressal mechanism concerning HFCs will also continue to be with the NHB.

NHB currently supervises HFCs and provides refinance to them and banks operating in the field of housing finance. NHB borrows from the government, the Reserve Bank of India, and even from foreign capital markets. The NHB also provides refinance facilities to eligible housing finance agencies such as housing finance companies, scheduled commercial banks, cooperative banks or societies, state land development banks, etc.

IMPLEMENTATION OF GOVERNMENT SCHEMES – ROLE OF NHB:

The NHB acts as a Central Nodal Agency (CNA) for implementation of the Government of India's schemes. The current Schemes where NHB performs this role include Pradhan Mantri Awas Yojana (Urban) - Credit Linked Subsidy Scheme (CLSS) and Rural Housing Interest Subsidy Scheme. As of 30 June 2019, NHB has executed MoUs with 88 PLIs for the implementation of the scheme.

6. RESERVE BANK OF INDIA

In pursuance of the National Housing Policy of the Central Government, the Reserve Bank of India has been facilitating the flow of credit to the housing sector. RBI was announcing minimum housing finance allocation annually based on the growth of deposits recorded during the previous year till the year 2002-03. Banks could deploy their funds under the housing finance allocation in any of the three categories.

i. **Direct finance** - Direct housing finance refers to the finance provided to individuals or groups of individuals including co-operative societies.

ii. **Indirect finance** - Banks should ensure that their indirect housing finance is channelled by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc., primarily for augmenting the supply of serviced land and constructed unit

iii. **Investment in bonds of NHB/HUDCO**, or combination thereof.

7. EXPANDING THE HOUSING FINANCE HORIZON (1989)

In 1989, the RBI allowed commercial banks to issue large loans for housing without imposing rigid restrictions on the interest rate or loan quantity ceiling. The entry of LIC and GIC and many banks like SBI and Canara Bank through their housing finance subsidiaries had started to be another landmark in the promotion of the housing industry.

ANNEXURE II

LIST OF HOUSING FINANCE COMPANIES

The following chart provides the state/union territory-wise branches/offices of HFCs.

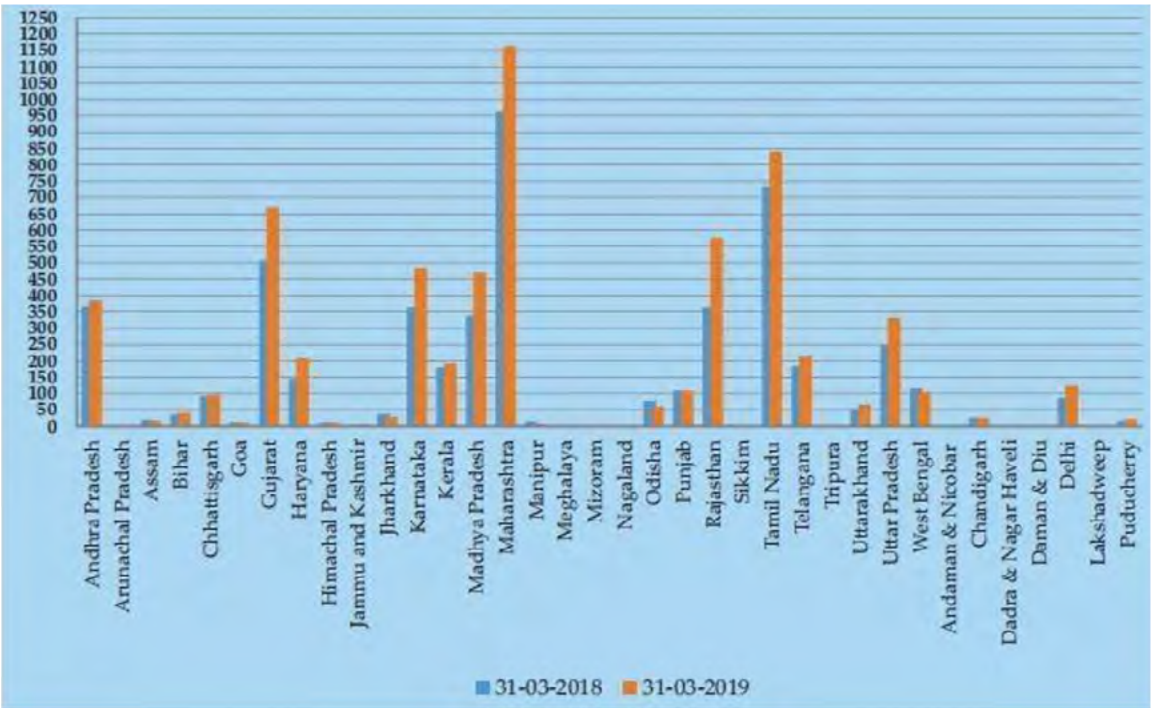

Figure A1: State/UT wise spread of branches/offices of HFCs

1. LIFE INSURANCE CORPORATION HOUSING FINANCE LIMITED (LICHFL 1989)

Vision

To be the best housing finance company in the country

Mission

Provide secured housing finance at affordable cost, maximising shareholders value with higher customer sensitivity

LICHFL was incorporated in the year 1989 under the Companies Act, 1956. The company was promoted by LIC of India and went public in 1994. It is one of the largest housing finance companies in the country. The main objective of the company is to provide long-term finance to individuals for the purchase, construction, repair, and renovation of new or existing flats or houses. Around 89 per cent of the loan portfolio of LICHFL derived from the retail segment and the rest from large corporate clients. The company has three important subsidiaries, viz. LICHFL Care Homes Limited, LICHFL Financial Services Ltd., and Asset Management Company Ltd. LICHFL Care Homes Limited are engaged in the business of setting up, running, and maintaining assisted living community centre/care homes for senior citizens; LICHFL Financial Services Ltd, is engaged in the business of marketing various financial products and services, and LICHFL Asset Management Company Ltd is engaged in the business of managing, advising, administering mutual funds, unit trusts, investment trusts and to act as financial and investment advisors and render financial advisory services. The company possesses one of the industry's most extensive marketing networks in India. The company has its registered and corporate office in Mumbai.

2. ICICI HOME FINANCE COMPANY LIMITED (ICICIHFL 1999)

ICICI Home Finance Company Ltd (ICICI Home Finance) was incorporated in the year 1999 as a 100 per cent subsidiary of ICICI Personal Financial Services Ltd (ICICI PFS). The company got registered in March 2000 with NHB. With effect from 3 May 2002, ICICI Home Finance became a wholly-owned subsidiary of ICICI Bank Ltd. It provides long-term housing loans to individuals and corporates. ICICI Home Finance is the focal point for marketing, distribution, and servicing of the home loans products of the ICICI Bank. The company also offers loans for commercial property and loans against existing property. The loans are offered for tenors up to 25 or 30 years.

3. PNB HOUSING FINANCE LIMITED (PNBHFL 1988)

PNB Housing Finance Limited is a subsidiary of Punjab National Bank. It was incorporated under the Companies Act -1956 and commenced its operations on November 11, 1988. PNBHFL is a deposit accepting housing finance company. PNBHFL provides housing loans to individuals (both resident Indians and NRIs) and corporate for the construction, purchase, repair, and up-gradation of houses. It also provides loans for commercial space, loans against property, and loans for the purchase of residential plots.

4. GENERAL INSURANCE CORPORATION HOUSING FINANCE LIMITED (GICHFL 1989)

GIC Housing Finance Limited was incorporated as 'GIC Grih Vitta Limited' on 12 December 1989. The name was changed to its present name via a fresh Certificate of Incorporation issued on 16th November 1993. The Company was promoted by General Insurance Corporation of India and its erstwhile subsidiaries namely, National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited, and United India Insurance Company Limited together with UTI, ICICI, IFCI, HDFC, and SBI, all of them contributing to the initial share capital. The Company was formed to enter the field of direct lending to individuals and other corporates to accelerate the housing activities in India. The primary business of GICHFL is granting housing loans to individuals and persons or entities engaged in the construction of houses or flats for residential purposes. The company has got a strong marketing team, which is further assisted by Sales Associates (SAs). It has tie-ups with builders to provide finance to individual borrowers. It also has tie-ups with corporations for various housing finance needs.

5. CANFIN HOMES LIMITED (CFHL 1987)

CanFin Homes (CFHL), established in 1987. It is promoted by Canara Bank in association with reputed financial institutions including HDFC and UTI. CFHL was set up with the mission of promoting homeownership and increasing housing stock all over the country. It is the first bank and the biggest bank-sponsored housing finance company (HFC) in the country and one of the top players in the country's housing finance sector. Now the National Housing Bank (NHB) is also an important equity holder in CFHL. It is one among the four HFCs selected by NHB in its first phase of the securitization programme. CFHL offers loans for the construction of a house, loan for the purchase of a flat or house, finance for the acquisition of a plot, and construction of a house on the same. Under the composite housing loan scheme, it offers loans for the extension of existing houses and loans towards the repairs, renovation, and up-gradation of a house or flat. CFHL enjoys a 5 Star rating from NHB for refinancing.

6. GRUH FINANCE

Gruh Finance started its operations in 1988 as a subsidiary of HDFC, the pioneer in housing finance in India. GRUH Finance Limited is a housing finance company. The Company provides home loans to individuals, and families for purchase, construction, and extension.

GRUH also provides loans for the repair and renovation of houses and home loans to families in the self-employed category. GRUH offers loans for the purchase and construction of non-residential properties (NRP) and offers mortgage loans against existing residential and commercial properties.

GRUH offers developer loans on a selective basis. GRUH offers loans on an annual, monthly, and daily rest basis.

The Company also offers loans with a credit guarantee cover wherein the loans are guaranteed by the Credit Risk Guarantee Fund Trust (CRGFT). GRUH also offers home loans under the Rural Housing Fund (RHF) scheme of the National Housing Bank (NHB).

The Company's home loan products include GRUH Suraksha, GRUH Suvidha, GRUH Sajavat, and GRUH Samruddhi.

On October 17, 2019, Gruh Finance became a part of Bandhan Bank and its products are available as Gruh Home Loans under Bandhan Bank.

Bandhan started in 2001 as a, not for profit enterprise that stood for financial inclusion and women empowerment through sustainable livelihood creation. It turned into an NBFC a few years later but the core objective remained financial inclusion. When Bandhan Bank started its operations on 23 August 2015, it was the first instance of a microfinance entity transforming itself into a universal bank in India.

7. MAHINDRA RURAL HOUSING FINANCE

Mahindra Rural Housing Finance Limited (MRHFL), a subsidiary of Mahindra and Mahindra Financial Services Limited (MMFSL) was established in 2007 to provide home loans primarily in rural areas. The loans given by the company, are secured by the property financed and may be availed by the customer for construction or purchase of a new property or repairs, modernisation, or extension of an existing home. Mahindra Rural Housing Finance is the largest home loan company serving rural India.

8. AADHAR HOUSING FINANCE

Aadhar Housing Finance ltd (Aadhar), formerly known as DHFL Vysya Housing Finance Ltd, is one of the largest affordable housing finance companies in India servicing the home financing needs of the low-income sections of the society. Aadhar Housing Finance Limited (AHFL) was incorporated in 2010 and later amalgamated with DHFL Vysya w.e.f 20 November 2017 and subsequently name changed to Aadhar Housing Finance Limited. Formed with the merger of DHFL Vysya and Aadhar Housing Finance, Aadhar is one of the few players in the industry with a pan-India presence. Aadhar provides financing solutions to all segments of customers whose monthly income is between INR 5,000 (USD 76) to INR 50,000 (USD 765) and above. Aadhar provides home loans to all segments of people including barbers, tailors, carpenters, plumbers, kirana merchants to police, defence and railway personnel, small and medium businesses, and the self-employed. Aadhar has branches across many states and it reaches more than 90 per cent of the country's population and provides credit solutions that make homeownership accessible to everyone.

9. SVATANTRA MICRO HOME FINANCE CORPORATION

The company got incorporated in 2008 as MHFC and started operations in 2009. In 2012 it expanded its operations in Gujarat, Maharashtra, Madhya Pradesh, and West Bengal. In 2013 it started operations in Rajasthan and launched a paperless loan application the same year. In 2014, the company recorded zero NPAs for its first six financial years. In 2016 Svatantra crossed 10000 customers.

The company, MHFC was acquired by Svatantra Holdings led by Ms. Ananya Birla, also Founder and Chairperson of Svatantra Microfin Pvt. Ltd. The name was changed to Svatantra MHFC Ltd. Svatantra operates primarily through a lean organization and has tie-ups with affordable housing developers. That is the primary strategy of operation.

10. SHUBHAM HOUSING DEVELOPMENT FINANCE COMPANY

Shubham is a leader in providing housing finance solutions to those with informal incomes. They are amongst the first organisations in India to transcend from document-based underwriting to customised credit programmes for each customer and have become a leading home loan provider at low interest.

The motto is to help build happy homes for those who are outside the formal income circle. Shubham does this by extensively engaging the customers in a discussion about their life story - where they come from, what they do, how they earn, spend and save. Shubham takes a holistic view of the customers and their nod on what they can pay every month as an EMI. With the sole purpose of offering customized and affordable housing finance solutions, Shubham believes everyone deserves a better and safer home to call their own.

Vision - Is to be the Mortgage Lender of choice for families with Informal Income.

Mission - Shubham's sole mission is to provide housing loans and finance solutions to families with informal incomes through new-age credit programs which do not require individuals to provide any income proof on paper.

With Shubham's credit programme, they look forward to every family owning a home of their own, even though they may be outside the formal income circle. The company's goal is to enable families to have a better and secure future and drive financial inclusion within this segment.

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DISCLAIMER:

The content presented in this document has been compiled with utmost care. Findings, interpretations, and conclusions expressed in this document are based on information gathered by IHF and its consultants, partners, and contributors. It is acknowledged that this is an evolving subject and there is a need to keep updating the details over a period of time. IHF does not, however, guarantee the accuracy or completeness of information in this document, and cannot be held responsible for any errors, omissions, or losses arising directly or indirectly from the use of this document.

ABOUT YUVA

Youth for Unity and Voluntary Action (YUVA) is a non-profit development organisation committed to enabling vulnerable groups to access their rights. YUVA encourages the formation of people's collectives that engage in the discourse on development, thereby ensuring self-determined and sustained collective action in communities. This work is complemented with advocacy and policy recommendations. Founded in Mumbai in 1984, currently YUVA operates in the states of Maharashtra, Madhya Pradesh, Odisha, Assam and New Delhi.

At the community-level, through an integrated 360-degree approach, YUVA delivers solutions on issues of housing, livelihood, environment and governance. Through research, YUVA creates knowledge that enhances capacity building. Through partnerships in campaigns, YUVA provides solidarity and builds strong alliances to drive change.

ABOUT INDIAN HOUSING FEDERATION

Indian Housing Federation (IHF) is a not-for-profit organisation with a vision of enabling access to housing for low-income communities.

Incorporated in 2015, IHF possesses a robust grassroots experience and understanding of the complex and diverse space of low-income housing in India. As a part of its mandate, IHF has provided strategic and implementation support to the state governments of Assam, Haryana, Odisha and Tamil Nadu towards achieving the objective of "Housing for All".