Report of National Workshop on ‘Exploring enabling strategies for Urban Housing Microfinance: A crucial step towards Housing for All’

The 16th of June, 2015
India Habitat Centre, New Delhi

Ministry of Housing and Urban Poverty Alleviation
Executive Summary

National Workshop: ‘Exploring enabling strategies for Urban Housing Microfinance: A crucial step towards Housing for All’

The National Workshop: ‘Exploring enabling strategies for Urban Housing Microfinance: A crucial step towards Housing for All’ was a renewed step towards setting up a collective process of individuals and institutions coming together to work out ways to reach housing finance to the urban poor. With the National Policy of ‘Housing for All’, it was the opportune time to revisit our policies, programs and practices in delivery of housing finance to the un-reached urban poor. Organised by the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and HUDCO’s HSMI, the workshop was held on the 16th of June, 2015 at India Habitat Centre, New Delhi.

Objective of the workshop

To consolidate workable ideas & propositions from Housing Micro Finance Institutions (HMFIs), Housing Finance Corporations (HFCs), NGO-MFIs and Banks in order to evolve an integrated mechanism to effectively reach Housing finance to the urban poor in India.

Thematic Questions anchoring the Workshop

• Are the institutions providing Housing micro finance or creating affordable housing stock able to ensure housing finance downmarket till the least reachable house-hold. What is the extent of outreach?

• What are the enabling and disabling factors that either enable ease of entry or make for restrictive entry respectively? What are the possible scale and sustainability issues?

• Does housing micro finance for incremental building; group lending models; modular housing finance products; short repayment tenures; micro enterprise + micro housing finance combination work in urban India?

• What kind of pricing issues are faced by the institutions providing housing micro finance and cost issues faced by housing providers/developers? What could be the suggestive and implementable solutions

• What role does technology and capacity building play and how could they be integrated into the micro housing finance delivery process?
• What are the indispensable regulatory and policy requisites for making housing micro finance reachable? How much would formalisation of the housing micro finance sector be implementable?

Stakeholder Profile
The participant stakeholders included a cross section of grass-root organisations practising housing microfinance; commercial lending institutions like banks, HFCs, NBFCs; private developers; policy makers and regulatory authorities; consultants and individual experts.

The list of participants is at Annexure-I.

Report Structure
The report is structured into three sections. Section I deals with the ‘Concept’ that introduces the subject of the workshop. Section II is a summary of proceedings, laying down the highlights of the discussion. Section III represents the Workshop Outcome and the way forward.

Workshop Outcome
The outcome note is based on the write-ups received by some invitees prior to the workshop as per the template sent to participants (Annexure II), the discussions that took place during the course of the workshop and the framework as presented by National Housing Bank in its 2010 report titled ‘Report of the committee to explore, examine and recommend setting up of a dedicated Micro finance company with focus on Micro-Housing finance as submitted to the MoHUPA. It makes an effort to answer the thematic questions raised at the beginning of the workshop and puts forth some recommendations. To operationalize the recommendations, a road map for integrated institutional mechanism for HMF is proposed, to implement which thematic working groups constituent of different stakeholders have been created who have commenced their work on-line.

The structure and constitution of the HMF Working Group is at Annexure-III.
An important national agenda and the mandate of the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) in particular, is to enable the poor and vulnerable people access to safe and adequate housing. While the urban housing shortage in India stands at 18.78 mn units, 95% of this shortage arises from the EWS and LIG segment of the population, who both by reasons of inadequacy of income and informality of employment to service the debt, remain incapable of accessing the formal housing finance market. Reasons for restrictive entry into institutional housing finance i.e. as provided by banks, Financial Institutions, Housing Finance Companies etc. vary, ranging from high transaction costs for small loans, non-applicability of traditional mortgage, lien and difficulty in determining repayment capacity vide income documentation etc. A 2010 Mcginsey report titled ‘India’s urban awakening: Building inclusive cities, sustaining economic growth’ states that there is a striking mismatch amongst affordability, demand and supply. In the deprived segment, the report states that earnings less than Rs. 90,000/- per annum has an affordability of house worth Rs. 90,000/- considering the maximum affordable outlay of the lowest income household to be 25% of monthly household income and an interest rate of 18-20%. The available market price for a house of 275 sqft is Rs.4, 40,000/-, thereby reflecting a distinct 80% affordability gap.

**Emerging Housing Micro Finance trends:** There is however, an emerging trend of Housing microfinance market with practices and prospects that lie at the intersection of Housing finance and Micro enterprise finance.
HMF consists mainly of loans to low-income people for renovation or expansion of an existing home, construction of a new home, land acquisition for connecting to the city infrastructure. To date, research suggests that the success in this case has been mostly in home improvement loans since the poor follow an incremental building process.

Land acquisition and new construction is dominated by Government subsidies and financial services. Even the Mass housing programs report inclusion and exclusion errors further diluting its contribution in mitigating the housing shortage issue. The institutions providing housing loans to the lower income population vary in terms of their legal structure, lending models, loan repayment structure, mode of interest rate calculation, products offered and outputs. The greatest comparative advantage especially of NGO-MFIs providing housing finance is it’s connect with the poor community and the credit histories that have been created over long periods of time. HMF programs initially began as microcredit initiatives for small and micro-enterprises. Their aim was the expansion of economic opportunities for socio-economically and politically marginalized groups, particularly women. In a later stage, these microfinance institutions (MFIs) broadened their lending portfolio to offer specialized housing finance products for new housing construction and/or home improvement projects. These programs drew on their experience in microfinance to respond to an increasing demand for housing credit among their clients.

A survey conducted by ACCESS Assist showed that 75% of the MFI respondents concurred that ‘up to 25% clients use the average MFI loan (both housing and non-housing loans) for home improvement purposes’. About 33% of the surveyed MFI respondents accepted offering loans for Housing Improvement. 66% of the surveyed MFI respondents agreed that home improvement loans are “productive” in nature. While, HMF is emerging as an opportunity with MFIs, there are some crucial challenges that it faces in terms of scale and sustainability. Some of the challenges are:

- HMF has its roots in micro credit/micro finance. But the Ticket size of Working capital loans funded by Micro credit/Finance program is 2 to 4 times lower compared to the finance required to access Housing.
Besides, micro credit has shorter amortization periods which HMF cannot afford. Especially in urban areas where the land, infrastructure and construction costs are so high, micro housing finance institutions are limited by access to medium and long term capital required to fund these loans which are both large and have longer repayment periods.

- Low income households have either no or unclear legal titles to secure a loan. Without collateral in terms of mortgage lien, banks do not fund their product.
- Long term housing loans may be seen as a less profitable activity by MFIs because of perceived liquidity crunch.
- MFIs find it difficult to price its HMF product at par with banks because of their cost of funds and pricing limitations.
- Most of the success of HMF so far is in the case of improvement or expansion loans. The legal titles are often not very clear and para-legal titles are in vogue. There is huge gap in the demand and supply of new housing projects to meet the affordability of the shelter-less EWS and LIG population.
- Trusts, NGO-MFIs or Community Development organisations like SEWA, AWAS etc that are successfully extending micro housing loans to the poor are often limited by their geographical area of operation. Since their numbers are few, the question of scale becomes pertinent.

**Nascent initiatives of Banks and Private Developers:** Significantly, some Banks and even Private developers are making inroads in the sector for facilitating housing to the urban poor and informal sector population. For example, Axis Banks’ a year old ‘ASHA’ loan provides a maximum loan of Rs. 25 lakhs amortised over a 30 year period to low income formal and informal sector population across the country. Mahindra Financial Services has launched two pilot initiatives of affordable housing projects (at Avadi and Borisar) titled ‘Happinest’ for the low income segment based on an end-user need and demand analysis. In-fact, while, AXIS Bank has a specialised client oriented sales team for creating awareness and selling its product; Mahindra partners with local NGOs working in the respective areas to understand its clients’ needs, aspirations and repayment capacity.

But even these initiatives are unable to reach downmarket. With AXIS Bank’s average loan ticket size ranging between 10-12 lakhs against an average project cost of around Rs. 30.00 lakhs; and Mahindra’s product ‘Affordable Housing’ as ‘Housing below Rs. 20.00 lakhs’ for monthly household income ranging from Rs. 20,000/- to Rs. 40,000/-, though innovative and appreciable, the client profile is yet far away to fathom meeting the housing shortage.

**The Banks, financial institutions, Housing Finance companies, Developers pose further challenges. Some of them are:**

- **Availability of land for housing the poor**
- **Absence of clear land titles and building approvals especially in smaller towns and cities**
• Dealing with multiple agencies for approvals and the length of time for approvals leads to time and cost escalations questioning the viability of commercial institutions.
• Increase in operational costs due to resource intensive surrogate methods to verify income, property title and residence. Therefore while pilots may succeed, scalability and sustainability would remain an issue.
• Cumbersome processes in effecting subsidies extended by the Government to urban poor.

The critical question, therefore, is how significant has the existing Housing micro finance practices been to meet the housing needs of unreached poor in reality and to what extent can the current ticket size mitigate the affordability gap at 80%. How the Government, donors, HFCs, banks, NGOs, Private Developers, HMFIs and the end users can be integrated in an institutional partnership mode to reduce the demand and supply limitations thereby mitigating the affordability and outreach gap. This is especially when indications of positive regulatory framework towards housing micro finance like Priority Sector Lending status to housing finance and micro finance is in the offing.

It is with this view that a consultative national workshop of different stakeholders was held by Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and HUDCO’s Human Settlement Management Institute (HSMI). (An extract of the Introduction penned down in this report was circulated as a ‘Concept Note’ to the Invitees’).
II Workshop Design

Pre-Workshop
- A preformatted short note (within 500 words) was solicited from each invitee around a week prior to the workshop vide email. The responses were examined and the observations recorded for discussion during the workshop.

Workshop/Ses n Plan

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<tr>
<th>Duration</th>
<th>Speaker</th>
<th>Description</th>
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<tbody>
<tr>
<td>10:00 to 10:10</td>
<td>Dr. M Ravi Kanth, CMD. HUDCO</td>
<td>Welcome Address</td>
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<tr>
<td>10:10 to 10:20</td>
<td>Shri Rajiv Ranjan Mishra, Joint Secretary(Housing)</td>
<td>Opening remarks</td>
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<td>10:20 to 10:30</td>
<td>Dr.Nandita Chatterjee, Secretary, MoHUPA</td>
<td>Key Note Address</td>
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<td>10:30 to 10:40</td>
<td>Ms. Bijal Bhatt, SEWA, Ahmedabad</td>
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<td>10:40 to 10:50</td>
<td><strong>Tea Break</strong></td>
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<td>11:00 to 11:10</td>
<td>Shri Madhan Kumar, DHAN Foundation, Madurai</td>
<td>Thematic Questions listed at B1 and any other significant link</td>
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<td>11:20 to 11:30</td>
<td>Ms. Ashwini Jain &amp;Shilpa Rao, JANASHREE, Bangalore</td>
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<td>11:40 to 11:50</td>
<td>Shri Madhusudan Menon, MHFC, Mumbai.</td>
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<td>12:00 to 12:10</td>
<td>Umesh Arora, Axis Bank</td>
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<td>12:20 to 12:30</td>
<td>Shri Sriram Mahadevan, Mahindra Life Spaces</td>
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<td>12:40 to 12:50</td>
<td>Shri V Suresh, Chairman IGPC, Former CMD HUDCO.</td>
<td>Institutional mechanisms for Integrating Housing Micro Finance in National Policy on ‘Housing for All’</td>
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<tr>
<td>01:00 to 01:30</td>
<td>Open forum for suggestions</td>
<td>All invitees</td>
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<tr>
<td>01:30 to 01:40</td>
<td>Dr. Nandita Chatterjee, Secretary MoHUPA</td>
<td>Summary remarks</td>
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<tr>
<td>01:40 to 01:45</td>
<td>Dr. H S Gill , Executive Director (Training), HSMI</td>
<td>Vote of thanks</td>
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<td>01:45 to 02:15</td>
<td><strong>We break with lunch</strong></td>
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Please note that a-10 minutes duration after each speaker suggests Clarification/ Discussion

Post Workshop

- Working Groups were created to take the HMF agenda forward for its integration with the National mission of providing housing for all. The details of the working group have been incorporated in Section IV.
- HSMI would conduct a field based study to corroborate the outcome with a sample of end users representing different categories of institutions providing micro housing finance.
- The outcome of the discussions, pre workshop write-ups and study findings shall be synthesized for the first working paper for integrating ‘Housing Micro Finance’ in the National Policy on ‘Housing for All’.

A. Inaugural Session

a. Welcome Address: Dr. M. Ravi Kanth, CMD, HUDCO

The workshop commenced with Dr. M Ravi Kanth extending a warm welcome to respected Chair, Dr. Nandita Chatterjee, Secretary, MoHUPA and all the invitees who had come from different institutions and different parts of the country to collectively think and work on the subject of Housing Microfinance (HMF).

Housing Micro Finance, he said, was a significant input towards a quality output for housing for all – the flagship program of the Government. Dating back to 1962, when CHF International opened up Housing microfinance products in several African and Central American Countries, the products have come a long way with institutions such as Grameen Bank in Bangladesh and SEWA Bank in India gaining space. Catering to the housing needs of unorganised sector especially the low-income-group people, earning an income ranging between 10000 – 15000 rupees, Housing Microfinance offers a huge market. Such is the learning from SEWA to whom HUDCO has recently extended equity to, in its newly launched Housing Finance Company (HFC) –Sewa Grih Rin. Infact Dr. Ravi Kanth added that HMF could be part and parcel of the existing credit sector that is offered with the savings and credit or could be offered as stand-alone housing loans.

Having wished this workshop a success especially amidst an environment where the Secretary, MoHUPA has spearheaded initiatives for Housing for All, Dr. M Ravi Kanth, CMD, HUDCO laid the way for future deliberations in the workshop.
b. Opening Remarks: Shri Rajiv Ranjan Mishra, Joint Secretary(Housing), MoHUPA

Housing finance plays a significant role in reaching ‘Housing for All’ especially in the context of “affordable” housing since maximum housing shortage lies in the EWS and LIG sector. Hence, there is a need to evolve ways to reach housing finance to the disadvantaged group.

In housing microfinance, a possibility appears as several institutions have been traditionally offering micro-credit and savings products to the poor through community organizations like the Self-Help Groups. In-fact, some of these institutions are also delivering housing microfinance products to the poor. The real challenge lies in the scale and the mechanisms to sustain such a product and a process.

The Government or the private sector or any State alone cannot meet the challenge. It is therefore crucial that all stakeholders come together to see the various areas and various mechanisms where Housing Microfinance can be fitted into the Housing policy. The crucial findings from the review of the write-ups sent by the invitees prior to the workshop are:

1. Practices and possibilities

- Huge demand for Housing finance in the unreached sector considering their current use of informal financial sources for housing needs.
- People’s demand based Diversified loan products i.e. different housing purposes, varying ticket size and repayment tenors are being offered by HMF practitioners.
- Existence of both mortgage and non-mortgage loans.
- Loan tenure even till 30 years and till 75 years of age for this segment is in practice; of-course subject to some credit norms.
- Some NGOs-MFIs are working as intermediaries for Housing Finance Companies. While, HFCs do-not have the required levels of penetration into the poor community that NGO-MFIs have, the NGO-MFIs on the other hand are limited in raising resources from the market to meet the housing needs of the poor. The partnerships between these two sets of institutions help to meet the common objective.
- The Business correspondent or Business facilitator model or direct lending to clients is a good strategy that may be worked upon for NGO-MFIs along with banks and other primary lending institutions.
2. Challenges/Possible solutions

- Building social capital – a quintessential need for delivering Housing finance to economically sections
- Need for specialised loan products for incremental building process
- Water and sanitation loan products may not be able to retain clients over several loan cycles as done by traditional MFIs. Therefore, Housing loan products need to be extended as well.
- Field studies indicate that small size loans are to be formalised. Formal Banking sector including MFIs need to be incentivised for small and incremental housing loan products.
- Need for long term fixed rate loans to avoid Asset liability mismatch.
- Non-availability of margin money with borrowers.
- Government Support in taking possession and disposal of properties in case of NPA accounts since possession under SARFAESI Act is not possible in small ticket size loans.
- EWS/LIG deserves capital in addition to the interest subsidy to make cost of housing affordable.
- Priority sector lending status should be given to Housing microfinance.
- There is a need for Innovative Security Measures for Social Housing and Non – Asset Backed Securities – Community Guarantees, Community Mortgage Scheme and Insurance schemes for risk mitigation.
- Appropriate, cost effective and disaster resistant technologies support to the urban poor need to be built in to the HMF framework.
- Capacity building in terms of housing finance literacy of borrower community and capacity building of functionaries who would be responsible for delivering housing finance to the poor are required.
Government of India is about to initiate its programme of ‘Housing for All’, whereby 2 crore houses are proposed to be provided at a cost of Rs. 12 lakh crore by the year 2022. This scheme is pillared on:

a) In –Situ Slum Redevelopment, b) Credit linked Interest Subvention c) Affordable Housing in Partnership and d) Subsidy for Beneficiary –led House construction. We have gathered here today to trigger a collective process of finding ways as to how we could embed Housing Micro Finance (HMF) into the policy.

The magnitude of Urban Housing shortage (18.78 mn units) in the country is sharply skewed, as coming from the poor (at 56% for the EWS and 39% of LIG segment of population). Resource constraints, challenges of slum redevelopment and the inclusion - exclusion errors in targeting, keep Public sector Housing interventions far from meeting the housing needs of the low income segment of our population.

Formal Housing finance to poor is affected by certain historically attributable constraints such as –

- Legal title to land
- Informality of employment with corresponding irregularity of income.
- High risk perception
- Mismatch between client behavior and product design.
- Inadequate skilled human resources to customize product delivery and repayment processes.
- High operational costs to meet retail housing needs of low income clients.

National Housing Bank reports Housing loans to poor by Public sector banks and Housing Finance companies have come down from 34% in 2011-12 to 26% in 2013-14. In fact, the sanction of loans below Rs.2.00 lakhs and upto Rs 5.00 lakhs is even fewer, and this data, does not reflect the income level of the borrowers. If such data were available, the data may reveal a more discouraging status .In Housing Micro Finance (HMF) we see a hope. As I gather, HMF posits itself at the intersection of traditional Housing finance and micro credit for enterprise.
With people’s institutions like NGOs, TRUSTS, NGO-MFIs having established social capital, long credit histories in their locations of intervention through their community development and micro-credit program and finally the institutional mechanisms and processes that they have grounded, several issues of traditional housing finance get addressed. Moreover, such institutions as many of yours’, offer different kinds of HMF products based on the clients’ economic profile, their housing needs and their house building processes (the poor build incrementally). But I understand that it is also at this very intersection where HMF is positioned, that while one the one hand we hope, on the other, we get to learn that there are tremendous challenges of sustainability and scale. HMF is delivered under different legal structures (NGOs, NGO-MFIs, NBFCs, HFCs etc) with regulatory limitations or lack of regulations as they may be, often limiting the requirement to raise capital for on-lending to the poor and to price the product that could cover operational costs. Challenges of availability of land and legal title continue to remain.

Housing Microfinance programs have attained a prominent position among organizations addressing the needs for shelter of the urban and rural poor in many regions around the world, especially in Sub-Saharan Africa, Asia and Latin America respectively. Global challenges revolve centrally around two areas - the first deals with housing-related loan products that are as yet not well developed, namely land acquisition and infrastructure provision. While most housing microfinance programs have acquired considerable expertise in administering new construction and home improvement loans, only a few programs provide loan products for land acquisition and infrastructure provision. The second challenge concerns reaching groups within the industry’s target population that are not currently being served by housing microfinance programs. The development of appropriate financial instruments to meet the needs of this population group possibly is the greatest challenge facing the housing microfinance industry today. In today’s consultations, let us understand as to what extent the existing Housing microfinance practices have been able to meet the housing needs of the poor in reality and to what extent can the current size of the loans mitigate the affordability gap. The exercise is to recommend as to how the Government, donors, HFCs, banks, NGOs, Private Developers, HMFI’s and the end users be integrated in an institutional partnership mode so as to reduce limitations thereby mitigating the affordability and outreach gap. The MFI industry is in for a change and such change may well be according accessible credit for housing of urban poor.
B Deliberations by the invitees

i) Bijal Brahmbhatt, Sewa Mahila Housing Trust, Ahmedabad

- When SEWA started as a movement, housing finance was reaching the poorest of the poor. SEWA as a cooperative bank started with its own funds, but due to several regulatory issues, several small credit co-operatives were formed that delivered housing finance and eventually Sewa Grih Rinn, the Housing Finance Corporation of SEWA was launched to take the program to scale.
- Early Interventions in financing poor urban women in Gujarat revealed that incremental housing works the best because of nature of the poor people’s cash flows, incremental needs and degree of affordability.
- Most of the housing projects in Ahmedabad were looked at by SEWA with the implementation of JNNURM housing projects. It was realized that housing finance wasn’t thought of at all. Instead, it was only beneficiary contribution towards the cost of dwelling unit that came within the scope of Housing Finance.
- The entire push was in constructing, getting people shifted and giving them possession of housing. After the people were shifted, the implementing agencies started negotiating with the banks to provide housing finance. But since houses couldn’t be mortgaged, finance did not happen eventually.
- So 2-3 years after people were shifted to new houses, SEWA Bank expressed their readiness to look into the issue of housing finance. The Municipal Corporation (MC) made some housing finance arrangements through bank linkages. It was realized however that people did not know which banks or financial institutions they could go to and for paucity of finances they couldn’t pay which hampered legal possession of the houses. As such mortgage could not be created since mortgage could happen only after possession. The issues revolved around lack of an institutional mechanism and lack of housing finance literacy.
- In response, SEWA bank, the Municipal Corporations and the housing beneficiary got into a tripartite agreement, whereby it was agreed that affecting the house mortgage to the bank was the responsibility of the MCs. So, once people got possession, the MCs would have to keep track to get the documents done, get it mortgaged to the bank. Here again certain issues cropped up like – ignorance of both banks & community in knowing the caste category to make funds eligible for special aids for SC/ST; Income documents for proof of entitlement was not available; they were unable to pay Margin Money up-to Rs.50,000/ and the pre-acquisition cost worked @ 30% of the housing cost.
In consultation with people in SEWA’s housing initiatives with private developers thereafter, the choices of people came out clear:

i) They can’t pay rent and EMI together, so a loan product had to be structured where there is a moratorium involved or at least they should be clearly informed in the very beginning on the amount of EMI that has to be paid.

ii) 50% of the urban poor were able to pay Rs. 5000/- to Rs.7000/- as EMI, wherein Rs.7000/- was the upper range for EMI.

Hence the housing loan product has to be structured in a way that takes care of moratorium, margin money and loan repayment period. It is however understood that the task is not easy considering the housing cost and by-laws that the sector has to face.

The issues of the ‘Incremental Housing vis-a-vis Regulatory restrictions needs mention. When SEWA began its housing finance activity, it was recognized that while most of the housing technically was incremental, housing loans beyond Rs. One lakh could not be given as per regulations.

HUDCO and NHB have invested in SEWA’s Housing Finance Company, but while the objective is to reach the poorest of the poor, it is yet to be seen as to how far the objective could be met.

Equity amount required to be entitled for being a HFC has been increased from 2 crore to 10 crore and this is a huge disabling factor grass-root institutions.

One departure for SEWA amidst the restrictive housing finance norms was the small credit co-operatives which enabled loaning between 2.00 to 5.00 lakhs following the progressive tenure; NHB and the World Bank supported SEWA in this. It is strongly believed that whatever people-based products are created, unless the land title and tenure issues are worked at intensely, housing finance shall not reach the

Mr. Lalit Kumar

“Interest subvention scheme is worked in Gujarat between the state Government and the NHB wherein interest is borne by the State Government up to loans of two lakhs after the possession of house by the beneficiaries.”

- Since primary security is required, NHB is working out alternate title documentation processes.
- Specific relaxations are to be provided in the form of recognition, prudential norms and primary security to HMF agencies.
poor. In Bihar through BHOODAN movement the land went to the poor but the poor did not have the title to it; In Jharkhand – the Adivasis living in Ranchi have land but cannot mortgage it. In Rajasthan, under the 99 year patta (one of the most progressive tenure systems) wherein land can be mortgaged, the way housing has been undertaken, they still do not have clear title. In Gujarat there are vast private lands which are inhabited by slums, these slums having progressive tenure would go for incremental housing. De-facto tenure rights like non-eviction assurances, drive by Gujarat Government to regularize unauthorized areas led to land being acquired by real estate developers. In this case even with names of original land owners on records, they did not go to the court, possibly because they too had violated norms at some point of time. There is now, a three and a half lakh formal construction in Ahmedabad that cannot be applied to slum housing. Besides, In Gujarat, one cannot buy land unless one is a farmer. Most developers partner with farmers to acquire land.

• Such are the regulatory and practice constraints, which need to be looked at and solved if housing and housing finance has to reach the poor

**ii) Mr. A. Madhan Kumar, DHAN Foundation, Madurai**

• With the institutional experiences of DHAN foundation, four areas of focus to be placed here are – can the poor afford a HMF product; viability of the HMF product; Resource mobilization for HMF and finally the gaps in the institutional mechanism to deliver HMF.

• DHAN believes that building social capital is a key to build affordability. Immediate miracles do-not happen. The process of housing follows the natural path of survival, subsistence and self-employment. Savings of mobilized poor people lead to financial equity building, a significant factor to invite financial institutions’ viability.

• At a point in time, institutions like HUDCO supported grass-root institutions and schemes that provided housing loan to the people.

• Empowerment of the poor and facilitating the building of social capital has led to DHAN’s 250 federations, each having 3000 people and transaction of 1000 crore business by the people themselves. Of the Rs. 1000 crores, 50% constitutes their own funds, rest is the leveraged funds. This gave the built-in confidence of approaching the commercial banks.
• Collaboration in the field of Housing with many leading institution like HUDCO, HDFC, NABARD, NHB and ADB followed to show that in absence of subsidy a lot of good work can still be done.

iii) Mr. Rajendra Joshi, Saath Foundation, Ahmedabad

• There is a need to review the existing housing stock and reduce the stock of houses that need up-gradation so as to appropriately target HMF clientele. In doing this, mitigating the housing shortage issues would not appear as threatening as it appears.

• Experience in slum up-gradation program in Ahmedabad indicates that the Municipal Corporation gave only a guarantee of slum eviction. No legal land rights were given. A mere guarantee of freedom from slum eviction resulted in slum residents investing loans to 75,000 rupees per household, in the year 2000 without any support from Housing Finance institution.

• The amount required for slum up-gradation is not large. Regulatory frameworks could be developed and regulatory authorities need to appreciate and institutionalize that paper documents should not decide a person’s right to space.

iv) Mr. Manish Tripathi, Tata Housing, Mumbai

• A housing stock of 2 crore have to be built up and this comes under the domain of commercial business i.e. unless there is a commercial viability to the whole project these 2 crore housing cannot come up.

• The point is currently, is there a business model available whereby 2 core housing in next 5-10 years could be created.

• As far as Tata Housing is concerned, through its commercial business ventures, nation building projects have been undertaken. Affordable housing is taken as a commercial proposition. To construct a house, it is important to bring in the design, the technology and the capital. It is pertinent that the Rs. 2 crore capital required for meeting the housing shortage is brought in over a period of 7 years. Many of our counterparts too can bring equivalent amount of that money – but is it viable to bring that money.

• Affordable housing needs to be near the place of employment. Support from Government in terms of land parcels, infrastructure and connectivity are required for companies like Tata Housing to bear the risk in developing affordable housing projects. There are land parcels with the State
Government. A joint venture model has to be developed. The floor cost of land is very high. No project can afford it. The monetization of land should be the equity of the government.

- The private developers should bring in technology to be able to build houses in 12 months.
- It should be the private developers’ responsibility to aid the affordable house building process and the people buying it should be aspirational i.e., they should aspire to take their houses without any support, without any subsidy.

v) Ms. Avni Rastogi, CAG - Transparent Chennai.

- A study was conducted in 2012-13 on incremental housing financing based on 3 slum settlements of Chennai with varying tenure type - One settlement had financial tenure security; Second settlement was a declared slum and the third was an undeclared slum on the banks of a river. Different tenure type settlements were selected to examine the relationship between tenure status and housing investment behavior.
- Penetration of MFIs was as low as 2-13 % in the least tenure secured area. This could be an issue in HMF.
- Studies indicate that while formal title contributes to equity, formal title causes the cost of the land to increase, to such an extent, that it becomes unaffordable to most of the people.
- The Tamil Nadu Slum Clearance Act 1991 enables the State to declare slums as free of eviction and that is a kind of informal security.
- With informal titles people start to build their houses, with water/electricity connections and slowly the quality of life improves as they become willing to invest.
- One of the main reasons why people cannot access finance is that the level of documentation needed is not what informal sector urban poor can provide. Also, when formal title is given, the land value appraises thus, becoming unaffordable again. If the State Governments are incentivized to declare those slums as eviction-free that are in non-objectionable area, the Housing problem could largely be mitigated.
vi) **Mr. R Jayasurya, SHAREMicrofin, Hyderabad.**

- The biggest challenge for a financial institution is resource mobilization. SHARE started as an NGO but realizing the need to mobilize resources it transformed itself into NBFC-MFI. Today there are about 30 MFIs with a portfolio size of Rs. 45,000 crores which are regulated by RBI.
- The mission of Housing for All is to achieve 20 million houses costing 3 lakh crore. To reach this target, a formalized institution should be set up wherein the equity can flow in from nationalized banks and local banks or financial institutions that are comfortable in funding this segment.
- The way Mudra Bank has been created for income generation loans; there could be a National Equity Fund with 75% funds to be channelized as loans.
- Up-to 10 lakh could be collateral free loan because they don’t have any collateral to provide. Experience in Microfinance industry shows that people born in the same areas, working at different job sare likely to make 100% repayment whether as groups or as individuals, and this is even in unsecured loans.
- In the rental product as suggested by DHAN foundation, the rentals may be collected on the basis of cash flows and ownership could be transformed to the individuals after completion of rent payment.
- There should be a PPP model, vide which wherever possible the Government lands should be leased to these individuals enabling the private builders to building houses for them.
- In this the tenure rights will be with the people and the repayment period can be stipulated from 5 years to 10 years. The issue of high cost in delivering this model needs to be taken care by interest rebates to institutions, as the cost of refinancing ranges between 5-15 %.
- While banks’ lending for housing to the poor gets the priority sector tag, the same is not available to NBFCs/MFIs.
- Interest tax rebate should be made available to NBFC-MFIs that can hedge for losses as well.
- These loans would be a special category loan with no collateral. Para legal titles can be accepted if they are certified by the local administration.

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**Dr. Ravi Kanth**

“Since interest rate remains the same in primary sector, how does Priority Sector lending to Microfinance industry add a value?”

**Response by Mr. R. Jayasurya:** “Two ways in which the value addition to banks would come –

i. High transaction costs in below Rs50,000 loans incurred by the banks would be reduced and

ii. More than 99% repayment is ensured without any additional cost. These would therefore attract banks to lend to the sector.”
vii) *Ashwini Jain & Shilpa Rao, Janalakshmi Financial Services, Bangalore.*

- Janalakshmi started in 2007, as an Urban Microfinance Company. Its presence is in 17 states, 150 cities and 250 branches. The Customers base is fast approaching to 50 lakh.
- While the backbone is still group-lending, it has also started lending to individuals since the last 2-3 years. From its existing customer base, it identifies those customers who are ready to service a loan beyond Rs. 50.00 lakhs. This is however for enterprise.
- Lack of formalization is an issue that pervades the deliberation. It has been seen that there is a point of formalization when informal sector clients progressively graduate the borrowing ladder.
- An idea of customer base – there are 3 million people, most of them would be earning in the range of 15,000-25,000 per month which is ideal customer base. If you take EMI: Income ratio its 1/3rd would be 5000-8500 rupees a month that can translate to a loan of 3-5 lakhs.
- Affordability is not an issue. A research was conducted with our customer base and found that 75% of them aspired for Incremental Loans (Incremental Home Loans).
- An initiative was started on Home Improvement Loans, which has extremely high demand. These were piloted in 3 branches and were successful. But the only issues are: No titles available, (75, 000 to 1.00 lakhs).
- All the loans are given in the form of a prepaid card, so that the customer can go to any ATM and withdraw the funds. At the collection point Janalakshmi also have biometric for better customer data base.
- The definition of clear marketable title is to be made clear. It’s very encouraging to see NHB’s refinancing scheme coming through World Bank which can be explicitly used to work on informal titles.

**Issues placed by Shilpa Rao**

- A description of what can be an acceptable informal title, will there be acceptable boundaries or things that cannot be crossed, need to be defined by NHB along with refinace scheme which would be extremely useful both for HFCs and MFIs.
- Institutions like Janalakshmi don’t have a level playing field in housing finance. They are not seen as an HFC, not as a scheduled commercial bank, hence can’t collect deposits resulting in very high cost of funds plus the cost of servicing these loans are also very high due to lack of income documentation available.
- There is a need to think of other means like refinancing mechanism could be opened for MFIs that would enable MFIs to take more risk; and that refinancing should be not only cheap but long term as
well; whether the condition of secured portfolio in NHB Credit Guarantee scheme needs to be revisited; other schemes like ISHUP, Rajiv Rinn Yojana, could be made accessible for MFIs as well.

viii) Mr. Sanjay Daswani, Habitat for Humanity International, Mumbai

- Habitat for Humanity, working with a philanthropic approach has created revolving funds for the poor with zero percent interest rates. In-fact with regulatory changes, only 5 to 6% was allowed to cover costs, which in reality is not possible.
- There is therefore a need to revisit the delivery mechanism of housing finance to low income group and pricing that leaves no margin to cover the cost.
- Experience indicates that large volume of funds like the Rajiv Rinn Yojna funds are lying undisbursed because the banks do not have the wherewithal to deliver it to the poor. Similarly, while absence of clear marketable Land title is one issue for sure. There are enough instances where people have documents to back legal title to land but they do not have the wherewithal to access the funds further contributing to non-disbursement of funds. Therefore, participation of MFIs in the delivery mechanism is to be essentially explored.
- Experience also indicates that some banks are either not aware of the Government schemes for the poor or are not interested in the sector possibly due to high risk perception, high transaction costs and inclination towards commercial sector.
- It should be noted that the poor are able to pay 12-15 % interest rates provided there are proper delivery and repayment mechanisms.
- The Government must take cognizance of the ground realities, must maintain control over funds, and facilitates solving the pricing issues and enable PSUs to root low cost funds through NGO-MFIs, NBFCs and institutions working with the poor.
ix) Mr. S. Aryendra Kumar, Ujjivan Financial Services, Bangalore

- Ujjivan has around 22 lakh customer based across 24 States and practices housing microfinance in both segments i.e. formal and informal sector.
- One segment has no title. Then there are people who have titles but no title documents. To create title documents, registered mortgage has to be undertaken. All these, leads to a huge increase in cost of housing and also works a source of generating funds for the Government.
- The question is when there is a CERSAI, why should there be a need of registered document. Any lender or purchaser should be able to access it as a central depository.
- NHB has floated refinancing schemes, but it’s only for new housing. Incremental Housing which is at the very core of housing processes of the poor is not included. The refinance scheme should also look at the income ceilings. Instead of Rs.2.00 lakhs, could it be made Rs. 3.00 lakhs for urban poor to make the program viable? Entry of Micro Housing with 8% lending as per the refinance scheme is difficult because NGO-MFIs cannot directly access NHB funds. They have to borrow from HFCs or banks at around 13 % and further 5 % will be added to reach the ultimate client, making the interest rate accumulate to 18% for the ultimate borrower. If normal citizen gets housing loan at 10.25 %, is it correct or affordable for the urban poor to pay 18% rate of interest.

x) Mr. Madhusudan Menon, Micro Housing Finance Corporation, Mumbai

- MHFC’s vision is to help financially excluded lower income families to own a house with the focus on the urban counterpart.
- The product is a micro-mortgage built by professional builders and not by people themselves. The value of the mortgages/houses range between Rs.5.00 to Rs. 20.00 lakhs. However MHFC’s loan does not go beyond Rs. 10.00 lakhs with interest rate between 12-13 %. The LTV (loan to value ratio) is 85% and the income to installment is a maximum of 40%.
• Government projects offer a huge market. Moreover title deeds are ensured, costs are low and locations are good.

• The problem in this segment is not about credit. 96% of the borrowers are regular in repayment. In fact, in MCHFC, no paper documentation is involved. Loan application is effected only when the verification process is complete (without any document submission by the prospective customer). Simultaneously, sanction letter is handed over.

• To ensure that housing problem in the country is mitigated, the focus of all lending institutions should be on building new houses rather than the resale of old ones. At resale, houses change hands at higher prices. At-least the pricing of the resale housing should be kept higher than the new homes to ensure that money supply flows into this segment.

• Funding of developers should also be made a priority to increase of supply of new homes.

• Issues of price inflation, high costs of mortgage, multiple approvals, lack of long term debts, high cost of marketing due to scattered customer base, shifting of project locations outside the city and regulatory caps on intermediaries (like interest rate caps to be removed) need to be addressed to actually help mitigate the risks and contribute to increase in loan to value ratio.

• Marketability is also often a challenge and often buyers have self-imposed restrictions. They often lack the confidence of going to the lending institutions. SEWA has appropriately mentioned about ‘housing finance literacy’ and even awareness about mortgage financing, which are to be addressed.

• Commercial banks cannot lend more than 5 year loans because of their asset-liability portfolio. They may not be able to lend at anything less than 10% to the intermediaries. The transaction costs are high. Interest subvention schemes are to be intelligently devised therefore.

• Artificial lending caps by RBI or NHB imposed on intermediaries like MFIs or HFCs reduce the flow of credit to the sector. The intermediaries play a vital role in identifying the customer, understanding the customer and taking the risk of the customer. So, by the time, the loan goes to NHB or to the bank, there is a readymade customer, capital of the borrower, capital of the intermediary and then the bank gets its starter for the collateral, increasing the loan to value ratio (LTV) considerably for the end bank or financial institution. There is lot of value addition by the intermediary which is getting discounted.

• The huge default rate in the mortgage industry is because of high capitalization of the sector. The borrower first pays 15% of the cost, the intermediary puts another 15% and finally when it reaches the bank, the loan to vale ratio is 55%, which is why default happens. Flow of credit from Ministry, RBI, NHB therefore has to reach HFCs and intermediaries without any strings attached.
• Supply of new homes need to be incentivized through fiscal and financial incentives. The whole stream of taxation at central, State or local levels which create costs and add to delays. The interest rate subsidy to the poor does not actually reach them. The rich are the recipients of tax rebates because the poor however do not pay taxes.

• Priority sector benefits must go to below 15.00 lakhs ticket size in case of indirect lending and must be given to new homes and the first time buyers. There should moreover not be any difference between direct and indirect lending in priority sector status.

• Construction finance should also be getting priority status.

• Co-terminus clause needs to be removed.

• Priority based budgeting could be undertaken rather than budget based priorities to ensure that housing finance actually reaches the urban poor.

xii) Umesh Arora, Axis Bank, Mumbai

• Axis BANK has launched its ‘ASHA’ Home loan product in May, 2014 to cater to the low income segment population who remain from reaching formal finance. The loans are provided to people with income below Rs. 15000 and to buy a property costing below 25.00 lakhs.

• The average loan ticket size ranges between 10-12 lakhs against an average project cost of around Rs. 30.00 lakhs

• Income and residence verification conducted through multiple surrogate methods. Intensive marketing through exclusive sales team for ‘ASHA’ loan product is carried out. To make the poor and informal sector people more bankable, there is a need for enhancing the scope of credit bureaus by including electricity bill payment, mobile recharge and other utility bills which will provide lenders more insights and predictability into the EWS/LIG segment repayment behaviour.

• Single-window clearance for affordable housing projects is significant so that the final cost of the unit remains affordable.

Mr R. Jayasurya

“Are there possibilities of NGO’s, MFIs and other grass root organisations to act as Banker’s Correspondents who could generate the loans and the bankers could fund?”

Response: “There is a possibility, and mechanisms could be worked out.”
• In allocation of units to ultimate beneficiaries there could be a control mechanism to prevent cornering of units by non EWS/LIG segment, also roping in developers to support this initiative.
• There is a need for standardisation of norms of various development authorities – Today even in the same city peripheral areas; the norms are very different between authorities governing these housing projects.
• A good repository of Affordable Housing projects needs to be created for there is a mismatch between the demand and supply of affordable homes for the poor.
• Interest of banks needs to be protected in affordable housing scheme. E.g. - In some scheme floated by the authorities, there is a lock in period of 5 years (unit cannot be sold). In case of default, there is no provision for the banks to recover the dues by substituting the borrowers or getting the refund through the authority post cancellation of the allotment. In the documentation for such allotments, the authority should also be a party to transactions.

xii) Mr. Sriram S. Mahadevan, Mahindra Life Spaces, Mumbai
• Mahindra started its affordable housing projects at Boisar (Maharashtra) and Avadi, (Chennai); the program was launched without Government support to understand whether and how such projects could be made a viable business proposition. The philosophy that drives Mahindra is End User driven and Low margin & High volume i.e. reducing the cost of ownership
  • The end users issues like taxes, stamp duties; VAT, etc. almost add 12% to the cost of house.
  • Land availability in the centre of the city is obviously an issue and therefore peri-urban areas had to be selected, those that have last mile connectivity. As responsible developers, the issue of infrastructure (water, electricity, zero discharge, rain water harvesting etc.) cannot be left to the buyers. The cost however gets offloaded to the buyers and further adds around 6 % to the cost of the house.
  • Margin money is another issue. The housing unit can’t be sold till the possession is taken
  • HFCs and banks have come forwarded to support lending the buyers, but the cost still remains high for them.
  • Technology should also be part of the eco-system of affordable housing and Housing finance.
  • There is a need for uniform DCR(Development Control regulations)
The whole approval process could contribute not only reduce the cost to the house owner, but would also give a upward push the Internal Rate of Return.

It is appreciable that several State Governments such as Andhra Pradesh and Rajasthan have commenced on single window clearances and even proposing waiver of stamp duties.

SBI should also participate which will further bring down the cost of borrowing besides the Government augmenting Credit subvention scheme, customized products low- cost debt funds.

xiii) Mr. Manikandan K.P, Ashoka Innovators, Bangalore

Two different products have been discussed – 1) New market based houses and 2) Incremental self-help houses. The first one is what constitutes micro housing as is being delivered by institutions like MHFC, GRUH and Janadhar.

Housing process is a continuum and both the products fall within the spectrum. But, in the instance of Self-Help construction, markets would take care of the land tenure issue. But in the case of new houses, the developers become victim of their own success as artificial inflation of land value around the project area does not allow to build a affordable housing project at-least around 10kms of the existing project site, may be the developer has to go middle of no-where. This cannot be controlled.

Therefore, if States can aggregate land for industrial purposes, should land aggregation be not possible by States for housing the weaker sections?

There should be a strong positive bias for someone to acquire his first house through income tax concessions. Could some positive basis for tenure rights be created as well, need not be for ownership necessarily?

There used to be a strong negative bias towards subsequent house purchases. A pattern is emerging in market, markets are going up, the companies who started affordable housing are moving to higher value projects to sustain themselves.
Mr. V. Suresh

- Nearly 67% of the Housing Finance amounting to nearly 1,50,000 Crore money flows every year with Housing Finance Companies putting in 30-35%, 1-2% is coming from non-banking Financial Companies, as well as the local money lending institutions. There should be one regulator to deal with the RBI, NBFC & HMFC to bring about a level playing field for the regulation aspect.
- There should be an enabling environment for which HMFC should be brought in here. HMF doesn’t have the same level of capacity for raising the required resources. The priority sector lending status could therefore be directed to the banking sector. They can decide what percentage of money can go towards HMF under Housing loans. So at least a loan of Rs. 5 lakhs for the EWS Category should be made available. Funding for this particular sector in a graduated form can be asked for.
- To customize our documentation processes it is required to understand the target group.
- There is also the need for an institutional mechanism to deal with the target group; defining affordability levels at 10 to 15% of the income for EWS and 15 to 20% of the income for LIG and scheduling repayments weekly or daily rather than monthly.
- The subsidy component should be filled in by the Government – wherein the borrowers’ part would be maximum 40-50% of the total cost of the house (this could be in the nature of sweat equity also) and the remaining from Government subsidies/housing programs.
- The new chapter in National Building Code for Housing for All deals with all the requirements of the EWS & LIG sector. Development Control Regulations (DCR) is required for different categories in different cities. States like Kerala, Andhra Pradesh etc. have come up with some standardized plans for 300 sq. feet housing unit size like no fees for the building plan approval (no formal process);Housing Density, building heights, road- widths etc. This would standardize the needs of the EWS category.
• Most of the Microfinance companies have a rate of interest for housing portfolio in a band between 18-26%. This is too high for the poor.

• Microfinance institutions need to be able to access low cost and long term funds. NHB should reserve at least 2-3% of their 20000 crore for HMFIs, at present it is nil. Interest subvention to the extent of 3-4% would be a big help.

• Risk mitigation product like insurance products are areas where housing companies are ready to get into. A small premium of around Rs. 15-20 per month to take care of the loans of Rs. 5000-6000. IRDA could be brought into the scene to check how risk mitigation can be dealt with.

• Around 32% is the additional duty component (sales tax, service tax, etc.) States like Kerala, Maharashtra have no stamp duty. Input cost on materials could also be reduced.

• Number of service lands should be increased along with the titles, since if the titles are made available the whole housing gets a major push. Tenure document coming from the Government having 20,50, 100 years of lease period should be treated as the title.

• Not All Products can have an ownership in the beginning; there could be a graduated product. Either, rental or ownership or combination of both where, for this particular segment, a rental/lease can be kept for initially 10-15 years since we know that they are going to stay.

• Community Mortgage Program as in Philippines where whole group of 100-300 houses (EWS) can group in together; in a way that property cannot be sold by anybody.

• There is a need for some innovation and experimentation in creating financial instruments like Public deposits schemes.

• Both Vertical & horizontal incremental housing scheme should be done.
View Points of the day’s deliberations by Mr. Lalit Kumar, General Manager, NHB

• Drastic Regulatory relaxation, availability of funds and private sector participation in this sector are essential.
• At the same time, we also need to assess the requirement of different kinds of housing: how many houses are required on ownership basis; requirement of rental housing numbers; cost of building for ownership houses or rental products and what kind of joint ventures / PPP interventions and modalities are possible.
• Private sector wants to do affordable housing, but there are no viable solutions given by them for the informal sector. Government support is sought in terms of land. Government support could be extended as fiscal incentives, but the private sector also could look at keeping its margins low for the sector.
• In the case of grass-root organizations like DHAN foundation, SPMS, SPARC etc., it is still felt that they are yet to merge the income generating projects with housing projects.
• While much is spoken about incremental housing, the term needs clarification. Incremental housing should be such that it is indestructible. One has to understand if incremental housing is leading to improvement of space, since congestion is a major issue in housing.
• Most of the States have done away with registration charges, stamp duties etc. The need is to have a pan India approach to integrate finances, and technology.

Dr. M Ravi Kanth, CMD, HUDCO

Restrictive environment created by the lending caps by regulatory authorities is an issue for lending authorities. Are such caps essential?

Mr. Madhusudan Menon opined

“The government may give subsidy to the customer but should not interfere with the market mechanism of how the transmission takes place.”
**Observations of Mr. V Suresh**

- The banks offer housing loans at 9-10% interest rate which works out to be Rs.1000/- EMI for a loan of Rs. 1.00 lakh for 15 years repayment period.
- If 18% is charged for Rs. 1.00 lakhs loan, the EMI works out to be Rs. 2000/- which is huge burden for the poor.
- SEWA is still charging 11-12% at reducing balance, and of-course this has been possible because of its co-operative banks.
- The long awaited need for creating the National Shelter fund needs to be revisited.

**Response by Mr. Lalit Kumar, NHB on Lending caps**

- Lending cap is essential for it is thereby that the Government ensures that the fund (carved out of budgetary resources) should be deployed in the particular sector for which it is targeted i.e. the economically weaker sections.
- MFIs or HFCs should not be charging 8-10% higher than what the borrowing rate is.
- In fact HMF should be a part of Priority Sector Lending.
- Besides out of NHB’s outstanding loans, a certain portion can certainly go to the Housing microfinance sector as suggested by the floor.
- In the interest subvention scheme by the MoHUPA, 5% interest subvention from Special funds for Urban Housing was given up-front to the customer. No limits were set for the market in terms of interest rate i.e. the Government did not interfere with the market. The pilots did not see success. It is also reiterated if the funds are devolved from Government’s budgetary resources, there will be lending cap. If this lending cap, as some discussants put forth, should be increased from 2% to 5%, then Government support should not be looked at for making the Rate of Interest affordable.
Dr. Nandita Chatterjee, Secretary, MoHUPA: Response to some Policy level issues raised during the course of the workshop:

- The income ceiling for EWS is Rs. 3.00 lakhs and for LIG is Rs. 6.00 lakhs as per the new Housing for All policy.
- Housing for All will be based on a demand survey. States have the flexibility of methodology and the Centre has recommended on-line registration of the applicants. Hence, a database will get created.
- Housing for All excludes Rental Housing.
- With regard to FAR, FSI and TDR, the States are advised to relax norms to encourage private partnership and the scheme is looking at PPP models or joint ventures in affordable housing in partnership and Slum rehabilitation with private participation.
- Infrastructure is important. Infrastructure linkages will be required to be extended in Green Field projects for Affordable Housing in Partnership. In case of Brown field projects, where land is already available, up-gradation of infrastructure will be undertaken.
- States, ULBs and Para-statals have been requested to leverage land with land pooling strategies.
- The Rajiv Rinn Yojana is rechristened as Credit Linked Subsidy Scheme (CLSS) to be provided upfront to the lending institutions.
- Single Window Clearance is being looked at inter-ministerial levels and is being followed up for project clearances, construction permits and building plan approvals. The consultation and participation of Ministries of Culture, Environment & Forests, Defense, Civil Aviation and Consumer Affairs is underway.
- Follow ups are under program with the Ministry of Finance is also under progress regarding infrastructure status for Affordable housing. Having said this, it is also pertinent to understand if such benefits would actually percolate to the poor.
- Incremental housing is confirmed under Beneficiary led housing and CLSS.
- A related issue - skill training of construction workers that has implications of labour productivity in the house building sector is under discussion and consultations are being held with stakeholders.
Summary remarks: Shri Rajiv Ranjan Mishra, Joint Secretary (Housing), MoHUPA

The key areas of the deliberation revolved around the following:

- Regulatory and policy enablers and disablers.
- Different models of HMF delivery, Formal and informal systems of HMF practice i.e. reaching housing finance to the poor.
- The challenges of resource mobilization and product pricing.
- End User perspective by getting close to the customer in Income Documentation processes as some commercial banks and developers have begun in their pilot projects.
- Technology support and capacity building in HMF is a crucial component.
- Assurance of Non-eviction leads to investment in housing by slum dwellers.
- Graduation from street to rental to own construction in the housing graph of urban poor.
- Rental Housing policy comes within this shift from one stage of housing to the next and is independently being worked upon. The Draft policy will be placed in public domain soon for consultation.
- Model tenancy Act has been developed jointly with the Ministry of Urban Developed and shared with States.
- Land zoning for housing the poor is already in the Housing policy.

Vote of Thanks by Dr. H S Gill, EDT, HSMI

Dr. H S Gill thanked the chair, Dr. Nandita Chatterjee, Secretary MoHUPA; Shri Rajiv Ranjan Mishra- Joint Secretary (MoHUPA), Dr. M Ravi Kanth, CMD HUDCO, Shri Premjit Lal, Director Housing (MoHUPA); experts from different institutions who had come all the way to join the forum; IHC event management team and his colleagues from HUDCO/HSMI to have made the event happen. Dr. Gill reiterated HSMI’s commitment to take the agenda and objective forward.

The National workshop came to a close with a new beginning. Formulating working groups to work further on the Housing Microfinance agenda.

To take the spirit from Dr. Nandita Chatterjee, Secretary MoHUPA’s words. “Participants in this day’s workshop were now part of the National Housing financing policy”.

A cross section of the invitees under the lead of Shri Rajiv Ranjan Mishra (Joint Secretary Housing) rejoined to discuss the setting up of Working Groups on thematic areas. The Working group structure, themes, objectives and constitution was finalized after the workshop and communicated to all invitees. The responses of the invitees have been incorporated in its functioning of the working groups.
Workshop Outcome, Recommendations & the Way Forward -

Having traversed through the debate and discussion on both demand and supply side issues of reaching housing finance to the lowest segments of urban poor in India, some possibilities and likely solutions have surfaced. These possibilities, as offered by representatives of standpoints and interests of all stakeholders, are not mutually exclusive. In the outcome note, an effort has been made to answer the thematic questions.

a. Immediate OUTCOME

Q1. Are the institutions providing Housing micro-finance or creating affordable housing stock able to carry housing finance down-market. What is the extent of outreach?

Ans. Lessons from experience of different institutional structures and systems suggest a product typology and loan ticket size that is indicative of the economic profile of the clientele. The modular Home-improvement loans, ranging between Rs. 75,000 to Rs. 1.00 lakh, are characteristic of incremental processes by the poor and are better delivered by grass-root people-centric institutional systems like NGO-MFIs, Trusts, Small credit Cooperatives and the like. On the other hand, loans for new construction or new houses ranging from Rs. 5.00 lakhs to Rs. 20.00 lakhs appear to be a more comfortable portfolio with NBFC-MFIs and HFCs, serving a client segment whose average monthly income ranges between Rs. 15,000 to Rs. 25,000/- and who, though can afford to service the loan, remain from the focus and reach of banks and other financial institutions due to absence of formal incomes, inability to pay margin money, lack of understanding of mortgage financing and non-availability of marketable legal title. Axis Bank through its 'ASHA' home loan product has made an appreciable effort in reaching housing loan to the informal sector. The loan ticket size varies between Rs. 10 to Rs. 12 lakhs against an average housing unit cost of Rs. 20.00 lakhs. This therefore indicates that the ASHA loan customer is able to pay the differential cost approximately amounting between Rs 8 to Rs. 10 lakhs. This further suggests that the poorer segments of the urban informal sector are yet to be reached by such efforts of the commercial banks.

NHB, the regulatory authority of Housing Finance companies, has its own Housing microfinance program, wherein both improvement and new house loans are provided, the product size ranging from Rs. 10,000 to Rs. 1,50,000/- with an average tenure of 3-7 years. The program is expected to result in the construction/renovation of 10,918 dwelling units in urban areas. The projects are scattered across the States of Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Orissa, Gujarat, Kerala, West Bengal, Uttar Pradesh, Madhya Pradesh and Assam.
Q2. What are the enabling and disabling factors that either enable ease of entry or make for restrictive entry respectively? What are the possible scale and sustainability issues?

Ans. Enabling factors for grass-root institutions are strong community connect and social capital translated into self-sustainable equity base; small credit cooperatives created as in SEWA and their not-for-profit social commitments. The issues of scale for such institutional systems revolve around regulatory restrictions in mobilizing resources and affordability. For commercially oriented institutions like NBFC-MFIs, HFCs, the enabling factor is better access to financial resources as compared to NGO-MFIs/TRUSTS. But here again, MFIs cannot borrow directly from NHB. They have to access funds from HFCs or banks. This indirect lending multiplies the cost of fund to the ultimate borrower. For all institutions, availability of land, legal title, cost of borrowing, pricing within regulatory lending caps, access to low cost and long term funds and non-reachability of available financial resources under different Government schemes due to high risk perception of the sector are generic disablers for scale and sustainability.

The biggest challenge that was unanimously brought out is ‘Legal land Tenure’ and the restrictions that it brought forth to reach housing finance to the poor. The issue of legal title to land is segmented. The poor either have no clear title to land OR they have their own land but no documents to create a mortgage. While the Refinance scheme brought out by NHB along with World Bank –IDA proposes to work with informal titles, it had the need for clear definition of title. It is pertinent to note that NHB in its HMF program has adopted alternate measures to secure the HMF loans – Hypothecation of book debts; Agreement to mortgage; Group guarantee of SHGs; other forms of security like FDRs and wherever legal titles existed, mortgage was created. But to what extent NHB could take the program to scale and sustain it is yet to be clarified.

The role of those NGO-MFIs or NBFC-MFIs who have created a sufficient customer base and risk mitigation mechanism with time are significant agencies in delivering housing finance to the poor is clear. But how to make resource mobilisation and lending rates comfortable for these institutions on the one hand and, how to make these institutions confident in handling long term debts on the other, is yet to be seen.

Q3. Does Housing microfinance for incremental building; group lending models; modular housing finance products; short repayment tenures; micro-enterprise + micro-housing work in urban India?

Lessons learnt during the course of the workshop indicate that by default or design, poor people graduate from survival to ownership along the housing ladder. This is characteristic of the poor as they build incrementally and naturally tend to follow a progressive tenure approach. Taking lessons from Group lending models that are characteristic of enterprise loans, NHB’s HMF program lends to both
SHG(Self-Help Group) and JLG(Joint Liability Group)models. Group guarantees/community mortgages serving as risk mitigation measures have worked in places like Philippines. Repayment tenures have ranged between 3-7 years depending upon loan type. While the subject of combined micro-enterprise and micro-housing loan was not directly discussed during the course of the workshop, NHB’s HMF program also initiated the Composite Loan products (Productive loans + Housing loans) to improve viability of the program.

Q4. What kind of pricing issues are faced by the institutions providing HMF and cost issues faced by housing providers/developers? What could be the suggestive and implementable solutions?

Ans. Pricing issues of the lending institutions have already been indicated in response to Q2, The private developers who have expressed an interest in the sector have issues in costing the housing products of the sector due to lack of affordable land in the city center, last mile infrastructure linkages to be provided in city peripheries that increase the cost, taxes-stamp duties and registration fees that substantially add to the unit cost.

Q5. What role does technology and capacity building play and how could they be integrated into the micro housing finance delivery process?

Ans. Appropriate and Cost effective technology would contribute to reduce both capital and maintenance cost of the house.

Even if the financial resources were available, as was learnt from SEWA’s experience people did not repay because they were not clear on the terms and conditions of the loan; were not aware that the EMI would begin even before they got possession of the house or even which banks to go to. Hence there is a need for capacity building not only of the poor but also the functionaries of different institutions who deal with housing finance delivery to the urban poor.

**Interim Recommendations based on immediate Outcome**

Based on the above answers to the five thematic questions mentioned above, the Workshop puts forward a set of suggestive interim recommendations to the Ministry of Housing and Urban Poverty Alleviation:

1. **Urban Housing microfinance is indispensable to reduce housing shortage in India and therefore integral to the National Mission for reaching Housing to All.**

2. **There are four components under the Pradhan Mantri Awas Yojana (PMAY) scheme. Following are suggestive ways vide which HMF could be integrated into these components.**
**Credit linked subsidy:** As per the PMAY scheme, housing loans can be availed for new construction and incremental housing needs through primary lending institutions like banks and housing finance companies. The subsidy in this scheme will be credited upfront to the beneficiaries’ account, thereby reducing the housing loan and EMI. Here it is significant to note that there will be a subset of the urban poor who will not be able to pay the margin money required for the banks/lending institutions to fund their housing need. Thus, many of the urban poor will not be able to access the scheme. Moreover, affordability is not an always an issue. The problems in accessing institutional finance by the urban poor are associated with irregularity and periodicity of incomes. Here Housing Micro finance product could play a significant role as follows:

a. A Margin Money HMF product either by converting the interest subvention to margin money or as an independent product will increase the loan to value ratio for the urban poor borrower and make them more accessible to formal housing finance institutions.

b. HMF Product Amortization can be designed on the basis of the cash flows of the clientele and the installments could be worked out quarterly or weekly. NGO-MFIs could serve as intermediaries between banks/Financial institutions and the urban poor clientele in both the above cases.

**In-situ Slum redevelopment Project ; Affordable Housing in Partnership and Beneficiary led Housing:** In above three components of PMAY, Beneficiary contribution is essential. Experiences from JNNURM project implementation processes and outcomes indicate that inability to pay Beneficiary Contribution often lead to non-selection in the housing project OR the burden of paying the beneficiary contribution went to the implementing agency. Even when bank linkages were established the beneficiaries failed to access finance from banks because of their inability to produce income documents or margin money and did not have an understanding of the terms of mortgage financing. Here again Housing microfinance could play a significant role.

a. Beneficiary Contribution HMF product for Government housing projects in partnership with Housing microfinance institutions like NGO-MFIs, NBFCs and HFCs.

3. Customized HMF products need to be designed taking into account different affordability levels of the urban poor, cash flows, building needs, building processes, rate of interest, repayment tenure, moratorium period etc.
4. To enable these customized HMF products reach the urban poor, there has to be modifications in policy and pricing. Policy interventions have to be worked out for providing priority sector lending status to HMF; removal of lending caps on NGO-MFIs and HFCs; restructuring interest subvention schemes; Removal or providing concessions in tax, stamp duties, registration fees for end user benefit in unit cost and develop land pooling strategies for housing the poor.

5. Besides financial and fiscal policy interventions, there is need for setting up a mechanism to formalize alternate systems of land tenure to address the issue of ‘legal title’ which is the most disabling factor in HMF delivery. Even if customized HMF products are developed and pricing issues addressed vide policy interventions, until the issue of land title is adequately and appropriately addressed, housing finance to the urban poor may remain a far cry. The Government may also revisit eviction-free strategies to enhance investments in housing by the poor and thereby mitigate tenural issues as well.

6. There is a need for developing ALTERNATE risk mitigation strategies like strengthening the Credit Risk Guarantee funds and making it accessible to all institutions delivering HMF; building in insurance products in HMF; Community mortgages etc.

7. The scope of the credit bureaus may be enhanced to include electricity bills, mobile recharge and other such utilities to ease the risk perception and reduce the transaction cost of bankers and other financial institutions.

8. In line with the recommendations of the NHB’s report (2010) titled ‘Report of the committee to explore, examine and recommend Setting up of a dedicated Micro finance company with focus on Micro-Housing finance’, submitted to the MoHUPA, there is a need to 1) set up an apex institution exclusively for administering Housing Micro Finance Loans to the target groups through institutions that qualify to reach housing finance to the poor either directly or through intermediaries like NGOs, NGO-MFIs and 2) set up a dedicated HMF fund in NHB/HUDCO may also be set up.

9. Construction Technology support needs to be integrated into HMF to reduce cost of construction; optimize space utilization and ensure safe housing especially in Beneficiary led housing projects.
10. Capacity Building of the urban poor clients especially in the area of housing finance literacy and that of the functionaries of lending or implementing agencies should be embedded in the HMF policy and practice

b. Way Forward

Differing perspectives, practices and prospects recommended by different institutional representatives have given rise to some further questions, the answers to which have the inherent potential of creating a road map for pushing housing finance closer to the urban poor, to upscale and to sustain existing practices of HMF delivery. While the objective of all the institutions present during the course of the workshop was more or less same, different institutions finally reached different segments within the urban poor and informal sector population. The loan size and income categories varied. Different set of institutions faced different issues of resource mobilisation. The big question that emerged was about integrating the issues and solutions in implementable solutions. The centrifugal questions that would lay the path for working on the objective of the workshop are:

1. How do we define Urban Housing Microfinance at the outset?
   - Economic characteristics of the poor i.e. low, informal and irregular incomes
   - Size of the housing finance required
   - Application of microfinance principles and methods in housing finance
   - Building processes of the urban poor
   - Combination of the above four criteria.

2. How to translate the urban poor’s income, cash flows, savings & investment behavior, housing needs and house building processes into bankable Housing microfinance products and propositions?

3. How to work out the modalities for modification in existing regulatory and pricing frameworks so as to translate the HMF products and processes into viable HMF portfolios for lending institutions?

4. What kind of alternate Land and legal title issues be developed that allow enhanced housing finance delivery to the poor?
5. How answers to the above four questions could be aligned into an institutional framework to impact Urban Housing microfinance delivery on ground through and within the policy of Housing for All?

In order to answer the above, and that the interim recommendations suggested in this report are translated into a workable road map, with clearly stated institutional mechanism, the above questions that emerged from the course of the workshop need to be answered and some further tasks carried out. To take the agenda forward 4 Working Groups have been created: i) People, People’s processes and Products ii) Land and Title iii) Policy and Pricing and iv) Capacity Building and Technology support. The four Working Groups along with the administrator group constituent of the Ministry and HSMI will work on-line (Google groups) on mutually defined objectives and timelines. The Working Groups will refer to the existing policies, practices, institutional experiences, research papers and reports on HMF practices across the globe. The Working Groups have commenced and their reports and recommendations are awaited.