

Microfinance for Housing in India



Dr. Basanta K. Sahu,
(Senior Research Officer)

Centre for Microfinance Research,
(Main Centre)

Bankers Institute of Rural Development (BIRD)

Lucknow - 226012

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Usual disclaimer applies

Executive Summary:

Chapter – 1

Low segment housing sector in many developing countries is undeveloped and constrained by several factors such as access to housing finance, fund mobilization, stringent regulatory framework, land title, difficulties in procuring building materials, finding skilled construction workers, awareness and access to housing technologies. Current pro-poor housing policy at national and sub-national level is found sufficient to meet the challenge. In India there is inadequate housing finance at lower segment resulted in huge gap in demand and supply of housing credit. Microfinance for housing (MFH) programme is emerged as one of the sources for housing credit for low-income groups and it is growing steadily in India.

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

Chapter - 2

In Indian context there are few studies available on housing microfinance and its outreach is limited. The present study is based on two different housing microfinance programme in India will be useful for different stakeholders. One of the MFH programme is state government initiated and community based microfinance for housing programme financed by commercial banks in Kerala Bhavansree. The other is MFI initiated microfinance for housing in Karnataka. These two MFH programmes differ in product design, housing loan term and condition, selection of beneficiaries, pattern of loan repayment and source of fund for the lending institutions.

Chapter - 3

The analysis of the study shows that demand for housing finance is high and growing faster among all income size sub-groups within low-income groups. But it is not adequately documented and correctly estimated. There is increasing demand for new construction of house and additional rooms for which required fund is much higher than available MFH which accounts for only about one-third of total housing credit need of the existing

borrowers. On the other hand MFH programme constitute a lower portion of total portfolios of participating financial institutions such as banks and MFI.

Key factors influencing the housing demand among low-income groups are current housing condition, rising income level, purpose of housing, available housing credit (formal & informal) family structure, land ownership, structure and pattern of employment and income, remittance, asset holding pattern like livestock, local housing practices and other socio-economic and cultural features.

However, microfinance for housing despite of its smaller quantity found having notable impacts on different stakeholders. For borrowers, it has acted as a kick start for housing plan, housing activity and fund arrangement, particularly, among house poor low-income groups hitherto excluded by the mortgage finance. MFH also has positive impact on the household decision making, portfolio diversification of lenders, expansion of housing sector and growth of the local economy as a whole.

For low income group MFH found more appropriate lending method than traditional mortgage lending. For instance, in our study MFI (SFRS) has extended housing loans to its clients having strong repayment history across groups and regions without requiring mortgages. By doing this it has minimized the administrative cost and diversion of group loans for other uses.

Major constraints of MFH found in the study areas are provision of technical support on housing to the clients resulted in delay in completion, increasing cost, multiple borrowing, poor hygienic condition and poor space management. There was downscaling of MFH programme by the banks where high non-repayment was reported and conventional approach of housing finance followed. On the other hand MFH programme of MFIs reported higher repayment of housing loan similar to the line of microcredit programme.

Findings of our study do not support the common argument that there is incremental housing activity among low-income groups. It may be due to strict loan conditions and guidelines for completion of housing activity within given time. As in most of the cases the housing activities were meant for immediate living purpose the borrowers cannot afford to delay it. Another important finding of the study is low or absent of inter-linkage between housing microfinance and micro-enterprise loan due to the nature of household occupation, housing needs and poor development of home based enterprise.

Chapter - 4

Based on our findings suitable suggestions are offered for product design, selection of beneficiary, up scaling MFH programme, institutional partnership and other relevant issues.

- *Intermediary Model of MFH:* Instead of currently practice of individual MFH model partnership between housing finance institutions and commercial banks and MFIs may be followed for better delivery of MFH, programme operation and fund management.
- *Housing Subsidies:* It may be used for reducing cost of fund for the credit lending institutions like MFIs than provision of direct subsidy to the beneficiaries.
- *Estimation of Housing Demand & Priority:* It is necessary for estimating actual housing credit need and housing priority of the target groups before operation of MFH programme. Suitable housing measure index like the one developed by Cashpor to measure poverty can be used.
- *Product design:* Designing of different MFH product lines for different credit lending institutions to meet wider and diverse needs of the target groups is suggested. Practice of uniform housing loan amount and loan terms excludes many potential borrowers. For smaller credit demand (up to Rs 30000/-) and for short-term ranges (1 to 2 years), MFIs may be the ideal suppliers. RRBs, commercial banks, housing finance companies, and other credit organization, can provide bigger credit (above Rs 50000/-) and for longer loan term (5 to 10 years).
- *Realistic and flexible approach for repayment:* Nature of household occupation, source of income, asset holding pattern and nature of housing activity should also be given importance while determining loan amount and repayment schedule. For instances, farmers borrowers can repay higher loan amount during harvest period where as borrowing household receiving regular remittance is a positive factor.
- Inclusive beneficiary selection process, regular monitoring and supervision will be effective than overcautious credit lending approach followed by the credit lending institutions to overcome credit risks. For identification of beneficiary suitable para-legal documents and proofs can be accepted within the legal framework and that govern rights to property.
- For up-scaling of Housing Microfinance special package that includes subsidized funds supply, technical support, alternate fund raising options, inclusion of some moderate-income clients would be important.
- Suitable housing plan and low cost housing technology must be a part of the housing microfinance programme, if possible at minimum charges.