

HOUSING MICROFINANCE IN INDIAN CONTEXT

Presenter

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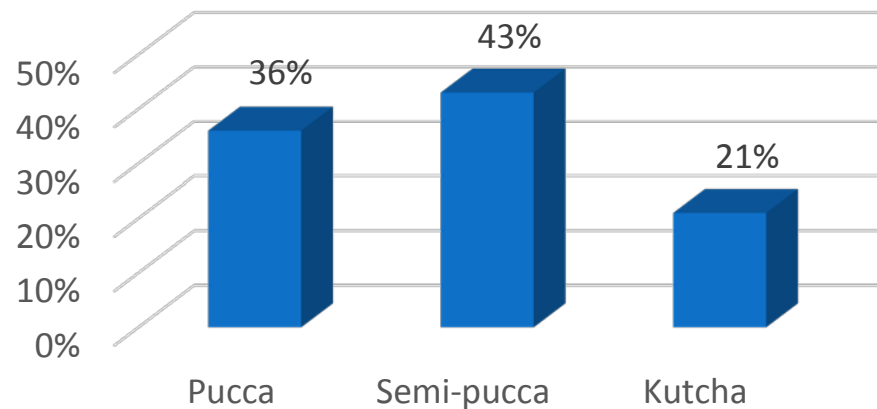
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RURAL HOUSING IN INDIA



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- Intervention in housing leads to protection against nature's fury, Access to private space for individuals and improvement of health and sanitation.
- Factors adversely affecting the delivery of housing finance in rural areas is absence of clear land title, pay slips, tax returns, uncertain cash flows, etc
- There is a shortage of about 25 million houses in rural India growing at 1 million houses annually
- NSSO estimates 64% of the houses in rural areas are *semi-pucca (semi-finished)* or *katcha (primitive)*



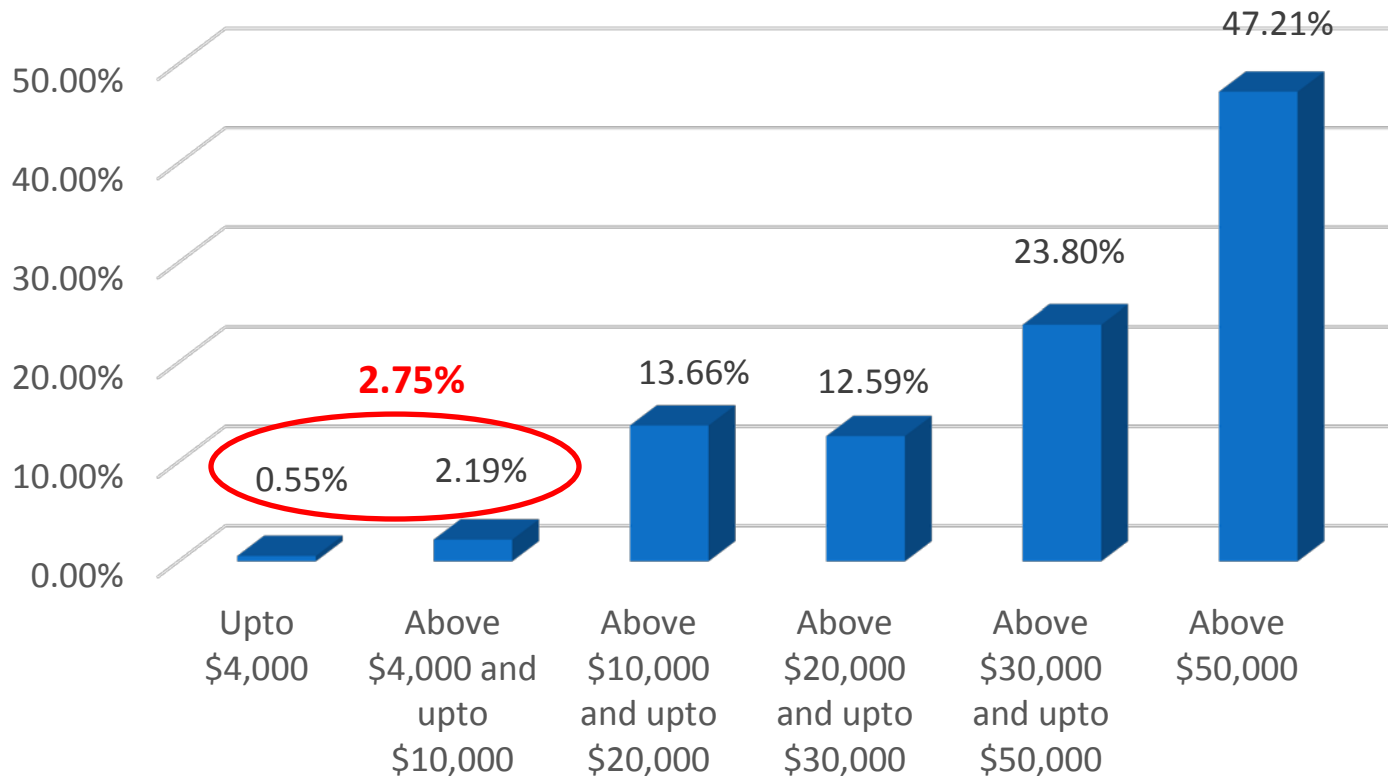
- Assuming an average loan demand of \$2000 (Approx.) for primitive (kutchha) house, it is estimated that the market demand for this segment is around **\$36 billion**. While the demand for semi-finished is around **\$79 billion** for an average loan size of \$1000 (Approx.)



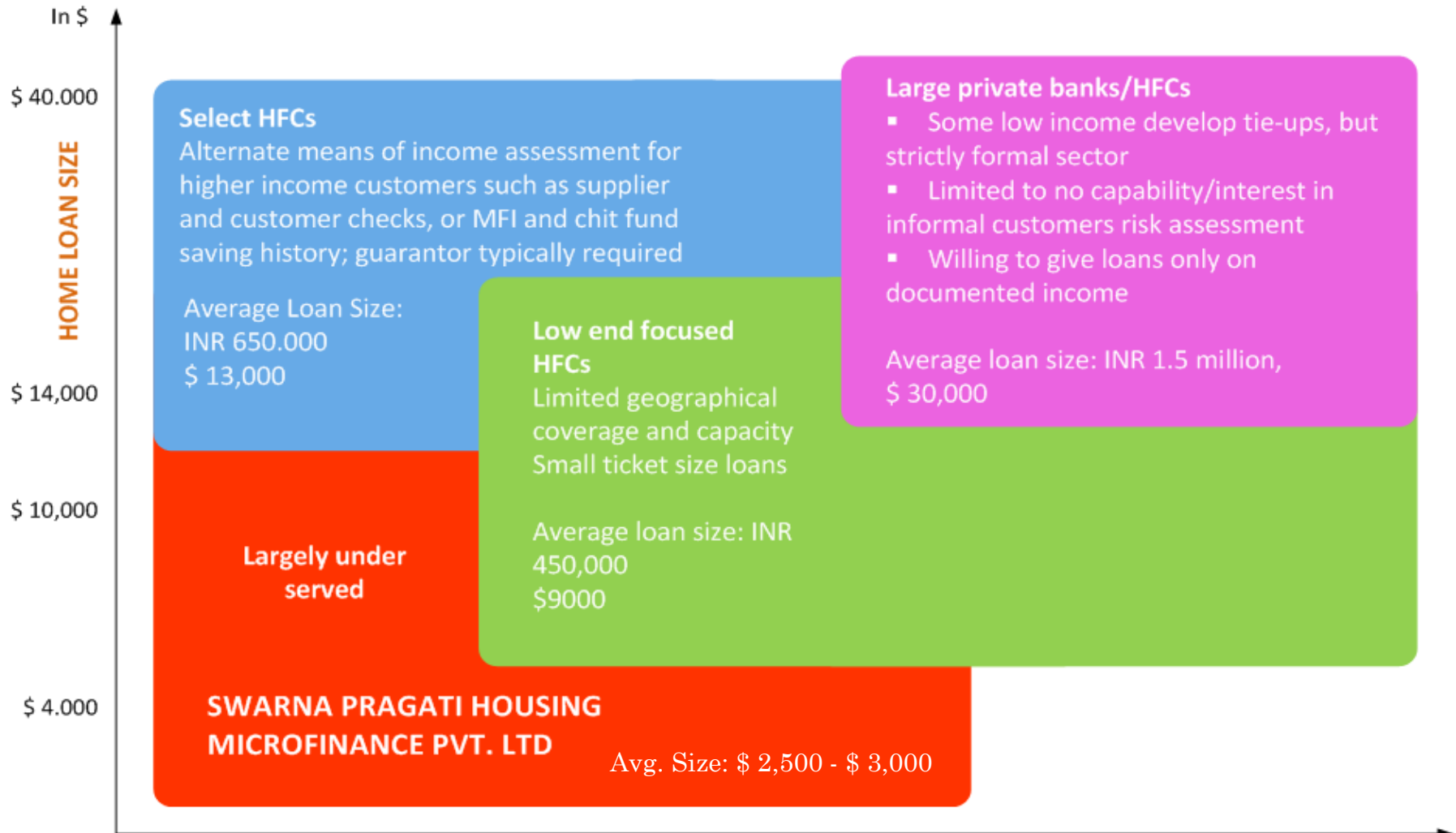
HOUSING LOAN: COVERAGE IN INDIA BY HFCs: 2013

In spite of the huge demand for housing loan in the sub \$ 10,000 loan size, with borrowers typically belonging to Economically Weaker Sections and Low Income Group, the exposure to such loans is just a fraction of the total HFC loans in India

Housing Loans by HFCs in India



MARKET DEMOGRAPHICS



Informal

- Earns in cash
- No formal income document
- No formal residence or identity documents

▪ Salaried or self-employed

- Significant proportion of undisclosed income
- Some residence identity documents

Formal

- Salaried with Pay-slip
- Income tax documents
- Residence documents
- Identity documents/Bank Accounts



ROADBLOCKS AND INNOVATIVE FEATURES OF PRODUCT ADDRESSING THEM

- Small monthly disposable income
- Borrowers Incapable of servicing large loans

Incremental Housing

- Rural borrowers are psychologically averse to long term loans and they are practically unserviceable

Shorter Repayment Tenure

- Need for enhancing repayment capacity for large housing loans

Productive Housing Loan

- Absence of documentary evidence of income
- PRA/Credit Worthiness

Group Lending (SHG/JLG)

- Absence of clear title to land
- Uncertainty of laws relating to ownership and tenure

Para legal title

- Leveraging para-legal process for formalizing mortgages

Use of Local Self Government Institutions

- NGOs/MFI 's have a large base of matured clients with established credit history in need of housing products.

Partnering with grassroots NGO/MFIs



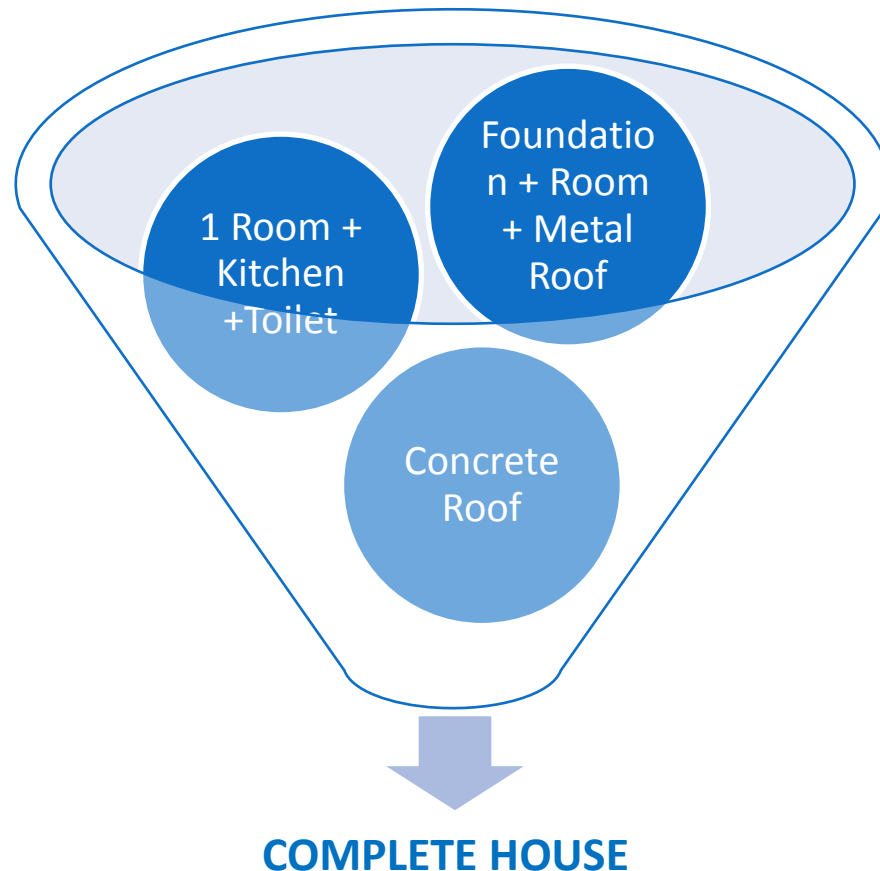
RATIONAL FOR INCREMENTAL BUILD

Incremental housing enables the borrower to build the house progressively thereby

- Decreasing the EMI amount
- Decreasing the tenure, for which he should have assured income
- Reduced loan burden at any given time

Single Loan	
Loan	\$12,000
Interest	18
Tenure	9
EMI	\$225

3 Modular Loans	
Loan	\$4000
Interest	21
Tenure	3
EMI	\$150



ALTERNATE MORTGAGE SOLUTIONS



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Conventional Mortgage Issues

- The most intractable issue in housing microfinance is that of legal title.
- While many rural villagers own their homes, which they likely built themselves, they rarely have a proper document evidencing title and ownership. Their ownership is based on the following services
 - A part of Common Property Resources devolve to villagers and their ownership is validated by long period of tenancy and endorsement by the by community
 - Land passed along from their ancestors as part of inheritance.
- Additionally, the very idea of collecting on a poor family's land or home in the case of non-payment is a morally difficult task.

Alternate Mortgage Solutions

- Use of alternate collateral the following innovative processes
 - The Self Help Group (SHG) model can be utilised for exercising peer pressure and character screening and providing social collateral which is far more effective than physical collateral
 - Leveraging Panchayati Raj Institutions to reinforce social collateral with para-legal processes
 - Use of community endorsement for establishing semi-formal titles on tenure of tenancy.

DELIVERY MODEL: HYBRID VALUE CHAIN



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Gain

- Creation of new markets
- Pioneering a sustainable business

Core Strengths

- Ability to operate at large scale
- Large Investment capacity
- Robust Operational Capacity
- Rich expertise with vast experience and strong credentials

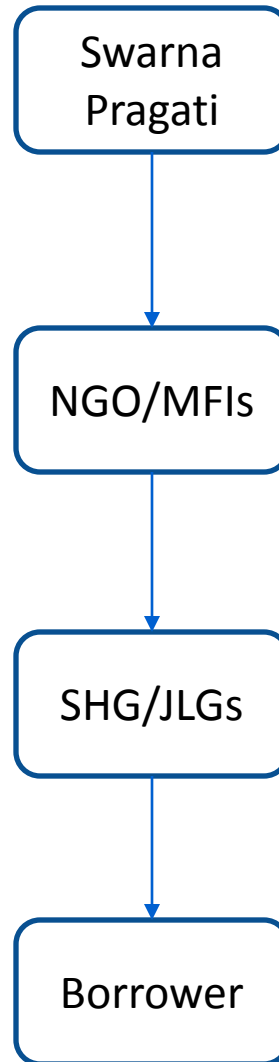
SHGs/JLGs

Gain

- Access to Housing Finance for group members

Core Strengths

- Joint liability through group guarantee
- Credit history of SHG through their bank account
- Peer pressure on account of mutual obligation



NGOs/MFIs

Gain

- New sources of revenue
- Access to expertise of Swarna Pragati
- Offering housing product to clients

Core Strengths

- Understanding of community needs and dynamics
- Good knowledge of credit history of borrowers
- Robust grassroots network

Borrower

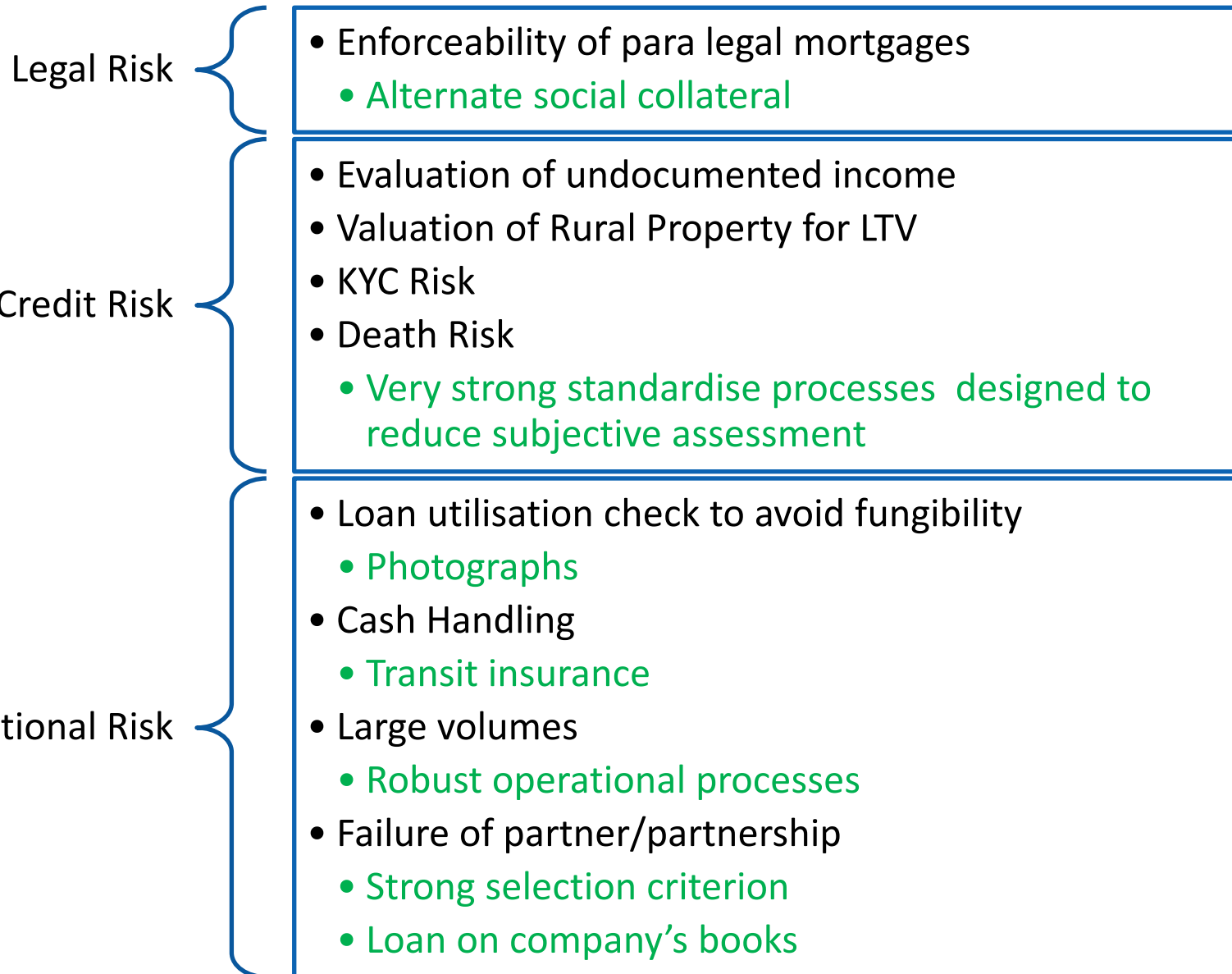
Gain

- Access to decent habitat and improved quality of life
- Enhancement in social status
- First time Access to Housing Finance on affordable terms.
- Empowerment through group processes

RISK AND MITIGANTS



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CASE STUDY: DESCRIPTION

Name	Relation	Occupation	Wages	Work description	Monthly Income	Maximum Monthly Income
Sulochana Patil (widow)	Self	Mess		Run a small mess	\$80	\$90
Sachin Patil	Son	Mason	\$4/\$3	Mason work	\$80	\$120
Total					\$160	\$210

The borrower required a loan of \$ 2,000 to complete foundation, one room, kitchen, metal roof and toilet. The complete construction was completed with \$ 1,000 contribution from the family savings and sweat equity. As the borrower did not have a original title, Swarna Pragati did a para-legal mortgage by leveraging the Panchayati Raj Institution. The loan was further strengthened by the group guarantee of her SHG.

Terms of Loan	
Location	Shirol, Kolhapur, Maharashtra
Loan Amount	\$ 2,000
Modules	Foundation, Walls, Roof (Metal)
Own Contribution	\$ 1,000 and Sweat Equity
Monthly installment	\$ 63
Loan Tenure	4 years
Rate of Interest	22%
Mortgage	Para-legal. Panchayat lien on Form 8A

IMPACT



Swarna Pragati will strive to have 100,000+ borrowers by 2017, across 10,000 villages in 10 states across India

CONTACT DETAILS



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