HOUSING MICROFINANCE IN INDIAN CONTEXT

Presenter

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Swarna Pragati Housing Microfinance Pvt. Ltd.
RURAL HOUSING IN INDIA

- 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 (kutcha) 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.)
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.
MARKET DEMOGRAPHICS

**Select HFCs**
Alternate means of income assessment for higher income customers such as supplier and customer checks, or MFI and chit fund saving history; guarantor typically required

Average Loan Size:
- INR 650,000
- $13,000

**Low end focused HFCs**
Limited geographical coverage and capacity
Small ticket size loans

Average loan size: INR 450,000
- $9000

**Largely under served**

**Large private banks/HFCs**
- Some low income develop tie-ups, but strictly formal sector
- Limited to no capability/interest in informal customers risk assessment
- Willing to give loans only on documented income

Average loan size: INR 1.5 million,
- $30,000

**SWARNA PRAGATI HOUSING MICROFINANCE PVT. LTD**
Avg. Size: $2,500 - $3,000

**EASE OF ASSESSING RISK**

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

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

- Need for enhancing repayment capacity for large housing loans

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

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

- Leveraging para-legal process for formalizing mortgages

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

Incremental Housing
Shorter Repayment Tenure
Productive Housing Loan
Group Lending (SHG/JLG)
Para legal title
Use of Local Self Government Institutions
Partnering with grassroots NGOs/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

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Loan</td>
<td>$12,000</td>
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<tr>
<td>Interest</td>
<td>18</td>
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<tr>
<td>Tenure</td>
<td>9</td>
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<td>EMI</td>
<td>$225</td>
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### 3 Modular Loans

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<table>
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<tr>
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<td>Interest</td>
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<td>Tenure</td>
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<tr>
<td>EMI</td>
<td>$150</td>
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## Alternate Mortgage Solutions

### 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 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 through 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

SWARNA PRAGATI

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

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

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

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

Legal Risk
- Enforceability of para legal mortgages
  - Alternate social collateral

Credit Risk
- Evaluation of undocumented income
- Valuation of Rural Property for LTV
- KYC Risk
- Death Risk
  - Very strong standardise processes designed to reduce subjective assessment

Operational Risk
- Loan utilisation check to avoid fungibility
  - Photographs
  - Cash Handling
    - Transit insurance
  - Large volumes
    - Robust operational processes
  - Failure of partner/partnership
    - Strong selection criterion
    - Loan on company’s books
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

<table>
<thead>
<tr>
<th>Location</th>
<th>Shirol, Kolhapur, Maharashtra</th>
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<tbody>
<tr>
<td>Loan Amount</td>
<td>$ 2,000</td>
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<tr>
<td>Modules</td>
<td>Foundation, Walls, Roof (Metal)</td>
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<tr>
<td>Own Contribution</td>
<td>$ 1,000 and Sweat Equity</td>
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<td>Monthly installment</td>
<td>$ 63</td>
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<tr>
<td>Loan Tenure</td>
<td>4 years</td>
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<td>Rate of Interest</td>
<td>22%</td>
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<td>Mortgage</td>
<td>Para-legal. Panchayat lien on Form 8A</td>
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</tbody>
</table>
Swarna Pragati will strive to have 100,000+ borrowers by 2017, across 10,000 villages in 10 states across India
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