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Review Paper

Rural Housing Finance: Impediments and Way Forward

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Abstract

Housing is one of the basic needs of man and is also considered a fundamental human right. In recent times, it is used as a key indicator in defining the living quality among the poor sections of the society. Hygienic and dignified living is a challenge for poor across the world and is further aggravated in case the housing is not appropriate. Not just from the fundamental rights point of view but also from the point of view of hygienic and dignified living condition it is important to improve housing conditions for the poor. The criticality of proper housing is most acutely felt in the rural areas, urban slums and poorer sections of the developing countries. Kutcha and semi-pucca houses often lack the ability to provide clean running water, sanitation, sewage removal and other amenities that are closely associated with elementary health. In India, specifically in rural India, there are considerable constrains in creating decent shelter for the poor. This is further compounded by the lack of successful initiatives in creating access to housing finance. The paper focuses on rural India, where the shortage for rural housing loans is believed to be very high in the light of inadequacy of government housing program along with failure of traditional mortgage finance. It also looks at Housing Microfinance as a possible solution along with additional suggestions to increase access to rural housing finance.

Keywords: Rural Housing, Housing Microfinance, Impediments to Rural Housing, Rural Housing Shortage.

Introduction

It is essential to give highest priority to Housing while developing strategies and policies for human development.

Economic growth across the world has been fuelled by the housing sector as it generates demand for raw material, finance and employment. Conversely, lack of proper housing or its shortage impedes the healthy growth of families and consequently the society and the Nation.

The issue of "Affordable Housing for All" is a challenge in respect to the flow of credit as well as the pricing. The flow of credit is dependent chiefly on Government subsidies, banks and financial institutions. To meet the demand, it is important that non-grant based and non-government sustainable channels are established. But these mainstream financial institutions are restricted by issues not limited to but including credit, land title, legislations, risk mitigations. These issues are critical if the rural affordable housing finance market is to be developed and scaled.

Creating a housing market driven by demands, which is efficient and transparent for low and moderate income households required several new initiatives. The business model should be aligned to the requirement in the rural areas and should be given recognition by regulators, policymakers and the industry. An efficient business model built bottom up catering to the field requirement will address various affordability aspects like risk mitigation and efficient financing. Also, a specialized approach that will result in larger number of product innovations.

Simultaneous efforts and interventions through improvement of land governance, infrastructure management, innovative technological approach towards construction etc., is to be considered by planners and policy makers. However, key challenges for lenderslike ascertaining the market demand for the segment, assessing its capacity and risk, and the environment in which the servicing of the lending institution will take place must be addressed.

Objective of the Study: The Research Paper aims at the following objectives: i. To analyse the shortage of rural housing in India, ii. To study the supply of government and private credit/grant to finance rural housing, iii. To suggest steps to improve access to housing finance in rural India.

Research Methodology

This research paper is conceptual and analytical in nature. The data used for this research paper is secondary in nature. The data has been collected from Ministry of Housing and Urban Poverty Alleviation publications, studies on rural housing, Census 2011, MoRD etc.

Rural Housing Shortage

One of the major problems for India since independence has been the shortage in housing. This shortage, which is estimated as excess households over houses including houseless households, congestion (number of married couples requiring separate house), and replacement/ up-gradation of kutcha/ unserviceable kutcha houses and obsolescence/ replacement of old houses, etc. had grown over the decades. The total housing shortage in rural areas is estimated at 47.43 million units at the end of 2012 by the Working Group on Rural Housing for the Eleventh Five Year Plan (2007–12). One of the major concerns is that even in advanced states like Maharashtra and Gujarat there is alarming shortage[1].

The report of the Working Group concludes that the total shortage is in the range of 40-50 million. Thus, based on the total no of households, their estimate suggests that approximately a fourth of all households in rural India lacked safe and sustainable houses.

In addition to the shortage, large number of the rural households will not be eligible for finance from formal institutions either because of deficiencies in title deeds or unwillingness/inability to take long term housing loans. These million households are deprived of access to housing finance, which in the present scenario will never be able to access housing finance for generations to come.

Table-1
Estimation of Rural Housing Shortage in India

SN	Factors considered for assessing Housing shortage	Working	Shortage in million
1	Number of Households not having houses in 2007	No. of Households – No. of Housing Stock (156.63 – 153.03) million	3.60
2	Number of Temporary Houses in 2007	No. of Housing Stock – No. of Permanent Houses (Pucca + Semi Pucca) (153.03 – 126.51) million	26.52
3	Shortage becauseof Congestion in 2007	6.5% x No. of Households (6.5% x 156.63 million)	10.18
4	Shortage because of Obsolescence in 2007	4.3% x No. of Household (4.3% x 156.63 million)	6.74
5	Additional Housing Shortage arising between 2007 to 2012	No. of excess Households projected for 2012 over 2007 – No. of excess Housing Stock projected for 2012 over 2007 = (17.15 - 16.76)	0.39
Total Rural Housing Shortage 2007-2012			47.43

Source: Working Group on Rural Housing for the 11th Five Year Plan, MoRD (2011), p.7[2]

Table-2
Number (in millions) and percentages (proportion) of rural households with kutcha (primitive) roofs or walls or flooring divided in the basis of social group

Social group	Kutcha roof		Kutcha walls		Kutcha floor	
	Households (million)	Proportion of all rural households in the category (%)	Households (million)	Proportion of all rural households in the category (%)	Households (million)	Proportion of all rural households in the category (%)
SC	13.8	42 %	16.12	49 %	23.4	71 %
ST	11.5	57 %	15.0	75 %	17.0	84 %
Others	39.9	35 %	47.8	42 %	65.9	57 %
All rural households	65.3	39 %	79.0	47 %	106.4	63 %

Source: Census of India 2011[3]

Nature of Housing Need in Rural India

Apart from the huge shortage in rural housing in India, there is also a huge disparity between the demand and supply of housing units and housing finance across different social groups. Economically Weaker Sections (EWS) and Low Income Groups (LIG) constitute about 99% of the shortage in housing (10th Plan).

Large number of EWS and LIG households are deprived of formal access to housing finance as they are unable to fulfill the eligibility criterion. Government run programs have a lot of inherent weakness in terms of implementation and people must wait for many years to get their turn in the queue. Desired results are still evasive, despite multiple efforts by the Government in introducing different methodologies in product design and implementation to make the program effective and transparent. Most of these programs are uniform in nature and lack specific customization that fits the local needs.

Supply of Housing Finance in Rural India[4]

One of the major concerns for EWS and LIG groups in rural India is access to housing finance. Though the overall disbursements of housing loans by Housing Finance Companies and Public Sector Banks has seen a CAGR of almost 30%, rural housing constituted only 8-12% of the total disbursements. Also, the proportion of rural housing loans has been stagnant at about 10% of the total housing finance portfolio in Banks. Primary reason associated with lack of adequate housing finance in rural areas is higher credit risk due to multiple factors. Major factors affecting inclusive rural housing and acting as constrains to lending institutions are given below. i. Inconsistent cash flows of the rural population, particularly for those associated with agriculture or agriculture allied activities due to vagaries of nature. ii. Difficult to apply a uniform model to assess income for rural borrowers in the absence of documentary proof of income, iii. No special tax benefits or incentives to lending institutions, iv. Poor rural network of Banks as well as HFCs, v. Absence of dedicated rural product and targets, vi. High stamp duty required for doing simple mortgage, vii. Difficulties in obtaining clear title deeds which can be effectively marketed as securities, viii. Difficulties in enforcing securities in rural areas, ix. Absence of title deeds jeopardize efforts to legally establish the title to the property, x. High operational cost incurred by lending institutions along with the overall perception of rural business being riskier and dependent on vagaries of nature, make rural housing finance less attractive business for lenders.

Government Initiatives in the area of Rural Housing[5]

In 1957, the Government launched its first formal village housing scheme as a part of Community Development movement. Later, the same village housing program was enlarged under National Rural Employment Guarantee Programme (NREGP).Construction of houses was taken up in 1980 followed by Rural Landless Employment Guarantee Programme (RLEGP) in 1983. Under RLEGP, IAY (Indira Awas Yojana) was launched in 1985-86 and later shifted under the Jawahar Rozgar Yojana (JRY) in April 1989. IAY finally became an independent scheme in 1996.

IAY provides BPL families in villages with cash subsidy to build their own dwelling units as per their own design and technology. The selection process is entrusted with the Gram Sabha's. The subsidy is given either in the name of the female member of the house or jointly in the name of husband and wife. 60% of the funds from IAY are earmarked for SC and ST beneficiaries.

The scheme presently provides for a subsidy of Rs 70,000 in plain areas and Rs 75,000 in hilly areas. Central Government contributes 75% of the amount and the State Government pitches in with the residual 25%. In the fund allocation 75% weightage is given to the shortage in rural housing while residual 25% weightage is given to the poverty ratio. Housing shortage is ascertained based on the 2001 Census. District Rural Development Agencies (DRDAs) are used as fund routing agencies. The subsidy is given in 2-3 instalments linked to the progress of the work. The construction of the dwelling is the sole responsibility of the beneficiary[6].

Some states have their own housing program in existence even before the scheme introduced by Government of India. These schemes in addition to IAY help the states to cover a larger number of beneficiaries. Presently 15 states/union territories are running their own schemes in addition to IAY.

Notwithstanding the existence of multiple schemes for rural housing, there have been a lot of shortcomings in the government run schemes including Adequacy of Houses and Allocation Criteria, Selection of beneficiaries, Adequacy of Unit Cost, Size of dwelling and structural facilities, quality of construction and use of appropriate technologies, Implementation Issues and Monitoring. These, shortcomings have taken a lot of sheen off the government run programs and have also restricted their effectiveness.

Housing Microfinance: Solving problems inherent to traditional mortgage finance

A prominent reality which is often scarcely appreciated is that a very small share of the rural population qualifies for traditional mortgage loans, affecting the majority of rural population's ability to purchase or build their own homes through non grant based finance. Typically, not more than 10-20% of the rural population will have the ability to fulfill the requirements laid out by traditional mortgage financers for extending housing loans. What is even more amazing and catastrophic from a developmental perspective is that some of the most important and dynamic middle-income population virtually lacks a market-based mortgage finance sector.

In sharp contrast to traditional mortgage financers in rural market, Housing Microfinance is not overly dependent on existence of clear title deeds, documented income proofs or income tax returns for extending credit. The current limit for unsecured financing by MFIs has been raised to one lakh by RBI. This amount is even more than the IAY subsidy. MFI in India retain title deeds more from the perspective of psychological pressure on the borrower without the intention of using the security for attaching the property or taking legal action. The primary reasons for these include: i. Legal action is a very costly and time consuming process, ii. It not easy to execute the security in rural areas, iii. Morally difficult to take a poor person's only home or land.

Microfinance has developed mechanisms to enhance credit to low-income families in the absence of clear land title through flexible underwriting and alternative collateral. Microfinance institutions bridge the gap between conventional lending, and microhousing finance has emerged as powerful because of its ability to evaluate credit worthiness and to enforce repayments on uncollateralized loans in cost-effective way[7-10]. From the borrower or household standpoint, investment will take place if there is reasonable assurance of security.

Increasing access to Rural Housing Finance

Increase in Budget for rural housing: As a huge proportion of rural housing shortage is among the Below Poverty Line (BPL), it is important for the government to extend subsidy schemes. With large scale shortage prevalent in rural areas, government subsidy budget will have to be increased in order to cover the shortage in near future. As the rural demand is not limited to BPL families and subsidy budget will have its own limitations, some portion of the budget should be allocated to improve the rural credit and legal environment necessary for lending institutions to offer housing products for both APL and BPL families for house expansion, repair, new construction and purchase.

Interest Rate Subsidy Housing Loan Scheme for the poor: Interest rates charged by the lenders in rural areas are effectively higher on account of i. High operation cost for set up and maintenance delivery infrastructure, ii. Higher credit risk on account of unpredictable cash flows, iii. Difficulty in executing the loan security.

Interest subsidy for rural loans like the CLSS under PMAY (Prime Minister Awas Yojana) present in urban areas will help ease the interest burden on the rural borrowers.

Incentivising Lending Institutions: Presently, rural housing portfolio comprises of a meagre 10-12% of the total housing portfolio of banks and HFCs. There is a need to incentivise these institutions to increase the share of rural housing. Government can consider giving tax concession on the rural housing portfolio of lending institutions as a way of incentivising them.

Risk Mitigants: The exclusion of rural housing finance by lending institutions is because several associated risks as discussed earlier in the paper. If appropriate mitigants for these risks were introduced, they would act as catalyst to propel lending institutions to expand their product line and exposure to rural housing finance. Important risk mitgants which are essential to be implemented in order to abate the concerns of lending institutions are as follows:

Title Guarantee: Across majority of villages there is a serious lack of clear title deed of the land on which any particular house is constructed. This is one of the major deterrents for the lending institution to provide housing credit. To cover for this the government should put in efforts towards regularizing these titles. This will be most effective with proper coordination between village Panchayat and Land Revenue Officer. These offices can certify the affidavits mentioning the correct legal heir of the property, which can be treated as a valid document for mortgage creation.

Mortgage Credit Guarantee: This guarantee can be extended to the loans portfolio of Banks and HFCs in rural areas. The initial corpus can be brought in by the institutions and the premium for the credit cover will be paid by the lending institution. This premium may be shared between the lending institution and the borrower.

Legislative Mechanism: Necessary legislative amendments are required to entrust power to the village panchayat to issue certificate on land titles and attest the affidavit of the borrower. Also, these certificates should be treated as sufficient documentary evidence for the property, thereby enabling banks and lending institutions to extend housing loans to these people.

Rationalisation of Stamp Duty: As the rural loans are of smaller ticket size, overall stamp duty and registration charges go to 5-6% of the loans amount (considering a one lakh loan). These costs can be rationalized and be subjected to a cap of maximum 1% of loan amount in case of rural housing. This will also help in updating land records as many people will be availing the facility to get housing loans.

Conclusion

Rural housing needs to be looked at from the point of view of its overall impact on rural development. A more focussed approach is required towards rural housing. MoRD, Panchayat, NABARD and NHB need to work more closely to address the issues impeding the access to rural housing from the point of view of customers as well as the lending institutions. Steps also need to be taken to facilitate smoother legal enforcement. There is also a role for risk fund, guarantee, mortgage insurance and other instruments in improving access to housing finance for the rural population.

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