Aga Khan Agency for Habitat

India

RESEARCH STUDY
ON INNOVATIVE FINANCIAL PRODUCTS FROM INSTITUTIONS AND GOVERNMENT FOR COMMUNITIES IN INDIA

Submitted by

RENOVATE INDIA

Contents

Chapter 1 – Introduction

I. Background

House is place where a life of a person gets settled down aligning with all his living needs satisfied. Referring to a Maslow's theory of Motivation, accomplishment of physiological needs is the base line of having a happy gratified life of any person which primarily comes from having a good comfortable home. It is the foundation that helps people support their families and contribute to their economies. Also, housing is most importantly a human right. The Human Rights Measurement Initiative finds that India is doing 60.9 % of what should be possible at its level of income for the Right to Housing. *("Housing in India", 2016)*

Though there is an ample of new housing stock in India, it does not get selected by people at large as many of them have restricted economical capacities to purchase the same. However on the other hand, it has been also seen that over the period of time, many residential colonies or community set-ups have become old-constructed properties and in many cases, it has been experienced that people prefer to continue in such properties only, as they are very much habituated with the surroundings and environment thereof. People also do not wish to leave their current location and they wait for redevelopment so as to obtain bigger property at the same place. Many of such types of properties need repairs and maintenance work from inside as well as outside of the building structure. It also increases the risk to the life of families staying in such structures. The percentage of such communities and families may vary from place to place in India. But such actualities are prevalent in every part of India.

As per the Working Paper on housing for India, in 2018, the urban housing shortage based on the number of physically inadequately housed households was 29 million which is 54 % higher compared to housing status of 2012. *(Debarpita Roy and Meera ML, 2020*) Besides this, key players in the market to avail the finance for house purchase and house improvements also stands as an influential factor. Based on the secondary data, it can be observed that, there are hardly any institutions who offer affordable house improvement loans or pure house improvement /renovation loans in India.

II. Review of Urbanization in India and in the world

With the ongoing urbanization, the demand for housing in India also is ever-increasing alongside the growing population. In India, smaller cities and towns located near metro cities, are fast emerging as centers of demand for housing. Industrialization in India contributed to labour mobility which eventually led to heavy urbanization. In 2021, approximately a third of the total population in India lived in cities. The trend shows an increase in urbanization by almost 4 percent in the last decade, meaning people have moved away from rural areas to find work and make a living in the cities. *(Statista, 2023)*

III. Status of Housing and housing demand in India

Housing and housing amenities are major indicators to gauge the human well-being of a country. Majority of Indian households live in owned houses out of which 69% are urban households. Data from the census and various reports reveals that only 53 % of households are in good condition and the other 47 % of the households are either just liveable or in dilapidated conditions. *(Nikhil Wakode, 2022)*

Housing demand has increased across the country as a result of changing lifestyles, societal perspectives, and expanding labour mobility. Future forecasts show that these patterns will persist. Moving into larger residences is more likely as income grows. Younger borrowers of housing loans, increased need for independent homes, government programmes to provide cheap housing, and interest concessions under the Pradhan Mantri Awas Yojana should all contribute to rising housing financing demand in the nation.

In India, it is clear that a significant housing shortage exists, with a big gap between demand and availability of houses primarily in terms of quality and preferential elements defined by buyers. Housing shortage also exists in the terms of numbers / quantity for lower economic groups. Redevelopment of slums and semi slums pockets do not cater to accommodate sufficient number of houses to serve all the slum dwellers or semi slum dwellers. Such statement can be verified from the data by official portals of MoHUA, MHADA and PMAY. For instance, in the report published by ORF (Observer Research Foundation) it is stated that PMAY (U) Mission has accomplished only 50 % of its goal of providing housing for all by 2022. *(Rumi Aijaz, 2022)* The Ministry of Housing and Urban Poverty Alleviation's Technical Group-12 report mentioned that the country was facing urban housing shortage of about 102 million in 2017. It is estimated that 95 percent of this shortage is in the affordable housing segment. (Nikhil Wakode, 2022)

IV. Financing Model in building Green Houses- environment friendly sustainable housing practices

While thinking of larger demand for more housing stocks in India, we should simultaneously look into the environment friendly sustainable housing practices which can consume minimal energies which in turn will be utilized for other purposes.

Analysing the worldwide green building models, it has been proven that such housing models can be financed by public as well as private players in the market. Such models include The Nightingale Housing model of Australia, the Green Roof Initiative of Denver and the GFRG (Glass Fibre Reinforced Gypsum) models of India. Retrofitting buildings has now larger scope in the Indian construction industry. Financing for such projects can be done as per the guidelines given in National Building Code 2016 which regulates construction activity and ECBC (Energy Conservation Building Code) 2017. Also the Priority Sector Lending guidelines of RBI could be explored to incentivize property buyers for star rating/ certification of property. Home loan interests are decreased as per the degree of following green norms for the properties to be purchased. These initiatives also attract the tax exemptions and subsidies for construction projects as per the above mentioned policy of RBI. (Shreyans Jain, 2020)

National bodies like IGBC (Indian Green Building Council) and the Ministry of Environment, Forests and Climate Change under Government of India offer reimbursements to projects obtaining green building certification. These initiatives make India as one of the global leaders in facilitating sustainable environment for development of housing sector. The council also closely works with the Government of India and several State Governments, World Green Building Council and bilateral and multi-lateral agencies in promoting green building concepts in the country. *(IGBC, 2022)*

V. Current practices and gaps in the existing policies and systems

The Indian government has formulated a number of policies for development of affordable housing, especially since the late 1980s including the National Housing Policy of 1988 and National Housing Policy 1994. The National Urban Housing and Habitat Policy of 2007 was the first policy specializing in urban housing followed by Housing for All (Pradhan Mantri Awas Yojana-PMAY) by 2022. *(Nikhil Wakode, 2022)*

India's urban population is likely to reach 60 crore by 2031 up from 37.7 crore today. (Economic Times, 2017) But the growth in housing has not been able to keep pace with the demand. Currently, the housing shortage in India is close to 1.9 crore units. Our National Housing Policy illuminates at viable and accessible institutional system for housing finance. As stated in the policy documents, there was a promised easy access to institutional finance for construction or buying of houses by individuals as well as by public agencies. But as per the records, such a financing mechanism does not show a significant impact on housing development in India. A system fails at informing all available financing schemes and subsidies to people who are willing to own a house. Market players lead at such a stage of availing finance for a new house. Our policies have somehow grossly neglected a sector of redevelopment of old housing buildings. For redevelopment of old buildings, communities, people generally opt to approach private players (i.e. builders & financial institutions). Private lenders have not kept the people informed about available eco-friendly alternatives like green building conversions referring to a government guidelines and subsidies. Private or even Public sector banks and IFIs (International Financial Institutions) insist people to take-up an unsecured loan with high interest rates to avoid documentation and lengthy legal processes. There is no in-built mechanism to inform about such initiatives and financial availabilities. Despite having a strong policy support and framework, the above mentioned data show the gap between the expectations and realities in urban housing and housing finance in India.

In the context of the housing policies by the Government of India, the Government of Maharashtra(GoM) also envisaged provision of 19 lakh houses by the year 2022 to those unreached by the financial institutions. For completing this Mission, MHADA was the nodal agency to implement the policy. MHADA – a housing redevelopment authority in Maharashtra implements projects for redeveloped affordable housing at affordable costs / rates for the people at the bottom of the Pyramid. In the following sections of the report, a case study of MHADA has been presented to identify various dimensions of housing sector in Maharashtra.

Model for repairing of low cost housing societies in urban areas:

In urban and semi areas, the GoM has proposed various schemes and models for redevelopment of old buildings through the PPP (Public-Private Partnership) model or at the subsidized rate distributed among individuals. But, the secondary research as well as the primary data do not state any specific strategy or plan for repairing and improvement of existing old properties of housing societies. Certain old housing societies have not opted for redevelopment nor they take the decision of extensive repairing to avoid a future living risk. Following might be the shortcomings in the system which pull back the economically weaker sections from improving their living conditions.

- Ineffective implementation of various schemes and programmes
- Poor networking between private and public sectors in the housing sector
- Neglecting a large section of the poor and their needs
- Inadequate coordination and lack of collaborative efforts among the members of the housing societies and non-readiness for a good change
- No specific financing model available for improvement of existing homes

Hence, there is a strong need in the sector to study and come-up with an implementable model to create a win-win situation for all the players in the housing sector.

VI. Problem statement

The term ' housing' refers to a component of the housing supply that is available to those who are willing to own a house as well as for those who wish to opt for private and public renting tenures. Nevertheless, its eco-system creates challenges for providing suitable and affordable homes or repaired homes for the urban population.

Reconstruction and redevelopment of old properties, improvements in current houses for better living, owning a house at desired location at a desired price are the various elements where hurdles may come up due to poor implementation of policies, deals amongst the economically and politically powerful hands, influences by market players etc. Unawareness can be also seen among developers as well as flat owners with respect to the conservation of energy through Green Housing concepts. There are hardly any IFIs or banks who offer home

improvement loans. The Government is not focusing on providing finance alternatives for home redevelopment / home improvement. Co-lending options as recommended by the RBI are hardly considered and therefore, the needy are left with no option other than approaching private builders for redevelopment and implement their own strategies.

For any strategy to enhance the provisioning of housing, government interventions through financial and non-financial support as well as through policy reforms would be critical. Financial subsidies, subsidies in kind (e.g. in the form of government land) as well as cross-subsidies will have to play a Central Role in addressing the problem of vast sections who are residing ing in old buildings and are unable to afford housing at market prices. *(Ministry of Housing & Urban Affairs GoI, 2017)*

Here, there is an acute need to propose and develop a model for affordable housing repairs at individual as well as community level. Basic human rights of good housing for all and for minorities as well as the Economically Weaker Section (EWS) need to be exercised at all levels in India.

VII. Rationale of the study

Based on the above data and facts, it has been assumed that there is poor implementation of house improvement plans or rather lack of such plans and schemes which are desperately needed for the economically weaker sections of India. This holds true, both in the government as well as the private sector. It is observed evidently that, the term **"affordable housing"** limits itself to the purchase of a home but does not cover the activities for upgrading the existing houses of the poor into best living places for themselves. Also, the policies focus more on the individual property but not a group property like Cooperative Housing Societies.

All such facts create a basis to conduct the study. The present study has focussed more on available data from primary as well as secondary sources about existing models and suggestive models from beneficiaries' point of view.

And hence, an all-inclusive model of affordable housing finance for house upgradations needs to be introduced and tested in the market. AKAH aims to promote such a model on a pilot basis in Maharashtra & Gujarat. These two States have been selected considering the background of their industrialization and concentration of labour living in Chawls, small thatched houses without any basic amenities such as potable water, electricity, sanitation etc.

Chapter 2- Research Methodology

I. Title of the Study

Need Assessment of Low-income communities for housing finance and to assess the existing schemes, systems and structures of financial institutions offering support to low income communities.

II. Research objective

- To study the current scenario of demand for housing improvements in low income communities of India
- To assess the internal funding models within institutions like Co-operative Credit societies, Social Welfare Board's & Economic Planning Board's Small loan program and loan facilitation program for new housing built by community trust
- To study the available options for funding required for housing improvement from banking institutions and under government schemes with special reference to the States of Maharashtra and Gujarat.
- To document the process of accessing this funding and to understand repayment process.
- To study innovative funding mechanisms and present case studies from India or internationally for learning the process
- To propose a model for funding housing repairs and improvement.

III. Research methodology

Type of Study

The study is descriptive (quantitative and qualitative) with a desk research approach for data collection. The quantitative and qualitative study was anchored by an Enumerator.

Area of study

Three districts in Maharashtra: Mumbai, Pune, Nagpur

Three districts in Gujarat: Ahmedabad, Surat, Vadodara

Sampling Design

The sampling design chosen is Simple Random sampling under the Probability Sampling method. The sample size of respondents was surveyed in the study.

Following financial institutions have been approached for data collection.

Sr. No	Name of the institution	Location
A	**Co-operative Credit Society**	
1	Ismailia Co-operative Credit Society Ltd	Yavatmal
B	**Cooperative Banks**	
1	Maharashtra State Cooperative Bank	Mumbai
2	Janata Sahakari Bank Ltd Pune	Pune
3	Cosmos Cooperative Bank	Mumbai / Pune
C	**Scheduled Bank**	
1	DCB Bank	Mumbai
D	**Small Finance Bank**	
1	Ujjivan Small Finance Bank	Mumbai
E	**Housing Finance Companies**	
1	LIC Housing Finance	Nagpur
2	Godrej Housing Finance Ltd	Pune
3	BoB Housing Finance Ltd	Mumbai
4	PNB Housing Finance Ltd.	Mumbai
F	**Microfinance Banks**	
1	Bandhan Financial Services Pvt Ltd	Mumbai
G	**Public sector banks**	
1	Canara bank	Mumbai
2	State bank of India	Pune
3	Union Bank of India	Pune
H	**NBFC**	
1	Tata capital	Ahmedabad
2	Muthoot Fincorp Ltd	Pune
I	**Private banks**	
1	HDFC bank	Ahmedabad
2	ICICI bank	Vadodara

Data Collection Process

The researcher began the data collection with available secondary data like articles, reports and thesis for literature review. On identifying the gaps in the literature review, the researcher finalized the objectives for the research and formulated the research design and developed the data collection tools. The research tools were tested in real time scenarios during workshop orientations organized for data collection personnel. The research ethics were followed while collecting the data.

Sources of Data

Both primary and secondary sources of data were used in the study. Primary data was obtained through personal interviews. Secondary data was collected from published and unpublished sources.

Records and Documents of institutions: The primary source of the data are the records and documents available of the various institutions for loan programs. Such information has been gathered after conducting a detailed interview with respondents. The respondents were the officials who helped in the on-ground working of the various housing schemes and programmes of various financial institutions as mentioned above.

Detailed Interviews with field experts: 'Field experts' are the present and retired officers of the Banks and other legal organizations. Such Interviews have been undertaken considering their in-depth experience in the housing loan sector. We aimed at studying various financial organisations that provide small loan programmes (supportive schemes) and loan facilitation programmes for new housing or repairing of existing housing built by individuals as well as community trust or cooperative housing societies.

Desk Review of the case studies as available in the internet: Various official websites and other online sources have been surfed to collect data regarding existing models in home improvement loan and current situations in demand side of home loans. Also, case studies of already existing successful models of AKAH operational in other countries and rural areas were taken into this study as secondary literature.

Tools and Techniques

The researcher used Structured Interview schedules, having both closed and open-ended questions. The data collection personnel were trained in paraphrasing the questions to draw accurate answers in the right spirit of research.

Chapter 3- Data Interpretation and Analysis

I. Data interpretation and analysis to access the internal funding model of various institutions.

In the view of existing data related to house improvement finance alternatives in the market, it was required to study, assess and analyse some of the available options/substitutes of house improvement finances. Such options may differ for different income level groups. But at the same time all institutions may it be a public sector bank, private sector bank, scheduled cooperative bank, housing finance companies, small finance banks, NBFCs need to follow all basic rules defined uniformly in the sector like CIBIL score requirements, margins on the property value to sanction the loan etc. Hence, such need assessment study has an objective to conduct comparative assessments of the patterns in various eligibilities and criteria under which home improvement loans are sanctioned. So, in the following sections various elements of loan sanction have been assessed from the beneficiary's point of view and they have been analysed based on their impact and the prevailing need in today's market. Total 18 institutions have been taken as random sample for such assessment study. Below are the detailed explanations about various loan sanction elements institution wise.

1. Financial institutions and their products

Table 1:Name of loan products institution wise

Sr. No	Bank Name	Product Name
1	Bandhan Bank	Bandhan Bank (Sajawat Home Loan)
		Bandhan Bank (Su-Awaas Micro Home Loan for construction)
		Bandhan Bank (Su-Awas micro home loan for renovation)
		Bandhan Bank (Suraksha Home Loan)
		Bandhan Bank (Suvidha Home Loan)
2	Bank of Baroda	Bank of Baroda- Home Improvement Loan
3	Canara Bank	Canara Bank- Home Improvement Loan
4	Cosmos Bank	Cosmos Bank Vashi (Home Loan)
		Cosmos Bank Vashi (Sukh Shanti Loan)
5	Godrej Hsg Finance	No loan for renovation (only housing loan)
6	HDFC Bank	HDFC Bank- Home Improvement Loan
7	ICICI	Home Improvement Loan
8	Janata Sahakari Bank Ltd Pune	Janata Housing (Home loan)
9	LIC Housing Finance	LIC Housing Finance -Gruha Suvidha
10	Maharashtra State co-operative banks	Home Loan
11	Muthoot Fincorp Ltd	Home Improvement Loan
12	PNB Housing Finance Ltd.	PNB HFL -Home Improvement Loan
13	State bank of India	SBI Home loans (no separate head for improvement loans)
14	TATA Capital	TATA Capital Home Renovation Loan
15	UBI	Home loans (no separate head for improvement loans)
16	Ujjivan Small Finance Bank Vashi	Home Improvement Loan
17	DCB Bank	Pending
18	Islamia Co-operative Credit Society, Yavatmal	Mortgage loan

In order to analyse the type of loan that is being offered by all the above institutions, segregation and demarcations have been done in the above table. As we can see from the above table, home improvement loans are being offered by institutions with their various brand names. They are 12 in total, i.e. 67 %. From the above table who offer home improvement loans. 6 banks/institutions offer only home loans and it has been demarcated separately in the above table. They comprise around 33.3 % of total loan products studied.

All the financial institutions covered under the study have a Senior Officer as the Head of the Department / Section dealing with matters relating to housing loans or home improvement loans. Out of all these institutions, the institutions which show 'Home Loan only' give a loan for purchase of new house (may be resale or fresh purchase from builder). In such institutions, if the customer asks for loan for furniture, he is generally provided with top-up loan instead of any special home improvement loan. Or otherwise if a customer does not want to opt for top-up loan, he/she will opt for short term personal loan, overdrafts, gold loan or mortgage loan. If a top-up loan is sanctioned to a customer on the basis of on-going home loan, again the process of securitization and registration of additional charge on property is filled with the registrar of the Government. In order to avoid such lengthy time consuming and expensive procedures, customers do not go for top-up loan for other than house purchase purposes.

2. Interest rates for home loan / home improvement loan

There is no uniformity in fixing the interest rate across the financial institutions studied. There are two types of rates of interest being charged by the FIs, these are, a) Fixed Interest Rates and b) Floating Interest Rates. Depending upon the types of Housing Loans sought by the prospective borrower, each FI (Financial Institution) offers different interest rate for home improvement loans. The fixing of such interest rates is based on their cost of funding. However, it was observed that FIs followed the directives of the Reserve Bank of India (RBI) and Government of India (GoI). Primarily, interest rate for borrowers is decided upon their CIBIL score. Higher the CIBIL score, lower the interest rate and vice versa. Therefore, such interest rates are presented for a slab wise amount and tenure of the loan. Every financial institution gives its minimum and maximum rates of interest. Following is the table which shows three levels of interest rates obtained based on various interest rates studied for various financial organizations.

Table 2.1: Interest Rates slabs for loan

Interest Rate per annum (Fixed)	
Minimum	6.85%
Average	8.00%
Maximum	13.70%

Table 2.2 – Interest Rates slabs for loan- institution wise

Minimum (6.85% to 7.90 %)	**Average (8 % to 13.60%)**	**Maximum (13.70 % and above)**
Bank of Baroda	TATA Capital	Bandhan bank (home renovation loan)
Canara Bank	PNB Housing Finance Ltd.	Muthoot Fincorp Ltd
HDFC Bank	Maharashtra State co-operative banks	
	Union Bank of India	
	Cosmos Cooperative Bank	
	Ujjivan small Finance Bank	
	Bandhan Bank (home loan)	
	State Bank of India	
	LIC Housing Finance Gruha Suvidha	
	Janata Sahakari Bank Ltd Pune	
	ICICI	
3	**11**	**2**

Out of the 16 financial institutions studied, minimum interest rate slab for loans under home improvement scheme was between 6.85% p.a. and 7.90% p.a. The average interest rate slab remains between 8.00 % p.a. and 13.60 % p.a. and the maximum interest rate slab stands at 13.70% p.a. All these interest rates are floating in nature. The floating interest rate changes periodically and moves up and down. It floats as per ever changing economic or financial market conditions.

Referring to the data collected, following are explanations (institution-wise) for interest rate segregation.

Minimum interest rate slab defined between the range of 6.85% p.a. to 7.90% p.a.

- Bank of Baroda offers interest rate at 6.85 % p.a. for home improvement loan. These rates are same as home loan interest rates. As a public sector bank, interest rates have been kept at minimum.
- Canara Bank interest rate lies in the slab of minimum interest rates. The Rate o interest is 6.90 % p.a. floating
- HDFC Bank also offers interest at minimum rates compared to other players in the market. The interest rate charged by them is around 7.55 % p.a.

Average interest slab fixed by the Bank ranged from defined 8.00 % p.a. to 13.60 % p.a.

- Tata Capital offers home improvement loans carrying an interest rate of 10.99 % p.a. for their home improvement loans
- PNB Housing Finance Ltd charges interest rate at 9.10 % p.a on home improvement loans
- Maharashtra State Cooperative Bank charges rate of interest at 8.25 % p.a on their home loans. It does provide top-up loan if required only to the existing customers and not a stand-alone home improvement loan.
- Union Bank of India charges interest rate at 8.70 % p.a. for their home loan and top-up loans. If a customer asks for a home repair loan, bank provides the same at higher interest rate for that portion of loan and considered as home loan by the bank.
- Cosmos Cooperative Bank charges interest rate at 8.25 % p.a. for home loan as well as such Shanti home loan for repairs and renovations.
- Ujjivan Small Finance Bank charges rate of interest at 8.75 % p.a. for home loans as well as home improvement loans through top-up for the existing housing loan borrowers of the bank.
- Bandhan Bank charges an interest rate of 8.65 % p.a on the home loans. There are various defined home loan products by Bandhan bank. So, further are the interest rates product wise

for this bank. Bandhan Bank Sajawat Loan (home improvement loan) are available at an interest rate of 11.50 % p.a. Bandhan Bank Su-Awas home loan for construction purposes comes with an interest rate of 12% p.a. Bandhan bank's Su-Awas Micro home loan for renovation offers interest rate of 11.5 % p.a. Bandhan Bank Suvidha Home loan offers rate of interest at 11 %p.a. for their home loan of plot purchase.

- State Bank of India offers interest rate at 8.75 % p.a. for the pure home loan
- LIC Housing Finance Gruha Suvidha offers interest rate at 8.90 % p.a. on lakh and above 3 crores.
- Janata Sahakari Bank Ltd Pune offers rate of interest at 8.10 % p.a. for up to Rs. 30 lakhs, and rate of interest at 8.40 % p.a. for above 35 lakhs of home loan. Only top-up is provided on comparatively same rate but not the home improvement loan separately.
- ICICI offers an interest rate at 8.75 % p.a. on home improvement loans.
- Godrej housing Finance Ltd also offers rate of interest at 10.99 % p.a. on their home loans.

A range of maximum interest rate defined i.e. 13.70 % p.a. and above.

- Bandhan Bank for his Suraksha Home loan offers interest rate at 13.75 % p.a. at the higher side for their customers having CIBIL scores under the minimum required slabs of 600.
- Muthoot Fincorp Ltd offers interest rate at 14% p.a. on their home loans.

3. Loan tenure of home improvement loans

The tenure and terms of loan under the home improvement scheme is broadly classified under two categories viz., Secured Loans and Unsecured Loans. It is also decided as per the different time slabs required by the borrowers. If it is a secured home improvement loan, the tenure can be longer and if it is an un-secured home improvement loan, the loan repayment tenure could be of shorter period compared to other types of loans. Following table shows the minimum, average and maximum loan tenure from various Financial Institutions. This information is a consolidated based on the data analysed by the team.

Table 3.1 Loan tenure range for loan

Loan Tenure in Years (Consolidated)	
Minimum	5
Average	16
Maximum	30

Table 3.2 Loan tenure range for loan – institution wise

Loan tenure period in Years		
Minimum (5-16)	**Average (16-30)**	**Maximum (>30)**
TATA Capital Home Renovation Loan	HDFC Bank Home Improvement Loan	Bank of Baroda Home Improvement Loan
Canara Bank Home Improvement Loan	Ujjivan small Finance Bank	PNB HFL Home Improvement Loan
Union Bank of India (home improvement loan)	LIC Housing Finance Gruha Suvidha	Union Bank of India (home loan)
Cosmos Cooperative Bank (home improvement loan)	Muthoot Fincorp Ltd	Bandhan Bank (Home Loan)
Bandhan Bank (Su-Awas micro home loan for renovation)	Janata Sahakari Bank Ltd Pune	Cosmos Cooperative Bank (home loan)
	ICICI	State Bank of India (home loan)
	Maharashtra State co-operative bank	
5	**7**	**6**

As we can see from the above table, minimum loan tenure is 5 years. Average loan repayment period is 16 years and maximum tenure of loan repayment is 30 years. These are the trends of loan repayment period from the existing market. Out of all the institutions studied under this research, it has also been seen that there are 5 (28%) financial institutions who are having minimum loan tenure. 7 (39%) financial institutions do have average loan tenure period. And 6 (33%) institutions have maximum loan tenure period. Majority of Financial Institutions offer top-up loan on existing home loans for this purpose of home improvement needs and therefore their loan tenure period is longer than any other types of loans. When a loan is secured against any property, generally a loan repayment period is extended till the eligible repayment capacity of the borrower.

Following is the segregation institution wise for loan tenure period:

<u>Minimum loan tenure maximum period i.e. between 5 and 16 years</u>

- Tata Capital home renovation loan offers maximum 6 years' period for repayment of loan
- Canara Bank offers maximum 5 years for the repayment of home renovation loan
- Union Bank of India offers maximum 15 years for home repair loan
- Cosmos Cooperative Bank offers maximum 5 years for the repayment of home improvement loan
- Bandhan Bank offers maximum period of 5 years for repayment of su-awas micro home renovation loan

<u>Average loan tenure maximum period i.e. between 16 to 30 years</u>

- HDFC bank offers maximum 15 years for the repayment of home improvement loans
- Ujjivan Small Finance Bank offers 20 years for home loan repayment
- LIC housing finance Gruha Suvidha offers maximum 25 years (upto the age of 70 of borrower) for the repayment
- Muthoot Fincorp Ltd offers 25 years for home loan repayment
- Janata Sahakari Bank Ltd Pune offers maximum period of 20 years for the repayment of home loan
- ICICI offers again maximum 20 years' period for home improvement loan repayment
- Maharashtra State Cooperative Bank offers 20 years' period for home loan repayment

Loam tenures generally exceeding more than 15 / 16 years, are nothing but the top-up loans taken from the same bank who has given primary home loan. As the property is same, customers generally approach their home loan bank who can again give top-up against the value of the same property, eligibility of customers and margins.

Maximum loan tenure period i.e more than 30 years

- Bank of Baroda offers 30 years' period for the repayment of home improvement loan
- PNB HF home improvement loan offers a maximum period of 30 years for repayment
- Union Bank of India home loan offers 30 years' period of Home loan repayment
- Bandhan Bank home loan (Suraksha and Suvidha Home Loan) offers 30 years of period for repayment of pure home loan
- State Bank of India offers maximum 30 years' period for home loan repayment

4. Processing fees for home improvements loans

The Financial Institutions covered under the study were found to be levying a Processing fee for any home improvement loan that include scrutiny of documents, site inspection, documentation and preservation of securitization papers. It is onetime payment by the borrower at the time of sanctioning of the loan. The processing fees levied for such loans are covered under the GST as well. Following is the table which shows minimum, average and maximum rate of processing fees being charged by the Financial Institutions.

Table 4.1 Processing fee slabs for loans

Processing Fees	
Minimum	0.20%
Average	0.96%
Maximum	2%

Table 4.2 Processing fee slabs for loans-institution wise

Processing Fees		
Minimum (0.20% to 0.96 %)	**Average (0.96% to 2 %)**	**Maximum (2% and above)**
LIC Housing Finance Gruha Suvidha	Bank of Baroda Home Improvement Loan	TATA Capital Home Renovation Loan
	Canara Bank Home Improvement Loan	HDFC Bank Home Improvement Loan
	PNB HFL Home Improvement Loan	Ujjivan small Finance Bank
	Union Bank of India	Muthoot Fincorp Ltd
	Cosmos Cooperative Bank	Janata Sahakari Bank Ltd Pune
	ICICI	Godrej Housing Finance
	Bandhan Bank any type of home loan	
1	**7**	**6**

Based on data results, it was observed that out of all the institutions for only 1 institution (6%)institutions processing fees are till 0.20 % of loan amount which is minimum rate in the slabs defined. 7 (50 %) institutions levy 0.96 % processing fees on loan amount which is average rate of processing fees. Remaining 6 (44 %) institutions charge 2 % or 3 % of processing fees on the loan amount which stands for maximum percentage of processing fees.

Processing fees of loan is nothing but inevitable amount that borrower need to pay for the processing of the loan other than the total loan and interest amount.

Following are the slabs under which processing fees for the loan disbursement is charged.

Minimum processing fees charged i.e. 0.20 % of loan amount:

- LIC housing finance Gruha Suvidha loan levys maximum 0.20 % of processing charges. They charge Rs. 60,000 + GST for loan amounts up to 2 / 3 crores. However, for loan amounts up to 2 crores, Rs. 24,000 + GST. All such processing fees should not exceed than 0.20 % of total loan amount.

Average processing fees charged i.e. 0.96 % of loan amount:

- Bank of Baroda charges 0.50 % of processing fees for the sanction and disbursement of home improvement loan. Such amount is minimum up to Rs. 7,500 and should not exceed Rs. 20,000 for the borrower.
- Canara Bank Home Improvement loan has 0.50 % of processing fees which has a minimum slab of Rs. 1,500 and maximum slab of Rs. 10,000. Such percentage of fees should not exceed Rs. 10,000
- PNB HFL home improvement loan has 0.50 % of processing fees which has minimum slab of at-least Rs. 10, 000/-
- Union Bank of India also has 0.50 % processing fees of loan amount. Such fees have to be within the amount of maximum Rs. 15,000 + GST
- Cosmos Cooperative Bank put a charge of processing fees of 0.50 % + GST with no any slab amount defined
- ICICI bank charges 0.50 % of processing fees on the loan amount + GST and additionally 0.25 % as scrutiny charges or Rs. 5,400 whichever is lower.
- Bandhan Bank charges 0.50 % as processing fees and administrative fees + GST of loan sanctioned amount

Maximum processing fees charged i.e. 2.0 or 3 .0 % of loan amount:

- Tata capital home renovation loan levy plain 2 % of processing fees on loan sanction amount
- For HDFC Bank, processing fees are levied as per their home loan policy. It is subject to 0.50 % or Rs. 3000 + Taxes whichever is higher, for salaried borrowers. Processing fees for self-employed is up to 1.50 % of loan amount or Rs. 4,500 whichever is higher
- Ujjivan Small Finance Bank charges 1.50 % + GST to all home loan borrowers irrespective of their loan amount and salary / profits.
- Muthoot Fincorp Ltd charges 2 % of home loan amount + GST as processing fees of sanctioned loan amount
- Janata Sahakari Bank Ltd Pune has 2.5 % of sanctioned loan amount + GST as their processing fees.
- Godrej Housing Finance charges 3 % processing fees irrespective of loan amount.

5. Maximum loan amount under home improvement Scheme

Under the Home Improvement Scheme, fixing of minimum and maximum loan amount per borrower will be unique and different from other borrowers. The Financial Institutions decide the interest rate and the repayment period. Such loan amount is either used for construction of home or improvement or heavy repairing in the existing dwelling houses/ flats. Following table shows minimum, maximum and the average amounts of loans issued by the Financial Institutions under the improvement Scheme.

Table 5.1 Loan amount slabs in market

Maximum Loan Amounts sanctioned (in Rs.)	
Minimum	5,00,000
Average	1,00,00,000
Maximum	1,24,68,750 (1,25,00,000)

Table 5.2 Loan amount slabs in market institution wise

Maximum Loan Amt sanctioned (in Rs)			
Minimum (5,00,000 to 1,00,00,000)	**Average (1,00,00,000 to 1,24,68,749)**	**Maximum (1,24,68,750 and above)**	**NA**
Cosmos Cooperative Bank	Janata Sahakari Bank Ltd Pune	Bank of Baroda Home Improvement Loan	Canara Bank Home Improvement Loan
Bandhan Bank (Su-Awas micro home loan for renovation)			Bandhan Bank (Suvidha Home Loan)
TATA Capital Home Renovation Loan			ICICI
PNB HFL Home Improvement Loan			
HDFC Bank Home Improvement Loan			
Union Bank of India			
Ujjivan small Finance Bank			
LIC Housing Finance Gruha Suvidha			
Muthoot Fincorp Ltd			
9	**1**	**1**	**3**

Based on above table, data can be interpreted in following way. Minimum range of such loan amount is Rs. 5,00,000/- Average amount of such loan is Rs. 1,00,00,000/- And maximum home improvement loan amount stands at Rs. 1,24,68,750/-. Around Rs. 1, 25,00,000/. 8 (50 %) institution offer maximum loan of Rs. 50,00,000 which stands at minimum loan amount in the market. Further only 2 (12 %) institution offer average loan of Rs. 1,00,00,000/- which stands at average amount of loan in the market. Remaining 6 (38%) institutions provide home loan / home improvement loan at maximum rate. Loan amounts which are upto and under minimum loan amount are majorly home improvement loans. Other two slabs of average and maximum loan amount majorly stands for the amount of home loan ant not the home improvement loans. Since many institutions offer only home loan and hence maximum amounts are for home loan only.

Following is the segregation of loan amounts as per the sanction limit defined by Banks:

<u>Minimum loan sanctioned amount Rs. 50,00,000/- to Rs. 1,00,00,000/-</u>

- Cosmos Cooperative Bank offers Rs.50,00,000/- as home loan limit and Rs.5,00,000 for home repair loan limit.
- Bandhan Bank (Su-awas micro home loan for renovation) has defined a limit of Rs. 10,00,000/- renovation loan borrowers.
- Tata Capital Home Renovation maximum loan amount gets ceiled at Rs. 35,00,000/- which comes under the first slab, analysing the market trends.
- PNB HBL Home Improvement loan maximum loan amount lies at Rs. 50,00,000/- which is also lower monetary value comparing to other banks and companies
- HDFC Bank Home Improvement Loan has its maximum loan amount in the average category as per the market rates. This amount is Rs. 75,00,000 with a ceiling of 75 % of total renovation estimated amount.
- Union Bank of India has a limit of Rs. 30,00,000 in sanctioning home renovation loans and for Home loan there is no any limit of amount for sanctioning a pure home loan.
- Ujjivan Small Finance Bank has a limit of Rs. 50,00,000 for sanctioning home loan or top-up loan for home improvement
- LIC Housing Finance Gruha Suvidha has a limit of Rs. 56,25,000 for home renovation loans. Besides this, they have defined different slabs for sanctioning home improvement loan amounts. Viz. 90 % of property value for loan upto Rs. 30 Lakh. 80 % property value for loan more than Rs. 30 Lakh and and upto Rs. 75 Lakh. Third slab is 75 % of property value for loan above 75 lakh.

- Muthoot Fincorp Ltd has a limit of Rs.40,00,000 to sanction the home loan to individual or joint owners.
- Average loan sanctioned amount Rs. 1,00,00,000 to Rs. 1,24,68,750/-
- Janata Sahakari Bank Ltd Pune has a limit of Rs. 1,40,00,000 to sanction the home loan to borrower. Such loan has to be maximum 85 % of property value estimated by Bank itself.

<u>Maximum loan sanctioned amount Rs. 1,24,68,750 (1,25,00,000) and above</u>

- Bank of Baroda Home Improvement Loan and home loan has ceiling limit of home loan at Rs. 10,00,00,000/-
- Canara Bank Home Improvement Loan has a ceiling of margin of 20 % based on sanctioned home loan amount or this amount should be one year's gross salary or gross income whichever is less.
- ICICI bank has also no limit for sanctioning home loan amount. Ceiling of loan amount is upto 80 % of property value estimated by Bank.

<u>Minimum loan amount:</u>

From the study, it was observed that that no bank or financial institution has defined their minimum home loan or home improvement loan amounts except the Bandhan bank. Bandhan Bank's Su-awas micro home loan for construction and renovation has minimum amounts of loan of Rs.1,00,000. Other banks and other financial institutions generally evaluate the repayment tenure and income eligibility of the prospective borrowers for e sanction of such loans. As far loan eligibility, if the expected loan amount does not fit within the income criteria, then the loan value could be of less amount than expected. It has been observed from the study above, that, generally, margins over the income are around the 60 to 70 % on gross salaries.

6. CIBIL score for the sanction of Home improvement loan.

The Credit Information Bureau (India) Limited (**CIBIL) Score** is a 3-digit numeric summary of credit history of a borrower. It shows a rating and report and repayment behaviour of borrower. CIBIL score ranges from 300 to 900. Higher the score close to 900 shows highest credit worthiness of the borrower and as the score goes down from 700 to 300, it would make the loan applicant borrower non-eligible for the applied loan. The CIBIL score also determines the rate of interest and other terms of the housing loan. Hence CIBIL rating is used as a multi-decision-making tool by the Financial Institutions about the credit worthiness of the loan applicant. This step is very critical tool in the entire processing of home improvement loan as well.

Based on the above information, following table has been extracted from the data gathered from the primary sources.

Table 6.1 CIBIL score range requirement for loan sanction

CIBIL Score	
Min	600
Average	736
Max	800

Table 6.2 CIBIL score range requirement for loan sanction- institution wise

CIBIL Score			
Min (600 to 735)	**Average (736 to 799)**	**Max (800 and above)**	**No information on the exact CIBIL score requirements**
Ujjivan small Finance Bank	Union Bank of India	State Bank of India	Bank of Baroda Home Improvement Loan
Maharashtra State co-operative banks	Cosmos Cooperative Bank	LIC Housing Finance Gruha Suvidha	
Godrej Hsg Finance	Bandhan Bank	ICICI	
Muthoot Fincorp Ltd	Janata Sahakari Bank Ltd Pune		
Tata Capital	Canara Bank		
UBI	PNB HFL Home Improvement Loan		
	HDFC Bank Home Improvement Loan		
6	**7**	**3**	**1**

As we can see in above mentioned table, 600 is the minimum CIBIL score which is needed to sanction a loan amount. Average CIBIL score is 736 and maximum CIBIL score is 800. This score also decides slab-wise rate of interest for the borrower. Out of all the data gathered from institutions, 6 (35 %) institutions accept the minimum CIBIL score till 600. 7 (41 %) institutions accept the minimum CIBIL score till 736 which is average score in market. Remaining all 3 (18 %) institutions need a CIBIL score of at least 800 to sanction a loan. Bank of Baroda has not declared or considered any minimum bar for CIBIL Score. Following banks have been segregated as per the range of CIBIL score acceptance for home loan sanction.

<u>Minimum CIBIL Score slab range is 600 to 735 required for the sanction of home loan in the following Financial Institutions:</u>

- Ujjivan Small Finance Bank has CIBIL score for sanctioning home loan is 600 and above
- Maharashtra State Cooperative Bank takes a CIBIL score between 600 to 900 for sanctioning home loan
- Godrej Housing Finance has considered its CIBIL score for sanctioning home loan amount is 690 above
- Muthoot Fincorp Ltd has taken a CIBIL score at 650+ for minimum consideration for sanctioning home loan
- Tata capital consider the minimum CIBIL score 600 as minimum required score for their home loan products
- UBI Consider at least 600 CIBIL score requirement for sanctioning home loan / home improvement loan but for such cases, rate of interest is generally high if CIBIL score is not good or at minimum levels.

Average CIBIL Score slab range is between of 735 to 799 required for the sanction of home loan in the following Financial Institutions:

- Union Bank of India has 800+ CIBIL score defined for sanctioning home loan
- Cosmos Cooperative Bank has defined its CIBIL score at 700 above
- Bandhan Bank has considered a CIBIL score at 75 + for all its home loan and home improvement loans
- Janata Sahakari Bank ltd has defined a CIBIL score requirement at 750+ for sanctioning home loan and top-up loan
- Canara Bank consider a CIBIL score at 650 for a consideration of home loan sanction.
- PNB Housing Finance Ltd consider a CIBIL score at-least 750 for the sanction of home loan / home improvement loan
- To avail a home loan from HDFC, a minimum CIBIL credit score should be 650

Maximum CIBIL Score slab range is 800 points and above required for the sanction of home loan in the following Financial Institutions:

- State Bank of India has considered its CIBIL requirement at 800+
- LIC Hosing finance Gruha Suvidha home loan has defined its CIBIL requirement at 800 +
- ICICI bank has defined its CIBIL requirement at 800+ for the sanction of home loan and home improvement loan

7. Funding model for home improvement loan by Ismailiya Cooperative Credit Society Ltd:

Ismailiya Cooperative Credit Society Ltd is a Credit Cooperative Society working in Vidarbha region of Maharashtra. The Central office of the society is located in Yavatmal. This society is specifically working for making the finance available for Muslim communities. Society works with the objective to provide hand holding support for their financial requirements relating to housing,

This credit society has a unique model of funding for home improvement purposes. Primarily this credit cooperative society has been formed for the welfare of the minorities and for providing support to them for their livelihood purposes. Such credit cooperative society does not fall under the categories of banks or finance companies or institutions. It has its own by-laws designed and approved by the Registrar of Cooperative Societies (RCS) in the State of Maharashtra. The society functions are closely monitored by the RCS. And hence, an assessment of credit benefits for their members have been explained here separately.

Following is the review of components of loan taken for home improvements from the Ismailiya Credit Cooperative Society. Home improvement loan is not a separately defined head or product name being offered by the society

- For the purpose of home improvement or home renovation, society members generally opt for a mortgage loan from the society as there is no a separate loan offering for home improvements.
- If a person needs to have a mortgage loan from this cooperative credit society, he/ she needs to become a member /shareholder first and then loan amount can be sanctioned to this member. The borrower needs to be a member of the society by subscribing to 2.50% amount of sanctioned amount of loan in the form of shares of the society (shareholding and membership and in other institutions and banks shareholding is not required except cooperative bank)
- Rate of Interest for such mortgage loan is offered at 11 % p.a (fixed)
- This is a secured loan of existing constructed property which is taken as security against the loan amount as required under the Credit Cooperative Societies Act.
- Tenure of 10 years is the maximum period for any loan repayment (This society offers 10year repayment period while FIs offer even longer tenure)
- NPA Status of such loan is around 4 to 5 %. Most of the members take loan with each other's references and therefore peer pressure as well as helping hands ensure timely

repayment of loan to avoid legal actions and amounts of fine levied by the society. (repayment easy, for banks its repayment recovery system is different)

- Such type of loan need two additional guarantors to the borrower to ensure the risk distribution in case of default.
- Loan amount sanctioned will be 50% of the property valuation of the mortgage property (margin is 50 % whereas other banks / institutions take 20 to 30 % margin and sometime cooperative banks may offer loan at 15 % margin)
- Maximum limit of such mortgage loan is Rs. 20,00,000/-. The maximum loan amount isRs. 35 lakh per family against one mortgage property. Out these 35 lakh, the society has a maximum of Rs.20 lakh for mortgaging property under a loan and Rs.15 lakh for another loan on the same property. So, considering a margin of 50 % on property value, total property valuation should be above 75 lakhs. (two mortgage loans on same property for one family at a time is unique feature other than various other banks)

Loans through such channels sometimes are expensive but easily available and approachable as these societies are formed only for the purpose of providing financial assistance to their own members and loans through these types of credit societies are generally not denied and certain criteria for sanction of the loan are loosen like no defined margin on valuation of property, flexible EMI options, No CIBIL score required etc.

II. Loan Processing: Internal processes of the Financial Institution

Housing finance and finance for home renovations and improvements is made available to the aspirant customers by following a systematic procedure as per the norms defined in the directives of the Reserve Bank of India and the RCS

Any Bank (public & private), housing finance companies, small finance banks, need to stick a uniform code of conduct related to legal formalities, documentations etc., before sanctioning a home loan / home improvement loan. Before sanction of a loan, certain aspects need to be considered such as customer's eligibility, evaluation of property and legal search report opinions. All these three aspects are fully cross checked and scrutinized before the sanction of the loan. Following are the procedures for scrutiny (documents and assessment) of legal and other aspects of property.

1. Loan can be sanctioned in single or in joint names
2. Loan could be a salaried person or may have its own small scale / large scale business

Following documents are needed to be submitted by loan along with application form:

- Loan application form with fresh photographs of applicant / joint applicants
- Cheque with applicable processing charges
- Customer Relationship Form (KYC forms) with fresh photograph
- Photo ID proof & Address proof & Age proof
- Salary slips for last 3 months
- Latest PF statement
- Form 16 issued by employer of customers
- Copy of ITR filed for the last three years
- Photocopy of investments, insurance policies
- Bank passbook copy for all bank accounts showing entries for the last 6 months
- In case of other loans availed (active as well as closed)- copy of sanction letter
- No dues in case of closed loans
- In case you do not have regular salary slip, then salary certificate on employer's letterhead duly stamped and signed
- CIBIL report of borrower and joint borrower
- Copy of rent agreement if present accommodation is on rent
- Title deeds & Index-II if existing house property is owned one
- Shop Act / Other relevant licence copy if borrower is self-employed.

- IF lender is a Cooperative Bank, then borrowers need to get themselves enrolled as member / shareholder of bank

The margin of loan amount generally lies between 75 to 80 % of the value of the property. It may differ from bank to bank. The quantum of loan amount is decided on the based on the following: (Other than all the above documents)

1. Age of the borrower (to decide the EMI and repaymet options)
2. Current net salary or net profits of borrower + co-borrower
3. Property valuation report (valued by empanelled property valuers of bank or institute). Distress property value is considered to decide the margin for loan amount.
4. Legal search report of the proposed property for which loan has to be sanctioned. Such report could be obtained by empanelled legal advisors of bank or institute

These all are mandatory for sanctioning a home loan. However, if it's a home improvement loan / home renovation loan following additional documents would be required.

- Quotation given by vendor against home improvement plan
- Sanctioned plan of land and house structure in case of extension of house
- Sanctioned plan of Local Self Government in case of home redevelopment

With the digitization of banking services, many banks and HFCs have started offering online facility to apply for home loans. Such online application processes have also helped lenders to offer 'instant,' 'pre-approved' home loans and make the loan process quicker and more seamless. The advent of online financial marketplaces like Paisabazaar.com has further eased the home loan comparison and application process. Prospective home loan borrowers can visit these online financial marketplaces to compare the home loan features offered by multiple banks and HFCs (Housing Finance Companies) /NBFCs (Non-Banking Financial Company) and then apply for the one that best suits their home financing requirements.

III. Existing government policies and programs and their impact (include case studies like MHADA / PMAY)

1. Maharashtra Housing and Area Development Authority (MHADA)

Based on the study conducted for MHADA, a fact came across that around 10 to 12 % houses were allotted compared to the total no of applications received in the lottery systems of MHADA in Pune region. *(Times of India, 2019)* It shows a lag of housing supply to the total housing demand in the state of Maharashtra. Some break-ups of demand and supply in the housing sector based on MHADA lottery system in **Pune region** (for instance) are given below.

No of Lotteries	Total applications received	Total houses allotted	% of allotment	% of people who do not get houses
1	41,500	4,700	11.32%	88.68%
2	4,031	2,237	55 %	45 %
3	80,000	4,222	5.27%	94.73%

(Magic Bricks , 2022)

Since inception of MAHADA in 1977, nearly 7.50 Lakh families got affordable housing across the State. However, overall shortage of housing remains between 50 to 80 % of the total applications submitted.

Total no of completed projects: 48

Total no of on-going projects: 50 (including BDD chawl projects)

Some of the landmark projects include Ambedkar Nagar in Worli – a very first housing project that was constructed in 1948 and housing project of Tagore Nagar, Vikhroli that was built in 1962-63 which became one of the biggest housing project in Asia.

Financially challenged groups are largely dependent on MHADA projects for their dream home.

Following are the various reasons for not catering to all applicants of Lottery:

- Inadequate availability of housing units
- Choices by applicants differing from those offered
- Rejection of applications based on criteria fixed
- No strong wish of government to cater to all the needy applicants
- Influences by other market players
- Since it's a lottery system, all do not get a chance to get selected Case Study:1 Maharashtra Housing and Area Development Authority (MHADA)

Formation and Objective

The Maharashtra Housing and Area Development Authority (MHADA) was formed by the State Government in 1977. The main reason behind creation of such an institution was to address the issue of acute shortage of affordable homes in the State. Since then, MHADA is working towards providing offering affordable housing to the poor. Making housing buildings structurally sound and safe for habitation was one of the foremost objectives of MHADA. *(MHADA, 2023)*

Functions

During the initial period of its formation, it had implemented various housing projects in the State for different economic sections of the society. Later, it started implementing projects for repairing and reconstructing old and dilapidated buildings in the State. It also has undertaken slum improvement projects in the urban areas in order to minimize the unorganized and unplanned growth of slums in the State.

Institutional Structure

MHADA is the Apex organization coordinating and controlling the activities of its seven 'Regional Housing Boards' and two 'Special Purpose Boards' viz., Mumbai Building Repairs and Reconstruction Board and Mumbai region and Mumbai Slum Improvement Board
It has its Head Office in Mumbai with Regional Housing Developmental Boards (RHDBs) in various regions of the State? for decentralized decision making and implementation of housing projects.

MHADA is unique in its structure. In the private sector various market players such as Housing Finance Companies (LIC Home Finance, HDFC etc.) cater to the overall housing needs or housing demands in the State.

Key Roles of MHADA are:

- Coordination among all the statutory authorities in the State related to land and housing development.
- Works with the objective of uplifting the standard of living of the marginalised and poor section of the society.
- It is currently working for 16,000 old cessed buildings in Mumbai
- *It* is the only authority in the country to provide housing to the Mill workers who were rendered jobless and homeless in midst of 1980s
- It is the special planning authority for various special projects viz – Chandrapur, Solapur, Dharavi.

Process of Allotment of houses/flats

- The entire process of allotment of houses starts with a defined system of MHADA lottery system which is explained below:

- Notice about the upcoming lottery is announced and published in print media and through web sources.
- Applications are invited from people against deposits mentioned (Every Lottery has four segments i.e EWS (Economically Weaker Section), LIG (Lower Income Group), MIG (Middle Income Group) & HIG (High Income Group). There are different deposit fees for different sections)
- Scrutiny of the forms is done and acknowledgement is raised

  Lottery results are then declared and choice is given to the applicants whether to opt for such allotted house or not.

- Once the option is exercised, 25 % amount of the value of the property is paid by the applicant / borrower to MHADA. The balance amount of 75 % of the amount is paid by the concerned bank/ Housing Finance Companies as a loan to the applicant. Till completion of the whole process of payments ownership of the property would lie with MHADA. Once full payment is received from the bank/ Housing Finance Companies, Documentation is done simultaneously and before release of the loan.

- After taking possession of the property the allottee cannot sell the property for next five years of purchase of the same.

<u>Information on income slabs and cost of house for various sections under MHADA lottery system:</u>

Category	Price of flats (in Rs. Lakhs)	Income slabs for family	Refundable deposit Amts
EWS	10- to 15	Below Rs. 25,000	Rs. 25,000
LIG	20-30	Rs. 25,001 to Rs. 50,000	Rs. 50,000
MIG	35-60	Rs. 50,001 to Rs. 75,000	Rs. 75,000
HIG	60-5.8 crore	Rs. 75,001 and above	Rs. 1,00,000

2. Pradhan Mantri Awas Yojana (PMAY):

Pradhan Mantri Awas Yojana The **"Credit Linked Subsidy Scheme"** (CLSS) was announced in 2015 by the Government of India. The Mission addresses urban housing shortage among the EWS/LIG and MIG categories including the slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022. Under this scheme, interest subsidy on purchase/ construction/ extension/ improvement of house was being provided to customers belonging to Economical Weaker Section (EWS), Lower Income Group (LIG) and Middle Income Group (MIG). PMAY subsidy was given to the housing loan holders of all public sector banks as well as key private banks like ICICI, HDFC, CITI Bank, Axis Bank etc. Below is the description of benefits under PMAY

- Interest Subsidy up to Rs.2.67 lakh per house was being given to beneficiaries
- These subsidies were allotted to EWS, LIG, MIG-I and MIG-II
- EWS was defined as annual household income upto Rs.3 lakh
- LIG was defined as annual household income exceeding Rs.3 lakh and upto Rs.6 lakh
- MIG-I was defined as annual household income exceeding Rs.6 lakh and upto Rs.12 lakh
- MIG-II was defined annual household income exceeding Rs.12 lakh and upto Rs.18 lakh
- This subsidy amount was given to people who were seeking housing loans from Banks, Housing Finance Companies (HFCs) and other such institutions for acquiring/ constructing houses.
- The interest subsidies of 6.5%, 4% and 3% on loan amounts up to Rs.6 lakh, Rs.9 lakh and Rs.12 lakh were admissible for house with carpet area of up to 60 m2, 160 m2 and 200 m2 for EWS/LIG, MIG I and MIG II respectively.

Through such scheme, many other aspects of construction and housing for all were also implemented by GoI. Some of them are given as follows.

Slum Redevelopment (ISSR): In Slum redevelopment program, a Central Assistance of Rs.1 lakh per house was given for all houses built for eligible slum dwellers. This slum rehabilitation grant was utilised by States/ UTs for any of the slum redevelopment projects.

Affordable rental housing complexes: Ministry of Housing & Urban Affairs has initiated Affordable Rental Housing Complexes (ARHCs), a sub-scheme under Pradhan Mantri Awas Yojana - Urban (PMAY-U). This scheme provided an ease of living to urban migrants/ poor in industrial sector as well as in non-formal urban economy to get access to dignified affordable rental housing close to their workplace.

Global Housing Technology Challenge – India

Ministry of Housing & Urban Affairs (MoHUA) of Government of India has also initiated the Global Housing Technology Challenge - India (GHTC-India) aimed to identify and mainstream a basket of innovative construction technologies from across the globe for housing construction sector in India. These constructions are sustainable, eco-friendly and disaster-resilient which is very much needed in India. 6 lighthouse projects in different regions such as Gujrat, Jharkhand, Madhya Pradesh, Tamilnadu, Tripura & Uttar Pradesh were planned to be constructed using different innovative technologies identified through GHTC India. These projects were served as live laboratories for different aspects of transfer of technologies to field application such as planning, design, production of components, construction practices, testing etc.

Statistical review of completions under PMAY:

- 2.03 Lakh houses were completed and Rs. 139659 cr central assistance was committed and released.
- 107.55 lakh houses were grounded
- 67.64 lakh houses got completed and delivered
- 16 lakh houses were built up with new technologie

Shortcomings of PMAY

Though PMAY scheme was designed for providing subsidy on home loan, many groups from LIG as well as MIG did not get quick sanction and deposit of subsidy in their accounts. Still there are many borrowers who did not get amount credited in their accounts though its sanctioned for them. Credit Link limit was just Rs. 6.00 lakh which was not enough in real sense for borrowers. For lower income groups, there was a limit on carpet area which was not really enough for such families. There were contradictions in the said amount of Rs. 6.00 lakh and tenure of 15 years. In most of the cases, though loan amount was more than 6 lakh, in order to get benefit of scheme they need to stick to the tenure of less than 15 years which was not really sufficient for repayment of loan for LIG section. In such design of scheme, construction work or constructed house should not be demolished or stopped due to any reason whether its manmade or natural disaster. If the development of construction stops due to any of the above reason, financial benefits under PMAY are not obtained by beneficiary. PMAY have not thought of such uncontrollable situations and again beneficiary has to bare such amounts by his own. Following table shows such shortcomings in nutshell against the features of scheme.

Issues	Advantages	Limitation
Credit Linked Scheme	➢ 6.5%	➢ Up to 6 lakhs loan amount not for all
Carpet area	➢ 60 sq. mt.	➢ Only people fall under LIG
Tenure	➢ 15 years	➢ Only for loan amount 6 lakhs or less
Subsidy	➢ Given on principal amount	➢ Will be bounced back to Government’s account if construction is stopped

These limitations may not have left the impact on society at the expected pace and reviewing a performance of such scheme, PMAY was stopped in March 2022.

3. Case study of Mumbai Bank

The Mumbai District Central Co-operative Bank Ltd (MDCC) is a central financing agency of all affiliated co-operative societies in Mumbai district, which is popularly known as **"MUMBAI BANK"** and it started its functioning on 12th February 1975**.** Mumbai Bank caters to the financial needs of non-agricultural cooperative societies which also includes, Housing co-op. societies.

MDCC Bank has a unique financing model for self-redevelopment of cooperative housing societies. Following are some features of this model:

- Mumbai Bank has come up with its self-redevelopment policy in 2011and revised it in 2017 in order to give maximum benefits of redevelopment to the members of the cooperative housing society
- They have introduced a one window system for obtaining various permissions / NoCs for redevelopment under one roof by the associating with MHADA / State Government.
- The Bank is taking special efforts to introduce or incorporate some special sections for self-redevelopment in RERA Act
- Mumbai Bank is motivating for self-redevelopment projects from the available resources of existing members and with the support of financing agencies and professionals
- Redevelopment has to be done with better accountability and transparency
- Profits out of such development projects are shared among the existing members of the society.
- Thus more profit increases the corpus of the society
- More corpus amount contributes to minimizing maintenance cost of that housing society
- Existing members have a good say in deciding utilization of space, its dimensions and planning of amenities for new construction
- Risk pertaining to developer dependability is eliminated

Good and tight monitoring by society members speed up the process of construction and completion is done in time.

Under a policy of self-redevelopment of housing societies, funds can be made available to such societies for

Their total self-redevelopment if the society is in dilapidated conditions

- Repairing and renovation in terms of construction of compound walls
- Colouring the society
- Plastering the outside structure of the society
- Fittings of flooring
- Installation and change of lifts
- Increase the space utilities

In order to access the finance for such type of works following rules are applicable for providing loans to housing societies:

Purpose of the loan	Description of mandatory elements of loan
➢ Construction of building (Long term loan)	➢ 95 % of cost as per Architect's certificate for construction. Maximum Rs. 30 Lakh per member for 15 years.
➢ Building renovation ➢ (Midterm loan)	➢ 95% of cost for per Architect's certificate for building maintenance, renovation, seepages gap filling and painting. ➢ Maximum Rs. 1 Lakh per member for 7 years.
➢ Society's legal dues, bills payments ➢ (Short term)	➢ Higher of 50% of monthly pending dues by members or Rs. 10Lakhs considering other income of the society for legal dues like electricity, water bill, property tax, service staff payments. ➢ Term of six months.(Society's deposits in the lending bank will be given weightage).
➢ Expenditure for the projects and allied equipment on Power generator, Solar System, Rain Water Harvesting, Lifts maintenance.	➢ 95% of project cost. ➢ 84 instalments. ➢ Required permissions from various concerned departments like electricity board, PWD etc will be applicable.
➢ Interest Rate for the project loan	➢ Interest rate is 12.5 % p.a. (BoDs have rights to change the interest rate)

(Annual Report F. Y. 2021-2022, MDCC Bank)

The total amount of loans and advances of Mumbai Bank is **Rs. 3787.34 lakh** in the FY 2021-22. Such amount includes loans given to housing societies as well. Percentage of gross NPA and net NPA is 13.47 % and 7.43 % respectively in the year 2021-22.

Conclusion: based on the above data, it seems_MDCC / Mumbai Bank has not declared their profit amounts or business mix. It may have left certain adverse impacts in the market. Hence, such model could not be fully tested though its objectives and methodology. A major observation from such model is that the margin on total value of property is just 5 % which is very low comparing to current market margin considerations. Due to having such a low margin, the finance which is being made available can be a misguided figure as compared to rate of concerned property. Borrowers may not be capable to repay such full loan amount as margin calculations may stand high. All these factors show certain drawbacks/ short comings in this type of financing model.

Review of Pakistani model of Community funding for Home improvements:

Background and aim of scheme

In the country of Pakistan, AKPBS, P collaborated with another finance company FMFB in order to provide funds to people for improving the overall living environment of their houses. Such model was introduced and implemented in Pakistan in 2015. Such scheme was primarily designed for the low and middle income group communities in the country. People from these communities generally do not have a lump sum amount for repairs and renovations of their homes. Unawareness about the need of good living environment with good living materialistic conditions was prevailing among these groups. But later on, such awareness was conducted among these communities and also responsive financial offers were also made available for repairs of their houses.

Major Objectives of the scheme are

- To facilitate the community in gaining access to readily available funds to address their housing maintenance issues
- To support the community in protecting their fixed assets and improving their quality of life.

Types of loans available under the scheme

- Loan to be offered to the office bearers of maintenance committee of the housing colony for communal work such as maintenance of common facility places like parking slots, playground, society garden, common walking through etc,
- Loan to individuals within the colony for contribution to common maintenance work that they would not be able to otherwise afford or contribute to the maintenance committee
- Loan to individuals for internal work within their own flats

Following are the loan parameters for individual as well as community loans

- Processing Fees is Rs. 650 (PKR) mandatory for all to pay
- Finance options are available in short term to medium term tenures
- Maximum loan amount defined for housing society is PKR. 10,00,000 and for individual was PKR 2,50,000
- Loan tenure options availability is for 24-36 months to all group members willing to have the same loan tenure
- Interest rate priced at 4 % p a.

- AKPBS, P / Councils are responsible for identifying various residential colonies, community mobilization and loan processing as per bank's regulatory requirements.
- All loans are approved by the Branch Credit Committee of FMFB as per policy
- Loan repayment arrangements are to be processed by FMFB as per standard policy and procedures

Identification and disbursement methodology

- AKPBS, P makes announcements in community centers to alert people about the availability of loan options
- To visit individual housing colonies and get involvements by councils and PRC committee to raise awareness.
- Once the community is mobilized or if a specific family expresses the interest in taking a personal loan, AKPBS staff visits their personal homes or members of their maintenance committees to share the details of their payment plans, costs and various other terms and conditions. This is followed by a visit to these colonies or individual apartments by FMFB staff to finalize all paper work and process the loan. The loan is received within10 days of the completion of all requisite paperwork.
- The most important factor is that loan requests from families or colonies for housing maintenance have to come only through AKPBS, P.

Analysis of the above scheme

- The above scheme is primarily designed for low income communities to improve the overall quality of their houses
- Focus is more on enhancing quality of life of these low income community people.
- Tie-ups for distribution of funds are restricted to apex body organization and a single financial institution in Pakistan
- Risk of loan repayment is segregated from individual to group of office committees of residential communities.
- Interest rate is also very low comparing to other banks and institutions
- Community level awareness is a primary factor to raise the business in such type of models
- Comparing to the rate of inflation, maximum amount of loan is not sufficient for borrowers to complete the works of house modifications.

However, successfulness of such model could not be found through and secondary literature sources or even on web resources. Considering the inflation and present economic conditions in Pakistan, it has been felt that there cannot be a surety on best performance of such model in Pakistan. Strong willingness of borrower to change his / her living conditions, amounts available for home improvements, monopoly in the selection of bank for loan are some crucial elements because of which a program seems not an ideal model in the current economic situations of Pakistan.

Following table can show advantages and limitations of such scheme:

Issues	Advantages	Limitation
Interest Rate	➢ 4 % - Low interest rate of pure loan scheme	➢ No choices are available as per amounts and interest rate there on. No flexible EMI options as per tenure and amount of loan
Bank / Financial institution	➢ Collaboration of FMFB and AKPBS, P – which is easy to approach for loan	➢ Due to monopoly, no healthy competition in loan products in Pakistan. Even there are no competitors for quality assurance.
Tenure	➢ Around 2 years and maximum 3 years	➢ For community borrowing, such period is very less to repay the loan of Rs.10,00,000 and even for individual borrowers, period defined is not sufficient to repay the loan based on their economic background. There are no major different features of loan in short term i.e. 24 months and midterm i.e. 36 months
Subsidy	➢ Given on principal amount	➢ Subsidy amount is bounced back to Government's account if construction is stopped due to any natural or manmade reason
Risk sharing	➢ Individual loans are approved on their own individual risk	➢ Risk of repayments of community loans are distributed among office bearers which is not really required

Conclusion: Such financing model in Pakistan for redevelopment of individual houses as well as common utilities of housing society / community is a unique one. Data results show that there has to be a good peer environment as well as peer pressure to utilize such loans and repay it in time. Though there is monopoly in terms of selection of financial institution, there could be better results on conditions of houses at mass level who are using funds from such alternatives. But there is no data available on the number of beneficiaries and completed projects under this loan scheme. Hence, we also need to recheck the success by considering local level influences and local level resources for implementing such loan scheme in Pakistan.

IV. Demand side analysis of the need for housing improvement loans.

Housing shortage has always been a major problem over the years in our country since independence. Such shortage 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. As per Government estimates, the total housing shortage in the urban areas, at the beginning of the 11th Plan period was around 24.71 million units and went up to 26.53 million units by 2012 and further till 23.93 lakh people in 2019 as per the third-party survey conducted by Ministry of Housing and Urban Affairs, GoI. In urban areas such shortage can be seen mainly in Economically Weaker Section (EWS) and Low-Income Group (LIG) categories. Population increase and the COVID-19 pandemic have fuelled the rise in the homeless population. Following is the graphical presentation of homelessness situation in urban India which has not shifted to a major positive change in recent periods.

In 2014, McKinsey estimated that 330 million urban households in the world were living in substandard housing or were financially stretched by housing costs. This is projected to rise to nearly 440 million households, or 1.6 billion people, by 2025 – and 2.5 billion people by 2050. *(McKinsey Global Institute, 2014).* However, many of these houses can be seen in dilapidated building structures which need urgent repairing to make environment and infrastructure liveable. Following are various reasons of home improvement especially in urban areas of India.

- Heavy leakages / seepages
- Leakage of pipelines
- Broken corners of wall joints / pillars
- Water stagnation in washrooms and toilets
- Open wiring of electrical work in old houses causing hazardous short circuits
- Cracks on the wall from inside as well as outside.
- Doors and windows sticking shut due to settling down of foundation.
- Balconies are pulled away from your home due to structural weaknesses in old buildings

Following is the statistical review of data related to Housing in India, (State of Housing in India- A Statistical Compendium 2013)

Household size in terms of persons:

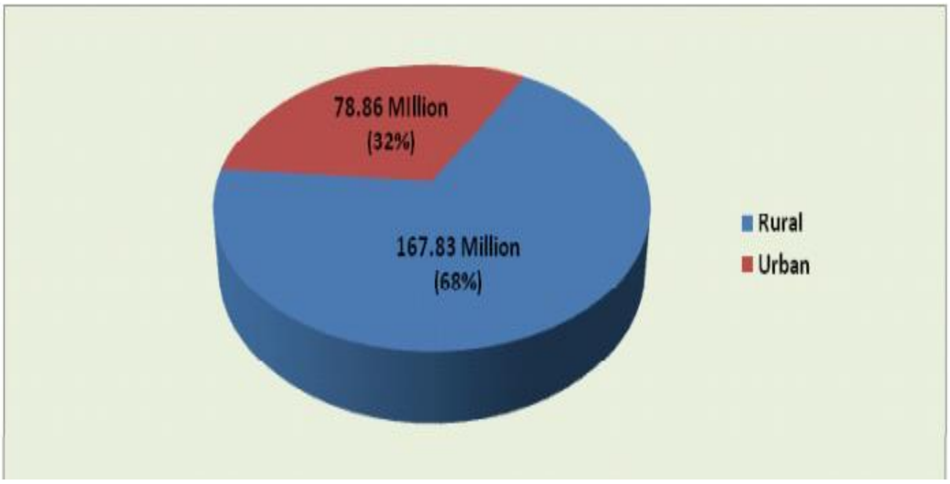

*Figure 1: Total Number of Households: Rural & Urban -2011 (*Source: Census of India 2011: Series-H: Tables on Houses, Household Amenities and Assets)

A figure shows the total coverage of households in India. A percentage of households in urban areas is less compared to rural areas. However, total population is very high in urban areas and therefore no of persons per household is at higher rate i.e.4.8. In such case, people in urban areas do not have many alternatives to choose their homes considering the available area, employment and education opportunities etc. So, many of them are conditionally compelled to continue with their existing home which may need a renovation to ensure their safe living.

Average household size of Maharashtra and Gujarat states is 4.7 persons per house. (Report by Wikipedia on "Indian states ranking by household size")

Total occupied houses for residential purposes:

As per 2011 Census, there were total 306.16 million occupied census houses in India. Out of these occupied houses, houses used for both residential and residence-cum-other purposes were 244.64 million which has a share of 78.48 million houses in urban India only.

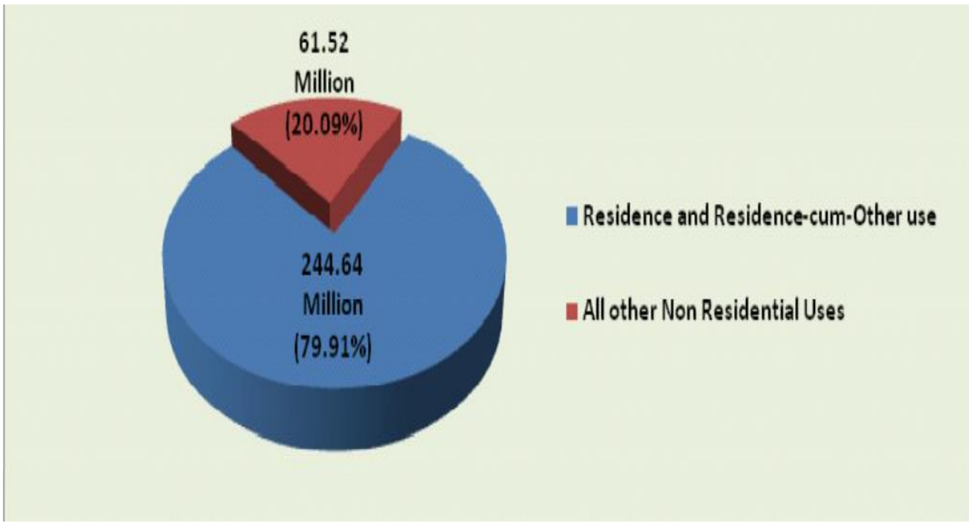

*Figure 2: Total Number of Occupied Census Houses -2011(*Source: Census of India 2011: Series-H: Tables on Houses, Household Amenities and Assets)

Based on above figure, it can be seen that major part comprises of occupancy of houses for residential as well as other purposes in a combined way. We can analyse that huge number of houses may require repairing as they are continuously used for residence. And therefore, continued residence of family in any house require changes as per their ever-changing needs and effective management of available space.

Households by their habitable conditions:

Households were further distributed by the Census-2011 of India in terms of the habitable conditions of houses into **'good condition', 'liveable condition'** and **'dilapidated condition'**. Among the 246.69 million total living households, 131.02 (53 percent) million were living in 'good condition' houses, 102.47 million (42 percent) were living in 'liveable condition' houses while households living in 'dilapidated' houses were 13.20 million (5 percent). Out of them, 78.86 million are urban households. Out of these urban households, households living in 'good condition' houses were 53.98 million (68 percent); households living in houses of 'liveable conditions' were 22.61 million (29 percent), while households in 'dilapidated' houses were 2.27 million (3 percent).

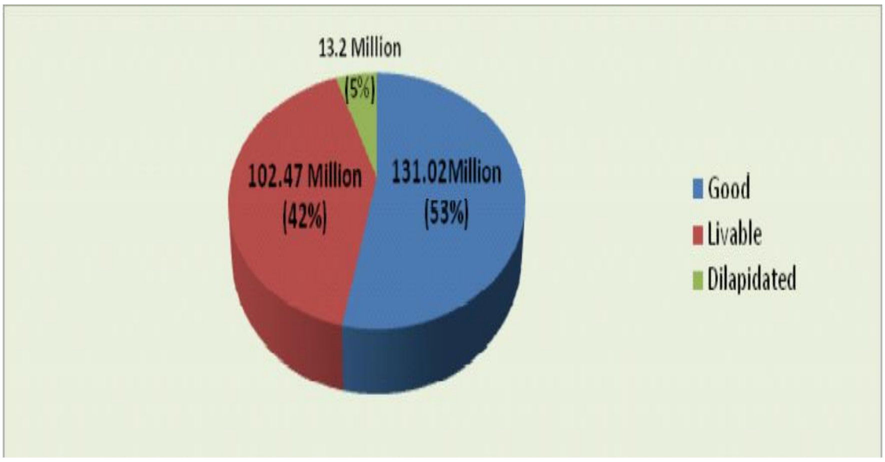

Figure 3: Households by Their Habitable Condition of Census Houses Occupied – 2011

(Source: Census of India 2011: Series-H: Tables on Houses, Household Amenities and Assets)

Observing the above figure, it can be interpreted that 42 % and 5 % of the total population of India stays in houses which are not at par as defined by Government of India for minimal housing conditions. So, it may need a repairing and maintenance

Urban Housing Shortage:

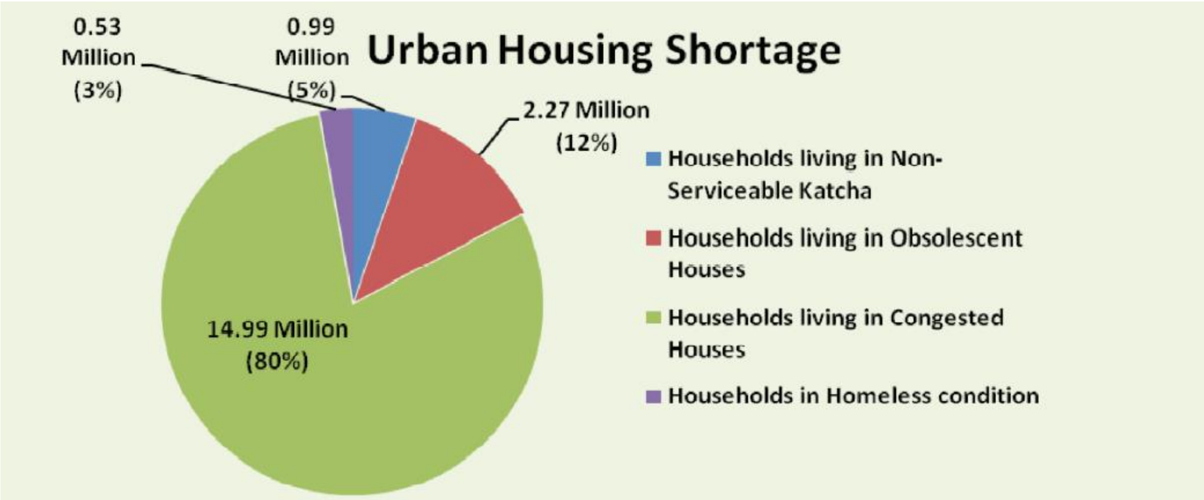

Figure 4: Distribution of people living in below par houses. (Source: Report of Technical Group(TG-12) on Estimation of Urban Housing Shortage 2012 , National Buildings Organisation, Ministry of Housing & Urban Poverty Alleviation.)

The housing shortage is a situation that exists due to a big gap between demand and availability of housing, both in terms of number and quality. The above figure shows the percentage of people in India living in below-par houses compared to the expected.

- The following figure shows the shortage of urban housing in India. Out of total housing deficiency in urban areas of India, around 90 % of people are living in houses which are not in good conditions as explained below.
- Such housing shortage exists at 1.94 % in Maharashtra and 0.99 % in Gujarat. Such percentage are out of total 18 % housing shortage of all over the India.
- Out of 18 % of housing shortage at the all India level, 10.55 % shortage is in the sector of economically weaker sections and 7.41 % shortage lies in the LIG (Low Income Group)

Certain facts on housing in Maharashtra and Gujarat: Status of housing in old dilapidated buildings in Maharashtra:

1. In India, State of Maharashtra has greater percentage of dilapidated houses or semi slum structured houses comparing to other states. 176 towns of Maharashtra have slum population of 11.98 million people which is nearly 30 % of total slum population of the country. *(Status of Housing report, GoI, 2011).* In the state of Maharashtra, Mumbai is the prime city where old dilapidated buildings are existing more than any other city. 389 old buildings in Mumbai have been passed for redevelopment benefiting to 1.50 lakhs residents in Mumbai. These constructions will be done by MHADA. *(Sanjay Jog, Freepressjournal, Dec 30, 2022)*

2. In Maharashtra, there are more than 14,000 cessed or dilapidated buildings in central and south Mumbai. While redevelopment remains the only solution for the majority of them. Structural audits for self-redevelopment are also essential as per field experts. *(Mehul Thakkar, article from moneycontrol.com)*

Status of housing in old dilapidated buildings in Gujarat:

1. In Gujarat, in the city of Surat, there are 1457 dilapidated old buildings and another 120 old sites deemed dangerous to live in this diamond city of India. *(Article from ToI, IndiaTimes – Surat edition, June, 17, 2019)*

2. In order to get an idea about the serious concern of dilapidated status of buildings in Gujarat, there are 25 dilapidated old school buildings in Ahmadabad – a capital of Gujarat, which were recently shut down by the state government. *(Ritu Sharma, Ahmadabad, Indian Express – Jan, 4, 2020)*

3. In Gujarat, in the year 2015, a state government have passed the resolution to build new houses in place of old and dilapidated houses built around 15 to 25 years ago in major cities, by the Gujarat Housing Board (GHB), which is the state's nodal agency for construction of affordable houses. As per the state Government declarations, they had planned to build 1 lakh new redeveloped houses to replace old properties in major cities in Gujarat.

(E news of Economic Times, June 01, 2015)

Following is the recent data from Maharashtra on the number of societies / projects which need redevelopment immediately.

- On representation basis, in the Pune district there are nearly 7,000 housing projects in the district lined up for redevelopment and many more expressing interest. Only Pune city (urban) has over than 10,000 housing societies and 60 % of these need immediate redevelopment.
- At present, the state of Maharashtra has around 1 lakh housing societies and 40,000 of these are likely to go for redevelopment. In Mumbai over 20,000 housing societies can opt for redevelopment.
- Mumbai and Pune are two major cities in Maharashtra, where decades old housing societies were suffering because of crumbling infrastructure and lack of funds for redevelopment. *(Nisha Namiar, 2018)*

Exploring all the above data related to housing, it can be clearly comprehended that there is an insufficient housing stock or resources for good housing. Either there are no houses for particular section of the society or there are no good living conditions for existing low income families.

In order to tackle such issue of home improvement / home redevelopment one needs a smart source of finance which can be approached easily by the needy people at comparatively lower interest rate. Many banks and financial institutions are offering pure home loan or top–up loan but very few from the industry and market offer a pure home improvement loans. Again such pure home improvement loans have higher interest rates as there is a barrier of existing home loans of borrowers on the same properties. Through such study we have tried to identify such few institutions offering home improvement loans and analysed various factors related to it. In the above sections, data has been presented on technical details of home loans/ home improvement loans. GoI through its concerned departments, has not yet addressed such issue of refinancing on existing properties to make them good to live. This might be a major loophole in the system where bottleneck lies and this prevents the expected development in housing at all India level.

Chapter 4- Major Findings and Recommendations

Based on the above study, there are certain observations derived which leave an impact and may put some implications on Indian economy as a whole. Such findings are nothing but the important factors which could be rethought in order to get the status of sufficient and desirable housing and accessing housing finance especially with respect to home improvements. As we are focusing for interventions in Maharashtra and Gujarat on pilot basis, certain observations have been stated with special reference to the housing status of Maharashtra & Gujarat.

I. Major Findings

Major Findings of the study can be categorized into few following key observatory aspects which can be seen prevalent throughout the study.

Types of loan for home improvement purpose:

1. Majority of the data collected shows the information primarily on home loan and limited information has been obtained for home improvement loans.
2. Home improvement loans are generally being taken by borrowers as top-up loan from the same bank from where the home loan has been taken
3. In certain cases, while obtaining the data from respondents, it was observed that a number of borrowers prefer to go for unsecured short / medium term loan like personal loan, gold loan, overdrafts on deposits etc., for home renovation purposes
4. Pure loan product for home improvement is available in a limited wayin the market. Bandhan Bank, LIC Housing Finance, HDFC are some of the banks and institutions which offer home improvement loan products.
5. Big public sector banks like SBI who have good access at Pan India level do not offer a specific product of home improvement loans.

Interest Rates for home improvement loans:

1. Interest rates for home loans given by public and private sector banks are comparatively less and as per RBI SLRs but floating and not fixed one
2. Interest rates of other financial institutions (credit societies, NBFCs, housing finance companies) are comparatively on higher side than public sector banks, private sector banks and cooperative scheduled banks.
3. Majority of the banks and institutions levy average interest rate around 8 % to 9 % on home loan and home improvement loans
4. It has been observed that majority of customers opt for unsecured high interest loans for home improvements to avoid lengthy documentation and property securitization process
5. It has been observed that if the CIBIL score is high, there will be lower interest rate and vice versa. CIBIL score is nothing but a mirror of your creditworthiness and accordingly interest will be offered to minimize the risk of funders' income.

Loan tenure being offered in the market:

1. Banks and institutions have options to provide such loans for short term as well as midterm period. Short term period of loan repayment is from 5 to 16 years. Mid-term period of loan repayment is from 16 to 30 years.
2. Majority of home improvement loans are taken for short term period such as for 5 to 8 years.

Margin & eligibility for loan:

1. Borrowers' loan eligibility is derived from his / her income levels and net amount of salary / profits in his / her hand. And hence, there is no ceiling of minimum loan amounts but banks and institutions have given a ceiling for maximum loan amounts alongwith consideration of margin on rate of property / cost of home improvements.
2. Property or home improvement quotations are crossed valued by banks / institutions in order to decide the correct margin on security given by borrower.

Fees and charges of loan

1. Processing fees are generally levied between 2 to 2.5% of total loan sanction amount + GST
2. In case of cooperative banks and cooperative credit society, the borrower has to bare an additional cost of shareholding as per the loan policy.

Influential factors to take a call for home improvement / redevelopment

1. It may be seen from the various data analysiss, that the people either prefer taking home improvement loan from existing home loan provider or from a society or an institution through their own personal contacts and peer choices.
2. Largely, housing society redevelopment is done out of available choices of selective builder groups and not as per the availability of finance providers. In case of redevelopment, either Government takes initiative through its housing boards' channels or society members decide about redevelopment based on various offers being given by builders in the market.
3. For home improvements, individual house repairing and improvements, there is no best community funding model developed till date.
4. After recent Covid 19 pandemic, need of extra space has been realized by many families as work / education from home model got introduced. Therefore, many borrowers are taking up a loan from the market for internal reconstruction and interiors for their homes to ensure individual space availability for completion of their works.
5. There is a huge gap in the current market for financing the needy for housing or home improvement as there is no bank / institution has come out with a model of home improvement loan specifically to address the issues of space utilities in existing homes. Promotion of such need has not been made yet by any of the banks / institutions studied in this research work.
6. Instead of bank and financial institutions to provide funds for home improvements, lobby of construction contractors (builders) is very strong in the market to grab the business from individuals. Even sometimes, alternatives to raise funds are also provided by such contractors and individuals prefer to go with these options to avoid uncertainties in loan sanctions.
7. Many times, it has also been seen that, doing home improvements is not a preferred activity among lower income groups. Instead, market of home improvements lies in the groups of higher middle income and higher income groups. And therefore, most of the market opportunities for home improvement loans lies in this section of society.
8. Higher income as well higher middle-income groups generally opt these loans from private banks as they have good approach rather than public sector banks

II. Needs and Challenges

Considering all the above observations, following could be the specific needs or challenges for making the financial alternatives available with respect to home improvements:

- Specific loan products purely for home improvements / home renovation and structural repairs for individual houses / owners need to be developed

- Such types of models need to be adopted and implemented by all banks and financial institutions in India, so that it will have Pan India access for all types of borrowers from all types of economic groups such as lower income, middle income and higher income groups.

- Security offered for such type of loans needs to be easily convertible in case of failure of loan repayments by borrowers. Due to legal and very lengthy processes of liquidating assets for recovery, many times it goes as an expensive affair for bank and institutions. Processes of securitization for such loans needs to be relieved from the entire process or some other alternatives could be searched out for easy and non-expensive security registration.

- Home improvement loans need to be identified and given to individuals living in old buildings or in constructions where redevelopment is not possible but houses can be repaired internally. These loans could be given by taking a part gurantorship of any third party to minimize the risk on banks and borrowers. Such consideration could be made on the basis of condition of construction of a building structure.

- There is greater need for creating awareness that will motivate the population among the targeted and needy of such home renovation, improvement loans. Such support should particularly aim to motivate people from low income and middle income groups. People are living situations in their homes without basic needs such as potable water, sanitation and hygienic environment. But, they do not seem to be ready for undertaking i repairs/ improvements for better living as they fear of uncertainty in repayment of loans once taken. These people primarily think and accept such works to be done by housing societies where they reside. With poor quality of construction and dilapidated conditions of such housing in such housing societies, they are on the horns of dilemma.

- Risk allocation for non-repayment of loans has to be shared or distributed among defined partners. These partners could be bank/ financial institutions, contractors, housing societies and borrowers. If such risk share is minimized from the head of banks / institutions, they could be ready to provide and perform in home improvement loans.

- There has to be certain definite policy level changes to ensure the good living conditions and living environment especially for lower- and middle-income groups. These policy level provisions could be made to promote such loans with minimal financial risks and quick process of sanction and disbursement and even liquidation of securities offered. Co-lending could be the good option in such types of loans.

III. Suggestions / Recommendations

In all the above sections, an analysis of existing scenario in community funding, redevelopment funding and individual funding models has been presented. These models are specifically for redevelopment and for home repairs and interiors. As it was observed, redevelopment of the entire housing society / colony is very lengthy, expensive and cumbersome legal affair in terms of successful completion. Hence, based on the study and observations, a suitable model has been recommended where combination of stake holders can be utilized to fund the improvement of homes which will have win-win situation for all concerned. Following is the hypothetical model suggested based on all factors studied from the above report. Such a model can be implemented / tested on pilot basis in the states of Maharashtra and Gujarat as these two States have high number of old structured constructions where people are living in not very comfortable living conditions. And there is an acute need to provide a best solution to improve the overall habitat in such communities.

Name of Model**:** Loan for cluster wise house repairs / improvements in the residential housing colonies/ cooperative housing societies.

Concerned stakeholders for the model**:** Individual borrower, a group of borrowers, housing society / colony, contractor / service providers, bank / financial institution, developmental agencies / foundations

<u>Following could be the role of stakeholders</u>

- **Individual borrower:** To take up a loan for home improvement and repay in time

- **A group of borrowers:** as a cluster, they would be responsible for time completion of works and timely repayment to bank / institution. (Rate of interest discounts for cluster loans)

- **Housing society / Colony:** Spread awareness among members about such loan facility and facilitate for fast completion of documentation needed for loan disbursement.

- **Contractors / service providers:** Provide a quotation with all technical details of repairing / improvement. Provide a blue print of map of floor works. Such quotation formats may be presented as per the template developed by bank / institution to ensure uniformity in processes of all loan applications. Contractors may also conduct structural audits of housing societies and individual flats for proposing its improvement works. Such audits can be submitted or utilized by developmental agency / foundation to raise the funds from the sector.

- **Bank / financial institution:** Providing loan for home improvements to individuals' / cluster applicants. Scrutinizing loan application with defined detailed processes. Also a bank / institution will coordinate with housing society committee members for sanctions / recovery

- **Developmental agencies and foundations:** Such agency can play a role for product promotions and creating awareness among the target communities through their own channels. A part of guarantorship for such loans could be provided by Foundations. The Foundations may facilitate in raising funds for part guarantorship to a bank / financial institution.

Objectives of Such financing model

1. To conduct the need assessment through structural audits of internal flats of colony / housing society, which otherwise is not conducted especially for individual flats.
2. To provide easy and accessible alternatives for home renovation loans to individuals or in the cluster combinations.
3. Cluster combination for providing finance will also ensure fast and quality work completion by a single contractor or a group of certified contractors
4. To minimize the legal and documentary procedures for offering security against the loan- how?
5. To ensure the sharing of financial risk among borrowers and cluster groups as well as development foundations like Aga Khan
6. To improve the living conditions to match up our living standards with other developed countries

1. Strategic financing model

Lending to individual borrower and also to a group of 4 borrowers (1 cluster) from one housing society could be provided so, following could be the various elements of such home improvement loan.

Sr. No	Loan elements	For individual borrower	For one cluster of (4 individual borrowers)
1	**Loan amounts**		
1.1	Minimum Amt	➢ Rs. 1 lac	➢ Rs. 1 lac
1.2	Maximum loan ceiling Amt	➢ Rs. 15 lacs	➢ Rs. 15 lacs to each individual?
			➢ Additional limit of Rs. 10 lac that could be distributed among cluster members
2	**Eligibility**	➢ Total deduction of 60 % from gross salary could be allowed. It may include such improvement loan	➢ Total deduction of 60 % to every individual borrower from their gross salary could be allowed. It may include such improvement loan
3	**Margin on cost of improvement**	➢ 20% Margin on quotation provided by contractor	➢ 15 % margin on cluster quotation provided by contractor
	Lending cost	➢ 80 % of quotation	➢ 85 % of quotation
4	**Rate of Interest**	➢ Between 8 % to 10 % subject to CIBIL score	➢ Between 7 % to 9 % subject to CIBIL score of Individuals from the cluster
5	**Loan tenure**	➢ Between 5 to 8 years	➢ Between 5 to 8 years as a cluster
6	**CIBIL Score**	➢ CIBIL score has to be between 750 to 900	➢ CIBIL score has to be between 750 to 900 for every individual borrower
7	**Processing fees**	Processing fees could be upto 1.5 % of sanctioned amt or Rs. 5,000 whichever is less	➢ Processing fees could be upto 1.5% of total cluster loan amount or Rs. 10,000

			whichever is less for one cluster.
8	**Security against loan**	➢ If home loan is going on the property, then following alternatives could be selected – (any one or in combination) ➢ Existing deposits with other banks could be transferred to funder bank and mark a lien on these deposits. Offer a good interest on such deposits ➢ Register an additional security charge on existing property after calculating outstanding home loan and property of value ➢ Existing shares / SIPs / NSC / Post RDs could be kept as security by registering a charge on it with concerned authorities ➢ Gold loan could also be offered by bank / institution with special shorter period for repayment and 25% margin on gold value and as per its purity ➢ Housing society / colony office bearers can register a charge on society shares of borrower as a part security against loan. Even additional	➢ If home loan is going on the property, then following alternatives could be selected – (any one or in combination) ➢ Existing deposits with other banks could be transferred to funder bank and mark a lien on these deposits. Offer a good interest on such deposits (for individuals in cluster) ➢ Register an additional security charge on existing property after calculating outstanding home loan and property of value (for individuals in cluster) ➢ Existing shares / SIPs / NSC / Post RDs could be kept as security by registering a charge on it with concerned authorities (for individuals in cluster) ➢ Gold loan could also be offered by bank / institution with special shorter period for repayment and 25% margin on gold value and as per its purity. If individuals from cluster are ready to take up such loans collectively, then rate of interest for individual borrowers could be minimized comparing to other individual borrowers

		fines could be levied by housing society if borrower fails to repay a loan in time.	➢ Housing society / colony office bearers can register a charge on society shares of borrower as a part security against loan. Even additional fines could be levied by housing society if borrower / cluster fails to repay a loan in time.
9	**Guarantorship**	➢ One additional guarantor has to be provided for such loan. This guarantor could be any salaried / self-employed person who may be relative or even the contractor also. If contractor is ready to be as a guarantor, it will be good for fast recovery of loan and follow-up could be continuously taken by contractor.	➢ As a cluster, every borrower can become guarantor for each other in the group. It may create peer pressure to repay the loan in stipulated time period and minimize the risk of non-repayment of loans. ➢ Guarantor could be own close relative, friend of individual from the cluster. A guarantor has to be a salary holder or self-employed. ➢ Contractor can become a guarantor in the case of cluster also as it is just a formality for documentation. Contractor or other members from the group can put a pressure on the member who does not repay in time. Or else they can help each other for timely repayment.
10	**Risk sharing**	➢ A risk of loan repayment remains with Bank / institution, borrower and guarantor. In such case, to minimize the risk at least 20	➢ A risk of loan repayment remains with Bank / institution, borrower and guarantor. In such case, to minimize the risk at least 20 % of loan amount can

		% of loan amount can be allotted for the recovery to NGO / development agency. if such amount is not repaid, the said agency has to repay 20% of loan amount to bank. ➢ Such development agency / NGO can raise funds against such proposal	be allotted for the recovery to NGO / development agency. if such amount is not repaid, the said agency has to repay 20% of loan amount to bank. ➢ Such development agency / NGO can raise funds against such proposal

Certain important influential elements of such model

- For the maximum loan amount, additional Rs. 10 lacs can be kept as buffer for a cluster and this amount could be utilized by any of the members of clusters as they want. This benefit of additional loan amounts could be given only in case of cluster because there is risk sharing and group responsibility for repayment

- In order to decide the margin on the quotation of home improvement works, if it's a cluster margin rates could be decreased as bank / institution gets a more business at one stroke.

- Rate of interest also could be decreased by certain points if it's a cluster. In order to attract more business and promote home improvement lending, these tactics could be used.

Even in case of processing fees, certain discount in the rate could be offered as a group of borrowers. If there is uniformity in the internal structural changes and a single contractor for all cluster members, it would be easy for a bank to scrutinize the documents and provide the loan to the identified cluster. It decreases the additional efforts which otherwise increases in case of individual borrowers.

- Guarantorship in the cluster makes the process easy. Such system also keeps an eye on timely repayment of our friend borrower from the cluster. Such system plays an important role in quick repayments because ultimately everyone from the cluster want to get released from such liability.

Conclusion

Home improvement loans is nothing but a crucial loan aspect in the market. Comparative analysis of other models has led to the understanding that there's a need to have an alternative comprehensive model which will be very strong with respect to the repayment part. Then only, such type of loan models can be sustainable and objective of ensuring good housing to the needy can be achieved. Third party involvement for sharing the financial risks with positive repayment histories can be demonstrated through such home improvement loan products. Involvement of NGO can also be a crucial part as it can play a role in sharing loan risks, and also for promotion of such schemes and spreading awareness among identified needy people. Such models can be promoted in market by aligning to all rules defined by RBI and concerned Government departments.

Home improvement loans / home loans are a solution to establish a good system of housing and developing a best habitat in India. To have a best living environment is fundamental right of every Indian irrespective of whether he is from the lower income groups or higher income groups. A relevant good system in the market need to be established to ensure the achievement of good housing status for all. The entire report has tried to keep a focus on such objective and contribute towards creating equal status for comfortable and sufficient housing for all the needy citizens of India.

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