Indian Financial System
M.Com Semester II

Housing Finance & Micro Finance

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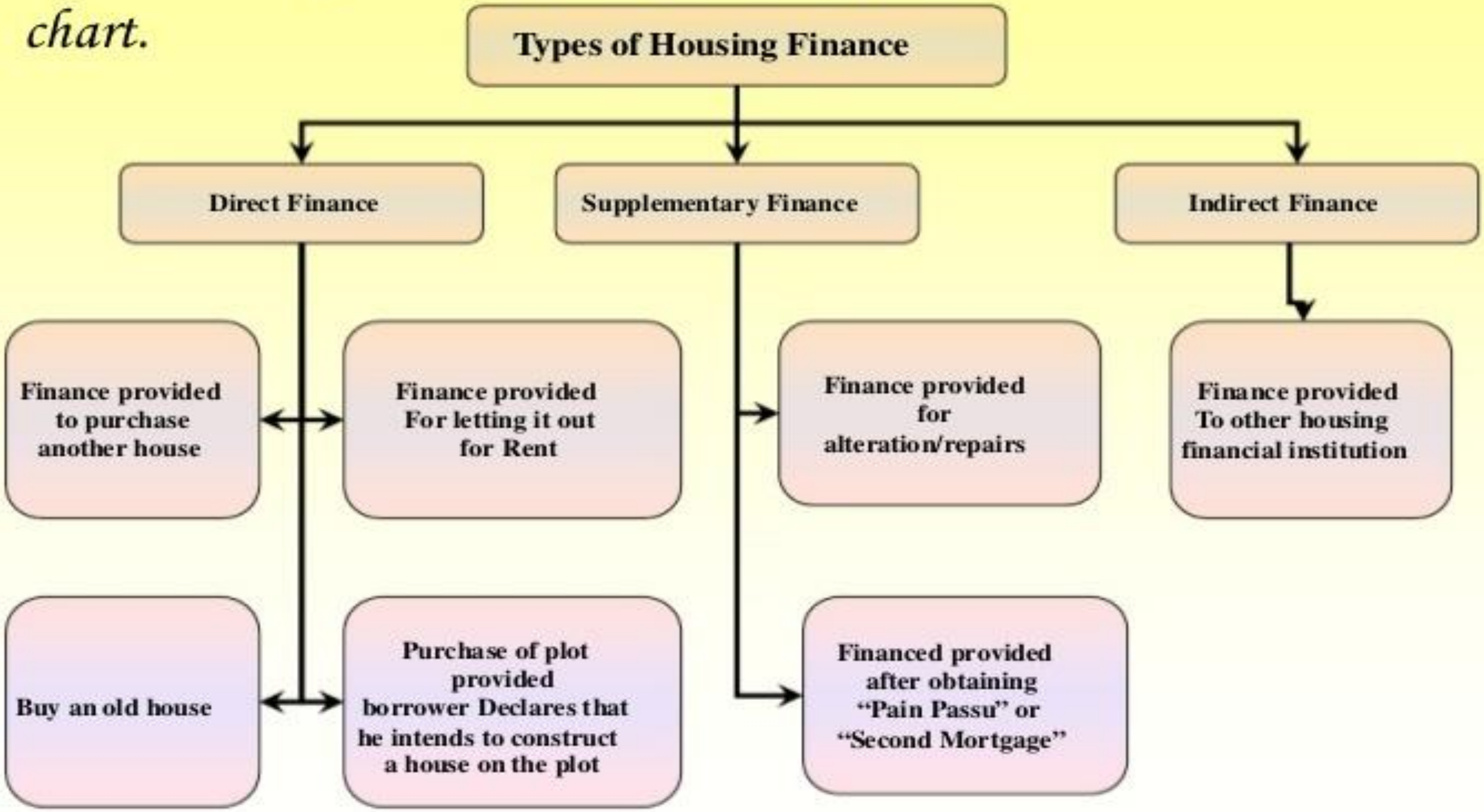
Housing is a primary necessity in every economy and is a basic indicator of growth and social well-being. Development of housing is not just important to economic growth but is also one of the tools for economic development considering the accelerator impact it has on various industries including construction and infrastructure sector; it generates demand for supporting industries and leads to creation of job opportunities. Development of housing in a country is a sign of economic welfare.

"Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, or political system."

– Loic Chiquier and Michael Lea

Types of Housing Finance

The different types of Housing Finance are shown in the chart.



- **DIRECT HOUSING FINANCE**
- Direct Housing Finance refers to the finance provided to individuals or groups of individuals including co-operative societies.
- **INDIRECT HOUSING FINANCE**
- Banks should ensure that their indirect housing finance is by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc

Supplementary Finance

- Banks may consider requests for additional finance within the overall ceiling for carrying out alterations / additions / repairs to the house / flat already financed by them.
- In the case of individuals who might have raised funds for construction / acquisition of accommodation from other sources and need supplementary finance, banks may extend such finance after mortgaging charge over the property mortgaged in favor of other lenders and / or against such other security, as they may deem appropriate.

Role of housing finance

An effective housing finance system provides large number of external benefits to the economy, such as,

a. Improvement in overall living conditions for the families who access home and improve their housing quarters.
b. Improvement in urban infrastructure like schools, transportations, sanitation, roads etc.
c. Within the country, the housing finance enhances economic and social mobility both in Metros and Regional markets.
d. Improvement in labour market, mobility, diversity and accessibility.
e. Motivation towards household savings.
f. Increase in consumer spending and investment, financed by house owners borrowing against the value of their homes.
g. Good finance system provides more capital for entrepreneurs.

ADVANTAGES OF HOUSING FINANCE

To Borrowers:

1) The borrower can acquire a house without investing much from own savings.
2) The loan is long-term in nature, which reduces the burden of repayment.
3) The loan is repayable in small monthly instalment, which makes repayment easier.
4) The borrower can use the house even if the loan is not fully repaid.
5) The borrower receives different services from the lender along the loan.
6) Housing loan leads to asset creation for borrower in long run.
7) The borrower acquires a social status with the help of the house.

To Lender

1) The lender earns income as interest on loans.
2) The risk of default reduces as the loan is of long-term in nature.
3) The loan is secured against the house, which helps to recover the amount of loan in case of default.
4) The lender gets the service charges for providing different specialised services.
5) The lender can reinvest in instalments of recovered loan, which generates income.
6) The lender can plan out the future investment as the repayment amount is steady from the borrower.
7) As the processing of granting the loan is one time operation it reduces the administration cost.

To Financial Markets

1) The financial markets expand with the development of housing finance industry.
2) The new institutions providing loans have developed.
3) It channels the household savings as well as funds from the capital market into the housing sector.
4) The process of securitization develops.

Other Advantages

1) It helps to expand the boundaries of financial markets.
2) It develops industrial as well as business relations
3) It also develops international business relations.

Regulator for Housing Finance

- The Reserve Bank of **India** (RBI) Act will be amended to give the RBI powers to **regulate** the HFC sector. NHB was part of the RBI till April, 2019 when the government decided to take it over. "NHB, besides being the refinancer and lender, is also regulator of the **housing finance** sector.
- Housing finance companies will be treated as a category of non-bank financing companies
- HFCs will continue to comply with the directions issued by the National Housing Bank till the RBI issues a revised framework.
- The **Government has** issued a notification **taking over** the National Housing Bank (**NHB**) after buying entire stake for Rs 1,450 crore from the Reserve Bank of India (RBI). The RBI **has** exited the **NHB**, thus making it a fully **Government**-owned entity. ... The RBI **has** also divested its shareholding in Nabard.(April 2019)

NATIONAL HOUSING BANK

- The National Housing Policy, 1988 envisaged the setting up of NHB as the Apex level institution for housing.
- In pursuance of the above, NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987.
- Reserve Bank of India contributed the entire paid-up capital.
- The general superintendence, direction and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.
- The Head Office of NHB is at New Delhi.
- NHB is an apex financial institution for housing.

OBJECTIVES OF NHB

- To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

FUNCTIONS

Regulation of HFCs through

- Registration
- Prudential Norms
- KYC Norms
- Grievance Redressal
- Supervisory oversight and building confidence in the sector by On-site and off-site surveillance

Financing

- Refinance to HFCs and Banks
- Direct Finance to MFIs, Public Agencies
- Special Finance Schemes for affordable housing

Promotion

- Setting up of institutions
- Developing secondary mortgage market and linking it with capital and other markets in financial sector
- Other products such as RML, RMLeA etc
- Providing equity support
- Formulation of Housing Price Index
- Capacity Building of HFC sector

Leading Housing Finance companies

- Dewan **Housing Finance** Corporation Limited (DHFL) ...
- PNB **Housing Finance** Limited. ...
- IDBI Home **finance** Limited (IHFL) ...
- ICICI Home **Finance Company** Limited. ...
- LIC **Housing Finance** Limited. ...
- **Housing** Urban Development Corporation (HUDCO) ...
- State Bank of **India** Home **Finance** (SBI) ...
- **Housing** Development **Finance** Corporation Limited (HDFC)

Housing Finance Providers

- Public Sector Banks: SBI, PNB, UNION BANK, INDIAN BANK
- Private Sector Banks: HDFC, AXIS, ICICI, IDBI.
- NBFC Home Loan Provider: LIC Housing Finance, PNB Housing Finance, Can Fin Housing Finance, GIC Housing Finance, L&T Housing Finance & Birla Housing Finance, etc
- For Affordable Housing Loan. AADHAR Housing Finance, Adani Housing Finance, SUBHAM housing Finance…..

Micro Finance

It refers to the provision of affordable financial services such as small loans, small savings, micro insurance and funds transfer facilities extended to socially and economically poor and disadvantaged segments of the society to enable them to increase their income levels and improve standard of living.

The main aim of microfinance is to provide small loans to poor people particularly living below poverty line, who are not able to raise loan for productive purposes from other sources and to improve their standard of living by increasing their earning and saving covering associated risks.

Microfinance refers to the movement in the entire world where in low income households have some access to the basic affordable financial services from banks or financial institutions to finance their productive economic activities, create assets, generate income after meeting expenses to save some net surplus and also to protect their life and activities against various hazards and risks.

“Microfinance is an economic development approach that involves providing financial services through institutions to low income clients”

-International Labour Organization

MICROFINANCE INSTITUTIONS (MFIs)

MFIs can be non-government organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, or nonbank financial institutions(NBFCs). Microfinance clients are typically self employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (hairdressers, rickshaw drivers), and artisans and small producers, such as blacksmiths and seam-stresses.

PRODUCTS OF MICROFINANCE INSTITUTIONS

Product	Purpose	Terms	Interest rate
Income Generation Loan (IGL)	Income generation, asset development	50 weeks loan paid weekly	12.5% (flat) 24% (effective)
Mid-Term Loan (MTL)	Same as IGL, available at middle (week 25) of IGL	50 weeks loan paid weekly	12.5% (flat) 24% (effective)
Emergency Loan (EL)	All emergencies such as health, funerals, hospitalization	20 weeks loan	0% Interest free
Individual Loan (IL)	Income generation, asset development	1-2 years loan repaid monthly	11% (flat) 23% (effective) (Hypothetical)

Role of Microfinance:

(i) Microfinance provides finance to the poor people for carrying out their economic activities and helps them to meet the basic needs of life.

(ii) Microfinance provides employment to the poor people by providing self employment opportunities in various sectors and activities.

(iii) Microfinance protects the poor people against the risks by providing life insurance and assets insurance.

(iv) Microfinance helps in alleviating poverty by providing affordable financial services.

(v) Microfinance helps in increasing economic growth and development in the country.

(vi) Microfinance promotes gender equity by supporting women empowerment and their economic participation and hence improving well being of the poor households.

(vii) Microfinance provides improvements in household economic welfare and enterprise stability and growth.

(viii) Micro finance helps in increasing savings, investments and developments.

(ix) It provides employment opportunities to unemployed people and full employment to the under employed people

Microfinance Institutions Network(MFIN)

- MFIN is a primary representative body and the Self-Regulatory Organization (SRO) for Non Banking **Finance** Companies (NBFC) **Microfinance Institutions** (**MFIs**) **regulated** by the Reserve Bank of **India** (RBI)
- MFIN was established in October 2009 as a Society under the Andhra Pradesh Societies Registration Act 2001. As per MFIN Bye-Laws, all NBFCs registered with the RBI as NBFC-MFIs are eligible for membership of the Society
- MFIN members constitute 53 NBFC-**MFIs** and, collectively, they have disbursed 3.25 crore loans worth ₹82,928 crore during 2018-19.

Leading MFI’s in India

- Annapurna Microfinance Pvt Ltd.
- Arohan Financial Services Pvt Ltd.
- Asirvad Microfinance Pvt Ltd.
- Bandhan Financial Services Pvt Ltd.
- BSS Microfinance Pvt Ltd.
- Disha Microfin Pvt Ltd.
- Equitas Microfinance Pvt Ltd

THANK YOU