

MUMBAI: [Loans](#) for [affordable housing](#) have seen sharp growth in less than five years. Home loans by affordable housing finance companies have grown from Rs 1,000 crore as of March 2013 to Rs 27,000 crore as of December 2017. This has led to an explosion in housing finance companies (HFCs) focusing on the [small-ticket segment](#). As many as 26 [HFCs](#) have registered with the [National Housing Bank](#)

— with self-constructed homes accounting for bulk of the loans.

There are 77 registered HFCs, of which 26 are focused exclusively on affordable housing. According to the ‘State of affordable housing 2018’ report by [FSG Consulting](#), one of the drivers of growth in this segment was the [credit-linked subsidy \(CLS](#)

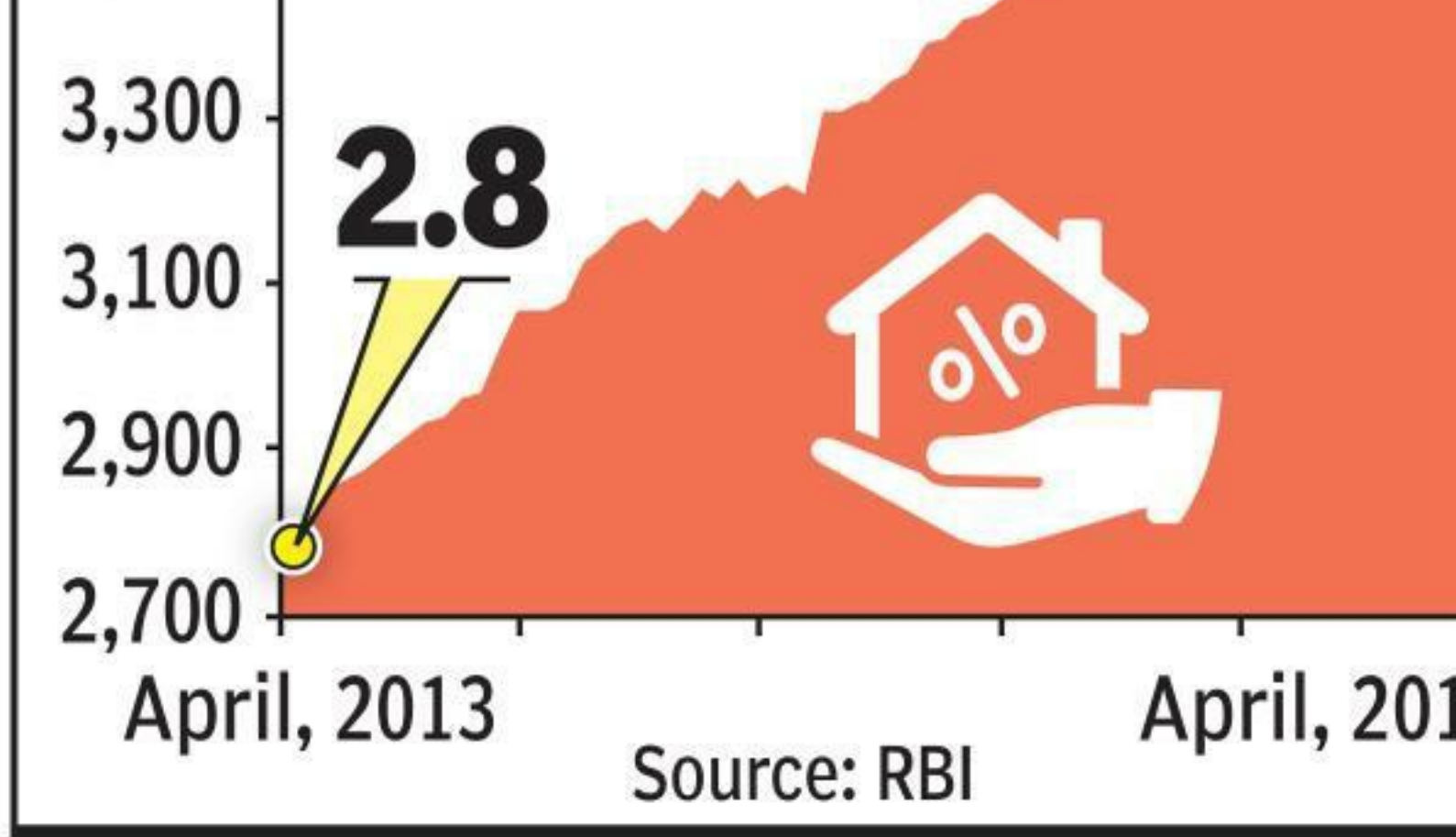
) under the Pradhan Mantri Awas Yojana (PMAY) that provides an upfront reduction of up to Rs 2.67 lakh for a loan of Rs 6 lakh.

According to FSG MD Ashish Karamchandani, while the PMAY does bring down costs, it has little impact on affordability. Only after a customer has availed a loan, does he know that he will receive a subsidy, and hence he cannot factor it into his purchase decision. “If the subsidies under the credit-linked scheme are based on a sanctioned plan, it will increase the affordability allowing those with lower income to purchase houses,” he said.

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Also, the PMAY is not reaching out to all the intended beneficiaries. “Many low-income households are excluded from the credit-linked subsidy benefits because of the location of their new homes. As a bulk of low-income housing is being constructed on the peripheries of around 4,500 urban areas notified for CLS, which come under the purview of gram panchayats, they are not eligible unless notified by state governments,” said Karamchandani. This is a big impediment as 60% of demand for affordable housing finance is for self-constructed properties, and these are largely happening on the outskirts of cities — in areas classified as rural.

There is also a problem in the incentive structure for HFCs. Under present norms, if the loan is below Rs 6 lakh, the HFC cannot charge a processing fee, and gets only a flat fee of Rs 3,000. HFCs are therefore not keen on seeing the home loan amount go down below Rs 6 lakh.

“One solution is to have geospatial coding on all places eligible for subsidy on the map, so as to enable the HFC confirm to the aspiring borrower that he is eligible,” said Karamchandani. Besides, taking a relook at the CLS for urban housing, Karamchandani says that there is a need to relook at the [beneficiary-led construction \(BLC\)](#) scheme, which provides for home improvement to enable upgrading slum housing.

According to the report, 14 million urban households (17% of urban India) live in slums. Many have the financial resources and willingness to improve or extend their homes. They would like a three–five-year loan of Rs 1–3 lakh to do so. While no lender is currently providing such loans, some affordable HFCs and several other lenders (SFBs and NBFC-MFIs) are eyeing this space.