7. Business Model of housing financiers focused on low income housing segment

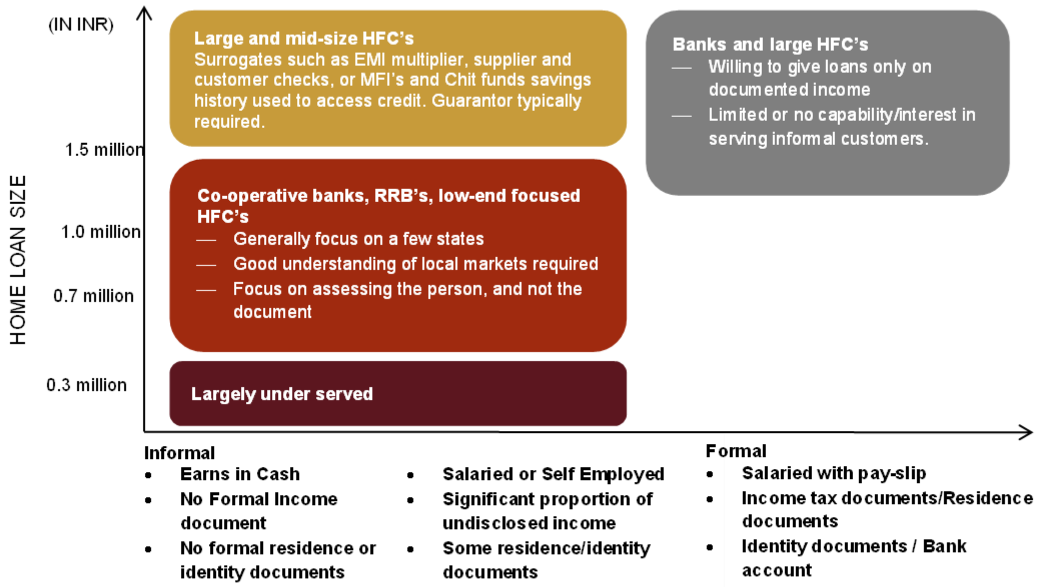
Housing financiers focused on low income housing segment typically serve the underserved category of low-income or mid-income customers who may be salaried, working in the informal sector or self-employed running a small business. Many a times, these customers do not have adequate documentation that can serve as proof of their income. Also, as these customers are in economically weaker segments they face challenges in accessing organized institutional lending, and hence largely rely on loans from informal sources, including moneylenders and local businessmen at higher rates of interest.

The high cost of serving this category of customers has prompted financiers to adopt innovative models to source business. An HFC targeting this segment of customers usually has a hub and spoke model where retail branches of the HFC operate as 'hubs' in urban areas, while small kiosks are set up near areas where construction activity is taking place to source customers. Financiers also spread awareness about their products in rural areas by setting up kiosks at 'gram sabhas' and arranging 'loan melas' for potential customers.

However, some players also rely on customers indulging in self-construction of their houses in tier-2 and tier-3 cities in need of credit. These players have sourcing strategies focused on attracting customers with touch points in nearby locations.

Usually, close to 70% of the overall business of HFCs focused on low income housing segment is sourced through direct sales teams. Direct customer contact through these teams enables better visibility and helps limit fraud, thus making for reliable customer assessment. Moreover, all critical functions like origination, verification and credit appraisal are performed in-house, while certain non-core activities like loan documentation and document processing may be outsourced. This allows HFCs in this segment to allocate more internal resources towards vital aspects of lending such as verification, credit appraisal and credit assessment.

Exploring the low income housing (<₹ 1.5 million) segment



Source: CRISIL MI&A

7.1 HFCs focused on low income segment vs. normal housing finance players

The type of borrower's profile and higher risk-taking ability of players focused on low income housing segment led these financiers to charge higher yields in comparison to that charged by normal housing players. Given below is the list of factors explaining higher yields charged by housing players focused on low income housing segment.

S. no.	Parameters	Housing finance players focused on low income housing segment	Normal housing finance players
1.	Borrower profile	Mostly self-employed customers and customers having weaker income documents; some HFCs though focus on salaried but low-income customers	Majorly focus on customers having proper income documents
2.	Surrogate usage	High surrogate usage to derive the income of borrowers	Very minimal usage of surrogates
3.	Geographical focus	Mainly focus on smaller towns, semi-urbans areas and outskirts of larger cities	Mainly present in major locations and Tier 1 cities
4.	Credit appraisal	Credit appraisal process involves high level of subjectivity to derive income and cash flow patterns	Credit appraisal process is based on pre-defined income and eligibility policies