Deloitte.

Defining "Affordable" Housing Finance

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Consulting

Contents

Introduction

Achieving the Vision of “Housing for All” by 2022

Home ownership is a part of our nation’s socio-economic policy and remains one of the key priorities for the government. This is even more relevant considering the trend towards rapid urbanisation, nuclear families, and ever-evolving aspirations of Indian populace to climb up the socio-economic ladder, especially in the urban areas. Home ownership is also aligned with the rise in employment opportunities and better standard of living in the urban areas.

In the coming years, the latent demand for housing is expected to increase significantly. By 2022, it will rise about 46 million[1] and 40 million[1] housing units in urban and rural areas respectively. A significant part of this is expected from the households that belong to the lower end of the “Household Income” spectrum, especially where the sources of employment and income continues to remain informal.

Traditionally, the low-income segment has seen a wide gap in terms of supply vis-à-vis demand for housing stock, the magnitude of shortage and thus, increasing business viability attracts focused players in this segment. The government and regulatory bodies have also launched several initiatives aimed to create an ecosystem where all the participants benefit socially and economically. This encourages the bottom of the economic pyramid segment to dream of owning a house, which in turn creates a sizeable business opportunity for both the suppliers of affordable housing units and financiers. Some execution challenges remain in sight, while the larger vision of achieving “Housing for All” by 2022 is seen to be driving the existing ecosystem participants to serve this segment in a sustainable manner and at the same time work their way towards achieving this vision.

“Increasing working age population and urbanisation are driving growth in demand; supply side constraints are evident since there are very less ready to use small (500-600 sq. ft.) houses.“

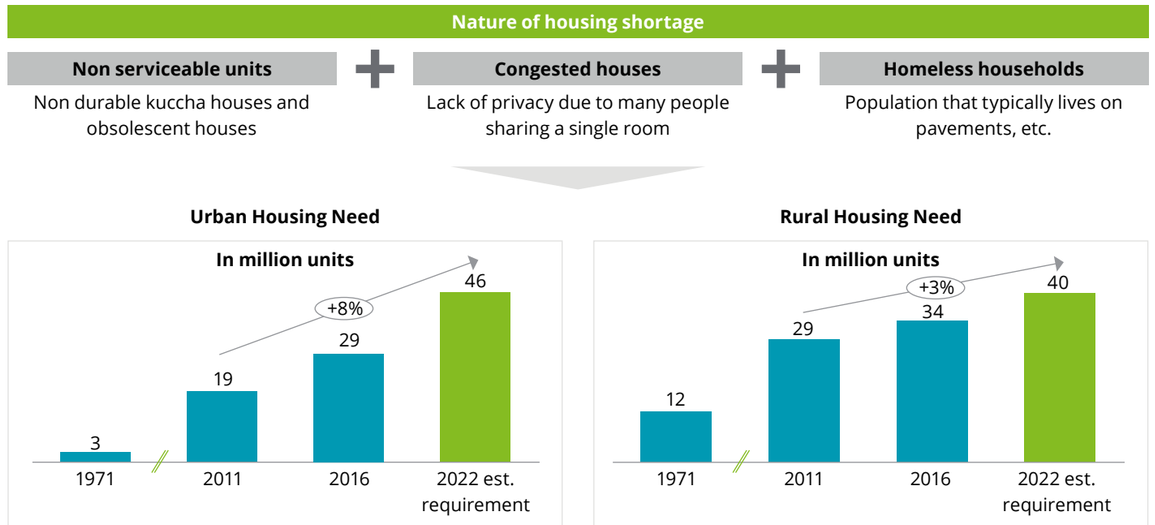
COO
A mid-sized AHFC with PAN India presence

[1] India Infrastructure Research, Socio Economic and Caste Census (2011), Deloitte analysis

Significant Demand at the “Bottom of the Pyramid”

With concerted efforts from the government and other stakeholders, the number of landless households has come down from 11.3 percent[2] in 1992 and 10.0 percent[2] in 2003 to 7.41 percent[2] in 2013. While this is a sizeable progress given the large population base, per estimates, there is still a significant “latent” demand for housing units in India, as indicated in Exhibit 1.

Exhibit 1: Urban and rural housing “Latent” demand



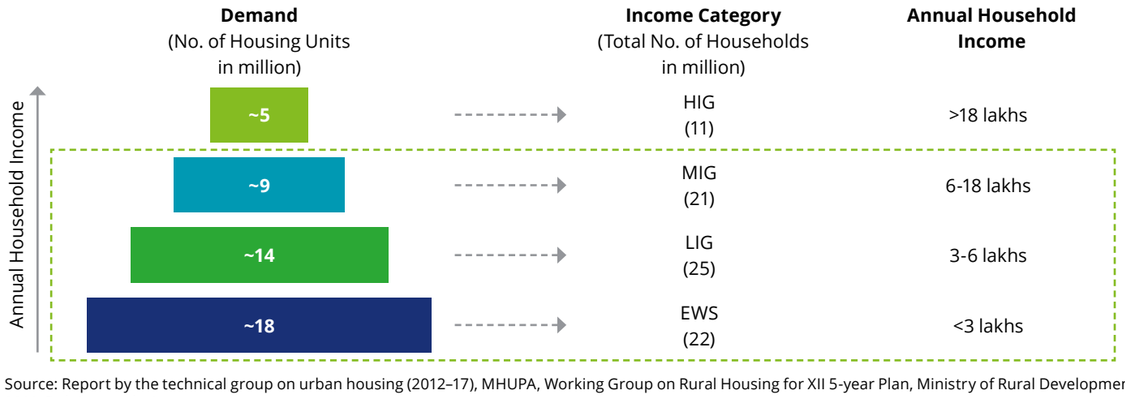
Source: India Infrastructure Research, Socio Economic and Caste Census (2011), Deloitte analysis

[2] Household Ownership and Operational Holdings in India (NSS 70th Round, 2013)

Similarly, the latent demand is distributed across both urban and rural centres; the rate at which the demand is growing in the urban category has attracted more attention from all stakeholders. Further, within the demand led by the urban centres, the bottom of the pyramid households account for ~90 percent[3] of the demand (as shown in Exhibit 2).

While the demand cited in Exhibit 2 is the potential opportunity size, the demand across the Economically Weaker Section (EWS), Lower Income Group (LIG), and Mid Income Group (MIG) segments translates into a financing opportunity of ~₹8.5 lakh crore[4] for the period FY 17-22, as indicated in Exhibit 3.

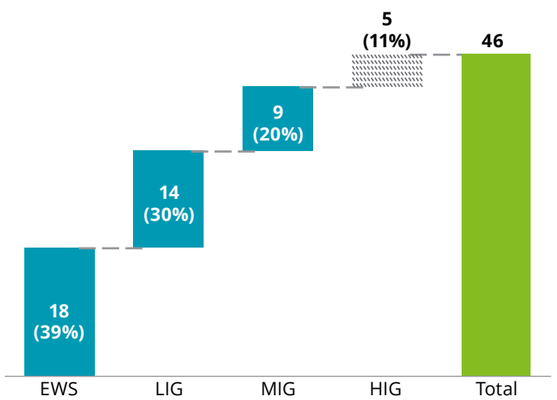
Exhibit 2: Urban housing demand by income category, FY22



Source: Report by the technical group on urban housing (2012–17), MHUPA, Working Group on Rural Housing for XII 5-year Plan, Ministry of Rural Development, 2011, Deloitte analysis

Exhibit 3: Housing finance opportunity across EWS, LIG, and MIG segments

Urban Housing Requirement by Income Category by FY22 (million units)



Urban Affordable Housing Financing Opportunity, FY17-22 (₹ lakh crore)

Income Category~ (million)	Size (sq. ft.)	Price/unit[5] (₹ lakh)	Disbursement Potential[6] (₹ lakh crore)
EWS (18 million units)	150-300	<10	1.9
LIG (14 million units)	300-600	~10-20	2.9
MIG (9 million units)	600-1,200	~20-40	3.7

EWS+LIG+MIG has ~8.5 lakh crore disbursement potential over FY17-22

Source: Report by the technical group on urban housing (2012 – 17), MHUPA, Working Group on Rural Housing for XII 5-year Plan, Ministry of Rural Development, 2011, Deloitte analysis

[3] Report by the technical group on urban housing (2012 – 17), MHUPA, Working Group on Rural Housing for XII 5-year Plan, Ministry of Rural Development, 2011, Deloitte analysis
[4] Cost per Sq. Ft. assumed to be ₹ 3,300 – average of Top 7 cities (₹ 3,600/sq. ft.) which account for ~40% of demand and taking a discount of 10% on it, Taking 20% penetration, 80% LTV and 15 year tenure; Source: Report by the technical group on urban housing (2012 – 17), MHUPA, Working Group on Rural Housing for XII 5-year Plan, Ministry of Rural Development, 2011, Deloitte analysis
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[6] Taking 20% penetration, 80% LTV, and 15-year tenure

“There is tremendous demand, such that even the large HFCs want to target this segment. Many builders are looking to tap the demand. Every builder wants to have a share in this segment.“

MD
A large AHFC focusing on south-India

“Affordable housing is critical from point of supply. There has not been a major change in demand in the last 3-4 years. However, earlier there was no product as such for this market, and now developers have entered this segment and are providing Ready-to-Move-In affordable units focused on urban areas. Self construction demand and supply is at normal pace. Financing opportunity in affordable segment is increasing since now demand is being met by increasing supply.“

MD
A small AHFC focusing on south-India

Despite the high demand, there seems to be still a long way to fulfil the needs of these segments such that customers’ expectations are met. These customer segments are typically characterised by informal nature of occupation, lack of income documentation, low savings leading to low appetite to withstand any unforeseen events, all of which in turn put them under high-risk bracket. This also increases the cost of sales, credit assessment and servicing, and makes financing a less than attractive proposition under the conventional tenets.

In particular, the credit assessment of such segments becomes very challenging, which ultimately has a negative bearing on the already stretched affordability of these segments. Further, the supply of financing to these segments by traditional players is inhibited by factors such as lack of clear land titles, unviable smaller ticket sizes, uneven payback patterns, uncertainty of repossession, and overall lower lending volumes amongst others.

The recent push for “Housing for All” by 2022 has taken cognizance of these issues and the governments, both at the centre and states, along with various regulatory bodies are working to provide an enabling ecosystem, so that this opportunity gets the necessary attention from the “for profit” financiers who could serve these segments in a profitable and sustainable manner. These financiers referred to as “Affordable Housing Finance Companies (AHFCs)”, are breaking away from the traditional methods of credit assessment and sourcing, and are ready to make the most of this opportunity. The next sections in this document cover some of the government and regulatory initiatives, the push from the private sector for providing Affordable Housing Finance (AHF); along with views on arriving at a common ground for the AHFCs, need for defining what they are doing, i.e., AHF and concluding thoughts on a common definition for AHF.

“Many times customers can't take loan from money lenders, AHFCs have provided a big change and enabled these customers. Customers dreams come true.“

MD
A mid-sized AHFC focusing on west and south-India

“Affordable” Housing Finance at the Centre of Action

Government and Regulatory Play

The government, RBI, and National Housing Bank (NHB) play a pivotal role. These bodies are launching initiatives aimed to bridge the gap between the supply and demand to ensure the vision of delivering “Housing for All” by 2022. The key demand and supply side interventions are mentioned in Exhibit 4 and Exhibit 5, respectively.

Exhibit 4: Key demand-side interventions

PMAY – Credit Linked Subsidy Scheme[7]

- Provides institutional credit to EWS/LIG categories for purchase or construction of house.
- Interest subsidy of 6.5% on loan amount up to ₹ 6 lakh for loan tenures up to 20 years. The Net Present Value (NPV) of the interest subsidy is to be calculated at a discount rate of 9%.
- The scope of Credit Linked Subsidy Scheme (CLSS) for EWS/LIG has been extended to MIG w.e.f. 01 March 2017.

PMAY – Subsidy for Beneficiary-led Construction (BLC)-New or Enhancement[8]

- Central assistance of ₹ 1.5 lakhs for construction of houses or enhancement of existing houses available to individual eligible families belonging to EWS categories.
- BLC (new construction) incase existing structure is kuccha or semi pucca, BLC (enhancement) incase existing structure is pucca and enhancement of minimum 9 sq. m. and max area after enhancement <= 30 sq. m.

[7,8] MHUPA 2017-18 Annual Report
[8] http://mohua.gov.in/upload/uploadfiles/files/12.pdf

Set-up of Real Estate Regulatory Authority (RERA)[9]

- RERA is expected to bring in transparency in the system and provide protection to end consumers.
- As a result, it will help to boost consumer confidence in this sector.

Relaxation on GST[10]

- GST council has reduced the GST on under construction homes from 5% to 1% on affordable housing.

Relaxation of Income Tax[11]

- Home buyers are provided income tax benefits under sections 80(c) and 24(b) of the Income Tax for the principal (including stamp duty, etc.) and interest paid respectively.

Exhibit 5: Key supply-side interventions

Priority Sector Lending[12]

- "Housing" has been included as one of the categories under PSL, encouraging companies to lend to this sector.
- Banks can also on-lend to Housing Finance companies for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹ 1 million per borrower.

PMAY–*In Situ* Slum Redevelopment[13]

- Supply land to private participants that requires them to develop houses for slum dwellers.
- Grant of ₹ 1 lakh per house with extra FAR/FSI/TDR for selling "freely priced" units.
- Developers required to provide transit accommodation to slum dwellers during the course of the project.

PMAY–Affordable Housing in Partnership[14]

- Multiple models aimed to combine strength of public and private players to boost supply.
- Central assistance at the rate of ₹ 1.5 lakh per EWS house would be available.
- A mix of houses for different categories will be eligible for central assistance only if at least 35% of houses in the project are for EWS and a single project has at least 250 EWS houses.

Long-term Rupee Denominated Bonds overseas by Indian Banks for financing infrastructure and affordable housing[15]

- Banks can issue long-term bonds with a minimum maturity of seven years to raise resources for lending to (i) long term projects in infrastructure sub-sectors, and (ii) affordable housing.

Credit Risk Guarantee Fund Trust Scheme for Low Income Housing[16]

- "Trust" covers housing loans extended by banks, HFCs, etc., to a new eligible borrower belonging to EWS/LIG category in urban areas for housing loan not exceeding ₹ 8 lakh on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees.

[9] https://www.financialexpress.com/money/how-rera-can-help-in-promoting-affordable-housing/648871/,
[10] https://realty.economictimes.indiatimes.com/news/industry/finance-minister-says-1-gst-on-affordable-housing-will-boost-real-estate-sector/68146723
[11] https://housing.com/news/home-loans-tax-benefits-if-you-own-multiple-homes/, Deloitte Analysis
[12,15] RBI
[13] http://mohua.gov.in/upload/uploadfiles/files/8%2001_ISSR_leaflet_English.pdf
[14] http://mohua.gov.in/upload/uploadfiles/files/11.pdf
[16] NHB

Setting up of "Affordable Housing Fund"[17]

- Government has announced that it will establish a dedicated Affordable Housing Fund (AHF) in the NHB, which will be funded from priority sector lending shortfall and fully serviced bonds authorised by the government.

Income Tax Deductions in respect of Profits and Gains from Housing Projects[18]

- Deduction of 100% of profits and gains derived from the business of developing and building housing projects, subject to the provisions of this section.
- Some of the conditions include: Plot size of land for the project should not be less than 1000 sq. m. in metro and 2000 sq. m. in non-metro cities, residential unit size should not exceed 30 sq. m. in Metro and 60 sq. m. in non-metro cities, etc.

"Infrastructure" status to Affordable Housing[19]

- Government announced granting of "Infrastructure" status to affordable housing, which will enable these projects to avail benefits such as lower borrowing rates, tax concessions, and increased flow of foreign capital.

The status of Pradhan Mantri Awas Yojana (Urban) scheme as of March'18 is provided in Exhibit 6.

Exhibit 6: Case in point: Status of Pradhan Mantri Awas Yojana (Urban), PMAY (U) Scheme

Case in Point: Utilisation of PMAY (U) Scheme Funds and Impact Created

01 ***In Situ* Slum Redevelopment**

02 **Affordable Housing in Partnership**

03 **Subsidy for Beneficiary-led Construction or Enhancement**

- **7,474 projects** have been accepted for **Central Assistance of ₹ 57,652 crore** for construction of **37,43,631 houses.**
- Accepted Central Share of ₹ 13,150 crore has been released to the concerned States against approved projects.

04 **Credit Linked Subsidy**

- **Subsidy of ₹ 1,455.15 crore** has been released to 72,263 beneficiaries for EWS/LIG.
- **Subsidy of ₹ 228.97 crore** has been released to 11,071 beneficiaries for MIG.

There has been a continuous push from the government to promote "Housing for All" by 2022. Under this initiative's anchor scheme "PMAY (U)", the government has assisted several projects across states and UTs.

Despite this, according to News reports, barely 8% of the houses targeted so far were constructed after nearly three years into the scheme.[20] Hence, there is considerable ground to be covered to achieve the "Housing for All" by 2022, which can be possible only by encouraging more engagement with the ecosystem participants to understand the challenges and take timely measures, as required.

Source: Annual Report 2017-18, Ministry of Housing and Urban Affairs

[17] https://www.ndtv.com/business/budget-2018-government-announces-dedicated-affordable-housing-fund-1807474,
[18] https://incometaxindia.gov.in/Acts/Finance%20Acts/2016/102120000000058876.htm,
[19] https://www.businesstoday.in/union-budget-2017-18/key-announcements/affordable-housing-gets-infrastructure-status-in-budget/story/245416.html, Deloitte Analysis
[20] https://timesofindia.indiatimes.com/india/pm-awas-yojana-only-8-target-met-under-urban-housing-scheme/articleshow/63405544.cms, Deloitte Analysis

While the initiatives of the government and regulatory bodies have helped minimise the demand and supply gap, there seems to be still a significant ground to be covered. During our discussion with various Housing Finance Companies (HFCs), most respondents were of the opinion that there are some targeted areas where government’s intervention would be required either in terms of launching of new schemes or tweaking the existing ones to meet more demand. Some of the challenges faced in the implementation of various schemes have been listed in Exhibit 7.

Exhibit 7: Key challenges faced during implementation of various schemes

More time taken for Approvals under various schemes (also to develop title ownership)	“Time it takes for establishing title ownership needs to be reduced (currently no way of knowing the owner). There should be a single window concept so that approvals are faster.“ **CEO** **A mid-sized AHFC with large retail NBFC parent**
High level of ambiguity as there are multiple and different criteria laid out for various schemes	“Problem is that there are so many schemes but they are not aligned; there are different policies across states which makes it difficult to do business in different states“ **MD** **An AHFC focusing on south-India**
Stricter eligibility conditions under certain schemes leading to inability to pass the benefits to the “real” affordable	“~50% people are not eligible under PMAY despite having low income, primarily because of two reasons: PMAY does not cover rural areas, and Woman (co-)/ ownership is required for a lot of cases. Above conditions make PMAY difficult to implement.“ **MD** **A mid-sized AHFC focusing on central-India**
Higher cost of land leading to higher construction costs	“Potential is humongous, but there are supply side constraints. Issue is land (major cost) is not available at low cost, hence builders make houses 50-60 km away from main city and call them “affordable”. But then, there are no takers and there is unsold inventory. Government’s intervention is required.“ **CFO** **A large HFC with PAN-India presence**

Source: Primary Research, Deloitte analysis

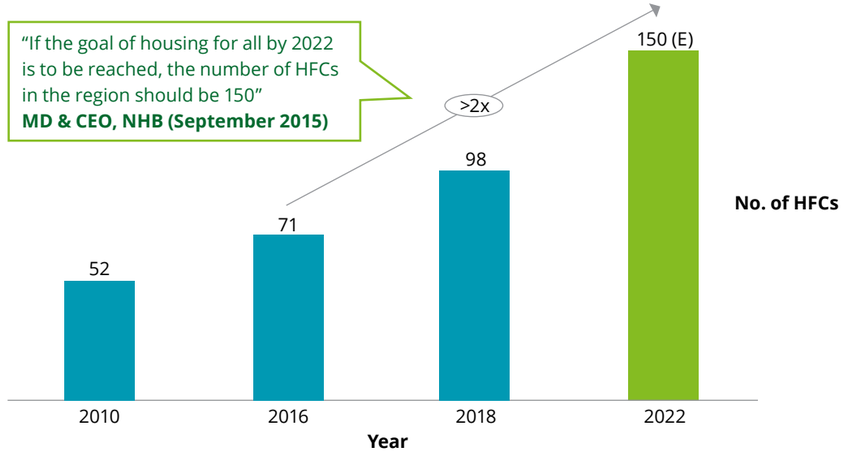
Private Play

Apart from the push from the government and regulatory bodies, HFCs are also active in this space. The number of HFCs has increased from 52[21] in 2010, to 71[21] in 2016, to 98[21] in 2018 (shown in Exhibit 8).

These HFCs cater to a very wide range of customer segments ranging from rural to urban, low- to high-ticket size, salaried to self-employed, low- to high-income, documented income proof to undocumented income proof (dependent on cash flow based assessment). Each company has a targeted area in terms of customer profile where they focus. This customer profile is majorly dependent on the risk taking capacity of the firm and ease of financing.

Exhibit 8: Growth in number of HFCs

“If the goal of housing for all by 2022 is to be reached, the number of HFCs in the region should be 150”
MD & CEO, NHB (September 2015)



Source: NHB, Deloitte analysis

Broadly, amongst the four income groups (EWS, LIG, MIG, and High Income group [HIG]), the large HFCs usually focus on the HIG segment, whereas the other HFCs (usually called “Micro/Rural Housing Finance Companies” or “AHFCs”) cater to all or some of the EWS, LIG, and MIG segments. Based on our survey, the LIG and MIG segments are gaining most traction by the AHFCs (refer Exhibit 9). Moreover, AHFCs usually do not focus on EWS segment, as they find it more risky and high in cost. The so-called “Micro/ Rural housing finance companies” usually cater the EWS segment and specialise in lending to this segment.

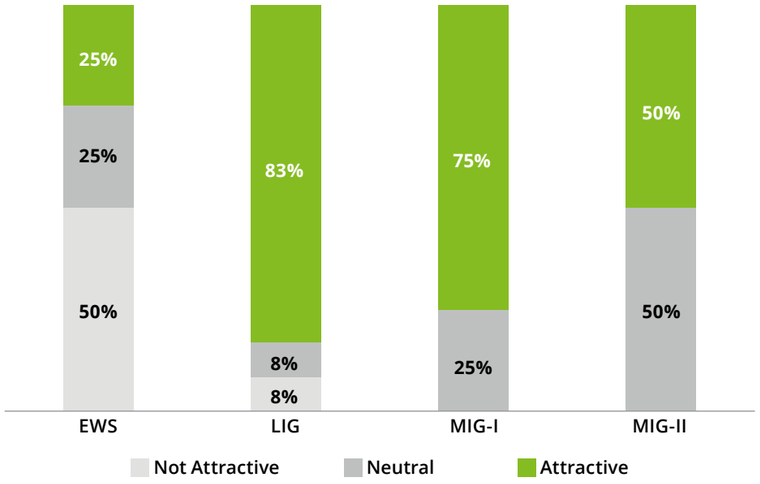
“Most traction is in the LIG and MIG segments. The risk in the EWS segment is not which everyone is ready to take.“

ED
A west-focused AHFC

The customers of AHFCs and micro HFCs typically have low income, belong to the self-employed segment, and have informal sources of income (undocumented in nature). As a result, the ticket size is on the lower end. The Loan-to-Value (LTV) is also low, primarily because the customer segment is viewed as risky and usually the customers approach for a loan after completing a portion of the construction. Another feature that is usually unique to the customer profile of these AHFCs and micro HFCs is that their customers are mostly new to credit, hence creating financial literacy and awareness becomes an essential part for these companies. Exhibit 10 summarises the typical customer profile of AHFCs.

[21] NHB, Deloitte analysis

Exhibit 9: Segment attractiveness for AHFCs



Source: Primary Research, Deloitte Analysis
Note: The figures in the exhibit represent the % of respondents who were of the opinion that a particular segment is attractive, or not attractive, or were neutral.

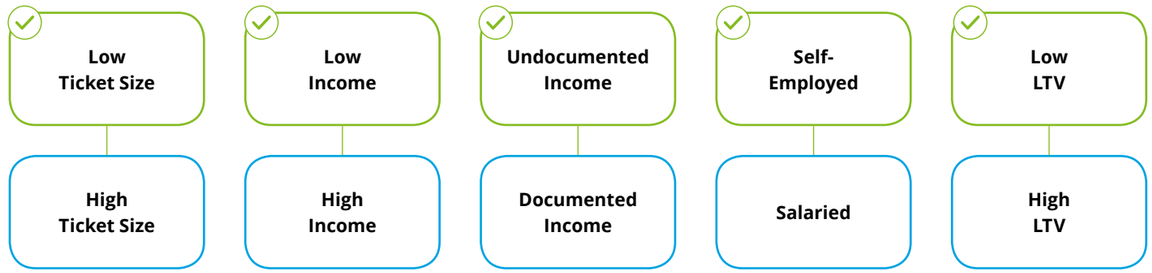
“There is huge demand in the <5 lakhs segment, however, cost and default are more in this segment. Although default is mostly temporary in nature due to the temporary liquidity crunch, the issue is in catching-up after a default.

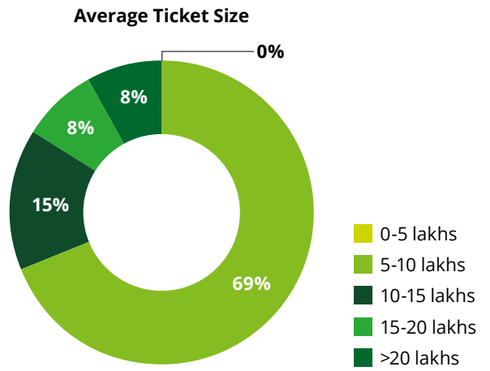
In the 5-12 lakhs segment, there is demand and segment has customers which are able to handle income shocks for a certain time period.

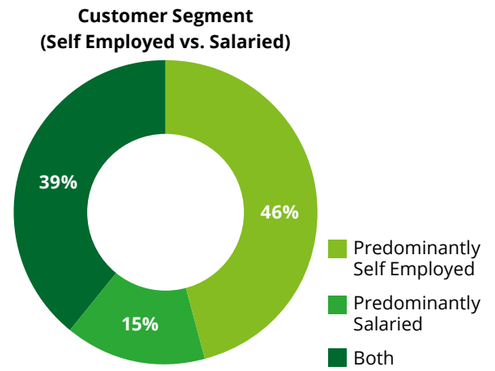
There are very few players in rural areas or those catering to EWS segment because cost is high, supply is not adequate and entry barriers are high.“

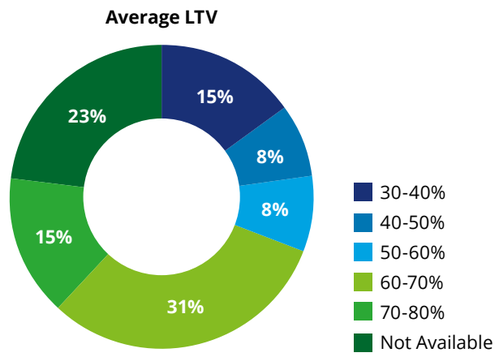
MD & Chairman
A rural focused HFC catering to EWS segment

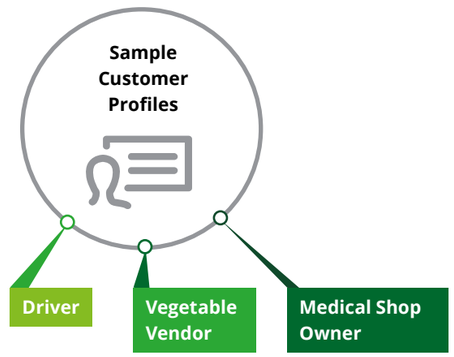
Exhibit 10: Typical Customer profile of AHFCs





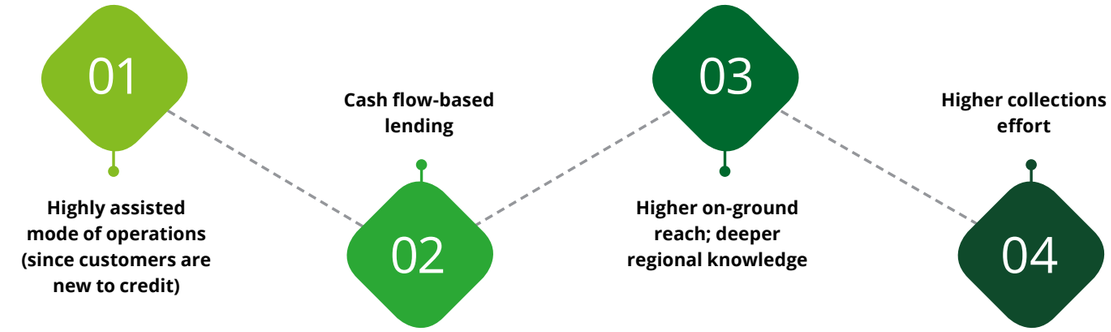






Source: Primary Research, Deloitte analysis, Data on Ticket Size for 2 AHFCs is based on secondary research, Customer Segment (Self Employed vs. Salaried) for 1 AHFC is based on secondary research; Above data is for individual housing loans out of the affordable housing portfolio of companies based on the inputs received during the interviews

Exhibit 11: Similarity in the operations of AHFCs



Source: Primary Research, Deloitte analysis

Although the companies operating in these segments may have their own strategies, the inherent mode of operations for these companies remains the same, and the similarities are mentioned in Exhibit 11.

Key challenges faced by “Affordable” Housing Finance Companies

Although many companies are entering this “affordable” market and are seeing this as a lucrative business opportunity, yet there are many challenges that many of these are facing, which are posing as a deterrent for economical business.

Some of the challenges that hinder the AHFCs to do economical business are mentioned in Exhibit 12.

Exhibit 12: Key challenges faced by AHFCs

Lack of customer awareness about the offerings of AHFCs

Most AHFCs cited that although there is high demand for AHF, yet this segment has not disbursed loans up to their potential due to lack of awareness amongst the customers about such AHFCs. As a result, these customers still resort to alternate sources of finance such as local financiers, loan against gold, etc.

“It is a matter of who reaches out to the affordable segment, and how.

Out of the loans disbursed by us, only 30% customers have come with bare land for house construction; 70% come after 60-70% construction completion. Also, even after 60-70% completion, people first go for jewel loans, and if they can't manage that, then they go to local financiers. As a last resort, they come to AHFCs.

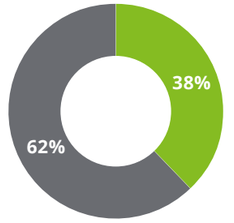
Also, people such as small grocery shop owners, etc. approach a Bank who does not fund them, and hence they feel that they are not eligible – There is lack of awareness about AHFCs.“

Business Head
An upstart AHFC promoted by a well-known NBFC

Balance Transfer

Balance Transfer by customers to other HFCs once the credit history is established. This affects the profitability of these HFCs as they incur a higher cost to acquire these customers, and then ultimately do not get the benefits.

Balance Transfer – A Deterrent to Business



All the respondents for whom the responses were available were of the opinion that Balance Transfer is posing as a significant risk to their business.

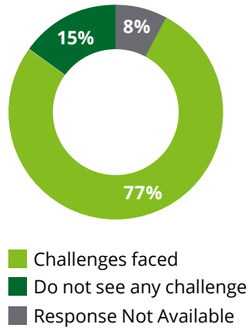
“BT is a big problem: Cost of acquisition is high in this segment as it requires personal discussions, visits. After this if BT happens, it becomes a challenge because the cream leaves away.“

CEO
A mid-sized AHFC with south & west focus

Delayed Payments, leading to greater NPA provisioning

Most respondents were of the opinion that there is inconsistency and delay in credit repayments in this segment. Hence, the NPA provisioning under the current norms are not comparable with some of the larger HFCs.

Challenge in NPA Recognition



77% of the respondents were of the opinion that challenge of NPA is higher in this segment. However, ~50% of the respondents also mentioned that the current NPA norm of 90 days should not be relaxed as it will ensure ongoing focus on collections.

“By the time customers in this segment understands that they need to pay EMI, the account becomes NPA”

COO
A mid-sized pan-India HFC

Funding

AHFCs are facing challenges in funding majorly because of the “high risk” nature of this segment. Also, since there is no standard definition for AHF, the ratings of these companies are affected due to comparison of these companies with some of the bigger HFCs.

“Greater focus from NHB for refinance will be a big breather“

CEO
One of the largest AHFCs

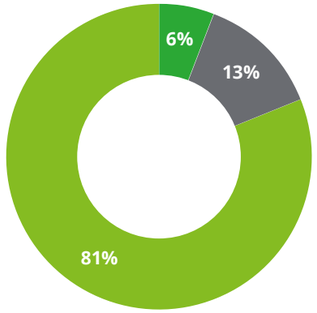
Source: Primary Research, Deloitte analysis, above data in charts pertain to companies who cater to the affordable segment based on the inputs received during the interviews

Potential Benefits of having a Definition for “Affordable” Housing Finance

As discussed in the previous section, to be competitive and successful, the AHFCs have adopted a significantly different business and operating model compared to their traditional peers. The focus is on the new-to-credit populace, usually finding its livelihood in the informal sector and looking to buy its first house. Most of the challenges faced by the AHFCs have an underlying common theme, i.e., the unique customer profile.

While each player has its own strengths, constraints, focus segments and regions, there are areas where they can benefit as a group to operate profitably in a sustainable manner. In February 2019, the Goods and Services Tax (GST) council of Government of India (GOI) has changed the definition for affordable housing, which is different from what is generally used by AHFCs. As a first step, a common definition for AHF will bring in standardisation and uniformity, and could help in redefining rules pertaining to this segment, and facilitate the AHFCs, or AHF portfolios being viewed differently. This would enable these AHFCs (based on the common definition) to work for solutions as a group with other ecosystem partners including the regulators and government to overcome some of the key operational challenges faced by them. Exhibit 13 highlights views of some of the AHFCs to have a common definition for AHF based on our survey.

Exhibit 13: Need for Standardisation in the definition of AHF



Most of the respondents were of the opinion that there needs to be a standard definition, clearly outlining the criteria for an “affordable” housing finance portfolio. This would help them to function together as a group and being viewed differently from the large housing finance portfolios of banks and large HFCs.

- Standardisation is required
- Standardised but needs re-look
- Response not available

“There is lot of ambiguity. There is no standard definition, and hence, lenders define it individually as per their own segmentation criteria or as per the classification done by rating companies. Standardization would help in correct market-sizing at the industry level. This can also act as an indicator at the national level.“

CEO
A large AHFC focusing on central & south-India

“Currently everybody talks of affordable in a different context“

CEO
A mid-sized AHFC focusing on south & west-India

“With standardisation, people will look at companies in this segment differently and finance differently“

MD & CEO
An AHFC focusing on south-India

Source: Primary Research, Deloitte analysis

Exhibit 14 highlights some of the key challenges and the ways in which a common definition for AHF could help the AHFCs overcome some of them.

Exhibit 14: Potential benefits of having a definition of AHF

Limit Balance Transfer Incidence

Definition can help to explore solutions such as having prepayment charges, lock-in period, etc., to limit balance transfer from “affordable” housing finance portfolios and help them retain the “high performers” and drive business profitably.

“Balance Transfer is an acid bubble. It needs to be immediately stopped.“

CFO
A large HFC with PAN-India presence

“Once a customer has a good repayment track, all big companies try to take that customer.
There should be prepayment charges because we are taking these customers to the next level. Because we gave credit when no one was willing to give credit to the customer, some risk weightage/prepayment charges should be there.“

Business Head
An upstart AHFC promoted by a well-known NBFC

Explore Change in NPA Recognition Policy

Since the credit repayment profile of the customers in this segment is different, an option to have a different NPA recognition mechanism can be explored for this segment using the standard definition.

“NPA recognition should be different.

In a 10-20 years loan there is 5-20% slippage. There are delayed but not denied payments in this segment, and such delayed payments are not non-performing. Hence, NPA norms for scenarios such as '90+ but paying' should be re-looked. This problem is kind of being solved in Ind AS.“

CEO
A mid-sized AHFC with large retail NBFC parent

Re-consider Refinance Schemes to Expand Coverage

To help companies that cater to the “affordable” housing segment to obtain funds, a common definition would help to ensure that benefits are passed to the companies in the “real” affordable segment per the pre-defined criteria.

“Area where government needs to support-Cost of borrowing is high and NHB refinancing is a challenge and takes a very long time. Market share depends on cost of borrowing, Government/ NHB should focus more on this segment.“

MD & CEO
An AHFC focusing on south-India

“Define Affordable” for Rating Agencies

Clarity in terms of the criteria for calling a portfolio as “affordable” housing finance would help the Rating Agencies as well to view this portfolio with a different lens. This will open up more funding options for these AHFCs.

“Rating agencies are very well educated and are doing their job, but they also need to know a clear definition as to what is considered affordable housing finance.“

CFO
A large HFC with PAN-India presence

Source: Primary Research, Deloitte analysis

Defining “Affordable” Housing Finance

Arriving at a Definition for “Affordable” Housing Finance

There have been multiple approaches used in the past to define “Affordable” Housing Finance. Hence, it is important to have a common ground that provides maximum coverage and reach to the extent possible (coverage from both aspects-customer segment/demand, and regulations), and the impact and time required to implement is minimum.

In this section, we have tried to answer two imperative questions:

- What is “Affordable” Housing Finance?
- What is the granularity of applicability of the definition – should it be at Company level or Portfolio level?

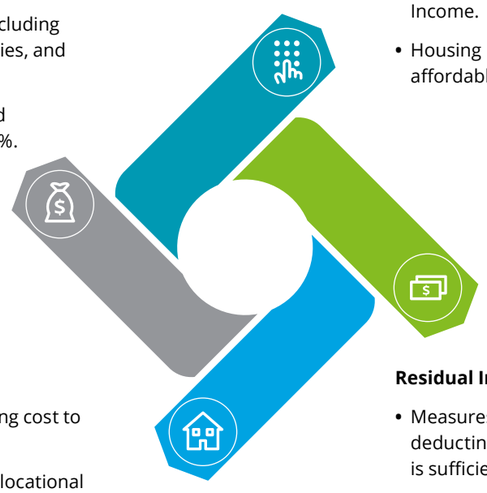
Approaches used to define “Affordability” internationally

Internationally, a number of approaches have been used to measure housing affordability from the customer’s perspective, i.e., the house buying capacity of an individual or a household. Exhibit 15 mentions some of these approaches. Depending upon parameters such as economic situation, income levels, location, property type, and size amongst others, the affordability is likely to vary from one individual or household to others. The challenge would be a moving definition that would change for each individual or household making it difficult for financiers or other stakeholders who most of the times need a fixed base to undertake their business decisions.

Exhibit 15: Select approaches used globally to define “Affordability”

Expenditure Method or Housing Cost Burden

- Affordability is measured by the ratio of housing expenditure to household income.
- It covers costs related to housing, including rentals, mortgage repayments, utilities, and maintenance cost.
- Housing units are usually considered affordable if the ratio is less than 30%.



Median Multiple Indicator

- Affordability is measured by dividing the Median House Price by the Median Household Income.
- Housing units are usually considered affordable if price to income ratio is below 3.

Housing and Transport (H+T)

- It includes transport cost with housing cost to measure affordability.
- Takes more comprehensive view on locational factor by including transportation cost, as increased settlement at long distances from the city centre has resulted in increased travel time.

Residual Income Approach

- Measures whether the household income after deducting the standard housing consumption is sufficient to cover non-housing needs.
- Housing units are considered affordable when income after housing expenditures falls above the prescribed minimum socially acceptable level.

Source: RBI, Measuring Housing Affordability in Beijing, Stockholm 2011, Deloitte analysis

Key Parameters to define “Affordable” Housing Finance

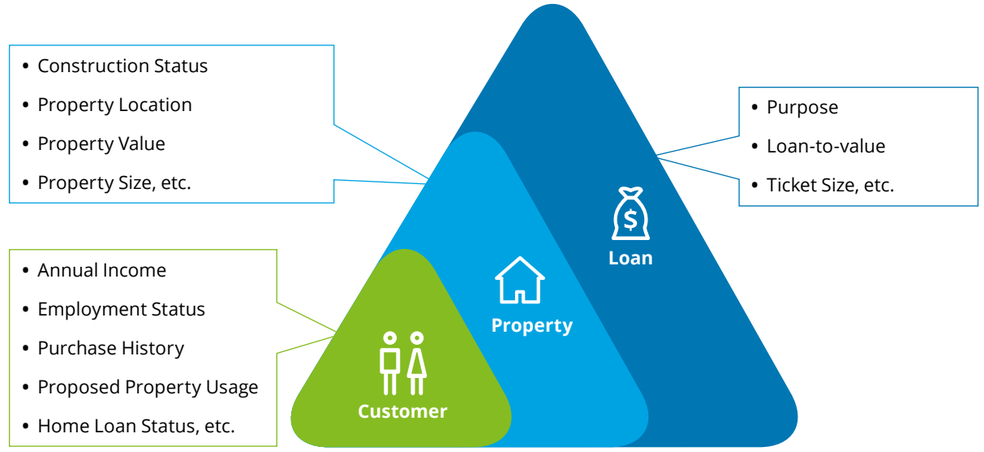
Considering the various approaches that have prevailed over the years to define “AHF”, and based on our interactions with various HFCs, it was observed that there are three key areas (the customer, the property, and the amount of loan required) that the housing finance providers keep in view while extending a housing loan. The GST council of GOI has recently taken both size of the property and the property value to define affordable housing. This solves the purpose of taxation matters. However, when it comes to financing, additional lenses of loan amount as well as customer can be considered for a better understanding of the affordability of the property.

The customer profile remains integral to determine the affordability with respect to the property under consideration. A combination of the customer and property components could define the “affordability” and the resultant component would be the “Loan” required by the customer to support the property being bought.

Therefore, as shown in Exhibit 16, answering the following questions in any form in the AHF definition is essential for industry-wide adoption:

- Who is the customer?
- What is the property?
- How much is the loan required?

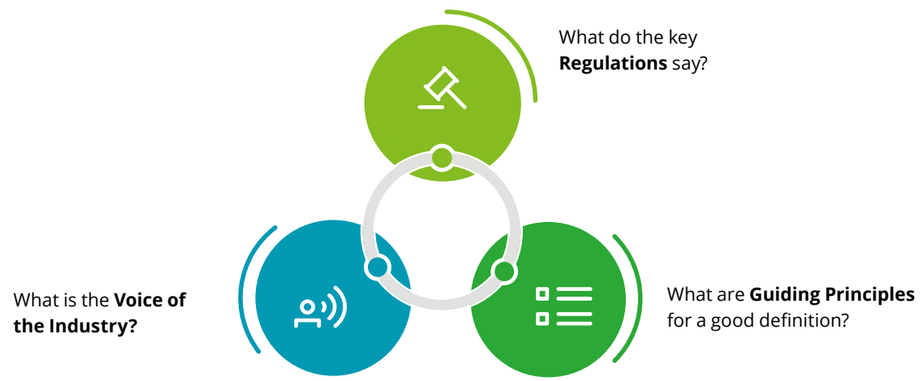
Exhibit 16: Key parameters to define AHF



Note: The above is an indicative list.
Source: Deloitte analysis

Three lenses—regulations, voice of the industry, and some guiding principles—have been used to arrive at the parameters for defining “AHF” (Exhibit 17).

Exhibit 17: Lenses to arrive at parameters to define “AHF”



Source: Deloitte analysis

Key prevailing regulations that define “Affordable” Housing Finance in India

In India, the evolution of the affordable housing and related financing has attracted government and regulators alike to come up with a definition of AHF. These definitions were proposed at different times to cater to a set of prevailing social, economic or financing needs. Even though they broadly have the same agenda of socio-economic development, they vary in details from each other. A summary of the key definitions has been provided in the Exhibit 18.

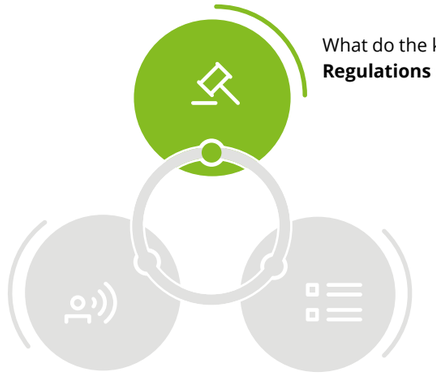


Exhibit 18: Summary of key regulations that define “AHF” in India

	Customer	Property	Loan
[PSL Norms]	-	House value • <= ₹ 45 lakhs in metro centres • <= ₹ 30 lakhs in other centres	Loan ticket size • up to ₹ 35 lakhs • up to ₹ 25 lakhs
[PMAY – Urban]	**Beneficiary Led Construction** EWS (Annual HH Income <= ₹ 3 lakhs); first-time buyer	• Minimum enhancement is 9 sq. m. and '20 sq. m. <= total carpet area after enhancement <= 30 sq. m.'	Central government grant of ₹ 1.5 lakhs plus additional State/UT financial assistance
	Credit Linked Subsidy Scheme • EWS (Annual HH Income <= ₹ 3 lakhs) • LIG (Annual HH Income ~ ₹ 3 – 6 lakhs) • MIG-I (Annual HH Income ~ ₹ 6 – 12 lakhs) • MIG-II (Annual HH Income ~ ₹ 12 – 18 lakhs) • First-time house buyer/owner (HH Level) • Woman ownership/co-ownership is required for EWS – CLSS for purchase of house	**Maximum Carpet Area (sq. m.)** • 30 • 60 • 160 • 200	**Ticket Size and Interest Subsidy** • ₹ 6 lakhs – 6.5% • ₹ 6 lakhs – 6.5% • ₹ 9 lakhs – 4% • ₹ 12 lakhs – 3%
[PMAY – Gramin]	• Eligible under SECC 2011 – Houseless and people living in dilapidated and kuccha houses	• Min 25 sq. m.	• No mention of ticket size; optional institutional loan of up to ₹ 70,000 to beneficiaries
Summary	• **Household Income** • **Purchase History (First-time buyer/ owner)**	• **Property Location** • **Property Value** • **Property Size**	• **Ticket Size**

Source: RBI, NHB, PMAY-U, PMAY-G, Deloitte analysis
Note: For detailed guidelines and eligibility criteria, the latest guideline/notification from the respective regulatory body may be referred.

In February 2019, the GST council of GOI had defined affordable housing as a residential house/flat of carpet area up to 90 sq. m. in non-metropolitan cities and towns and 60 sq. m. in metropolitan cities having value up to ₹ 45 lakh, both for metropolitan and non-metropolitan cities.[22]

Voice of the industry

The views of one of the key stakeholders, i.e., the Housing Finance Companies are essential to define this segment as they are best placed to identify the key parameters, by bringing forward the on-ground dynamics, keeping in view the ease of implementation and acceptability of the identified parameters. Exhibits 19, 20, 21, and 22 mention some of the key parameters that came up during our discussions with various HFCs.

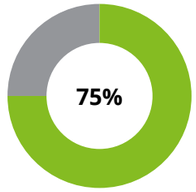
Considering the current regulatory perspective, the key parameters would be ticket size, household income, first-time owner, property location (i.e., metro versus non-metro, urban versus rural) and property size.

[22] https://realty.economictimes.indiatimes.com/news/industry/finance-minister-says-1-gst-on-affordable-housing-will-boost-real-estate-sector/68146723

Exhibit 19: Voice of the industry-“Customer” attribute to define AHF

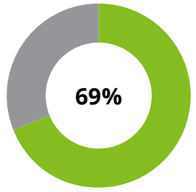
“Customer” attribute as part of AHF Definition?

- **Annual Income**
- Employment Status
- **Purchase History (first time, etc.)**
- Proposed Property Usage
- Home Loan Status, etc. ...



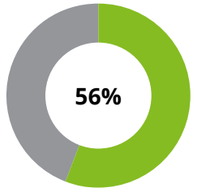
- **75%** of the respondents were of the opinion that Customer **should be a key area** in defining AHF.
- **Income and Purchase History i.e., First-time Owner** were seen as the most important Customer attributes to define AHF.

Income



69% of the respondents were of the opinion that Income should be one of the parameters to define AHF. However, 25% out of these were of the opinion that other parameters such as ticket size, property value, etc., can be used as a proxy for Income while defining AHF.

First-time Owner



56% of the respondents were of the opinion that AHF should be applicable to only first-time house owners. However, only 6% of the respondents were of the view that first-time buyer should not be a criteria.

Out of the respondents who said that first-time owner should be a criteria, 33% (out of 56%) said that this should be applicable at individual level, 11% (out of 56%) said that this should be at an household level, and another 11% (out of 56%) said that this should be dependent on the area (i.e., first house at a household level in the rural areas and at an individual level in urban/ semi-urban areas).

“In urban areas, income & first-time buyer should be at individual level, and in rural areas at a household level“

MD & Chairman
A rural focused HFC catering to EWS segment

“Annual Income is required for triangulation to confirm affordable nature of the loan“

CEO
A large AHFC focusing on central and south-India

“Ticket size alone cannot be the determinant. There need to be income links as well, such as EWS/ LIG who don't have income proof.“

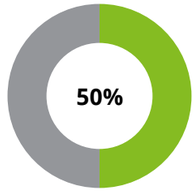
CEO
A mid-sized AHFC focusing on west and south-India

Source: Primary Research, Deloitte analysis

Exhibit 20: Voice of the industry – “Property” attribute to define AHF

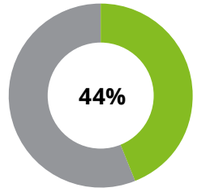
“Property” attribute as part of AHF Definition?

- Construction Status
- Property Location
- Property Value
- Carpet Area, etc.



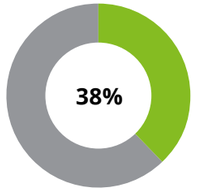
- **50%** of the respondents were of the opinion that Property **should be a key area** to define AHF.
- **Property Location and Property Value** were seen as the most important Property attributes to define AHF.

Property Location



44% of the respondents were of the opinion that Property Location (e.g., urban, rural, etc.) should be one of the parameters to define AHF.

Property Value



38% of the respondents were of the opinion that property value should be one of the key parameters to define AHF.

However, out of the total, ~6% were of the opinion that the current PSL definition can be used to define AHF, and another ~6% said that PSL definition along with first-time buyer should be the definition. Property value and location would form part of it.

“Property value threshold should be different for urban and rural areas“

MD & Chairman
A rural focused HFC catering to EWS segment

“Location Tier should be considered for normalisation of incomes and property prices“

CEO
A large AHFC focusing on central and south-India

“RBI's definition of PSL fits everywhere - Can be considered as the definition“

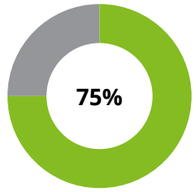
CEO
One of the largest AHFCs

Source: Primary Research, Deloitte analysis

Exhibit 21: Voice of the industry – “Loan” attribute to define AHF

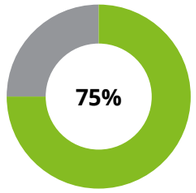
“Loan” attribute as part of AHF Definition?

- Purpose
- Loan-to-value
- **Ticket Size**
- PSL Status, etc.



- **75%** of the respondents were of the opinion that Loan **should be a key area** to define AHF.
- **Ticket Size** was seen as the most important Customer attribute to define AHF.

Ticket Size



75% of the respondents (100% of those who said that “Loan” should be considered) were of the opinion that Ticket Size should be one of the parameters to define AHF.

However, out of the total, ~6% were of the opinion that the current PSL definition can be used to define AHF, and another ~6% said that PSL definition along with first-time buyer should be the definition. Ticket size would form part of it.

“Ticket Size is the best way to look at this“

CFO & EVP
A large AHFC focusing on central and western India

“Ticket size should be the prime metric“

CEO
A large AHFC focusing on central and south-India

“RBI's definition of PSL fits everywhere - Can be considered as the definition“

CEO
One of the largest AHFCs

Source: Primary Research, Deloitte analysis

Exhibit 22 summarises some of the key parameters that came up during our discussions with various HFCs. These were household income, purchase history (first-time owner), and ticket size. The property parameters were given a lower priority by the respondents. This could be because AHFCs are usually operating in the outskirts of urban/semi-urban areas (rural areas are usually focused by micro/ rural housing finance companies); hence, variation in the property parameters may not be very high.

Exhibit 22: Voice of the industry - Summary

Customer	Property	Loan
• Household Income • Purchase History (First-time Owner)	-	• Ticket Size

Source: Primary Research, Deloitte analysis

Guiding principles for a definition

To facilitate wide acceptance and implementation of the definition, it is imperative that the metrics used to define AHF are easily available and comparable. The key guiding principles are mentioned in Exhibit 23.

What are **Guiding Principles** for a good definition?

Exhibit 23: Guiding principles for a good definition

Source: Deloitte analysis

Exhibit 24 compares the parameters based on the guiding principles. Household income, employment status, location, ticket size, and loan-to-value are the key parameters that can be considered to define AHF based on the guiding principles.

Exhibit 24: Comparison of parameters based on the guiding principles

	Customer	Property	Loan
Guiding Principles • Simple • Relevant • Measurable and Reportable • Widely Acceptable • Comparable	• Household Income 🟢	• Construction Status 🔴	• Ticket Size 🟢
	• Employment Status 🟡	• Property Location 🟡	• Purpose (Purchase, Enhancement, Repair, etc.) 🟡
	• Purchase History (First-time Owner) 🟢	• Property Value 🟡	• Loan-to-value 🟢
	• Proposed Property Usage (Self, Rental, Investment) 🔴	• Property Size 🟡	

Rating Low 🟢 🟡 🔴 High

Source: Deloitte analysis

Comparison of the parameters

Exhibit 25 provides the summary of the various parameters across the three lenses, i.e., regulations, voice of the industry, and some guiding principles.

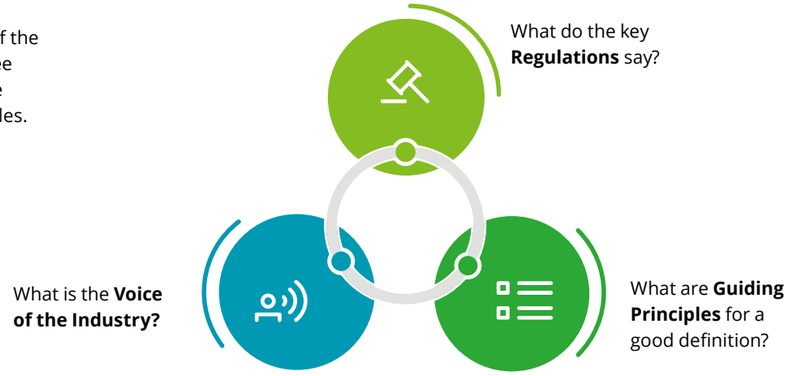


Exhibit 25: Summary - Arriving at the key parameters

Summary		Key Regulations	Voice of the Industry	Guiding Principles
Customer	Household Income	🟢	🟢	🟢
	Purchase History (First-time owner)	🟢	🟢	🟢
	Employment Status			
	Proposed Property Usage (Self, Rental, Investment, etc.)			
Property	Property Location	🟢		
	Property Value	🟢		
	Property Size	🟢		
	Construction Status			
Loan	Ticket Size	🟢	🟢	🟢
	Purpose (Purchase, Enhancement, Repair, etc.)			
	Loan-to-value			🟢

Source: Primary Research, Deloitte analysis

The parameters that were prominent across these lenses are:

- Household income
- Loan ticket size
- First-time owner

These parameters may be considered to confirm the “affordable” nature of the loan.

Definition of “Affordable” Housing Finance

Taking into account the parameters mentioned in the previous section, following definition might be considered for “AHF”:

Housing Finance to **first-time house owners** forming part of the **LIG and economically viable portion of EWS segments, i.e.,** customers with annual household **income of approximately ₹ 2 to 6 lakhs[22]** and **loan ticket size ranging from approximately ₹ 5 to 18 lakhs[22]**

Source: Deloitte analysis

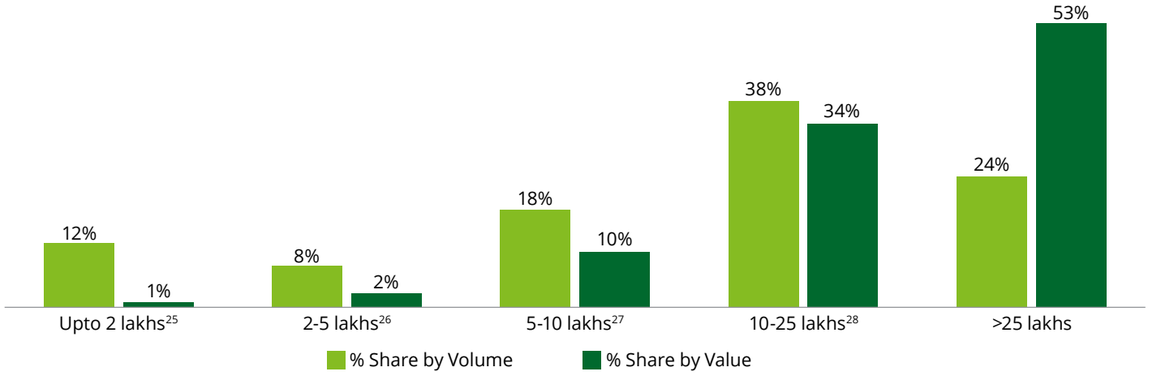
Annual Household Income and Ticket Size[23]

The annual household income of the customers in this segment should fall in the LIG and economically viable portion of EWS segments. This would translate into annual household income of approximately ₹ 2 to 6 lakhs and ticket size ranging approximately from ₹ 5 to 18 lakhs.

The lower end, i.e., annual household income of ₹ 2 lakhs and ticket size of ₹ 5 lakhs considers the inputs received from various HFCs that the segment below ticket size of ₹ 5 lakhs is usually not economically viable for them to cater and thus, the micro or rural housing finance institutions better serve this segment. Hence, ticket size below ₹ 5 lakhs should be considered as “micro or rural” housing finance.

The upper end for ticket size per PSL guidelines, i.e., ₹ 35 lakhs and ₹ 25 lakhs for metro and non-metro, respectively would cover most of the market. Data of disbursement of Housing Loans by HFCs and Public Sector Banks (PSBs) (Exhibit 26) show that ~76 percent and ~47 percent of the disbursements by volume and value respectively were in the ticket size range upto ₹ 25 lakhs.[24] Hence, ticket size as high as ₹ 25 lakhs may not result in focused attention to this “affordable” segment. Therefore, a lower cut-off for ticket size, i.e., around ₹ 18 lakhs (usually customers with annual household income of ₹ 6 lakhs fall under this ticket size) is suggested as the criteria for “AHF” as this would also cover the LIG segment.

Exhibit 26: Disbursement of Housing Loans by HFCs and PSBs in 2016-17 by Ticket Size



Source: NHB Annual Report 2016-17; Ticket size figures are in ₹

[22, 23] Deloitte analysis; Considering Tenor: 15 years; Interest Rate: 11-14% and Affordability: 40% of Income; Income Groups as defined under PMAY
[24] NHB Annual Report 2016-17
[25] Includes 2 lakh ticket size loans
[26] Includes 5 lakhs ticket size loans
[27] Includes 10 lakh ticket size loans
[28] Includes 25 lakhs ticket size loans

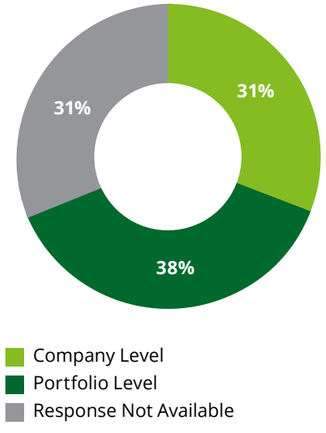
First-time house owner

Considering the objective to help customers fulfil their dream of buying a house (which is otherwise difficult to afford for this low-income segment), it is suggested that “AHF” includes first-time house owner as one of the criteria. This could be applicable at a nuclear family level (i.e., applicant, spouse, and dependent children).

“Affordable” Housing Finance – Company or Portfolio Level

Definition in place would help to overcome the challenges as a group and ensure that “AHF” is looked differently from the rest of the portfolio. Hence, a question that arises is whether “affordable” criteria should be applicable at a company level or portfolio level, i.e., should commensurate dispensations (if any) be provided to all companies for the portfolio that satisfies the “affordable” criteria. During discussions with various HFCs, most of the respondents were of the opinion that “Affordable” tag should be at portfolio level and that commensurate dispensations are provided for the portfolio that falls under the “Affordable” criteria (refer Exhibit 27).

Exhibit 27: "AHF"-Company vs. Portfolio Level



Source: Primary Research, Deloitte analysis

“Portfolio level is the right thing. It should be company agnostic.“

MD
A large south-focused AHFC

“Should be at portfolio level. Benefit should be given according to the proportion of affordable housing portfolio that a company has.“

MD
A mid-sized central-India focused AHFC

“It should be at company level: If a company’s 75% of portfolio is affordable, it should be called Affordable Housing Finance Company.“

ED
Business Development, one of the largest HFC

Summary

“Affordable” Housing Finance is expected to act as an enabler to meet the high demand at the “Bottom of the Pyramid” and help millions of Indians achieve their dream of buying their first house. Creating differentiation for “affordable” portfolios vis-à-vis traditional housing finance portfolios and providing certain dispensations for them is essential mainly because the customer profile in this segment is different and hence, companies catering to this segment are facing certain segment-related challenges. This will facilitate creation of a favourable ecosystem for the many companies operating in this segment to sustain and grow, and overcome the segment-related challenges as a group.

As a first step to create differentiation for the “affordable” housing finance portfolio, a clear classification of “affordable” housing finance is advisable. Some of the key parameters to define “affordable” housing finance may be ticket size, annual household income, and first-time house owner. Housing finance to first-time house owners that form part of the LIG and economically viable portion of the EWS segments, i.e., customers with annual household income of approximately ₹ 2 to 6 lakhs[29] and ticket size ranging from approximately ₹ 5 to 18 lakhs[29] may be considered as “affordable” housing finance.

[29] Deloitte analysis; Considering Tenor:15 years; Interest Rate: 11-14% and Affordability: 40% of Income, ; Income Groups as defined under PMAY

Study Approach

For the purpose of the study, Deloitte conducted multiple rounds of discussion with the HFC Council, which is based out of Chennai. During the discussion, the HFC council highlighted the need for a common definition for “AHF.” They discussed how the definition could help them to work together as a group for specific objectives and dispensations from within the affordable ecosystem.

Hence, to validate the findings and ensure that a holistic view is taken of the problem at hand, we conducted multiple interviews with 16 HFCs to discuss the following:

- Trends and progress in the AHF space, current opportunities, and government schemes.
- Role of “AHF” players and how do they differ from their “traditional” peers in terms of business and operations.
- Need for a common definition and key factors that should be factored in for this.

The analysis provided in the report is based on the inputs received from our multiple rounds of discussion with the HFC Council and interviews conducted with 16 HFCs.

The 16 HFCs that were shortlisted for the interviews had their average ticket size ranging from ₹ 1.5 lakhs to 22 lakhs.

Thirteen out of the 16 HFCs interviewed claimed to be operating in the “AHF” segment or at least having a significant proportion of their portfolio in this segment. Out of the remaining 3 HFCs, 1 HFC operates in the micro/rural housing finance segment and the other 2 were of the opinion that they do not focus on the “AHF” segment. The responses mentioned in Section (“Affordable” Housing Finance at the Centre of Action – Private Play) pertain to only the 13 HFCs who claimed to be operating in the “AHF” segment.

Abbreviations

AHF	Affordable Housing Finance
AHFC	Affordable Housing Finance Company
BLC	Beneficiary-Led Construction
CLSS	Credit Linked Subsidy Scheme
EWS	Economically Weaker Section
FAR	Floor Area Ratio
FSI	Floor Space Index
GOI	Government of India
GST	Goods and Services Tax
HFC	Housing Finance Company
HH	Household
HIG	High Income Group
LIG	Low Income Group
LTV	Loan-to-Value
MIG	Mid Income Group
NBFC	Non-Banking Finance Company
NHB	National Housing Bank
PMAY	Pradhan Mantri Awas Yojana
PPP	Public-Private Partnership
PSB	Private Sector Bank
PSL	Priority Sector Lending
RBI	Reserve Bank of India
RERA	Real Estate Regulatory Authority
TDR	Transfer of Development Rights

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