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Navigating the affordable housing finance market

Affordable housing is among the fastest-growing segments within consumer finance. While mortgage penetration in India is low at 11 per cent, it drops further to below 5 per cent in rural and semi-urban areas. This reflects a largely untapped affordable housing finance market worth close to ₹30 trillion. What does it take to successfully navigate this landscape?

For the consumer, the critical 3As are availability, affordability and awareness, both for the right property and the financier. For a financier to create an impact, the primary need is a focused approach with a deep understanding of customer patterns by state, credibility to underwrite the underbanked consumer segment, and a policy that serves this stratum well.

A Reserve Bank of India (RBI) committee report estimates the housing shortage at 100 million units, with a majority of it in the low- to middle-income housing. Thus, a thrust on affordable housing and its financing will not only lead to a better quality of life, but also significantly boost our GDP. Availability of land parcels, scarcity of marketable land, title concerns, rising construction and land cost, and regulatory hurdles in approving projects are some of the impediments.

Better availability and affordability of finance as well is needed to address the latent potential of the market. Since most financial institutions focus on formal income segments, they are unable to cater to the needs of the underserved. Despite the high demand for affordable housing finance, housing finance companies (HFCs) have not disbursed loans up to their potential, owing to a lack of awareness among customers about such companies.

As a result, these customers continue to resort to alternate sources of finance such as local financiers and loans against gold, whose rates are often double that of HFCs. Housing in metros is far from affordable, but in non-metro areas, the opportunity to provide affordable housing is high.

The demand for affordable housing finance is very high, but housing finance companies have not disbursed loans up to their potential, owing to a lack of awareness among customers about such firms

Coupled with better access to finance from HFCs that understand the niche and can address the affordability aspect in a meaningful way will aid the market.

Government schemes to boost affordable housing in India, like the Pradhan Mantri Awas Yojana and the credit-linked subsidy scheme, among others, have in recent years led to the narrowing of the gap. However, lacunae still exist. Internationally, such housing schemes are sponsored by both federal and state governments in the form of affordable public rentals and homeownership assistance, and cater to not just urban but also rural areas.

Understanding your customer segment well enough to underwrite home loans in this segment is the key. Most customers from tier-2, 3 and 4 towns belong to the informal segment and are typically self-employed with little, or limited income proof. Thus, understanding the customer segment which earns ₹10,000-25,000 per month from informal income is crucial. For example, how does one estimate income for a milk vendor, grocery shop owner, or a vegetable seller?

Market intelligence is gathered through dialogues with neighbours and suppliers, while cash flows are ascertained by observing the business premises for a few hours and ascertaining the flow of goods, customers and raw materials. There is no standard approach, but a customised approach to understanding his income.

Affordable housing finance can act as an enabler to meet the high demand at the bottom of the pyramid and put a roof on top of the heads of millions. It is essential to create a differentiation approach for recognising affordable financiers and their portfolios vis-à-vis traditional HFCs and providing certain dispensations for them. The progress made so far by affordable HFCs is encouraging, but it is still a mere drop in the ocean compared to the untapped potential.

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