

Challenges and Opportunities of Informal Housing Finance in Rural Area of India

Dr. Amarjot Verma^{1*} Shilpa Mishra²

¹ Assistant Professor, Department of Business Administration, Institute of Management Studies, Bundelkhand University, Jhansi

² Research Scholar, Department of Business Administration, Institute of Management Studies, Bundelkhand University, Jhansi

Abstract – Housing is one of the basic needs as its not only provides the shelter but also gives security, protection and respect to the people in society. In present scenario building our own house by using self-owned funds is not affordable as one has to look for other investment too. But with the growth of Indian banking system and NHB, made this possible to fulfill anyone dream of building his own house. Since 1985 National housing bank along with other formal financial institutions have disbursed housing loan in various regions of the country. Government has launched various housing schemes by which large population of the country get their home. These benefits are easily available in urban area. However in rural area where people are engaged in informal sectors often faces problem in getting loan from formal sources and banks because of their complex formalities and procedures of loan disbursement. Therefore the population of rural area has to be dependent on informal sources of finance and they always seek informal housing schemes for building their houses. In present paper it has been discussed that why rural poor have limited access for housing finance and also thrash out the differences between informal and formal housing finance sources. It is observed in the paper that if microfinance and informal sources are well implemented in rural areas for loan disbursement then large population would be benefitted and will able to afford the loan and be able to fulfill their dream of making their own house.

Key Words: ROSCA's, Micro Finance, Formal and Informal Housing Finance.

-----X-----

1. INTRODUCTION

In everyone's life there are three basic important things are needed they are food, shelter and clothing. In today's world it is not an easy task for medium and poor class families to construct home. Shelter being one of the basic needs, every human being aspires to own a house. Home is just not houses but they are environment which project the aspirations of individual, families to live better life. An individual shares an emotional bond with his home. It gives him sense of a security and comfort. It is the possession of a home that makes an individual a good citizen and provides citizen a stake in their society. Home loan is a business of financial intermediaries where money raised through various sources such as public deposits, refinance from NHB and their own capital, is lent to borrowers for purchasing a house. If loan is not pay back then lender have a right to sell the mortgage with the intervention of court.

Various things are required for building a house. The most important are finance, time, selection of location, availability of land and various formalities related to purchase a home. Among these entire requisite, finance is an essential one. The biggest dream in anybody's life is to build their house. But the problem is to collect finance. Some people have their own fund but due to the high price of houses one cannot afford only by allocating his personal fund this forces him to collect the fund from other sources too. For availing loan either people choose informal housing finance source or formal housing finance sources or select the combination of both. In India the population is touching 1.37 billion, so it is becoming very difficult for the people to build their own home. But the accessibility of housing finance for people in general improved over the years as they look for formal source of finance. In India Formal housing finance is mainly provided by banks,) National housing banks, HUDCO, Housing cooperatives, Housing boards, development authorities and other housing finance institutions(HFIs) such as

Scheduled commercial bank(SCBs), Scheduled cooperatives banks, Regional rural banks(RRBs), Agriculture and Rural Development banks(ARDBs) etc. The government efforts have been improved in order to improve housing condition by framing and implementing policies concerning to housing plans in urban as well as rural areas. 67% of population is living in rural areas and our mostly coming under EWS. Poor people basically dependent on informal source of housing finance which is very much prevalent in rural areas where people are financing a house through microfinance and by taking loan from money lenders, mahajans, chit funds societies, common bond associations, credit unions and through ROSCAs. In rural areas population belongs to lower middle class and poor class and more than half of the population living in rural areas works in informal sector where they are not having employment opportunities and running their own business or dependent on agriculture or other non-farm activities. Mainly the poor do not have access to finance from the existing formal housing finance institution due to their irregular/low and uncertain incomes and their inability to put acceptable security as a mortgage. Despite various government schemes and plans to help the poor, the housing status remains quite depressing. The formalities associated with formal housing schemes are so much that the people opt for informal housing source. It is shocking to know in India 75% people are dependent on informal housing source as its formalities are little free and easy to follow and any person either employed in public sector or private sector can avail loan. Even poor people go for it due to its easy accessibility and less formalities. In India this system should also be improved and certain regulatory framework must work on it.

2. OBJECTIVES OF THE STUDY

1. To identify various reasons for the limited access of housing finance to the rural people of India.
2. To Study the differences between Informal and Formal housing finance system in India
3. To understand the Micro-Finance and Informal Housing Finance system in India.

3. RESEARCH METHODOLOGY:

The study is qualitative and suggestive in nature which aims to collect the in-depth knowledge of a particular subject matter and also examine various factors concerning the subject. In this research only secondary source of information is used which is collected through various Journals, Reports of NHB, MoRD and books. This paper is defining the concept of formal and informal housing finance.

4. LITERATURE REVIEW

Siddiqui M.S. and Mahore R.Y. (2016) analyzed the factors responsible for scarcity of rural housing in India. They found that the total housing shortage in rural areas is estimated at 47.43 million units at the end of 2012 by the Working Group on Rural Housing for the Eleventh Five Year Plan (2007–12). Even in smart cities like Maharashtra and Gujarat the shortage is alarming. Their estimate suggested that approximately a fourth of all households in rural India lacked safe and sustainable houses along with that rural households will not be able to finance from formal source even. They also studied different grants and credit supplied by government for rural housing and the finding says that the overall disbursements of housing loans by Housing Finance Companies and Public Sector Banks has seen a CAGR of almost 30%, rural housing constituted only 8-12% of the total disbursements. Also, the proportion of rural housing loans has been stagnant at about 10% of the total housing finance portfolio in Banks. Primary reason associated with lack of adequate housing finance in rural areas is higher credit risk due to factors like low income group in rural areas, high formalities of bank which cannot be fulfilled by rural people and irregular source of income which generate risk for bank. They suggested improving the condition of housing by improving the system of granting loan through microfinance and local authorities like MoRD, NABARD and other institutions must take steps in order to improve the system of granting loan.

Gupta Saurabh, Awasthi Shweta (2017) evaluated the satisfaction level of PNB housing loan customers on the basis of several factors such as bank's legal formalities and procedures, bank's internal environment, likelihood to recommend others, bank's festival schemes and offers. In their research they found that people who have taken overdraft facility were more satisfied. Legal formalities and Procedure for granting loan affect the customer satisfaction in more extent. One can say that complexities in formalities for granting loan reduce customer satisfaction towards housing finance through formal sources.

Wapwera Ali Parsa S.D., Eqbu Charles (2011) Identified and analyzed the methods of housing finance adopted by the low income and informal groups in Nigeria. Their survey showed that 75 per cent of the households utilized traditional methods of financing and 25 per cent using modern methods. The Nigerian people where people are mainly belonging EWS are mainly dependent on traditional method of housing finance like framing certain associations and pooling fund. Such associations are Age grade association, Men's Revolving Loan Association, Social club contribution, of financing appear to be very effective housing finance methods. In their paper they showed that in the absence of formal

institutional financing methods, strengthening the community-based social network through formalization and empowerment for housing finance become important and the system should concentrate on this method of granting housing loan. It is argued that it is possible to utilize and formalize these traditional methods of housing finance, in order to enhance access to finance for housing development in low-income urban areas in developing countries as well.

Banerjee Sandeepan and Satapathy Sanjay Kumar (2015) discussed the role of micro-finance in rural development and suggested a few measures to improvise micro finance services, along with other grants and facilities given by government.

5. REASONS FOR THE LIMITED ACCESS OF HOUSING FINANCE TO THE RURAL PEOPLE OF INDIA

The primary objective of this research is to edge out various reasons for the limited access of housing finance to the rural people of India. There are number of factors which are actually observed by customers before taking loan from bank or from microfinance as an informal source of finance like Interest rate : It is either fixed or floating interest rate, inflation, formalities before granting loan, tough processing fee, repayment options , due diligence, sources of fund for the payment of EMI, number of days taken to process the loan in weeks, mortgage security, relationship with the lender , amount of fund availed, timing of repayment, etc are the number of factors that any client/customers observe before taking loan. Customers view and perception towards home loan are different as today customers are fully rationale and before taking housing loan, look for various aspects and always examine all the facts and figures before applying for home loans. Customers criteria of thinking for home loan is only and only for achieving their aim of having their own residence. First of all they compare whether they must own a house or if they are living on rent must continue with the same. The bank as well as informal source imposes fixed and flexible rate of interest on housing loan. The mode of granting loan is different for both formal housing finance and informal housing finance. People who are having regular income and having all the documents like PAN Card, salary slip, and other formalities can easily access loan from bank and any other financial institutions but the people living in rural areas have less access to formal finance. Both bank as well as rural clients has this trouble of granting loan and taking loan. The following paragraphs explain various causes from their respective point of view.

Banks point of view

1. Uncertainty about the repayment of loan by poor rural borrowers.

2. Banks feels risky as their income pattern is irregular then the chances creation of NPAs are higher.
3. Collateral security is not of higher cost and contract designs and enforcement are difficult.
4. Very difficult to understand their purpose of taking loan as they uses the housing loan for other purpose.
5. Due to Illiteracy it gets difficult to explain those banking policies and norms.
6. Insufficient paper and concerning documents presented and provided by rural poor.
7. Identity proof is not up to the mark sometimes.

Rural Customer/ Borrower point of view

1. Flexible product and services are not provided by rural banks to meet the income and expenditure patterns of small rural borrowers. Borrowers of small rural areas have irregular and volatile income pattern they borrow frequently and repay in small installment but such type of repayment are not allowed by some banks.
2. House loan from formal sector levy heavy charges such as processing fee along with bribe which increases the cost of borrowings.
3. Formal bank demands for collateral security which is generally cannot be provided by rural poor people.
4. Formal bank before granting loan ask for several identity proof, such as PAN Card, Aadhar card and other documents which is clearing the identity of a person and ensuring that the poor people will repay the loan. But as we know poor rural people mainly have informal source of income in which they do not get regular income along with that they are not able to provide salary slip due to which their chances of approval of loan declines.
5. Due to low literacy level in rural area people of such area get difficulties in understanding loan taking procedures that is why they approaches to informal housing sources.

6. DIFFERENCE BETWEEN FORMAL AND INFORMAL HOUSING FINANCE

Both of the housing finance sources cater the housing loan requirement of borrowers but each source has its own characteristics which differentiate the two sources. Each source satisfies the borrowers according to the demand of the borrowers. Formal source of finance is good for urban and regular income holders but poor who are engaged in informal working could not be facilitated by formal source because of high collateral securities and complex procedures of loan disbursement. Source of income of rural economic weaker section and below poverty line people have agriculture source and other informal works due to which they earn seasonally and try to save their fund with mahajans, relatives, in chit funds etc. Due to their unawareness and illiteracy about government schemes they lag in grasping opportunities granted by government and formal banks which compel them to be dependent on informal source. Therefore it is the need of an hour to interlink both of the sources and government should intervene through Micro finance institutions, NGO's and SHG's to provide the loan to the poor to build their home and provide financial assistance to grow further in rural environment too.

Following are the differences between the two sources of housing finance are discussed below on different bases. They are as follows

01.	The informal housing finance institutions provides savings and credit facilities for small farmers in rural areas , and for lower income – households and small scale enterprises in urban areas	Only those customers or borrowers are granted with credit facility for making home who are having large scale business and having job in good enterprise or companies. Only literate client are entertained.
02.	This sector mobilizes rural savings and small savings from low income urban households	This sector do not mobilizes savings or small scale deposits. Commercial bank could not contribute to rural and small savings mobilization if they had adequate branch networks and if they adopted the relevant procedures.
03.	This sector is based on system of association	Formal sector institutions are selective

	where the institution can deposit any sum of money what the saver can afford. The financial techniques on which such informal groups are based lend themselves to the management of a large number of small accounts.	regarding customers, so as to avoid having clients who make Only small deposits. Their financial technology is not suited to the management of modest sums from a large number of savers.
04.	The procedure of informal schemes is usually simple and easy as they the rural population is mainly well interacted with that local culture and customs, therefore they easily understand it.	Here in this sector financial terms and conditions are complex and are not easily understandable by the rural population or poor savers.
05.	The time and settlement date for any agreement are operated according to the convenience of the client.	Formal institutions are not suitable for informal workers and for the people working at farms and fields because at the time of opening these institutions, farmers work on the fields. Timing does not meet with the timings of client.
06.	Transaction costs are low	Transaction costs are high.
07.	Repayments rates are high.	Repayments rates are low.
08.	Processing of loan is direct and simple and loan disbursement has minimum delay.	Processing of loan is complex and loan disbursement has long delay.
09.	Rejection of loan has minimum chances because the money is pooled by the farmers or poor people only for getting loan.	Rejection of loan has maximum chances as formalities are so many. If they are not fulfilled then rejection can take place and the client would not get loan then.
10.	As the loan provider is local and area ware with the problems of the members therefore	Formal sector institutions do not have closed connection with the environment in

	they can deal with repayment difficulties and can reschedule the debt period and installments	which borrower operate, therefore sometimes they prosecute defaulters, which can have negative social consequence and have fear for providing loan to anyone without satisfying all the formalities.
11.	Collateral security is demanded according to the local conditions and borrowers capacity.	Collateral security matches to the situation of relatively well-off urban dwellers: deposits or savings accounts in a commercial bank, property which can be mortgaged.
12.	Here system of ROSCA,s prevails which means a rotating savings and credit association (ROSCA) a group of individuals who agree to meet for a defined period in order to save and borrow together, a form of combined peer-to-peer banking and peer-to-peer lending. The first academic description of ROSCAs was by Shirely Ardener in 1964.	Formal housing loan institutions only follow the norms of Commercial banks and the formal system of granting loan standardized by the RBI through National housings banks. And followed by all the formal institutionalized banks.
13.	The informal sector has a good and effective information network at the grassroots level for close management and monitoring of borrower activity such as repayment of credit. This contributes to the efficient mobilization of savings and ensures high loan repayment rates.	This sector is not very much familiar with the local conditions of the client and is not much aware till the extent of grassroots level. Therefore the chances of getting defaulters are more and risk becomes high for not getting repayment of loans and is not very much supervise the

		activity of client.
14.	In informal housing finance sector information about borrower or any information related to the disbursement of loan are easily diffused and disseminated due to the regular conduct of meetings of the informal savings and the credit associations which serve as a forum for dissemination of information.	Here regular information regarding the rural area borrowers is easily not disseminated and the network of information is not as better as informal sector.
15.	It charges competitive lending rates; though they are sometimes high.	Real interest on loan is comparatively very low or negative in public institutions. Commercial banks apply moderate lending rates which are nonetheless considerably higher than the interest paid on savings. The link between deposits and lending rates is weak.
16.	There are no investment opportunities for savings which have been mobilized but which have not been lent.	There are investment opportunities for savings which have been mobilized but which have not been lent.
17.	Here written records of the borrowings/ savings are not kept. Means this is quite simple and on the basis of relationship of client with the association.	The formal sector keeps written records on the activities of client, although the information recorded is sometimes irrelevant.
18.	The volume of fund depends on seasonal working conditions of informal workers. If they earn more they pool their	This sector has loanable funds available all the time as the depositors are regular income holder generally.

	funds and if they do not have regular earnings they demand for funds.	
19.	The borrowers take housing loan from this sector for building their kutcha houses and to maintain their houses with the problem of water seepage and leakages.	The borrowers take housing loan from this sector for building their pucca houses and to maintain the problems like seepages, leakages and for dwelling, and reconstructing.
20.	This sector is ignored by the government sector and no grant is provided by the government, nor does it funded by any other donor agencies.	This sector is subsidized by the government sector and grants are provided by the government, and funded by donor agencies.
21.	It is accessible mainly to poor, rural, farmers and the persons involve in informal sector and do have regular earning medium. But information of these sectors are readily disseminated and are not easily available to the farmers and poor as they are unaware of it and are mainly busy in earning for family.	It is mainly accessible to the urban area along with rural area and the information regarding rural clients are easily provided by the NGO's and other government agencies but do not easily provide and serve the rural population as the poor and rural area person are not good at internet and do not have better knowledge than people doing job at good sectors and having regular income.

Malthus an economists once said in his research that India population is so high and the availability of resources are low so in order to keep alive more than half of population remaining population have to die in order to survive. But he proved to be wrong because technological development in our country grew at fast rate due to which several other sectors also grew along infrastructure and banking sector. As housing was considered to be basic need for humans to live, the banks grasp this opportunity and started providing housing finance. Housing finance is a catalyst for the growth of housing industry. As the literacy rate grew high people decided to have their home shelter. Mainly it is seen in rural areas that poor people working in informal sector do not have proper access to formal banks that is why they choose informal source of housing fiancé. Though it is having high interest rate and that too is not under rules of banking system but it is easily available and fewer formalities are required and available whenever required. There are many informal companies providing finance to the individuals but charging high interest. These informal financing companies can be referred as 'loan sharks'.

Informal financiers include money lenders landlords as well institutions such as credit cooperation and associations, Chit funds societies.

As we compare informal housing finance system with formal housing finance system it is observed that the latter is very time taking and only working people can go for it because people who are unemployed are not having so many proofs to show in banks that means formalities associated with formal source is so much whereas informal source is having less formalities and the timing for returning loan could be extended in informal source where it is not possible in formal source. Though the interest associated with informal source is quite high in rural areas whereas in formal source is according to the norms which is under the rule of RBI. As we all know India is having high percentage of poor population working in informal sector and even don't have salary slip to show in bank when wanted to take housing loan that is why they approaches to land lords or believe in choosing the medium to take loan from hundis, or other microfinance source. Which is easily available and fulfilling their need and providing loan without complex formalities and time boundation is not there. Along with that mortgage of securities are also available. Another advantage is that the installment can be fulfilled according to the situation means when the person s having money to pay as an interest will pay and when don't have will ask for extension. Basically this source is based on personal relationship with lenders. It is quite helpful for those who are not much literate and cannot go for number of formalities associated with formal housing finance schemes. Sometimes people uses the combination of both means half from formal source and half from formal source.

7. WORKING OF INFORMAL HOUSING FINANCE SYSTEM IN INDIA

The purpose of a housing finance system is to provide the funds which home buyers need to purchase their homes. A housing loan is an amount we borrowed from any financial institution or can say banks. We get this money for affixed period of time and need to pay bank along with the interest. Usually we took a resident or housing loan from a bank which provides loan on a minimal interest but we need to show certain documents then thus it becomes a little lengthy process to grant a loan.

8. MEASURES TO IMPROVE MICRO-FINANCE AND INFORMAL HOUSING SOURCE FOR RURAL DEVELOPMENT

House is the basic need of everyone it should be given an urgent attention and is the right of the urban as well as rural population. There is a shortage of house due to rise in population and the ease of getting loan for housing finance is not that much easy. Therefore Micro finance and informal housing source in rural areas need to be focused so that the population living in such areas could also construct their houses as well.

In view of magnitude of the problem, the state government has undertaken massive housing schemes through public and private agencies. Here we are concerned with the housing problems in rural areas where around 70 percent population live. Rural population earning is not that much and even they do not have regular income therefore it becomes difficult to them to construct a home. Therefore informal or traditional source of finance act as a supporting institution through which they can take housing loan. For the rural poor, housing finance from ROSCAs (rotating savings and credit association) is an alternative to conventional housing finance, which requires conventional collateral. Social factors decide and determine the creditworthiness of ROSCAs participants. People use ROSCA system for housing loan. Notably, auction ROSCAs offer cheaper housing finance than Indian housing finance corporations. The middle classes mainly use this finance, but the poor tend to obtain more expensive finance for incremental building. . A ROSCA consists of a group of participants – women, men or even children – who deposit a daily, weekly or monthly fixed contribution in a common pot which is allotted in part or whole to each participant in turn. Here number of participants collects and pool their money on monthly bases. The allocation of the fund will be repeated on a monthly basis till all participants have received the kitty once. It could be said that the first receiver of the fund obtains a loan from all the other ROSCA participants, while the last receiver in the queue has been saving for the whole ROSCA cycle. All other participants alternate between the position of debtor and creditor .In other words, a ROSCA is a very personal intermediary between savers and borrowers where a give-and-take process is involved. The fund can be distributed by means of, for example, lottery, auction, seniority, negotiation, consensus, bribery or the decision of the organizer. It can be said that ROSCAs are a source of housing finance. Housing finance mobilized through auction ROSCAs is short or medium-term finance. The maximum period of a ROSCA cycle is 50 months. Longer ROSCA cycles can be found with registered chit funds, but are not preferred due to their high default rates. Organizers of registered chit funds report that the optimal length

of a cycle is maximum 20 months to maintain the social control mechanism.

Government should take step in order to implement and give security to this system so that poor people could also take built their home by taking loan. And they need very small loans to cater to their business and personal needs. Poor people also do have variety of personal needs like domestic expenses home repairs wedding and other festival expenses business development needs and security of earning members etc. Lack of formal finance could not care their needs. Therefore it is the duty of NGO's and government to develop a new approach of granting loan. Micro finance is one of the medium through which supply of loans could be possible by framing SHG's model and Other institutions such as NABARD should also give security to ROSCA type of system so that guarantee could be given for poor savers and through that saving they can take loan and built their house along with that Government should provide fiancé at concessional rate of interest with long repayment period for rural housing programmes. HUDCO and other NHB must promote SHG's model and should thrift ROSCA's and chit funds.

REFERENCES:

- R.Y, M. S. (2016). Rural Housing Finance: Impediments and Way Forward. *International Research Journal of social sciences*, Vol. 5(12), pp. 47-51.
- S. D. Wapwera, A. P. ((2011). "Financing low income housing in Nigeria". *Journal of Financial Management of Property and Construction* , Vol. 16 (3), pp. 283-301.
- Satapathy, S. B. (2015). Micro Finance: Credit Miniaturization for impact maximization in Rural Development. In G. Dash, *Micro Finance and Rural Development* (Vol. 2015, p. 29). New Delhi, New Delhi, India: Regal.
- Saurabh Gupta, S. A. (2017). Assessment of Customer Satisfaction Regarding Housing Loans: With Special Reference to Punjab National Bank. *IJMBS*, Vol. 7 (4).

Corresponding Author

Dr. Amarjot Verma*

Assistant Professor, Department of Business
Administration, Institute of Management Studies,
Bundelkhand University, Jhansi

amarjotverma@rediffmail.com