

# INDIAN ASSOCIATION OF SAVINGS AND CREDIT, TAMIL NADU AND KERALA

---

## *Foreword*

*Indian Association of Savings and Credit, Tamil Nadu* is part of a series of cases that will be included in a study on housing microfinance in India, conducted by the Centre for Micro Finance at the Institute for Financial Management and Research. The purpose of the case studies is to identify innovative practices among MFIs and others operating for providing an access to finance for housing and the demand for this emerging service for the poor. The study presented in the following pages offers a concise summary of the housing loan product offered by IASC.

## **Section I: Overview**

The Indian Association for Savings and Credit (IASC) is a unique venture that brings a leading private sector housing lender and a grass-root NGO together. Palmyrah Workers Development Society (PWDS) is an NGO with twenty-five years of experience working with the Palmyrah workers in Kanyakumari district of Tamil Nadu. In the decade prior to the creation of IASC, PWDS was engaged in a shelter development project in which they helped local communities attain linkage with Housing Development Finance Corporation (HDFC) and arranged over 2,000 housing loans. This relationship and the positive result from the project prompted them to establish a new organization, in February 1998, under Section 25 of the Companies Act 1956, with the intention of increasing the credit facilities for low-income groups.

Almost all of IASC's clients (95%) are women, many of whom are from an economically deprived section of society. A group of five to twenty clients from the same village form a self-help group (SHG). SHGs constitute a backbone of the organization. Although most of SHG formation is assisted by NGOs that have formal affiliation with IASC, in some cases where an NGO is not available in a region, IASC also engages in the group formation. In order for an SHG to be linked with IASC, it must satisfy the following criteria:

- SHG must be more than one year old with a minimum group savings of Rs.5,000.
- Members should demonstrate regular participation in the meetings (an average attendance of above 80%)
- Monthly savings for each member must be at least Rs.20.
- SHG must maintain management capacity to internally lend loans according to the repayment period and interest rate determined within the group.
- Members, in turn, must exhibit repayment of 95%.

The Average individual income of members varies from Rs. 1000 to Rs. 3000 per month.

Income Group (Rs. per month)	Percentage of clients
1,000-2,000	65%
2,000-3,000	25%
Rs.3,000& above	10%

As of March 2006, IASC was operating in 6 districts in Tamil Nadu and 1 district in Kerala and was affiliated to over 60 NGOs covering 1862 groups (23,425 clients). IASC has developed a well-diversified line of loan products, including housing loan products, to cater to the needs of their clients. IASC offers a range of loan products<sup>1</sup> to its members - these vary in their purpose, such as, for economic activities (farm and non-farm enterprises); loans for emergencies and disasters; educational loans; for debt redemption and for housing. The amounts of loans range from Rs. 5000 for medical emergencies (for a period of 2 years) to Rs. 75,000 towards a loan for housing (for a period of 15 years). Interest rates range between 14%-18%, the average interest rate on their housing loans is 15%. In addition to loan products, IASC has linked itself with the government-owned United India Insurance Company since 2002 to offer a life insurance product.

The loan for housing covers the range of housing activities including for the construction of a new house, extension or improvements of an existing house, repairs and maintenance, purchase of a house plot and for the construction of toilets. The particulars of these loans are given above in the product summary table. As mentioned before, IASC's loan amount of Rs. 75,000 and tenor of fifteen years is unmatched by other MFIs in India. As of March 2005, IASC had disbursed 1492 loans for Rs. 13236442 from the year in which they had started, in 1998. More than 75% of these loans were towards new construction.

## **Section II: Housing Product**

### **1. Product Details and Implementation:**

What distinguishes the housing products of IASC from those of other MFIs is the emphasis that they place on their housing products. This is fairly natural given that IASC evolved from an initiative for housing finance for the poor, which was supported by HDFC. As a result, housing products were among other products from the first day of the organization. Moreover, IASC has about 13% of assets in the housing category, which is relatively high among MFIs engaging in housing micro finance. Reflecting the importance of the housing products perceived by IASC, they have placed numerous measures in place in order to keep the products competitive and attractive. Taking a close look at some of these measures offer significant insights as one attempts to gather good practices from different organizations.

---

<sup>1</sup> See Table 1 in Annexure for a complete list of their loan products

Information on the types of housing loan, loan amounts, interest rates, and tenure are shown in Tables 1 and 2 in the Annexure. IASC specifies to its clients that the size of the house should range from 400 to 450 square feet with concrete roofing. Furthermore, in case of construction of a new house, construction of a latrine is mandatory, which has resulted in the improvement of hygienic conditions of clients. To provide adequate capital in the face of rising costs of construction materials, in January 2006, the upper limit of the loan for new construction was raised to the current Rs.75,000 from Rs.60,000. At the time of inception, the limit was set at Rs.45,000. This is an indication that IASC is capable of adjusting their line of products based on the market conditions and client needs.

The eligibility criteria for availing the IASC housing loans are as follows:

- Possess 2 cents (60m<sup>2</sup>) of land which will be mortgaged.
- Have completed the construction of the foundation level.
- Individual income of below Rs.4,000.
- Approval by every member of her SHG group.
- Provision of a Panchayat approval plan and estimate, issued by the local Panchayat leader.

An individual first fills in an introductory general information sheet, provided she satisfies the eligibility criteria, in order to apply for a housing loan. Upon the receipt of the form, field officers go on a pre-loan verification visit to check the construction of the foundation. Family data is then collected and verified, after which IASC collects all the relevant documents. Loans are usually disbursed within 15 days from the date of completion of the application form, and the disbursement is done as a single payment. After the disbursal of loan, field officers make periodic post-loan verification visits to monitor the construction process. Loans are disbursed on an individual basis. As it is clear from the last eligibility criterion above, however, the SHG structure is strategically utilized as part of the risk management. Repayments start as soon as the disbursement of the loan through the SHGs.

IASC's housing product holds a special place in its portfolio since the first housing loan was disbursed on the very first day of its initiation. In view of the high cost of construction material, IASC increased the principal amount for its new housing construction loan in stages from Rs. 45,000 to where it currently stands at Rs. 75,000. In January 2006, the interest rate for the housing product was reduced by 50 basis points to 15%. IASC specifies that the size of the house should range from 400 to 450 sq ft with concrete roofing. It also insists and ensures that every housing client builds his/her house with a toilet in order to improve hygiene and consequently, public health.

## **2. Risk Management**

Strengths of IASC's housing finance products lie in its various approaches to risk management. First, the loan is secured by a title deed. Second, at the time of application, clients are required to pay 5% of the principle amount towards a joint liability fund. By

regulation, most MFIs in India are not authorized to collect savings from clients<sup>2</sup>. For this reason, they are not able to use mandatory deposits as alternative collateral like many MFIs outside India do. This 5% deposit towards a joint liability fund acts like a substitute to mandatory deposit although the amount is very small and not sufficient. Third, IASC uses local information and networks through the SHGs as a screening mechanism to selecting clients. Individuals are allowed to apply for housing loans only if she receives approval from every member of the group. In order that a SHG is linked to IASC, it must have been in existence for at least one year. Thus, by the time clients borrow for housing, the rest of the group members have good information about the credibility and solvency of the potential borrower. Fourth, borrowers are able to choose the pattern of repayment whether it's monthly, weekly, or daily. IASC's flexible repayment enables each borrower to tailor repayments to the earning cycle, resolving some of the problems with a rigid repayment cycle. In addition, IASC also employs other risk managing mechanisms such as a phase-in disbursement, in which loans are disbursed only after the client completes construction of the foundation, and provides technical advice in construction so clients can be informed in their decision making about the size of the house.

### **3. Additional Services Offered**

IASC also covers its loan customers with a mandatory insurance programme against the accidental death of either/both client and spouse, to the extent of Rs.50,000 each or Rs.1 lakh in the case of death of both. The insurance also provides a cover of Rs.50,000 on the superstructure of the newly built house against perils and other man-made disasters. This insurance also includes a cover for loss of household articles to the extent of Rs. 10000. Premiums for insurance are paid up-front at Rs. 450 and coverage is for a period of ten years.

IASC also used to offer mandatory training programme on “Low Cost Construction Techniques” for its housing loan clients. This course was offered through the offices of Habitat Resource Centre, a subsidiary of PWDS. A year after the introduction of this course, a survey revealed that only 5% of the clients who underwent the course adopted the low cost techniques that the training imparted. The course was then discontinued.

## **Section IV: Opportunities and Constraints**

The need for housing for the poor is substantial. And yet, the demand has largely been unmet. In the microfinance industry, where high operational costs is a major challenge for many MFIs striving for financial sustainability, being a pioneer in the field, in its own right, renders an edge. IASC is one of the pioneers in housing microfinance. Long years in operation help them achieve higher efficiency in day-to-day management; Long years of relationship with SHGs nurture in-built screening mechanisms that that are cost-effective; Long years of dedicated efforts help persuade lenders. All these, ultimately, bring about competitive interest rates, less risky clients, longer tenure, etc. that make up

---

<sup>2</sup> Deposit collection by a regulated entity, MFIs in this case, and by SHGs must be clearly distinguished. An SHG is not a registered body unless its member exceeds 20, which essentially makes it possible to collect savings internally.

an attractive loan product. As a matter of fact, over time, IASC's housing products have gradually been improved in terms of the loan amount, tenure, and interest rate. When attempting to reach for a wider client base, there is nothing more promising than being equipped with what they like to receive.

The largest constraint, on the other hand, is something that has been pointed out in the Indian microfinance context so many times that it has almost seemed to become a cliché; that the extent of outreach for IASC hinges on an external factor – NGOs – that does not have clear-cut incentive for their partnership. With the microfinance market being far from the saturation point, the sector has not seemed to face a gridlock<sup>3</sup>. Over the long-run, however, this is a potential challenge that may await not only IASC, but also other MFIs.

## **Section V: Recommendation**

This study has presented an overview of IASC and its housing products, along with the prospects of future expansion and challenges. In this section, as concluding remarks, a few recommendations will be made while taking lessons from key findings throughout this study.

### **1. Technical Training and Partnership**

There is no doubt about the competitive pricing of the IASC housing products and their relatively long loan tenure, which can be showcased as a viable business model that can be replicated by other MFIs that are yet to enter the market. Nonetheless, given the income profile of existing clients and experiences from other housing microfinance initiatives, constructing a house is a lifetime project for the poor. This provides IASC a reasonable ground to consider revitalizing the training on cost effective building techniques. This seems sensible, as the cause of the failure in the previous effort was due to low take up, not necessarily to ineffectiveness of the training on the cost reduction. IASC can leverage the expertise and network that HDFC possesses through close to three decades of experience in this industry. Partnership with construction material suppliers for bulk purchasing is a practical option.

### **2. Monitoring of Construction Process and Disbursement Pattern**

Unlike many other MFIs, IASC employs one time loan disbursement once the construction of the foundation is confirmed. The implication of this approach on reduced administrative cost is not small because officers would otherwise make several verification visits before stepwise disbursements are made. However, one time loan disbursement also means that, in effect, the use of the loan, once it's disbursed, is up to the clients and IASC has no binding power to prevent them from diverting from the declared purpose. This potentially can be serious when the amount of the loan is high.

---

<sup>3</sup> One of IASC's initiatives that could potentially become a countermeasure, to some extent, for this problem is what is called "Family Loan." IASC provides loans to each family in places where a huge demand for microfinance exists but does not have an operative NGO for group formation. IASC also plans that these families can 'graduate' to be a part of a joint liability group, which is an alternative form of microfinance lending.

The decision over one time or staggering disbursement must be determined after careful analyses of the costs and benefits associated with each option. Furthermore, in the long-run, IASC must be aware that the more they achieve horizontal expansion, the more it becomes likely to have to face adverse selection, where inclusion of less desirable clientele begins.

Despite these potential caveats that are raised here, the future expansion path for IASC, overall seem buoyant. The driving force of the vibrant progress not only lies in the increasing demand from the poor for their products, but also the characteristics of the products that make the poor demand for them.

## REFERENCES CITED

Daphnis, F. (2004). Elements of product design for housing microfinance. In F. Daphnis & B. Ferguson (ed.), *Housing microfinance A guide to practice* (pp. 85-113). Bloomfield, CT: Kumarian Press.

Indian Association for Savings and Credit. (n.d.). (2007) *Products/Services*. Retrieved February 14, 2007, from [http://www.iasc.in/products\\_services.html](http://www.iasc.in/products_services.html).

## Annexures

<b>Table 1. List of loan products offered by IASC Product Type</b>	<b>Loan Amount (Rs.)</b>	<b>Loan Tenure (Years)</b>	<b>Interest Rate</b>
<b>Economic Loans</b>			
Farm activities	20,000	3	16
Non-farm micro enterprise activities	25,000	3	16
<b>Other Loans</b>			
Personal loans for redemption	18,000	3	18
Educational loan	25,000	3	14
Medical emergencies	5,000	2	14
Disaster mitigation	10,000	3	14
Marriage loans	25,000	3	18
Revolving fund	25,000	1	16
To federations of producers and artisans	4,00,000	1	15
Family plans – Economic loans	25,000	3	15.5
<b>Family Loans</b>			
Housing loan	75,000	15	15
Economic loan	25,000	3	15.5
<b>Housing Loans</b>			
Construction of a new house	75,000	15	15
Extension of an existing house	40,000	10	15.5
Repair and maintenance	30,000	10	15.5
Purchase of a house plot	30,000	7	15.5
Construction of sanitary latrines	7,500	2	14

**Table 2: Housing Loan Portfolio as on Mar 2005** \* CAD: Cumulative Amount Disbursed since 1998

Sl.No	Housing loan details	Group Loan		
		Number of loans		CAD*
		Cumulative	Active	(Rs)
(i)	For new construction	1159	206	7793192
(ii)	For purchase of house	21	18	822650
(iii)	For repair / extension	181	19	3212250
(iv)	For purchase of house site	38	15	831350
(v)	For construction of toilet	93	3	577000
	<b>Total</b>	<b>1492</b>	<b>261</b>	<b>13236442</b>