

Written by Administrator

Tuesday, 31 August 2010 10:36 - Last Updated Tuesday, 31 August 2010 11:20

Nagarlok Vol. XLI No. 4 October - December 2009

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Guidelines for Interest Subsidy Scheme for Housing the Urban Poor (ISHUP)

INTRODUCTION

'Affordable Housing for All' is an important policy agenda of the Government of India. The Government has sought to create an enabling and a supportive environment for expanding credit flow to the housing sector and increasing home ownership in the country. Various national policy pronouncements have reinforced the primacy of the housing sector and the need to provide shelter opportunities to all. A major initiative has been launched for provision of housing for the Economically Weaker Sections (EWS) and Low Income Groups (LIG) through the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

The Ministry of Housing and Urban Poverty Alleviation (MH&UPA), Government of India has designed an Interest Subsidy Scheme as an additional instrument for addressing the housing needs of the EWS/LIG segments in urban areas. The Scheme envisages the provision of interest subsidy to EWS and LIG segments to enable them to buy or construct houses.

BROAD FEATURES OF THE SCHEME

Purpose—The Scheme will provide home loan with Central Government subsidy to EWS/LIG persons for acquisition of house as also for construction of house to such beneficiary, who does not own a house in his/her name or in the name of his/her spouse or any dependent child. Such beneficiaries who own land in any urban area but do not have any pucca house in their name or in the name of their spouse or any dependent child will also be covered under the Scheme.

Eligibility—The economic parameter of EWS is defined as households having an average monthly income upto Rs.3,300 and the economic parameter of LIG is defined as households having an average monthly income between Rs.3,301 upto Rs.7,300. This will be subject to revision by the Steering Committee of the Scheme from time-to-time.

Loan amount admissible—The scheme will provide a subsidized loan for 15–20 years for a maximum amount of Rs.1,00,000 for an EWS individual for a house at least of 25 sq.mts. Additional loans, if needed would be at unsubsidized rates.

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A maximum loan amount of Rs.1,60,000 for a LIG individual for a house at least of 40 sq.mts will be admissible. However, subsidy will be given for loan amount upto Rs. one lakh only. Additional loans, if needed would be at unsubsidized rates.

Terms for Loan and Subsidy Reimbursement

The subsidy will be five per cent per annum on interest charged on the admissible loan amount for EWS and LIG, over the full period of the loan for construction or acquisition of a new house. The subsidy will be passed on as follows:

The Net Present Value (NPV) of this subsidy will be arrived at on the basis of notional discount rate of nine per cent per annum, (equivalent to Government Security rate) for the period of the loan and on the interest chargeable at the time the loan is contracted.

Loan repayment periods will be permissible generally ranging from 15- 20 years

The Nodal agencies for the scheme will be the National Housing Bank (NHB) and Housing & Urban Development Corporation Ltd. (HUDCO). The nodal agencies will not lend directly to the borrower but through banks or Housing Finance Companies (HFCs) who agree to be part of the Scheme as the lenders. The NPV subsidy will be released by the Government to the nodal agencies on quarterly basis in advance based on the number of housing loans sanctioned by their lenders who join the scheme.

The NPV of the subsidy will be given by the Government to the lenders through its nodal agencies on upfront and quarterly basis. It will be passed on by the lender to the borrower by deducting the subsidy amount from the principal loan amount of the borrower and charging interest on the net amount of loan at the agreed rate of interest.

The agreed rate of interest would be fixed by the lending banks keeping in view the RBI guidelines for lending by banks for loans upto Rs. two lakh. The rates would be monitored by the Steering Committee of the Scheme.

The nodal agencies will publish the list of the lenders under the scheme, which will be approved by the Steering Committee for the Scheme set up by the Ministry.

Beneficiary borrowers may choose fixed or floating rates (the consequences clearly explained to the borrowers by PLIs). An additional one per cent per annum maximum will be permitted to be charged by banks/HFCs, if fixed rate loans are extended which will be subject to reset after a minimum period of five years.

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Mortgage of the dwelling unit may be accepted as primary security. However, there would be no collateral security/third party guarantee for loans upto and inclusive of Rs.one lakh. No levy of prepayment charges would be permitted.

The Scheme will close in 2012, the last year of the 11th Five Year Plan Period (2007-12). However, the loans extended in the last year will also have repayment period upto 20 years.

The scheme will be monitored and concurrently evaluated independently at the end of the 11th Plan, i.e. in 2011-2012. A decision about continuation will be taken on the basis thereof.

Selection of Beneficiaries

The borrowers under the scheme must belong to the EWS or LIG, and must have a plot of land for the construction or have identified a purchasable house. Borrowers would be free to approach and negotiate a loan under the Scheme directly with the lender. However, it is envisaged that such borrowers would be few. Most borrowers and lenders would require the intercession of State Governments / Urban Local Bodies (ULBs) to identify borrowers with land, help them with preparation of papers and liaise for them with the lenders. Identification of the beneficiaries will, therefore, be undertaken by ULB or the local nodal agency identified by the State for the purpose with the aim of assisting them in paperwork and procedure of the bank loan. Where the beneficiary directly approaches a lender, the beneficiary will be guided to contact the ULB or the local nodal agency identified by the State for getting his / her loan application forwarded.

In identifying beneficiaries, the ULB or the local agency identified by the State should as far as possible identify clusters in which land has been allotted and housing can be supported through this scheme within such clusters. The preference under the Scheme (subject to beneficiaries being from EWS/LIG segments) should be given to the following in accordance with their proportion in the total population of City / urban agglomerate during the 2001 Census.

- (i) Scheduled Caste;
- (ii) Scheduled Tribe;
- (iii) Minorities;
- (iv) Persons with disabilities; and
- (v) Women beneficiaries.

Applicants planning to form cooperative group housing societies or organizations like Employees Welfare Housing, Labour Housing, etc. should

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be given preference and wherever possible construction of houses by such cooperatives by way of 1+3 storeyed buildings should be promoted so that cost of land is shared among beneficiaries. However, this is not a mandatory requirement. Both individuals as well as Group Housing borrowers are equally eligible under the scheme.

The borrowers selected by State / ULBs / banks should as far as possible be in the ratio of 70:30 respectively for EWS and LIG categories.

The loan application can be made directly or through the ULB or the local agency identified by the State for the purpose, who will ensure that it is complete with the necessary certification.

The documentation will be as per the procedural requirement of the lender.

The lender will sanction the loan as per their own risk assessment and procedural requirements. In case of beneficiaries availing loan for construction of houses, release of loan will be linked to the pace of construction, which ideally is to be completed in one year. The lending Bank will monitor the progress of construction.

STEERING COMMITTEE

A Steering Committee under the Chairmanship of Secretary, MH&UPA and members drawn from select State Governments, Senior Executives from Ministry of Finance, Reserve Bank of India, NHB, HUDCO, eminent bankers & social researchers / workers in the field of urban housing, finance and allied areas will be set up by the MH&UPA and will be responsible for suggesting and deciding on operational instructions, monitoring the implementation of the Scheme and advising adjustments as necessary for the implementation of the scheme in keeping with the guidelines of the scheme.

The disbursement of subsidy will be made by NHB/HUDCO as decided by the Steering Committee. The Committee may review the mechanism from time-to-time depending upon the experience, operational and financial and will be authorized to change/modify the mechanism and modalities for fund management.

The Steering Committee will formulate separate guidelines for association of Non-Governmental Organisations (NGOs), Community Based Organisations (CBOs), Micro Finance Institutions (MFIs), Self-Help Groups (SHGs) and Neighbourhood Committees with the scheme.

ROLE OF THE CENTRAL GOVERNMENT

The Ministry of Housing and Urban Poverty Alleviation (MH&UPA) will:

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Implement the scheme including review and monitoring of the outcome of the scheme.

Release the subsidy to nodal agencies, viz., National Housing Bank and HUDCO on a quarterly basis on receiving a request. Second and subsequent installments will be released on a revolving basis on the basis of 70 per cent utilization.

Undertake wide media campaign and awareness programmes.

Develop MIS at National level to monitor the scheme.

ROLE OF THE STATE GOVERNMENTS/URBAN LOCAL BODIES (ULBS)

State Governments / ULBs will:

Identify a local level nodal agency and inform MH&UPA of the nodal agency identified. Such local level nodal agency will identify, motivate and organize beneficiaries to seek loans for building or buying houses.

Help local level nodal agency to identify and motivate beneficiaries who have land and are prepared to build for themselves including beneficiaries within urban limits of homestead schemes being implemented by the State Governments / ULBs. In identifying beneficiaries nodal agency/ULB will seek to follow a cluster approach, as also encourage and assist beneficiaries to form Group Housing Societies.

Create a cell/desk and provide with a social worker to assist the beneficiaries understand the details of the scheme, the size of the Equated Monthly Installments (EMI), the procedures and paperwork of the bank and with obtaining the requisite certificates to get the loan and receipt of repayment.

State Governments / ULBs will further:

- Assist lenders in identifying beneficiaries and undertaking verification as per guidelines of the Steering Committee.
- Ensure availability of basic infrastructure services to the home sites assisted, so that new slums do not get created.
- Forward application of eligible beneficiaries to the financing institutions.
- Monitor data at City / District levels indicating the number of application sponsored, application sanctioned loan disbursed and application rejected, etc. as per MIS to be developed at City / District and State levels.

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- Generate and send returns on the basis of MIS developed by the Government of India on a quarterly basis to MH&UPA.
- State Government will undertake media campaign as well as printing and distribution of scheme material in local languages.

ROLE OF CENTRAL NODAL AGENCIES

The National Housing Bank (NHB) and Housing & Urban Development Corporation Ltd. (HUDCO) will be the Central Nodal Agencies (CNAs) for disbursement of the subsidy and monitoring the progress. NHB/HUDCO will enlist lending agencies with the approval of the Steering Committee who will disburse loans under the Scheme.

NHB/HUDCO will release NPV based subsidy to the Banks/HFIs availing their services on a quarterly basis as decided by the Steering Committee.

Based on Utilisation/End use Certificate by the Banks/HFIs, NHB/HUDCO will provide utilization certificate in prescribed format to the MH&UPA as per guidelines in the matter.

NHB/HUDCO will be responsible for monitoring and data collection of the NPV based amount of subsidy funds for the entire duration of the Scheme.

NHB and HUDCO will devolve the subsidy in the following manner:

On receipt of information regarding the total loan disbursed by a primary lending institution to EWS and LIG beneficiaries during a three month period, the NHB or HUDCO will release the subsidy amount to them directly at the end of each quarter.

The subsidy will be five per cent per annum for EWS and LIG, admissible for a maximum loan amount of Rs. one lakh over the full period of the loan for construction or acquisition. The Net Present Value (NPV) subsidy will be given to the lenders on upfront and quarterly basis. The NPV subsidy given to the lender will be deducted from the principal loan amount of the borrower, who will then have to pay interest to the Banks/Housing Finance Institution (HFI) at an agreed document rate for the whole duration of the loan.

The NHB and HUDCO for their respective jurisdictions will monitor the construction of the housing units financed in terms of the aforesaid subsidy by directing their officers to undertake suitable visits during the process of construction with a view to verifying the expenditure incurred as well as the quality of construction.

The aforesaid designated institutions will also ensure that the Primary Lending Institutions (PLIs) provide them 'utilization certificates' in relation

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to completion of housing units within a one year period from the start of construction. In case certain housing units are not completed within a one year period, the PLIs should ask for specific extensions while giving reasons for delay in construction.

ROLE OF THE BANKS/HOUSING FINANCE INSTITUTIONS (HFIs)

Banks/Housing Finance Institutions (HFIs), i.e HFCs, MFIs etc. will have the option to avail the resources of either of the Nodal Agencies for the period of the Scheme.

Banks/HFIs will have to provide Utilisation/End use Certificate to NHB/ HUDCO on a half yearly basis.

Banks/HFIs will provide each loanee a statement which will make him/her understand the amount given as subsidy, how the subsidy has been adjusted and the impact of the subsidy on his/her EMI.

Banks/HFIs will clearly explain to the borrowers the consequences of availing loan on fixed/floating rates of interest.

EVALUATION AND MID-COURSE ADJUSTMENTS

A detailed review of provision of subsidy by PLIs to EWS & LIG beneficiaries will be undertaken by the Ministry through an external institution of repute after every two years. Such reviews are intended with a view to making midcourse adjustments and improvements in the implementation of the Interest Subsidy Scheme.