



INTEREST SUBSIDY FOR HOUSING URBAN POOR

Ministry of Housing and Urban Poverty Alleviation (MHUPA), Govt. of India have approved the 'Interest Subsidy Scheme for Housing the Urban Poor'(ISHUP) for implementation by public sector banks and other finance institutions.

The scheme aims at enabling the EWS and LIG segments in the urban areas to construct or purchase houses by providing an interest subsidy of 5% on loan amount of Rs.1.00 lakh. The National Housing Bank (NHB) and HUDCO have been designated as the Nodal Agencies (NAs) for administration of and release the subsidy under the scheme to the lending institutions.

Background:

- ❖ "Affordable Housing for All" is an important policy agenda of Govt. of India which is to create a supportive environment for expanding credit flow to the housing sector and increasing home ownership in the country.
- ❖ As per the Technical Group set up by the Ministry of Housing and Urban Poverty Alleviation (MHUPA),Govt. of India, the estimated urban housing shortage was 24.7 million units in the year 2007 and 99% of it related to EWS & LIG segments.
- ❖ The Ministry of Housing and Urban Poverty Alleviation (MH&UPA), Govt. 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 to enable them to buy or construct houses.

Salient features of 'Interest Subsidy Scheme for Housing the Urban Poor(ISHUP)':

- ❖ **Purpose:** The scheme will provide home loan with Central Govt. 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.5,000 and the economic parameter of LIG is defined as households having an average monthly income between Rs.5,001 upto Rs10,000. 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. & Rs.1,60,000 for a LIG individual for a house at least 40 sq.mts. will be admissible. However, subsidy will be given for loan amount upto Rs.1 lakh only. Additional loans, if needed would be at unsubsidized rates.
- ❖ **Terms for Loan and Subsidy Reimbursement:** The subsidy will be 5% p.a. on interest charged on the admissible loan amount for EWS and LIG, over full period of the loan for construction or acquisition of a new house.



The system for passing on subsidy will be as follows:

- 1) The Net present value (NPV) of this subsidy will be arrived at on the basis of notional discount rate of 9% p.a.(equivalent to Govt. security rate) for the period of loan and on the interest chargeable at the time the loan is contracted.
 - 2) Loan repayment periods will be permissible generally ranging from 15-20 years.
 - 3) The Nodal agencies for the scheme i.e., NHB & HUDCO 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 upfront & quarterly basis in advance based on the number of housing loans sanctioned by their lenders, who join the scheme. 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, which will be fixed as per RBI guidelines for loans upto Rs.2.00 lakhs & the rates would be monitored by the Steering Committee of the scheme.
 - 4) 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.
 - 5) Borrowers may choose fixed or floating rates (the consequences clearly explained to the borrowers by PLIs). An additional 1% p.a. maximum will be permitted to be charged by the banks /HFCs, if fixed rate loans are extended which will be subject to reset after a minimum period of 5 years.
 - 6) 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.1.00 lakh. No levy of prepayment charges would be permitted.
 - 7) 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.
- ❖ **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 for loan under the scheme directly with the lender. The borrowers & lenders would require the intercession of State Govt. / Urban Local bodies (ULBs) to identify borrowers with land, help them with preparation of papers and liaise for them with the lenders. The preference under the scheme (subject to beneficiaries being from EWS/LIG segments) should be given to the following in accordance with their population in the total population of the area as per 2001 census.
- i. Scheduled Caste;
 - ii. Scheduled Tribe;
 - iii. Minorities;
 - iv. Persons with disabilities; and
 - v. Women beneficiaries
- ❖ Both individuals as well as Group Housing like Cooperative group housing societies



or Employees Welfare Housing / Labour Housing organizations are equally eligible under the scheme. The borrowers selected by State/ULBs /banks should be as far as possible 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 necessary certification.
- ❖ The documentation will be as per the procedural requirement of the lender and the lender will sanction the loan as per their own risk assessment & procedural requirements and release the loan as per the progress of construction.

Role of Steering Committee:

- ❖ The Steering Committee under the Chairmanship of Secretary, MH& UPA and members drawn from selected State Govt.s, 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 operational instructions and also for monitoring the implementation of the Scheme.
- ❖ The disbursal of subsidy will be made by NHB / HUDCO as decided by the Steering Committee.
- ❖ The Steering Committee will formulate separate guidelines for association of NGOs, community Based Organizations (CBOs), Micro Finance Institutions (MFIs), Self-Help Groups (SHGs) with the scheme.

Role of Central Govt.:

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

- ❖ review and monitor the implementation of the scheme and release the subsidy to Nodal agencies on a quarterly basis on receiving a request. Second and subsequent installments will be released on a revolving basis on the basis of 70% utilization.

Role of State Govt.s / Urban Local Bodies (ULBs):

- ❖ They will identify a local level nodal agency duly informing MH & UPA for identification of beneficiaries under the scheme and forward the applications to the financing institutions.
- ❖ They will ensure availability of basic infrastructure services to the home sites assisted, so that new slums do not get created.
- ❖ They will undertake publicity campaigns about the scheme.

Role of Central Nodal agencies:

- ❖ The NHB and HUDCO will be the Central Nodal agencies for disbursement of the NPV based subsidy to the banks /HFIs on a quarterly basis based on Utilisation /End use Certificate and will provide final utilization certificate to MH & UPA in the prescribed



format. They will be responsible for monitoring and data collection of the NPV Based amount of subsidy for the entire duration of the scheme.

- ❖ NHB & HUDCO will devolve the subsidy in the following manner:
 - 1) On receipt of information regarding the total loan disbursed by a primary lending institution to EWS and LIG beneficiaries during a 3 month period, the NHB or HUDCO will release the subsidy amount to them directly at the end of each quarter.
 - 2) The subsidy will be 5% p.a. for EWS and LIG, admissible for a maximum loan amount of Rs.1.00 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.
 - 3) The NHB & HUDCO will monitor the construction of the housing units for their respective jurisdictions in terms of the aforesaid subsidy by conducting periodical inspection of the units by their officers.
 - 4) These institutions will also ensure that the Primary Lending Institutions (PLIs) provide them 'Utilization certificates' in relation to completion of housing units within one year period from the start of construction. In case certain housing units are not completed within one year period, the lending institutions should ask for specific extension while giving reasons for delay in construction.

Role of Banks / Housing Finance Institutions:

- ❖ Banks/ Housing Finance Institutions (HFIs) i.e., HFCs, MFIs etc. will have the option to avail the resources of either of the Nodal Agencies or both 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 2 years. Such reviews are intended with a view to making mid-course adjustments and improvements in the implementation of the 'Interest Subsidy scheme'.