

## Mahindra Rural Housing Finance Ltd: Making Home Loans Available to Poor People

**Mahindra** HOME FINANCE



### Initiative Description

Mahindra Rural Housing Finance Ltd. joined the Business Call to Action in 2012 with an initiative to provide home loans to under-served rural and semi-urban consumers in India.

Mahindra's aims include:

- Expanding home loans to customers in rural and semi-urban areas in order to achieve a loan portfolio size of US\$500 million by 2017 and US\$1 Billion by 2020; and
- Providing loans to at least 500,000 customers by 2017 and at least 1 million customers in 2020.

### Business Model

In 2001, rural India lacked 24 million homes. Rural India has a strong demand for home construction, improvements and extensions, but a lack of access to housing finance prevents millions of rural Indians from building or bettering their homes. In 2007, Mahindra and Mahindra Financial Services Ltd. set up a subsidiary, Mahindra Rural Housing Finance Ltd. (MRHFL) to address this need.

*By pledging to uplift rural communities via easier access to housing finance, companies like Mahindra Rural Housing Finance will not only contribute to creating an inclusive economic development model but will also improve social equity in a sustainable manner.*

Ramesh Iyer, Chairman  
Mahindra Rural Housing Finance Ltd.



## How it Works

A lack of housing does not just mean that villagers need a roof over their heads. Poor housing conditions are often accompanied by inadequate sanitation and ventilation. This also means exposure to severe weather conditions, pollen grains, dust mites, animal waste and other sources of disease. Thus, poor-quality housing greatly diminishes inhabitants' health, safety and well-being, and increases their vulnerability to crime.

Mahindra has designed home loans specifically for rural customers. Interest rates are fixed rather than variable, which makes them easy to understand, and loans are coupled with life and property insurance (MRHFL aims for a net Return on Assets of 2 percent and lending rates are adjusted depending on borrowing costs, etc.). In order to reduce the company's risk of default, Mahindra offers loans averaging Rs. 110,000 (US\$2,000) with repayment periods of 5 to 7 years. This makes it possible for customers to repay their loans while retaining enough income to support their families.

Throughout the loan process, Mahindra caters to the specific needs of its clients, from explaining home ownership and finance to obtaining necessary documentation, providing manageable loans and adjusting repayment to clients' financial needs.

### Raising awareness

Since many Indians living in rural areas are not aware that home loans exist, Mahindra must first raise awareness among the target group. Mass advertising has proved to be ineffective in this market, so loan officers go door to door to inform residents.

### Supporting access to documentation

Legal documentation for rural Indian customers is often unavailable. However, documentation of land ownership is necessary to issue a home loan. Mahindra provides customers advice on



how to approach the local government to acquire documentation and even accompanies customers in order to guide them through the process. These property documents are extremely useful to customers even after their housing loan is completed since they serve as a record of legal tenure.

Loan officers work directly with customers to plan the construction process and provide feedback on the estimated cost of construction; all terms and conditions are explained in simple language. Because Mahindra's customers do not have a formal credit history, credit approval is based on field investigations rather than documentation. To make this possible, Mahindra has developed matrices for making credit decisions based on a number of 'observable' assets and lifestyle.

### Providing loans that fit customers' needs

Mahindra enables customers to repay their installments in monthly, quarterly, or half-yearly repayment structures linked to the customer's cash flows which in turn depend on the crop harvest. By offering loans for construction, improvement, extension, or purchase of a new home, Mahindra's customers can take loans to suit their specific needs. Mahindra offers loans ranging from Rs. 50,000 to Rs. 500,000.

### Collecting repayments

Mahindra's loan officers collect cash for repayments at customers' doorsteps at a time that is convenient for each client; repayment is tailored to customers' cash

flow. For example, farmers are given six-month repayment schedules that are aligned with cash flow from their harvests. In addition, customers are not charged penalties for pre-payment: if a farmer has a particularly good harvest one year, he can pre-pay his loan and save on interest.

### Local loan officers

Mahindra officers target specific clusters of villages. This 'cluster' approach makes customer acquisition and servicing easier. Loan officers work regionally and develop personal relationships with customers in order to help them understand housing loans, evaluate their creditworthiness and provide financing.

Mahindra is committed to hiring and training personnel from rural areas of India, which creates job opportunities in the communities it serves. To avoid instances where loan officers push customers into larger-value loans for greater commissions, Mahindra pays its officers according to number of new customers they sign up rather than loan amounts.

### Raising adequate funding

Funding for Mahindra is sourced from the National Housing Bank, which is also the regulator for mortgages in India; Mahindra's parent company, Mahindra & Mahindra Financial Services Limited; and a number of other Indian banks. While raising funds is not difficult, the far greater challenge is being able to access long-term debt at a fixed rate of interest as Mahindra must lend long-term at fixed rate of interest to its customers.



## Results Achieved

Mahindra is successfully providing rural customers in India with home loans, thus increasing access to adequate housing.

### Business Impact

Mahindra served more than 81,000 new customers in 2014-15 which increased the growth by 44 percent as compared to the previous year; with 75 percent of co-applicants being women. Since its inception in 2007, Mahindra has provided over 250,000 home loans in rural India.

As of March 2014, it had also created more than 3,000 jobs. Every employee is provided with training upon joining the company

### Development Impact

Families receiving loans have now gained access to financial services that they previously could not reach. Considering the average household size of 5.5 people in rural India<sup>1</sup>, Mahindra estimates that its 260,000 loans to rural Indian families have benefited more than 1 million people. These loans have allowed 25 percent of clients to provide proper sanitation facilities in their homes, improving the health and well-being of their families.

Women are particularly empowered by their inclusion as co-applicants for loans. This allows them to have a say in the loan application process as well as a sense of pride and importance with regard to household management and decision making.



## Innovations

that improve lives

<sup>1</sup> Census of India, 2003





## Key Success Factors

### Entering a niche market

Most competitors offer housing finance to urban customers rather than rural ones since they are perceived to be easier to access. By choosing an untapped market, Mahindra ensured a first-mover advantage and is now well known in the areas it serves. This will help the company to achieve the scale it needs to be sustainable.

### Tailored products for the market

From credit appraisal to ticket sizes, Mahindra Rural Housing Ltd. had a clear goal and target group in mind when it set out to provide housing finance. Since its inception, its products have been tailored specifically to the needs of the target group.

## Next Steps and Spin Off Effects

### Scaling operations to meet targets

Mahindra managed to break-even in 2009 and has been making healthy profits ever since. Mahindra will continue to expand operations in the current States where it operates while also looking at expanding operations to new States depending on their potential for rural housing finance.



Visit Mahindra Home Finance:  
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