

INDIA
LOW INCOME HOUSING FINANCE PROJECT

Request for Expressions of Interest

Capacity building for housing finance lending to informal borrowers and making use of informal property as loan collateral

Loan No./Credit No./ Grant No.: 5283-IN

Reference No.: LIHF-7-SBCC-CF-_____

Date:25/07/2014

1. The Government of India has received financing from the World Bank toward the cost of the Low Income Housing Finance Project, and intends to apply part of the proceeds for consulting services.
2. The consulting services (“the Services”) include providing capacity building to low income housing finance lenders in India, to better manage the credit risk and to improve access to credit for those employed in the informal sector. The assignment will run for a period of 48 months and will cover a number of areas including undertaking surveys among lenders as well as end customers, database creation, developing best practice guides, conducting workshops, dissemination events, and trainings etc for the Employees of NHB as well as the Primary Lending Institutions (PLIs). The Consultant firm shall be required to study the best practices both national and international, different models of appraisal w.r.t. informal lending and also arrange for exchange of ideas by way of seminars / conferences / workshops etc. for the maximum benefit of the Primary Lending Institutions.
3. For detailed scope of activity / the draft Terms of Reference (TOR), the firm to visit NHB’s website – www.nhb.org.in .
4. The National Housing Bank now invites eligible consulting firms (“Consultants”) to indicate their interest in providing the Services. Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services.
5. Major criteria for prequalification / shortlisting are:
 - a) The firm should have an experience in undertaking similar assignments, have demonstrated knowledge of the Indian housing finance market, laws and by-laws w.r.t. land acquisition, land usage, zoning, ULCA etc., and be prepared to work on site with lenders to fully document their lending processes. This will involve extensive field work across the country.
 - b) The firm must have appropriate number of senior experts in finance, especially in banking sector having qualification, knowledge and experience

- in lending, preparation of policy framework, risk assessment, credit underwriting modules etc.
- c) Firms having worked in affordable housing finance / credit appraisal for lending to households having informal sector income shall have added advantage.
 - d) The firm should also include as part of its team, experts having international expertise, to bring in best practice and experience from other markets where lending to the informal sector may be better developed.
 - e) Firms having worked with multilateral donor agencies like World Bank / ADB / or other similar organizations, particularly in housing sector and / or capacity building sector (national / international), shall have added advantage.
6. Interested consultancy firms are invited to submit their Expression of Interest with **a)** firm's profile, **b)** financial details of last three years (only B/s & P/L account **c)** firm's experience in similar assignments (i.e. capacity building of financial institutions including HFCs etc **d)** firm's experience in capacity building of other institutes / other forms etc. **e)** a brief description of key personnel with the firm along with their major expertise. **f)** any other important (& useful) information that the firm would like to highlight.
 7. The attention of interested Consultants is drawn to paragraph 1.9 of the World Bank's *Guidelines: Selection and Employment of Consultants [under IBRD Loans and IDA Credits & Grants] by World Bank Borrowers* ("Consultant Guidelines"), January 2011, setting forth the World Bank's policy on conflict of interest.
 8. Consultants may associate with other firms in the form of a joint venture or a sub-consultancy to enhance their qualifications.
 9. The consultancy firm will be selected in accordance with the Quality and Cost Based Selection (QCBS) method set out in the Consultant Guidelines.
 10. Further information can be obtained at the address below during office hours i.e. 1000 to 1800 hours.
 11. Expressions of interest with all relevant information and documents must be submitted/ delivered in a written form to the address below not later than 15:00 hours on 09/08/2014. In the event this last date being declared holiday, due date for submission of above EOI will be the next working day up till same appointed time.

National Housing Bank

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DRAFT TERMS OF REFERENCE (TOR)

India Low Income Housing Finance Project (LIHF)

Capacity building for housing finance lending to informal borrowers and making use of informal property as loan collateral

1. BACKGROUND/OBJECTIVES OF THE ASSIGNMENT

It is estimated that a third of urban dwellers in India live in slums, and millions more are homeless. The 2012 urban housing backlog was estimated at 19 million, and urban housing demand continues to grow as population increases and incomes rise. India's demographic trends also play a role in determining housing demand: households are getting smaller; the size of the average Indian household has decreased from 4.9 persons in 1999 to 4.5 persons in 2009. More than 90 percent of the housing shortage is faced by low-income and poor families; 'decent' housing in the formal sector is beyond the reach of the vast majority of these households.

The Government of India and IDA have signed a USD 100 million (equivalent) credit agreement aimed at helping low-income households in Indian cities access loans to purchase, build or upgrade their dwellings.

The Low Income Housing Finance Project is implemented by the National Housing Bank (NHB). It will support the government's agenda for financial inclusion by making it easier for low-income households in urban areas to access housing finance and by strengthening the capacity of financial institutions that target these groups.

The project has three components which are mutually dependent as the refinancing alone is not sufficient for lenders to start expanding to the informal among lower income groups. The project aims to provide the necessary capacity building and implementation support and incentives to expand lending to lower income groups who may earn their income in the informal sector (no documentation of income) or who may not have access to formal (titled) property as collateral for a mortgage. The detailed components are:

Component I - Capacity Building: Under this Component activities will be financed to strengthen the capacity of NHB, Qualified Intermediary Institutions, and Qualified Primary Lending Institutions (QPLIs). This will be achieved by using consultants' services and engaging in Pilots with state/municipality agencies, experts and practitioners and selected lenders. The aim will be to develop new financial products, loan standards, risk management tools, and financial literacy and consumer protection capacity.

Component II - Financial Support for Sustainable and Affordable Housing: This Component will finance NHB to refinance, directly or indirectly through Qualified Intermediary Institutions, low-income housing loans made by QPLIs to Primary Borrowers to purchase, build or upgrade their dwelling.

Component III - Project Implementation: A Project Implementation Unit (PIU) will be set up within NHB to help implement the Project, carry out monitoring and evaluation, be responsible for legal issues and grievance redressal, overseeing and monitoring the social and environmental ‘due diligence’ (including conducting annual third party audits of QPLIs), keeping the Project’s Operations Manual updated, and financial management and carry out any procurement necessary under the Project. Low-income housing expertise will also be added to the PIU to provide technical inputs to the procurement of consultants’ services under Component I. The PIU will be staffed by a combination of reassigned and new NHB staff and consultants’ services.

The consulting services are to contribute to component I of the Project.

2. SCOPE OF WORK

The assignment is to provide capacity building to low income housing finance lenders in an effort to better manage credit risk and to improve access to credit for those employed in the informal sector. The assignment will run for a period of 48 months and will cover a number of areas including undertaking surveys among lenders, database creation, best practice guides, workshops, dissemination events, and training. The Consultant firm to study the best practices both national and international, different models of appraisal w.r.t. informal lending and also arrange for exchange of ideas by way of seminars / conferences for the maximum benefit of the Primary Lending Institutions.

The detailed scope of work is as follows:

a. Best Practice Guide - Informal Income Appraisal Methodology:

The consultant will review credit underwriting models used by those lenders already active in the housing finance sector for informal sector workers and produce a best practice guide. This should set out the different techniques and parameters used in the credit models, the type of information collected from borrowers and how it is recorded. Ideally the consultant would record the different steps which the lender takes in underwriting a loan and the time each takes. This could usefully be shown as a full process map. The best practice guide will also bring in experience from other countries, in particular Latin America where lending to the informal sector is more prevalent, to recommend improvements in processes among lenders in India that can potentially deliver more favourable outcomes. The consultants shall have maximum interaction with PLIs and incorporate such learnings in devising various best practices guides so that PLIs are not only recipients of best practice guides, but also co-producers of such best practices as lot of learning can also happen from the existing primary lenders in India.

b. Best Practice Guide – Informal Property Appraisal Methodology:

The consultant will review the current practices in the market for accepting alternative collateral / collateral which does not have a formal registered and perfected title. For each of these, the consultant should provide a best practice guide in terms of critical appraisal parameters like LTV, IIR, legal status of the land, property etc. and also best practices in

terms of valuing the collateral, taking into account all risk factors including recovery in case of default. A process mapping of the different steps and time taken to evaluate collateral should be produced similar to the best practices guide for evaluating informal income. The consultant may also explore the best practices of existing PLIs who are already working in the sector in this regard, to recommend improvements in processes among lenders in India than can potentially deliver more favourable outcomes.

c. Use of Technology as an enabler for Low Income lending market

The consultant will review the current technology in use by lenders operating in this market with specific reference to how new operating models can best be adapted to the needs associated with operating in the informal sector. For example, rather than relying on a branch network, the loan officer is likely to visit clients directly. Other potential applications of technology could be for instance, assisting with multi-lingual documentation, systems to help with illiterate borrowers, platforms enabling photos and GIS data in relation to underlying collateral and how mobile banking systems could be used to help with payment of installments. The review should reference current practices and provide recommendations on further development based on Indian and international experience.

d. Devise a Rating Structure / Format relevant to the type of lending under the World Bank Project

Based on the review in part (a) and (b), the consultant should initiate devising a rating format in close collaboration with NHB's LIHF Expert covering the various aspects like risk Parameters, assigning suitable Risk weightages etc. to be used by PLIs for evaluating the borrowers in the informal segment (income as well as title). The Consultant may also suggest risk mitigation measures for relevant risks covered in the rating structure / format.

e. Expanding coverage of Credit Bureaus:

The Consultant to include usage and relevance of different Credit Bureaus (CERSAI, CIBIL etc). in the various workshops / training sessions planned for the PLIs in order to sensitise them on importance and benefits of submitting data to the Bureaus as well as embedding the usage of Credit Scores in their credit appraisal processes. The consultants should identify gaps and solutions in credit reporting for use by Qualified Primary Lending Institutes (QPLIs) which seek refinance from NHB under this project; and should develop a complement to CERSAI and CIBIL platforms for informal segments. The Consultant may also work in close co-ordination with the Consultant hired for Financial Literacy and Consumer protection and the LIHF expert in this regard, making the end customer also aware of the benefits of having a good credit score.

f. Institutional Capacity Building

Consultant after taking suggestions from the PLIs should provide options for the potential establishment of a best practice center and data sharing resource center. Different options could be considered including a virtual platform, a committee of lenders, etc. The proposal should be supported by a business plan and projected budget together with a sustainability analysis. An important consideration in the establishment of such an entity would also be as a potential training resource for low income lenders using some of the materials produced in the course of this assignment.

g. Training and dissemination

The consultant should support NHB in holding regular knowledge exchange and dissemination events with lenders during the course of the assignment to provide feedback on the different elements being worked on, as well as gather feedback. In addition the consultant should produce training materials based on the information gathered (in collaboration with LIHF Expert and Consultant hired for Financial Literacy and Consumer protection). The material should provide a syllabus which can be handed on and expanded over time, for training new loan officers or helping credit risk managers in establishing new low income products. At the end of the period, the PLIs should be in a better position to assess the credit worthiness of the borrowers in the informal segment and this would in turn strengthen the appraisal capacity of the PLIs.

3. INDICATIVE OUTPUTS AND DELIVERABLES

The selected consultant will produce the following outputs (indicative in nature) in line as per the schedule decided later:

- Inception report setting out in greater detail their approach to the assignment, detailed timeline, deliverables and some initial outlines of the outputs to be produced. The Inception report will be discussed with client and ToR and agreed outputs together with their timings will be reviewed in line with this.
- Draft Preliminary reports on the underwriting of informal income borrowers and draft report on appraisal of informal property as collateral. The draft reports will be subject to review by the client and also be discussed in open workshops with practitioners.
- Final reports on the underwriting of informal income borrowers.
- Outline of training materials based on the reports to be submitted and discussed with client.
- Final syllabus for training of practitioners based on findings of reports on
- Draft Reports on Use of Technology, underwriting database and feasibility analysis for institutional capacity building
- Developing material w.r.t. Credit Bureaus and including it as a part of the credit appraisal process for PLIs.
- Submission of all final reports and dissemination event for final outputs
- Training events and roll out of selected institutional platform for information sharing/capacity building.

- Any other related activity identified and assigned during the course of the Project.

4. IMPLEMENTATION ARRANGEMENTS

The consultant firm will form an integral part of the PIU and assist NHB in building the capacity of low income housing finance lenders in an effort to better manage credit risk and to improve access to credit for those employed in the informal sector. The Consultant would work in close collaboration with Low Income Housing Finance Specialist and Consultant hired for Financial Literacy and Consumer protection recruited as part of this project. The specialist should be given opportunity to join field work and to actively participate in drafting and reviewing of reports and in training events.

Focus initially is on gathering of data and survey of lenders covering their different credit risk methodologies. Each of the reports will go through a consultation phase both with client and practitioner in the form of written submissions and open workshops. A final dissemination event will be held to present key findings.

The final phase of work will be to roll out a training program for lenders and the same could be complemented with the potential establishment of an institutional platform for sharing information and best practices, as per requirement (either lender association or online platform).