

**INDIA**  
**LOW INCOME HOUSING FINANCE PROJECT**

**Request for Expressions of Interest**

**Capacity building for establishing a responsible lending  
framework for low income housing finance  
(Financial Literacy / Consumer Protection)**

**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 establish a responsible lending framework for low income housing finance (financial literacy/consumer protection). The assignment will run for a period of 48 months and will assist the National Housing Bank (NHB) in building capacity of QPLIs in developing and implementing responsible lending practices by seamless integration into existing business operations. .
3. For detailed scope of activity / the draft Terms of Reference (TOR), the firm to visit NHB’s website – [www.nhb.org.in](http://www.nhb.org.in)
4. The National Housing Bank (NHB) 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. The short listing criteria are:
  - a) The firm must be knowledgeable of the India housing finance market and regulatory compliance frameworks relating to customer protection, grievance redressal.
  - b) The firm must have demonstrated experience, working with financial institutions in developing, monitoring and implementing responsible lending practices and financial literacy/customer awareness/customer education programs.

- c) The firm must demonstrate adequate networks and connections with HFCs, Banks and other related financial institutions in India.
  - d) The firm must be prepared to work on site with lenders as well as end customers to understand and document their lending processes and customers' experiences, grievance redressals etc
  - e) Some international experience would be desirable, to bring in best practice and experience from other markets where lending to the informal sector may be better developed.
  - f) Experience in working with multilateral donors / financing agencies like World Bank, ADB etc. would be an 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. financial literacy & counseling and consumer protection **d)** firm's experience in other relevant assignments 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

Attn: Mr Arnab Roy, Chairman – Project Implementation Unit (PIU)

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# DRAFT TERMS OF REFERENCE (TOR)

## *India Low Income Housing Finance Project (LIHF)*

Capacity building for establishing a responsible lending framework for low income housing finance (financial literacy/consumer protection)

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### **1. Background**

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 requested consulting services would contribute to component I.

## **2. Consumer Protection / Financial Literacy**

Some challenges which primary lenders may face going forward while dealing with low-income and/or first time borrowers could be:

### *Supply side issues:*

- Mindset change and confidence building measures to see the segment as bankable with manageable risks
- Informal segment customers requiring differentiated credit appraisal processes, appropriate product design and risk management practices
- Customization in business processes to low-income households needs right from: sales, marketing, originations to collections and grievance redressal
- Need for staff training programs to sensitize them to the needs of low-income households and first time borrowers
- Different primary lenders are at different level of sophistication w.r.t. market knowledge and systems/process sophistication, hence necessitating a need customized support.

### *Demand side issues:*

- Low financial awareness
- Improper savings habits with continued dependence on informal sources
- Lack of formal banking history
- Lack of awareness of required documentation and indirect costs associated with access
- Lack of awareness on legal and technical documentation and issues
- Irregular repayment habits due to uncertain cash-flows

These issues can be more pronounced when dealing with low-income households working in the informal sector and/or with informal titles/legal documentation. In this context an early focus on financial and housing literacy, customer centricity, and transparency in business processes could mitigate several risks associated with lending to this customer segment. This would necessitate an investment by the financial institution in capacity building and business process streamlining to incorporate responsible lending practices from the start seamlessly into existing business operations. These practices are directly or indirectly already reflected in the National Housing Bank's (NHB) robust guidelines, circulars and other communications to name a few:

1. Revised Guidelines on Fair Practices Code (FPC) for HFCs (October 11, 2010)<sup>1</sup>
2. Revised Guidelines on 'Know Your Customer (KYC)' & 'Anti Money Laundering Measures' for HFCs (October 11, 2010)<sup>2</sup>
3. Model Code of Conduct for Direct Selling Agents (DSAs)<sup>3</sup>
4. Guidelines for recovery agents engaged by housing finance companies<sup>4</sup>
5. Pre-payment penalty on pre-closure of housing loans<sup>5</sup>

However, customized toolkits and procedures at each QPLI level would allow for rigorous implementation and monitoring of these practices in both letter and in spirit can improve the impact of these measures. In addition, this will allow for standardization of these practices in the sector, which will ultimately complement NHB's audit and refinancing functions as well.

### **3. Scope of work**

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 assignment will run for a period of { 48 months} and will assist the National Housing Bank (NHB) in building capacity of QPLIs in developing and implementing responsible lending practices by seamless integration into existing business operations. While a rich array of information and guidelines are made available by the regulator, the depth and extent of implementation of these practices is largely left to the discretion of the QPLIs. A set of toolkits, checklists and frameworks to supplement these guidelines would allow for effective implementation, monitoring, tracking and feedback into the QPLI's business operations.

#### **I. DEVELOP A 'RESPONSIBLE LENDING FRAMEWORK'**

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<sup>1</sup> NHB Website:

[http://www.nhb.org.in/Regulation/GUIDELINES\\_ON\\_FAIR\\_PRACTICES\\_CODE\\_FOR\\_HFCs.php](http://www.nhb.org.in/Regulation/GUIDELINES_ON_FAIR_PRACTICES_CODE_FOR_HFCs.php)

<sup>2</sup> NHB Website: [http://www.nhb.org.in/Regulation/KNOW\\_YOUR\\_CUSTOMER.php](http://www.nhb.org.in/Regulation/KNOW_YOUR_CUSTOMER.php)

<sup>3</sup> NHB Website: <http://www.nhb.org.in/Regulation/Circulars%20English/Circular%20No.%2024.pdf>

<sup>4</sup> NHB Website: <http://www.nhb.org.in/Regulation/Circulars%20English/Circular%20No.%2025.pdf>

<sup>5</sup> NHB Website: <http://www.nhb.org.in/Regulation/scan0019.pdf>

Develop a set of frameworks/templates/checklists/guidelines to facilitate the implementation and roll out of responsible housing finance lending practices at the QPLI level, with a focus on low-income borrowers after discussing the same with the PLIs. The frameworks should address both demand and supply side issues and build squarely on NHB's existing guidelines/circulars and other emerging global best practices (for eg., SMART Campaign Principles<sup>6</sup>) relevant to the Indian market. The Consultant firm to study the best practices both national and international, different lending frameworks 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 and Primary Borrowers. Some indicative themes and tasks to be considered are outlined below:

**a. Demand Side Issues: Customer Awareness and Financial Literacy**

- Scoping of best practices and customer awareness baseline survey
- Develop a comprehensive “Housing Finance Literacy Toolkit” relevant to the low-income households and determine the appropriate delivery channel.
- Roll out and implementation of financial literacy and/or financial counseling program at the QPLI level.

**b. Supply Side Issues: Consumer Protection Principles**

The following indicative tasks are based on the SMART Campaign Principles; however, they can be extrapolated to any other suitable responsible lending framework. This is to be seen only as an indicative list of themes and tasks.

- **Appropriate product design and delivery** - Develop a set of do's and don'ts to ensure that all products and services sold by the QPLI to the customer are appropriately designed to suit the target clientele's needs and cash flows. Different business models will necessitate different approaches.
- **Disclosure and Transparency of costs of services** - To ensure, prices, terms and conditions are disclosed clearly to the customer throughout the product lifecycle in compliance with NHB's Fair Practices Code (FPC).
- **Avoidance of Over-Indebtedness** - Loan appraisal processes accurately evaluate borrower repayment capacity and loan affordability, not relying solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good repayment capacity analysis to mitigate the risk of over-indebtedness. **In addition, loan appraisal processes adequately comply with NHB's KYC Guidelines. This may be done in close collaboration with NHB's LIHF Expert and the Consultant for Capacity to appraise for Low Income / Informal Dwellings households.**
- **Appropriate Collections Practices** - Acceptable and unacceptable debt collection practices are clearly spelled out in a code of conduct, product notes, and staff training programs.

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<sup>6</sup> SMART Campaign website: <http://www.smartcampaign.org/>

- **Ethical Staff Behaviour** – Explore design of staff incentive programs to ensure alignment of QPLI and consumer interests, consider appropriate staff training and finally develop compliance monitoring mechanism
- **Grievance Redressal Mechanisms** – Procedures, channels, monitoring systems, sensitization and evaluation mechanisms around grievance redressal at the QPLI level. The Consultant to come up with customized grievance redressal mechanisms for the Informal sector borrowers at the NHB and HFC level. **The Consultant shall work in close collaboration with NHB’s Environmental and Social Experts.**
- **Privacy and Protection of Client Data** - Develop guidelines and internal checks and balances mechanisms to ensure that the privacy of individual client data is respected in accordance with NHB’s guidelines and national laws and regulations, and that such data cannot be used for other purposes without the express permission of the client.
- **Diagnostics and Assessments** - Develop a diagnostic tool based on the Responsible Finance Framework to assess depth and breadth of a QPLI’s ‘responsible lending quotient’. This would include a detailed diagnostic of the QPLI’s existing Business Process Maps and Product Notes to audit the extent and depth of implementation of NHB’s mandatory guidelines across all stages of the product lifecycle from sourcing to collections.
- **Public awareness campaigns to educate the end customer / first time borrowers in the informal segment.** This may include distribution of pamphlets, advertisements on the QPLIs’ websites, billboards etc.

**4. Outputs and Deliverables – covers all activities detailed in scope of work (Sl. No. 3).**

- Develop responsible lending framework/templates/checklists/guidelines to facilitate the implementation and roll out of responsible housing finance lending practices at the QPLI level, with a focus on low-income borrowers after discussing the same with the PLIs.
- Develop an appropriate product design and delivery - Develop a set of do’s and don’ts to ensure that all products and services sold by the QPLI to the customer are appropriately designed to suit the target clientele’s needs and cash flows. Different business models will necessitate different approaches. The framework to ensure prices, terms and conditions are disclosed clearly to the customer throughout the product lifecycle in compliance with NHB’s Fair Practices Code (FPC). Loan appraisal processes should accurately evaluate borrower repayment capacity and loan affordability, not relying solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good repayment capacity analysis to mitigate the risk of over-indebtedness.
- Developing a code of conduct w.r.t. appropriate Collections Practices, Ethical Staff Behavior.

- Grievance Redressal Mechanisms – Procedures, channels, monitoring systems, sensitization and evaluation mechanisms around grievance redressal at the QPLI level. The Consultant to come up with customized grievance redressal mechanisms for the Informal sector borrowers at the NHB level and HFC level. The Consultant shall work in close collaboration with NHB’s Environmental and Social Experts.
- Scoping of best practices. and customer awareness baseline survey
- Develop a comprehensive “Housing Finance Literacy Toolkit” relevant to the low-income households and determine the appropriate delivery channel.
- Roll out and implementation of financial literacy and/or financial counseling program at the QPLI level.
- Privacy and Protection of Client Data- Develop guidelines and internal checks and balances mechanisms to ensure that the privacy of individual client data is respected in accordance with NHB’s guidelines and national laws and regulations, and that such data cannot be used for other purposes without the express permission of the client.
- Diagnostics and Assessments - Develop a diagnostic tool based on the Responsible Finance Framework to assess depth and breadth of a QPLI’s ‘responsible lending quotient’. This would include a detailed diagnostic of the QPLI’s existing Business Process Maps and Product Notes to audit the extent and depth of implementation of NHB’s mandatory guidelines across all stages of the product lifecycle from sourcing to collections.
- Public awareness campaigns to educate the end customer / first time borrowers in the informal segment. This may include distribution of pamphlets, advertisements on the QPLIs’ websites, billboards etc.
- Any other related activity identified and assigned during the course of the Project.

## **5. Implementation arrangements**

The firm will form an integral part of the PIU at National Housing Bank of India and will work in close collaboration with the Low Income Housing Finance Specialist 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 and collaborate with different Experts under the Project as and when required.