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A SOCIO-ECONOMIC ANALYSIS OF HDFC LOW-INCOME APPLICANTS IN BOMBAY AND BANGALORE

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A Socio-Economic Analysis of HDFC Low-Income Loan Applicants in BOMBAY and BANGALORE.

PREPARED FOR

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(HDFC)

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Introduction.

This study was carried out to provide socio-economic data on below-median income (Rs.Indian 1,200) HDFC loan applicants with particular emphasis on extent and type of household savings and sources of funds for housing (other than HDFC loans). The groundwork for the study was carried out in Bombay and Bangalore from December 6 - 17th, 1982. The data obtained has been processed by hand and the results are attached in the form of 12 Tables and 4 Figures.

Methodology.

As it was not possible to draw a statistically random sample of individual low-income HDFC borrowers in the time available, 100 individual cases were selected from the Agenda Item lists in Bangalore and 80 individual cases were selected from the Agenda Item lists in Bombay. Selection criteria were that the borrowers should be at or below the median income of Rs1,200; in addition, the Bangalore cases were split 50-50 between recent cases (undisbursed loans) and older cases (fully disbursed loans), while in Bombay 50 recent cases were selected and 30 older cases, and the stage of disbursal was mixed throughout. It proved rather difficult to locate older cases below-median income in Bombay.

Owing to the fact that this is not a statistically random sample, and that the Bombay files were so mixed, data has not, on the whole, been analysed according to the time-lapse factor except in the case of Table 4.

Data was drawn principally from the following forms in the HDFC individual case files:

- Individual Residential Loan Application Form;
- HDFC Loan Appraisal Form (Individual);
- HDFC Loan Application Follow-Up Letter;
- HDFC Request for Verification of Employment.

Principal Findings of the Analysis.

1. The Bombay and Bangalore low-income applicants selected display some strikingly different characteristics: Bangalore applicants are more likely to be older (37 years) on average; married (95%), and with larger families (4.7 persons). By contrast, 30% of the Bombay sample are single persons, overall they have an average age of 29 years and an average family size of 2.5 persons (Table 1). In both Bombay and Bangalore, however, over 90% of applicants are male and sole borrowers.

2. As to be expected, both Bombay and Bangalore low-income applicants display a very different average loan profile (with the sole exception of average age, in Bangalore) to the General Average Loan Profile presented in the HDFC Report of Operations as at October 31st (Table 2).

3. The difference in occupational structure of Bombay and Bangalore applicants reflects certain features of the economic structure and history of the two cities. Bangalore has become heavily industrialized only over the last 10 - 12 years and is the location of such major industrial concerns as Hindu Aeronautics, Indian Telephones, Bharat Electronics etc. and there has been a pent-up demand for housing from workers in this sector. 59% of Bangalore applicants have directly industrial jobs (e.g. machine operator, checker etc) while many of those in the clerical category work in this sector too.

Although Bombay is the most industrialized urban region in India, Bombay applicants occupations reflect to a greater extent the commercial and administrative structures of that city, though the important chemical and textile manufacturing industries are represented too, mainly at the technical level. There is a noticeable proportion of young professionals just beginning their careers (Figure 1).

The average length of present employment is 5.5 years in Bombay, compared to 12 years in Bangalore.

4. Average monthly family incomes in Bombay and Bangalore are Rs. 1001 and Rs. 959, respectively. There is heavy clustering in the Rs. 901 - 1200 income groups (80% in Bombay and 81% in Bangalore). However, more applicants (26%) earn between Rs 1100 - 1200 per month in Bombay than in Bangalore (2%). (Table 3).

5. Table 4 indicates that recent HDFC applicants in Bangalore have slightly lower average incomes than was the case 6 months to 1 year ago, while the opposite is the case in Bombay. However, not too much significance should be attached to this, for reasons mentioned in the Introduction.

6. Table 5 shows the higher cost of real estate in Bombay - almost double that of Bangalore for persons in this income category, at least. Many Bombay applicants intend to purchase, or are purchasing small flats or apartments constructed by private or public developers (e.g. CIDCO), whereas in Bangalore, families are constructing fairly large, individual bungalow-type homes.

7. Tables 6 and 7 show a Loan/Cost ratio of 39% in Bombay and 36% in Bangalore, compared to 43% overall (as of Oct. 1982), indicating that lower-income applicants have to provide more of their housing finance from within their own resources. However, both Tables show an excess of total available finance over unit cost. Advance payments made, HDFC loans and other finance to be obtained are each roughly one third of total unit cost.

8. While it is generally indicated on HDFC files whether personal savings only or savings plus other sources of finance have been utilized in payments already made, there is not often a breakdown of the amount contributed from each source. Consequently, it is not possible to obtain an accurate estimate of the total amount of savings already spent. The other sources of finance utilized are quite diverse and include chit funds*, Provident Funds, loans and gifts from relatives and friends, sale of gold and jewellery, sale of property (land, houses, apartments), encashment of Fixed, Recurring and Cumulative Time deposits in Banks, and agricultural income (only 3 persons).

In both Bombay and Bangalore, average payments already made out of personal savings only are, on the whole, approximately half that of payments made from

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*Chit funds are a variation of the common rotating credit association: in this case, bids are made for the "pot" and the excess over the loan is paid back and shared by the other members - a form of interest.

several sources. However, 29% of the sample in Bombay had as yet made no payments - most of these had not yet finally selected their dwelling units. In Bangalore, only 2% had made no payments and this was because they intended to extend their own houses. 54% of Bangalore applicants had used savings alone for payments, compared with only 30% in Bombay. (Tables 8 and 9).

9. HDFC files were, understandably, more explicit about the sources of "other finance" required to cover the gap between downpayments plus the HDFC loan, and the total cost of the unit. Tables 10 and 11 show the average amountyet to be contributed, with percent share of the total amount, from each of 4 categories. Table 12 shows the actual number and percentage of the sample in each city who had such other sources of funds at their disposal, and Figures 2, 3 and 4 give a more detailed breakdown of the composition of each category.

Totals in Tables 10 and 11 show that Bombay applicants propose to obtain 36% of their remaining finance through further borrowings, as compared to only 20% for Bangalore. This is probably due largely to the younger age and unmarried status of a large proportion of the Bombay sample. These young people are relying heavily on parental help to get them started. The same demographic characteristics also doubtless account for the astonishing difference in the part played by Provident Funds as a source of finance (1% in Bombay and 22% in Bangalore). In fact, some of the Bombay sample had already used their Provident funds in making downpayments; however, the more mature average age and the greater average length of present employment of Bangalore applicants makes it more likely that they have reached the stage where they can withdraw and utilize their Provident Fund savings (including the share contributed by the employer) without having to repay it. Bombay applicants are much less likely to have been at work long enough with the same employer to be able to do this. In addition, several are self-employed.

10. In Table 12, it is noticeable that a greater proportion of Bangalore

applicants throughout have access to the different sources of funds than in Bombay.

11. Fig. 2 demonstrates the relative importance of the sale of gold and jewellery in Bangalore. The "Other" category is composed mainly of refunds of deposits made to Landlords and has been swelled, in Bombay, by the payment of Rs100,000 "Pugree" to one applicant (i.e. a landlord's incentive payment to induce a tenant to move out - in Bombay tenants cannot be evicted after 12 years occupancy).

12. Fig. 3 shows the importance of families in providing additional finence at low- or no- interest rates, while loans from chit funds often carry high rates of interest. While chit funds are usually treated as a form of contractual savings in India, they are here treated as borrowings, as applicants are taking loans which they have to repay with interest. (It must also be noted that HDFC encourages applicants to pay off other formal loan obligations before taking an HDFC loan).

13. Fig. 4 demonstrates the popularity of the regular Bank Savings Accounts. Easy withdrawals, conveniently situated branches and interest paid indicate that HDFC will have to very actively identify and persuade potential savers to make deposits with HDFC if it wishes to change present savings patterns in its own favour. Any campaign by HDFC to mobilize small savings should be very carefully planned against a background of thorough field research, which should also be carried out in other centres where HDFC has important operations, or has plans for expansion.

14. While it is not possible (owing to the problem with HDFC files noted in (8) above) to accurately calculate savings:incomes ratios or average propensity to save, it is evident that these are high in both Bombay and Bangalore. The propensity to save through Provident Funds is high also, though

this is not reflected in the present Bombay data. In addition 52% of the Bombay sample and 56% of the Bangalore sample declared that they had Life Insurance Policies.

15. Finally, it must be noted that an important characteristic of the Bombay sample is that a large proportion of it is probably upwardly mobile, owing to its present youth and relatively high level of education - this group will not stay below the median income for long, and they will not necessarily wish to stay in the homes they are presently purchasing.

TABLE 1.

Basic Characteristics of Applicants	Bombay	Bangalore
Average Age (years)	29	37
Male (%)	91	96
Female (%)	9	4
Married (%)	50	95
Single (%)	50	5
Average Family Size	2.3	4.7
No Coborrower (%)	91	92

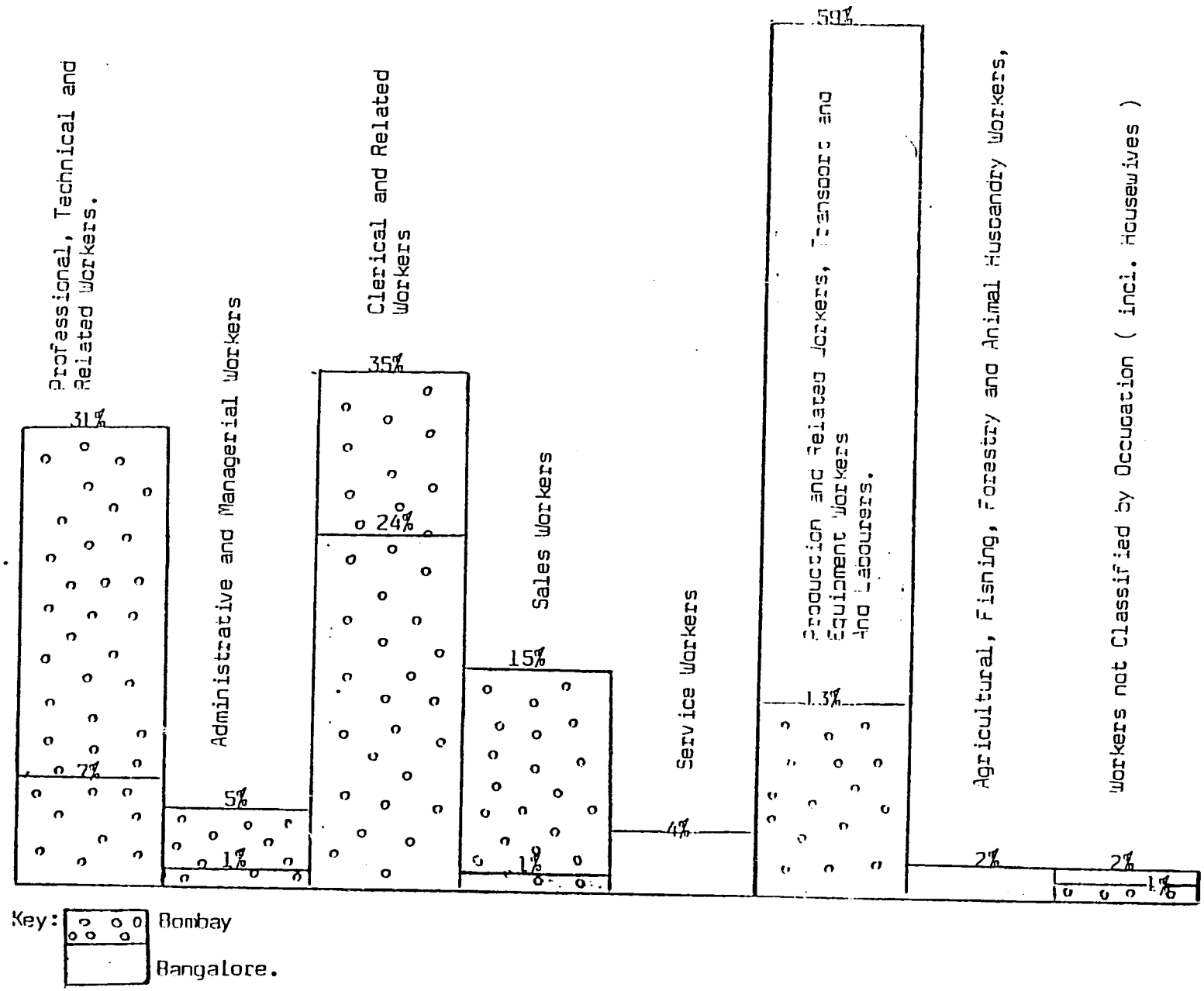
Basic Characteristics of HDFC Loan Applicants in Bombay and Bangalore.

TABLE 2.

	All HDFC Applicants - October, 1982	Bombay Low-Income Applicants Dec. 1982	Bangalore Low-income Applicants Dec. 1982
Cost of Unit	97000	49000	52000
Loan per Unit	42000	19000	19000
Area of Unit	74 sq. m.	31 sq. m.	59 sq. m.
Age of Applicant	38 years	29 years	37 years
Family Income	Rs. 2,300	Rs.1001	Rs. 959

Comparison of Bombay and Bangalore Low Income Applicants with General Average Loan Profile Presented in HDFC Management Report of Operations as at Oct. 31st. 1982.

Figure 1.- Occupation of HDFC Low-Income Loan Applicants in Bombay and Bangalore.



Income Group (Rupees)	Bombay			Bangalore		
	Number	%	Average Income	Number	%	Average Income
1101 - 1200	21	26	1176	2	2	1210
901 - 1100	43	54	1005	79	79	989
701 - 900	11	14	842	17	17	825
501 - 700	5	6	583	2	2	627
TOTAL	80	100	1001	100	100	959

TABLE 3.

Average Income per month (in Rupees) by Number of Persons in Sample by Income Group: Bombay and Bangalore Totals.

Note: One person in the Bangalore 1101 - 1200 income group was found to have an extra source of income which brought his monthly total to Rs. 1270. Likewise, one person in Bombay was stated to have a monthly income of only Rs.417, but was included in the bottom income group. This accounts for the skewing inthe too and bottom income groups in these two cities.

TABLE 4.

Income Group	BOMBAY		BANGALORE	
	Recent	Older	Recent	Older
1101 - 1200	1176	1176	1149	1270
901 - 1100	1012	990	979	999
701 - 900	846	829	821	831
501 - 700	589	573	--	627
TOTAL	1020	990	951	996

Average Incomes of HDFC Low-Income Beneficiaries in Bombay and Bangalore - Comparison of Recent and Older Cases.

TABLE 5.

Income Group	Average Property Value (in Rupees)		Average Area (in sq. metres)	
	Bombay	Bangalore	Bombay	Bangalore
1101 - 1200	65,095	61000	35	50
901 - 1100	44,130	52,826	28	58
701 - 900	47,450	49,213	34	61
501 - 700	33,900	57,750	34	96
TOTAL	49,450	52,473	31	59

Average Disclosed Value of Properties and Average Area in Square Metres - Bombay and Bangalore Totals, by Income Group.

Bombay values are 92% of Bangalore values, while Bombay areas are only 52% of Bangalore areas.

Bombay average value per sq. metre is Rs.1595.

Bangalore average value per sq. metre is Rs.889.

TABLE 5.

Income Group	Average monthly Income (Rs.)	Average HDFC Loan	Average amount of Payments Already made	Average amount of Other Funds Available	Total Finance Available	Average cost of Unit.
1101 - 1200	1176	21952	26515	28883	77350	65095
901 - 1100	1005	19070	14784	17801	51655	44130
701 - 900	842	17182	21072	3709	41963	47450
501 - 700	583	11600	12000	11500	35100	33900
Total	1001	19100	18669	18379	56148	49450

Bombay Total: Summary of Finance for Housing - Total Finance Available for Housing by Income Group and by Average Cost Per Unit.

TABLE 7.

Income Group	Average Monthly Income (Rs.)	Average HDFC Loan (Rs)	Average Amount of Payments Already Made	Average Amount of Other Funds Available (Rs:)	Total Finance Available (Rs)	Average Cost of Unit (Rs)
1101 - 1200	1210	21500	12000	29000	62500	61000
901 - 1100	989	19380	15952	18432	53764	52826
701 - 900	825	16941	19055	15756	51752	49213
501 - 700	627	12500	27500	20500	60500	57750
TOTAL	959	18870	16646	18230	53746	52473

Bangalore Total: Summary of Finance for Housing - Total Finance Available for Housing by Income Group and by Average Cost per Unit (in Rupees)

TABLE 8.

Income Group	Source of Payments Made											
	Savings only			Savings and Other Source			No Payments		Total		
	Amount (Rs)	No. Persons	%	Amount (Rs.)	No. persons	%	No. Persons	%	Amount(Rs)	No. Persons	%
1101 - 1200	21431	5	24	29057	10	48	6	28	26515	21	100
901 - 1100	10434	18	42	21902	11	26	14	32	14784	43	100
701 - 900	13130	5	45	31000	4	36	2	18	21072	11	100
501 - 700	8500	2	40	15500	2	40	1	20	12000	5	100
TOTAL	12587	30	37	25426	27	34	23	29	18669	80	100

Average Amount of Payments Already Made - by Income group and Source of Payment: Bombay Total.

TABLE 9.

Income Group	Source of Payments Made								TOTAL		
	Savings Only			Savings and Other Source			No Payments				
	Amount (Rs)	No. Persons	%	Amount (Rs)	No. Persons	%	No. Persons	%	Amount (Rs)	No. Persons	%
1101- 1200	6000	1	50	18000	1	50	--	--	12000	2	100
901 - 1100	12081	43	54	20848	34	43	2	3	15952	79	100
701 - 900	8959	9	53	30413	8	47	--	--	19055	17	100
501 - 700	12000	1	50	43000	1	50	--	--	27500	2	100
TOTAL	11447	54	54	23026	44	44	2	2	16646	100	100

Average Amount of Payments Already Made, by Income Group and Source of Payment: Bangalore Total.

Income Group	Disposal of Assets/Investments		Provident Fund		Savings		Borrowings		Total	
1101 - 1200	18095	63%	--	--	5835	20%	4952	17%	28883	100
901 _ 1100	2995	17%	279	2%	6278	35%	8249	46%	17801	100
701 - 900	454	12%	--	--	636	17%	2618	71%	3709	100
501 - 700	700	6%	200	2%	2480	22%	8120	71%	11500	100
TOTAL	6466	35%	162	1%	5149	28%	6601	36%	18379	100

TABLE 10 :Other Sources of Funds for Housing by Income Group (Average Amount in Rupees and % share of Total Sum to be Paid) - Bombay Total.

Note: Average length of present employment is 5.5 years.

Income Group	Disposal of Assets/ Investments		Provident Fund		Savings		Borrowings		Total	
1101 - 1200	9500	33%	8500	29%	3000	10%	8000	28%	29000	100
901 - 1100	5850	32%	4334	23%	4848	26%	3400	18%	18432	100
701 - 900	2912	18%	2508	16%	6365	40%	3891	25%	15756	100
501 - 700	9000	44%	2000	10%	--	--	9500	46 %	20500	100
Total	5486	30%	4074	22%	4972	27%	3697	20%	18230	100

TABLE 11: Other Sources of Funds for Housing, by Income Group (Average Amount in Rupees and % share of Total Sum to be Paid) - Bangalore Total.

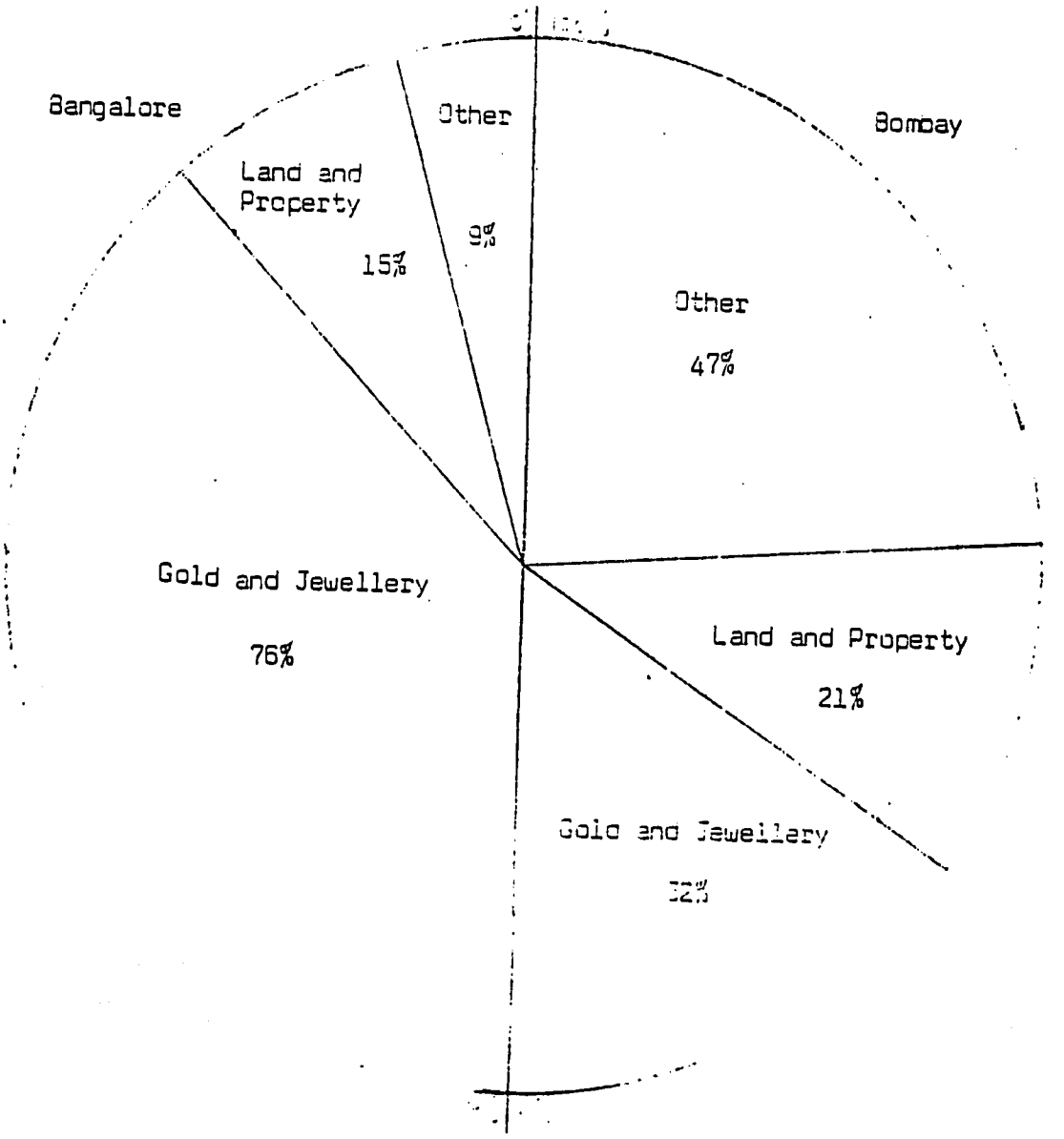
Note: Average Length of present employment is 12 years.

TABLE 12.

Source of Funds	BOMBAY		BANGALORE		TOTAL	
	Number	%	Number	%	Number	%
Disposal of Investments/Assets	19	24	54	54	73	40
Provident Fund	2	2	55	55	57	31
Savings	48	60	80	80	128	71
Borrowings	39	49	46	46	85	47

Number and Percentage of Sample Having Other Sources of Funds at Their Disposal: Bombay and Bangalore Totals.

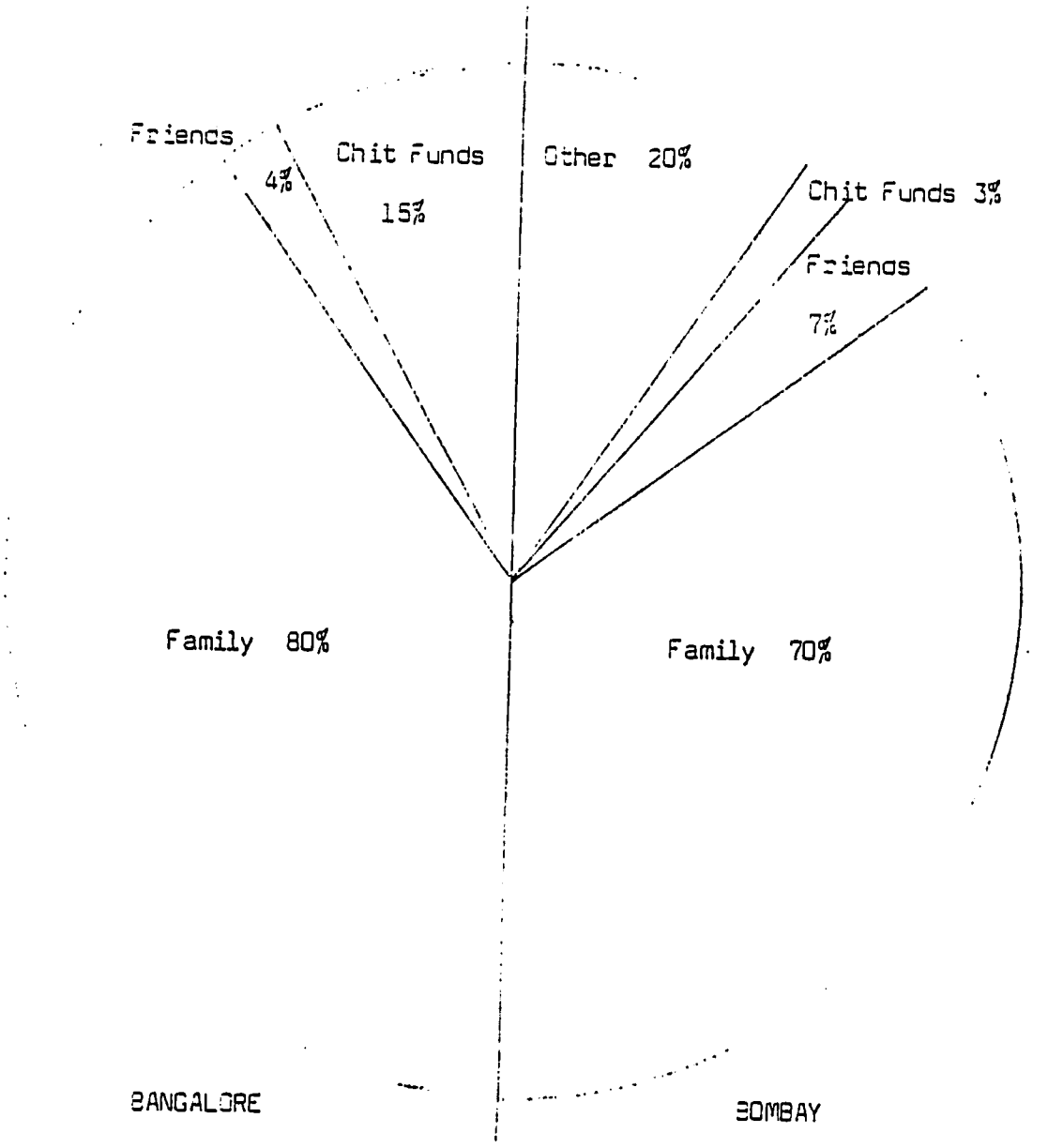
FIGURE 2.



Other Sources of Funds for Housing in Bombay and Bangalore: Percent Composition of Assets/Investments.

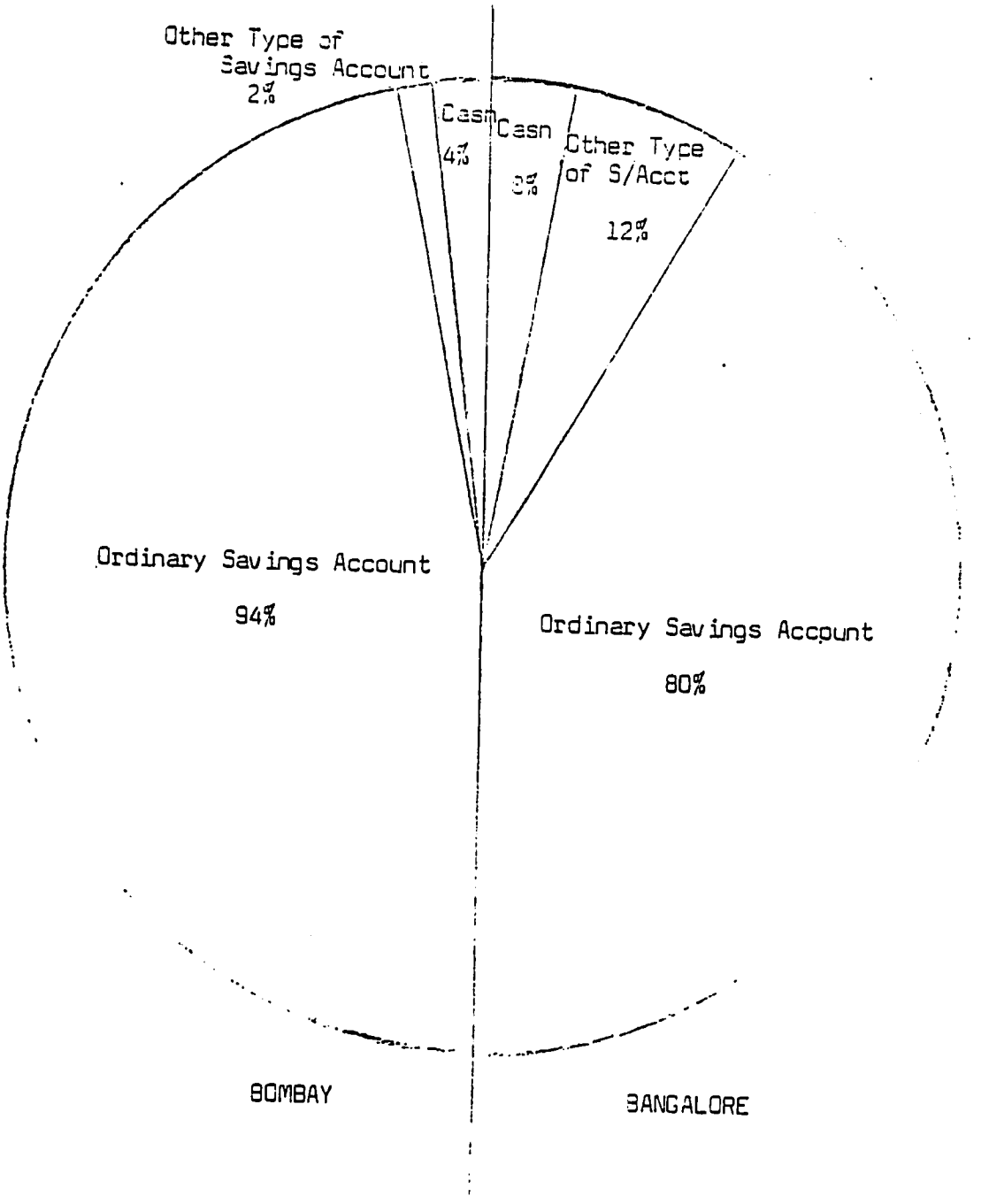
Note: The category "Other" is mainly composed of refunds of deposits made to Landlords.

FIGURE 3.



Other Sources of Funds for Housing in Bombay and Bangalore - Percent Composition of "Borrowings"

FIGURE 4.



Other Sources of Funds for Housing in Bombay and Bangalore - Percent Composition of "Savings"

MEDIAN INCOMES DATA UPDATE.

A review of reports available from Government and non-Government organizations in Bombay and inquiries made of USAID, Delhi, failed to locate any more recent household incomes and expenditure studies than the NCAER's (National Council for Applied Economic Research) 1975 -1976 survey of Household Income and its Disposition (which survey was not published until 1980 - indicating some of the problems of data-processing in India) and the IBRD "Staff Appraisal Report. Second Bombay Water and Sewerage Project" (1978)* which was used to establish the present median urban income of Rs.1200 (Private Sector Housing Finance Program, India. Project Paper, Project No. 386-HG-000, July 1981), in 1981.

Consequently, it was decided to follow the same method of updating incomes as that used in the Project Paper. The Centre for Monitoring the Indian Economy (CMIE: Basic Statistics, August 1982) forecasts a 7.3% increase in the consumer price index from December, 1981 - December, 1982 (Index Numbers of Consumer Prices for Industrial Workers, 1939 - 1982). Using simple extrapolation alone and not counting for any real increase in income levels, such an increase brings the current median income up from Rs 1200 to Rs. 1298 in December, 1982. A further forecast increase of 9% (Dec. 1983) would bring the median urban income to Rs. 1403. Using the same forecasts for Bombay would give an estimated median income of Rs.1631 (Dec. 1982) and Rs. 1778 (Dec. 1983).

It must be stressed that no real increase in income has been taken into consideration, and that this is a purely nominal increase adjusting for inflation; however, CMIE estimates a trend rate of growth of 3.3% in Real National Income 1971 - 1983.

Household Income Distribution of Total Population of Greater Bombay.

Income Group Rs. Month 1977	Income Group Rs. Month 1981 x49%	Income Group Rs. Month 1982 x 7.3%	Income Group Rs. Month 1983 x 9%	Total Population %	
Under 200	Under 298	Under 320	Under 349	2.75	
201-450	298-670	320-719	349-784	13.25	16.00
451-700	671-1043	720-1119	785-1220	15.96	31.96
701-1000	1044-1490	1120-1599	1221-1743	18.15	50.11
1000-1500	1491-2235	1600-2398	1744-2614	15.95	65.96
1501-2000	2236-2980	2399-3198	2615-3486	12.10	78.06
2001-3000	2981-4470	3199-4796	3487-5228	11.62	89.68
3001-5000	4471-7450	4797-7994	5229-8713	6.20	95.88
Above 5000	Above 7450	Above 7994	Above 8713	1.75	97.63
Not Recorded				2.38	100
				100	

Updated from: Private Sector Housing Finance Program, India. Project Paper, Project No.386-HG-000, July 1981, p.35.