Introduction
The Mahila Housing Trust (MHT), a low-income habitat incubator affiliated with the Self-Employed Women’s Association (SEWA) network, is innovating the low-income housing finance space through the development of collateralized housing loans for semi-formal properties with high tenure security. In this regard, the verification of tenure security goes beyond the recognition of state-accepted tenure, ranging from de-facto to de-jure instruments such as: non-eviction assurances; temporary licenses; peremboke, new or restricted tenure; patta, freehold or old tenure.

According to the recent housing rights framework promoted by UN-Habitat (2012), “semi-formal” properties locate within the adverse possession bracket of the housing and land rights continuum (Figure 1). As the land management screening mechanism will show below, semi-formal properties are at least occupied for prolonged periods, often decades, and have been peacefully purchased (in the contrary to being invaded). They may thus be considered at least as adverse possession, even though the property transaction might never have been registered and the land is still in the name of the former owner (or his/her heirs). UN-Habitat’s framework constitutes a possibly powerful tool for land regularization in India, as the country recognizes adverse possession.

Figure 1: The continuum of land rights (UN-Habitat, 2012)

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1 Bijal Brahm Bhatt is the Director of the Mahila Housing Trust. MHT supports the SEWA network in providing affordable housing to its poor members, especially to self-employed women. Matt Nohn is Visiting Professor for Urban Management and International Cooperation at Technical University Darmstadt and Advisor to MHT and also serves as an international consultant. This paper has been made possible through the generous support of the KIVA Program at TU Darmstadt and MHT. We further thank Harris Selod and Keith Clifford Bell, The World Bank and Renana Jhabvala, SEWA Bharat for their helpful comments. Finally, this work would not have been able without the long-term support of the Environmental Planning Collaborative, with which we pursue research on the land management and urban planning systems.

As these loans square “half-way between uncollateralized microfinance and mortgage lending”, the Affordable Housing Institute (www.affordablehousinginstitute.org), a Boston-based think-tank for affordable housing finance with focus on developing and transitioning countries, refers to this asset class as Home Asset Loan Finance or, simply, HALF: http://www.affordablehousinginstitute.org/AHI_home_asset_financing_v07_short_100113.pdf

2 We thank Harris Selod and Keith Clifford Bell from the World Bank’s Land and Housing Thematic Group for their valuable comments on the land rights continuum.
Furthermore, UN-Habitat clearly indicates the superiority of adverse possession over, for example, mere occupancy rights and alternatives to eviction (such as the verbal no-eviction guarantee given the scope of Ahmedabad's Parivartan Slum Upgrading Scheme). From a financial point of view, the superior security merits an interest rate reduction—due to lower risk of eviction and, thus, lower lending risk—and, thus, improves the affordability of credit to a vulnerable population. Finally, figure 1 also shows that adverse possession may be considered as "semi-formal", rather than informal, as it is already halfway to formality.

Therefore, we define "semi-formal properties with high security of tenure" as (existing or prospective) housing and land, for which the dwellers peacefully hold (undisputed) occupancy and possession rights, even though they are not formally registered as landowners in the public land cadaster that is governed by the Revenue Act AND that is not in any critical conflict with urban planning instruments—such as town planning schemes, development plans, and zoning regulations and reservations. Thus, using land management and urban planning knowledge, we are able to establish the tenure security of semi-formal properties of prospective borrowers, even if they do not enjoy any form of publicly recognized de-facto tenure.

This report illustrates the value created through the innovative loan product and its enabling proceedings. It also highlights how the new loan product differs from traditional consumer and mortgage loans, why MHT—in close partnership with various affiliated organizations, especially credit cooperatives—invented it, and how the partners' unique position in the housing value chain enabled the innovation. We have two key objectives: firstly, to illustrate the challenges in the delivery of the collateralized housing loans in order to allow policy makers to remove undue barriers; and, secondly, to share the loan proceedings with other potential lenders in order to enable them to replicate the innovative approach.

**The need for collateralized housing loans for semi-formal properties with high tenure security**

India does not only face a quantitative and qualitative housing deficit, it also lacks the financial instruments that are required to alleviate this shortage. On the one hand, microfinance institutions (MFIs) increasingly deliver unsecured housing loans to the urban poor. The properties of such loans are similar, if not identical to consumer loans. The perceived capacity to repay, foremost determined through the size and security of household income, is the determining factor for making the credit decision—ignoring the potential for interest rate reduction through collateralization. Such housing loans, in case of low-income borrowers mostly for incremental shelter construction, usually do not exceed INR 1 lakh. On the other hand, commercial banks serve the upper middle and higher income groups with formal mortgages that use the quality of the mortgaged property as key for making the credit decision. However, few, if any lenders issue housing loans in the range between INR 1 and 5 lakh4.

Their products are characterized by small loan size (Rs 50,000-Rs 100,000), short term (.5-5 years) and repayment culture based on affiliation and third party guarantees, without checks on the use of funds or the quality of construction. At the other end of the bar is secured mortgage lending from housing finance companies, which offer larger (loan size Rs 5-7 lakhs), longer term loans (5-10 years) with registered collateral (formal housing and incremental housing) and verification of income and credit history. This missing middle is driven by two constraints: affordability and informality. [Informality is a two-fold constraint: first in regard to borrowers and, second, in regard to properties, the latter not being a constraint in case of typical consumer or microenterprise loans].

4 The gap is arguably even larger, ranging from INR 1 to up to 7 lakh.
The World Bank (2011)

The shortage of lending activities in this loan (and implied income) segment is alarming for two reasons: firstly, with 1 to 6 million households the urban population demanding housing loans between INR 1 and 5 lakh is not only large, the incapacity of markets to deliver to this segment unnecessarily increases the burden on governments. As a consequence, the bottleneck distracts the public sector from the provision of basic infrastructure and services and basic shelter for truly poor households. Secondly, the shortage is (also) the result of structural problems in the field of urban planning and land management—undermining the security of the underlying asset: i.e. the semi-formal real estate—rather than of problems in the financial sector alone. However, to lack the ability to judge the asset’s quality for serving as collateral constitutes a severe problem for lending institutions, effectively inhibiting the delivery of affordable credit. This is particularly true, given that the Reserve Bank of India requires that large loans be secured. Thereby, structural problems in urban land management and planning, paired with banking regulations, contribute to the deficit of the housing finance space. For this reason, at present the needs of several million prospective housing borrowers cannot be addressed by the private sector, which looses a business proposition worth INR 1 to 1.5 lakh crores. This shortage then needs to be compensated by government—unless the private sector finds its own ways to cater to this market. Therefore, without establishing methods for screening the quality of underlying semi-formal properties—potentially affected through tenure insecurity induced by urban land policies—the financial sector will not be able to address this gap.

This paper proposes a potential solution for this challenge.

Proceedings for collateralized housing loans for semi-formal properties with high tenure security

In order to use an asset as collateral, the following criteria need to hold: (i) the asset must be durable for the loan period; (ii) it must be recoverable in case of default; and (iii) it must be sellable for a price not smaller than the sum of the secured amount and the cost of taking possession. Here, we take the last condition for granted, as the informal house can usually be sold significantly above the construction cost (i.e. the upper range of the potential loan amount). However, whether or not the first and second conditions hold is much harder to determine. For example, the durability does not only depend on the structural quality of the dwelling and its ability to withstand earthquakes and flooding but also on the unlikelihood of eviction from the informal land, resulting in the loss of the property. On the other hand, besides unclear land ownership, potential conflicts with the urban planning and revenue

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5 Lacking exact data for the housing demand in the upper LIG and the MIG segment, we estimate that the market demand for housing loans in the 1-to-3-lakh-segment may be of 1 to 6 million units. Our estimate is based both on the existing housing backlog and on expectations about future urban growth. On the one hand, the 11th 5-Year plan estimates that in 2007 the housing shortage was 24.71 million units. Of this shortage 2.89 million units (11%) were in the LIG segment and 0.04 million units (0.2%), only, in the MIG and HIG segment. Of the latter shortage, possibly 1 million housing units fall in the INR 1 to 3 lakhs category. On the other hand, the urban population is forecast to increase by 175 million people until 2020. Possibly, another 5 million housing units lies in the 1 to 5 lakhs segment. (We expect that the overwhelming majority of demand is for loans smaller than INR 1 lakh for the purpose of incremental housing, and that a negligible share, as in 2007, falls in the MIG and HIG category.)

6 With 1 to 6 million housing units in the target segment and an average loan size of INR 3 lakh, the market size may be of INR 1,000,000,000,000 to 1,500,000,000,000 (or INR 1 to 1.5 lakh crores). Admittedly, this back-of-the-envelope exercise is a crude estimate. However, the purpose of this paper is not to produce a more accurate number, but to illustrate a legal and financial mechanism that, in our eyes, constitutes a solution for catering affordable and secure housing finance to a market of a highly significant size.
regimes may make it hard to take formal possession of the semi-formal property, even if it enjoys high de-facto security of tenure. However, unless a financial institution safely agrees that all three conditions for good collateral hold—durability, recoverability, and salability—the financial institutions must charge a risk premium on the loan, making the loan more expensive (similar to or as any unsecured debt) and possibly unaffordable. For example, if the credit risk would increase from zero to 5 percentage points, then a sustainable interest rate of 15 percent would increase to 21 percent.\(^7\) Or, the institution may not be able to lend to the borrower at all, as per RBI regulations. In either case, distorted financial markets and poverty aggravation are the adverse results of poor mortgageability.

With its innovative screening procedures, MHT-supported credit cooperatives propose a potential solution for overcoming this structural challenge. The following section details this procedure. Steps are as follows:

**Step 1. Screening the eligibility of the prospective client**

The credit cooperative supported by MHT, screens the loanee and guarantors identity and financial status. To do so, the cooperatives collect address and identity proofs and income and expenditure information in order to be able to judge the likelihood of repayment. The following documents are collected (for samples see Appendix 2).\(^8\)

- **Step 1.1.** Loan application form
- **Step 1.2.** Loanee's electricity bills (as address proof)
- **Step 1.3.** Loanee's election card (as ID and address proof)
- **Step 1.4.** Guarantors income declaration
- **Step 1.5.** Guarantors' driving license (as ID proof)
- **Step 1.6.** Guarantors' election card (as ID and address proof)
- **Step 1.7.** Other documents—such as ration cards—may be collected, as per availability.
- **Step 1.8.** Finally, the credit cooperatives will verify the customer and guarantors and the declarations made, for example by cross-checking with other information sources. (See the pre-check sample provided in Appendix 2).

The above procedure is also followed for typical consumer and business microloans. However, due to the additional constraint of informal properties, the procedure for housing loans differs as of now.

**Step 2. Screening the ownership rights on the land**

In addition to determining the eligibility of the prospective borrower, the credit cooperatives need to determine the properties quality for serving as collateral. To do so, MHT supports the cooperatives in determining the multiple ownership rights that semi-formal landowners possess: in particular, MHT screens the property's compliance with the land management system (i.e. the Revenue Act). To do so, MHT collects the following documents in order to check the multiple ownership rights and tenure status that the borrower and her guarantors' may enjoy. In order to support a credit decision in favor of the applicant, ideally the loanee and guarantors appear as the taxpayers or property owners—instead of any

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\(^7\) This relationship is best illustrated with the CGAP formula for setting sustainable interest rates:

$$R = \frac{(AE + LL + CF + K - II)(1 - LL)}{1 - LL},$$

with \(R\) being the sustainable interest rate, \(AE\) the administrative expenses, \(LL\) the loan losses, \(CF\) the cost of funds, \(K\) the capitalization rate, and \(II\) the investment income. For the above example, the rate would increase to \((15 + 5)/.95 = 21.05\%\).

\(^8\) As the measures are basically identical to typical MFI or Bank screening methods for unsecured loans, they are not detailed here. For further information please refer to the appendix.

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Emulating Mortgages for the Benefit of the Poor: Financial Innovations by Mahila Housing SEWA Trust

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**Step 2.1. 7-12-Form**

This form, regulated under the Revenue Act, defines the parcel by location and dimensions, formal land ownership and type of tenure of the land. MHT's main interest in the form is the identification of the formal owner and, as applicable, the nature of any restrictions on the transferability/salability of the land.

The form displays the name of the owner registered in the land cadaster and includes a list of former owners or incumbencies on the land. (The latter information is coded through numbers that reflect entries on the 6-Form; see below.) The 7-12-Form further documents the type of tenure—such as old or freehold tenure versus new or restricted tenure. (The former tenure forms are basically free of restrictions on the transferability, inheritability or usability of the land—in contrary to the latter.)

**Step 2.2. 8-A-Form**

This form documents whether or not the owner of the plot possesses a Non-Agricultural Use Permission (NA Permit).

**Step 2.3. 6-Form**

The 6-Form records all former transactions and changes of tenure of the land and, in conjunction with the Kabja Rasid (see below) allows reconstructing the history of the land, usually. Ideally, the name of the current owner of the plot is identical to the person from whom the occupier owners have purchased the land; otherwise—e.g. if the land was inherited thereafter—the ownership structure and the misalignment between formal cadaster and actual possession may be aggravated.

**Step 2.4. Property tax bills**

The tax bills of the loanee and her guarantors serve as possession and ownership proof. It is key to understand and acknowledge that, as the authorities are charging property taxes to the semi-formal dwellers, they recognize them as at least legitimate occupiers, if not owners!

**Step 2.5. Proof of payment of the property tax bills**

The proof of the financial transaction, sanctioning the mutual recognition of rights between occupier owners and authorities.

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9 The Revenue Act defines land management and taxation.
10 Obtaining the old/freehold tenure for a new or restricted tenure plot in order to remove any restrictions is costly: the fee is 50 percent of the land value. This may be relevant for a full formalization of the plot; however, as long as the authorities have authorized the construction (e.g. with a "plan pass" or a village committee resolution) AND the semi-formal owner possesses documents that prove the (yet unrecorded) purchase of the land, constructed buildings are not at risk. The contradicting provisions/permissions rather reflect the misalignment of the planning and revenue regimes.

11 Again, obtaining the permit is costly: the fee is 30 percent of the land value. This may be relevant for a full formalization of the plot; however, again, as long as the authorities have authorized the construction, any building is not at risk.
Step 2.6. **Tax arrears notice**

Ironically, even an official notification of tax arrears to the semi-formal occupier owner is an ownership proof, as it demonstrates the call for fulfilling the obligation to pay taxes on the property reconfirms that the authorities really recognize the prospective borrower's ownership rights.

Step 2.7. **Sales contract/Kabja Rasid**

The sales contract (Kabja Rasid in local language) is the proof of purchase of the property by the loanee. In this regard, it is again crucial to understand that it is not the lack of a property transaction but the lack of its registration that renders the prospective borrower to semi-formality.12 (Or, in other words, the clients have acquired the land, in contrast to squatters that invaded a land. This difference ought to be acknowledged, as semi-formal owners respect property rights.)

Step 2.8. **Rating of the de-facto tenure security**

Finally, based on experience MHT rates the de-facto tenure security that the prospective loanee enjoys.

We would like to illustrate this with various examples:

- The name of the loanee should be identical to the name on the property tax documents in order to indicate occupation/possession/ownership of the house. The longer the time period for which the name appears on the documents the better.
- If the house is on private land (as opposed to government land), tenure security is rated higher. The reason is that for the formal owner (registered with the revenue regime) it is virtually impossible to evict an owner-occupier who can proof the purchase of the land with a kabja rasid.
- If both the formal owner (according to the land cadaster) and the loanee have mutually signed the kabja rasid then the tenure security is higher vis-à-vis a contract signed by one or more intermediaries.
- The kabja rasid must be notarized (i.e. the transaction must have taken place in the presence of and be acknowledged by an authorized government representative.)
- Finally, the land should not be under litigation.

Step 3. **Screening the compliance with the urban planning regime**

In this third step, MHT determines the location of the land in relation to urban plans and regulations. To do so, MHT collects the following documents and checks respectively:

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12 Before 2008, registration fees and stamp duty due on a real estate transfer in Gujarat amounted to 11.9 percent of the property's market value. Obviously, the urban poor are neither able nor willing to pay such a high price for the formal registration in the property cadaster, as this entry is considered of secondary importance—compared to the physical need for housing and basic consumption and family maintenance (including food, transport, health, and school fees) that logically must have a higher priority. Even if fees have been significantly reduced to 5.9 percent, they remain unaffordable to the urban poor. It would therefore be more desirable to reduce the registration and stamp duty fees to a marginal and flat amount (e.g. INR 500), covering administrative costs. The public revenue loss may be offset by a marginally higher property tax, which spreads the costs over multiple years and, thereby, serves as a surrogate for credit and makes the formal property acquisition more affordable.
Step 3.1. Status of the Town Planning Scheme (TPS)

Firstly, MHT checks on the current status of the TPS in order to determine its relevance. The more advanced the procedural step that a TPS has taken, the more secure is the validity of the information given. The procedural steps, in order of tenure security (lowest first) are:

1. Chief Town Planner Consultation
2. Declaration of Intent
3. Public meeting
4. Draft TPS Publication
5. Draft TPS Submission to Government
6. Draft TPS Sanction by Government Notification
7. TP Officer Appointment
8. Award Notification for the Preliminary TPS
9. Preliminary TPS Submission to Government
10. Preliminary TPS Sanction by Government Notification
11. Final TPS Submission to Government
12. Final TPS Sanction by Government Notification

For the purpose of credit making, once the draft TPS is sanctioned it is fairly unlikely that major changes will occur in the positioning of roads /bridges etc. Thus, any stage as of the sanctioned draft scheme may be considered as providing high de-facto security of tenure (if the underlying asset of the proposed loan is not in conflict with the scheme; see step 3.2). However, the more advanced the process is, the better is the de-facto tenure security, as any demolition becomes more and more unlikely.

Step 3.2. Content of the TPS

MHT checks the provisions for the plot: for example, if the original plot is located on a (future) new plot, then it is highly unlikely that the property would be removed by the public authorities in case of future development; however, if a road was proposed there, then any building would be at the risk of demolition. In this regard, semi-formal owners of land that is reserved for social housing enjoy the highest security against eviction. As insightful public planners have often zoned informal settlements for this social purpose, this is a frequent and welcome surprise and a strong argument in favor of providing the credit.

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13 The actual content and procedures of steps are well explained in Ballaney (2009) as well as in the Gujarat Town Planning and Urban Development Act (1976). As the Government of Gujarat has put in place an online database for monitoring the TPS progress, to obtain this information appears to be simple. However, ironically, the paper-based records are apparently updated more frequently so that it is more reliable to use the paper-based system.

14 The Declaration of Intent has the following sub-steps: a) TP Committee Resolution; b) Gazette Notification; c) Publication in two local newspapers; d) Intimation to Government

15 With invitation/results published in two local newspapers

16 The Publication has the following sub-steps: a) TP Committee Resolution; b) Gazette Notification; c) Publication in two local newspaper; d) Intimation to Government

17 Submission to Government has the following sub-steps: a) Letter to Government; b) Resolution
Step 3.3. Provisions of the Development Plan (DP)
MHT also cooperates with the municipal corporation in order to confirm that the city development plan (DP) does not conflict with the underlying collateral. The DP makes provisions such as zoning and layout regulations. In most cases, residential is a permitted use so that the DP is hardly an obstacle to credit. This is especially true, as MHT also collects the following construction permission.

To do so, MHT collects partial TP and/or DP plans, authorized by the municipal corporations or urban development authorities.

Step 3.4. Any variation of a construction permission
Finally, MHT also collects any documents demonstrating public approval of the construction. This approval may be provided in form of a No Objection Certificate (if the land is fully formal and the construction would comply to official standards) or other means—such as a village committee resolution or a "plan pass". MHT identifies construction permissions more often in rural areas (or from "rural times" in urban areas): for example, the Gram Panchayat may have recorded and approved the construction plans; however, if the land status changes from rural to urban then the dwellers usually lack such permissions for any subsequent construction (e.g. an incremental housing expansion as it is typical for the low-income segment). If applicable, the rural NOC provides a high level of de facto security for a loan.

Step 3.5. Check list
While checking all documents of the revenue (step 2) and planning regime (step 3), a checklist on the security of tenure is completed; this checklist is provided in the appendix, too.18 If both the borrower (step 1) and the property (steps 2 and 3) are eligible then the credit cooperative continues the procedure. Steps 1 to 3 may happen moreover simultaneous; however, all following steps are consecutive.

Step 4. Advanced Power of Attorney
This step is crucial for creating a legal contract that allows using the house as collateral. To do so, the Advanced Power of Attorney seeks to emulate a mortgage as closely as possible. Therefore, the contract is always notarized. It basically ensures that the credit cooperative is able to take over the possession of the property in case of default—even if the property is not mortgaged according to the formal regulatory framework, as this may not be possible for uncertainties due to land management and planning conflicts. Nevertheless, the emulation of a mortgage reduces lending risk and, thus, permits a reduction in interest rate, which is key in order to improve the affordability and to reduce urban poverty.

How does the advanced power of attorney work? With the advanced power of attorney, the borrower basically transfers the right to represent him/her and sign on his/her behalf to another party (in our case to the lender: i.e. MHT and the credit cooperatives). As a consequence, the lender (in possession of the advanced power of attorney) is able to sign any document in the lender's own favor. Thus, in case of default, it is easy to take the case to court

18 In a process of further improving the screening mechanism, MHT considers to also investigate whether other provisions for the land exist—such as reservations through the Land Ceiling Act. These provisions however may reflect already in the planning and revenue documents screened.
and then to transfer the underlying asset (i.e. the land and the house) to the lender. An advanced power of attorney is often used in order to improve the security of commercial loans: for example, when purchasing a TV the buyer may guarantee the seller/lender that he may repossess the object in case of default. In addition, the advanced power of attorney also empowers the seller/lender to impose a stay order against sale or transfer of the property until the loan is repaid in full.

MHT and the credit cooperatives now use the same contract and procedures for semi-formal properties in order to emulate a mortgage.

How is the advanced power of attorney different from a mortgage? In case of a mortgage the bank basically takes over the ownership of the mortgaged property and keeps it (including the title documents) in the bank until the mortgage is repaid in full. Or, in case of default, the bank has the power to foreclose the mortgage and take possession of the property without any action of the court. In the contrary, with the advanced power of attorney the lender still needs to take the borrower to court (which costs time and money). However, in court the lender may represent the defaulting loanee (as stipulated by the advanced power of attorney) and sign any document in order to take possession of the property. In comparison to a regular law case where two opposing parties represent their own view of the case, a court trial based on a power of attorney is much simpler and safer from point of view of the lender (which saves time and money). Thus, the advanced power of attorney squares somewhere in-between the traditional mortgage and a typical uncollateralized loan.

What are the steps necessary to finalize the advanced power of attorney? The credit cooperative and the prospective loanee sign the advanced power of attorney in front of a notary. The contract gives the lender the right to sign on behalf of the loanee and, thus, to more easily possess the collateral in case of default. In order to supplement the power of attorney with as much evidence as possible on the multiple ownership rights that the semi-formal owner-occupier enjoys, the documents collected during steps 2 and 3 are attached to the advanced power of attorney.

Finally, to withstand any challenge in court, all attached documents—not only the advanced power of attorney—should be verified, officially. However, one caveat exists here: the stamp duties payable for the official verification of so many different documents would amount to approximately INR 5,000. This fee would be prohibitively expensive and make the loan unattractive, if not unaffordable. Therefore, MHT and the credit cooperatives have resorted to a practicable shortcut: the advanced power of attorney also stipulates that the lender may collect the verification at any later date (i.e. if the loan enters into default) and add on the full verification cost to the outstanding loan balance. Thereby, in case of default the lender can obtain all documents that may be required for a successful trial—but avoids any unnecessary charge on its poor customers.

Step 5. Loan closing

If all documents are collected (Step 1 to 4) and all information verified then the credit cooperative makes the credit decision based on this information. In case of a positive decision the following documents are prepared:

Step 5.1. Loan Contract

The parties sign a contract stipulating the loan properties, including stage-wise disbursement details and default proceedings. (If the borrower turns more than 3 monthly installments late then the credit cooperative has the permission to take possession of the property.)
Step 5.2. Affidavit for the collateral
The affidavit states that the loanee has not mortgaged/collateralized the house with anyone else.

These first two documents are the only loan closing proceedings that really differ from other microcredit schemes.

Step 5.3. Government-certified demand promissory note
The note states the loan amount and interest rate.

Step 5.4. Letter of lien
With the signature under the letter, the borrower accepts the lending rules. (This procedure is equivalent to those of SEWA Bank.) Through a separate signature, she further gives permission to the credit cooperative to possess "anything" in case of default, including any savings or other assets with the credit coop.

Step 5.5. Declaration to pay EMI
To collect further (duplicate) evidence that the loanee understands her obligation to repay the Monthly Equal Installment (EMI) of a given amount, a separate document is signed to document this.

Step 5.6. Dhirela nana ni kabulat: loan closure document
The dhirela nana ni kabulat includes the loanee and guarantor information and is certified with any government-owned bank.

The reader will observe that the information in the above documents is somewhat redundant. For example, several documents contain the information on the loan details; several documents contain the information on the borrower and her acceptance of the credit cooperatives taking possession of the property in case of default; etc. While room for streamlining the documents may exist, in general the lender adheres to the cultural standard of producing as much evidence as possible, as the redundancy will help to withstand any legal challenge.

Step 6. Loan disbursement
The loan amount is released in multiple installments, depending on the construction process, in order to ensure that the capital is truly invested in the collateral so that it could be recovered in case of default. Again, multiple steps are followed, with technical checks differing from ordinary procedures for commercial/entrepreneurial loans usually followed by MFIs:

Step 6.1. Disbursement fee calculation
After loan closing, the lender issues an information on the disbursement fee: how it is calculated and how deducted from the amount(s) paid out.

Step 6.2. 1st technical check (at plinth level)
Upon completion of the plinth level and per request of the loanee, an MHT engineer visits the construction site and checks if everything is on track. If so, MHT staff issues a technical certificate that is a necessary trigger for the release of the first installment.
Step 6.3. 1st disbursement by check
A check payable to the loanee is issued.

Steps 6.2 and 6.3 are repeated upon completion of the lintel level, of the slab and of the finishings (i.e. completion of the full house).

Step 6.4. 2nd Technical check (at lintel level)
Step 6.5. 2nd Disbursement of next installment by check
Step 6.6. 3rd Technical check (at slab level)
Step 6.7. 3rd Disbursement of next installment by check
Step 6.8. 4th and final technical check (after completion of all finishings)
Step 6.9. 4th and final disbursement by check

Step 7: Hypothecation Board

Upon completion of construction and the disbursement of the final installment, a “hypothecation tablet” is attached to the new property, indicating that the property is lien with the credit cooperative until the loan is fully paid up.

Conclusion

The collective of MHT and its partners, in particular the two credit cooperatives who make the actual loan decision after land management and planning support by MHT, has had multiple comparative advantages over other potential lenders in the 1 to 5 lakh housing segment—be they large banks catering to the middle and upper class or microfinance institutions catering to the poor. MHT entered the housing finance space after the organization had already developed (1) technical expertise in construction, (2) social expertise in mobilization and organization of low-income communities for self-help, (3) financial expertise in microsavings and credit, and (4) legal and technical expertise in screening (and potentially improving) the de-facto tenure security in slums. (For more information on this expertise refer to SEWA (2008) and Nohn et All (2007.) More generally, MHT's concept to innovative low-income housing finance is described in the following table, distinguishing activities that a lender must pursue in order to ensure portfolio health and those that the lender may pursue in order to create additional public value. Besides populating all four dimensions of interventions, it is the optional activities, and the information generated thereby, that gave MHT and its partners the security to go a head with the experiment.

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<th>Services</th>
<th>A financially-sustainable program must provide</th>
<th>A financially-sustainable program may provide</th>
<th>Cooperating partner with the highest competency</th>
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<tbody>
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<td>Check social collateral of informal borrower</td>
<td>Build strong communities that serve as development platforms</td>
<td>MBO, CBO, NGO, social movement</td>
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<td>Financial</td>
<td>Check capacity and willingness to pay</td>
<td>Train financial literacy</td>
<td>Bank, MFI, NGO</td>
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<td>Assist in budget allocation</td>
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<td>Combine credit and savings</td>
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<td>Check structural safety of the house</td>
<td>Improve structural safety</td>
<td>Technical NGO, developer, university</td>
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<tr>
<td></td>
<td></td>
<td>Increase disaster resistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce construction cost</td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>Check de-facto tenure and likelihood of</td>
<td>Assist in obtaining more secure or even formal de-</td>
<td>Public administration, technical NGO</td>
</tr>
<tr>
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</table>

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Table 1: activities that a lender must or may pursue

Last but not least it must be mentioned that the flexibility of the two credit cooperatives, driven by the demand of their members and the willingness to take the risk of any try "and error" approach, has been crucial for making the innovation. And, thus far, the credit cooperatives have proven right: not a single collateralized housing loan for semi-formal properties with high tenure security went into default, nor even in arrears. To build on this success, MHT plans to scale collateralized housing loans of semi-formal properties with high tenure security to the national level and is willing to support other organizations in replicating the approach.

The authors are available for feedback, discussion and technical support. Bijal Brahmbhatt, MHT Director can be contacted at bijalb@mahilahsg.org; Matt Nohn, MHT Advisor can be contacted at nohn@post.harvard.edu.
Bibliography


Appendix 1
The Case of Shakuntalaben from Surat Credit and Savings Cooperative

My name is Shakuntalaben Sainath Patil. I completed my studies up to the 7th standard and married with 13 years. At that time my husband was studying ITI. I became a mother of a girl with 19 years. As an agricultural laborer, I lived with my in-laws in a small village of Maharashtra. Along with my husband, I moved to Surat from Malegaon, Nashik in search of work. My husband became a diamond worker. He earned INR 2,000 per month, and I worked part-time in wiring. Initially, we rented a house in Vinobhabhavanagar, then in Padmavatinagar and eventually in Shirdidham where we still live today.

In 1988, the owner of the plot proposed a housing scheme: each buyer had to pay a total of INR 10,500 for buying a subdivision. So, my husband paid up the total amount in ten installments. We constructed our own house of one room with the help of wooden planks. The cost of the construction was INR 8,500, which we financed with our savings of multiple years. After six months, we added a second room with the help of my husband’s employer. Subsequently a third room was added with the help of further savings. In 1998, we got our daughter married from the same house that we had built with so much pain and hard work. For my daughter’s wedding, we had been saving all these years and hence did not have to borrow from any moneylender. In 2005, I bought a motorbike worth INR 50,000. I could manage INR 10,000 from my savings. The remainder was financed through a loan from HDFC bank with an EMI of INR 1,637 for 30 months, which I completely cleared in the said period.

After this, I joined the Surat Mahila Cooperative Mandal and took my first loan of INR 5,000. At this time we were living in one room of our house and had rented out the second room for INR 500 per month. The third room was converted into a petty shop where I sell grains. Due to regular income, we could complete the loan in 15 months.
Before taking this loan, I was also involved in running a Vishi. All members contributed INR 2,500 every month, then their names were written on small pieces of paper that would be tossed and the one name that was chosen would get the total money contributed i.e. INR 25,000. In this manner, every month one person would get the total amount. Once a name is declared then she would not be eligible until each member received the INR 25,000 payout once and the scheme would start over again. Once I had also received a total amount of INR 25,000. But at present I have stopped investing in the Vishi, as I cannot afford to pay INR 2,500 every month while repaying my outstanding housing loan.

When I decided to build the new house, I applied for a loan from my mandala of Surat Mahila Cooperative. My husband was uneasy and told me that if our loan does not get sanctioned then people will laugh at us because we had left our house before the loan got sanctioned. He argued that if the loan did not get sanctioned then he would not go back to the old house. I calmed him down as I had full faith in the Mandali's decision. Simultaneously, I emptied my old house and distributed all my belongings in various places. Due to good personal relations, people do not charge me anything for keeping my things in their custody. However, I need to temporarily rent a house in Umiyanagar for INR 800 per month while we tear down the old house in order to be able to construct the new one.

After the loan got sanctioned, I borrowed INR 50,000 from one of my relatives. In addition to repaying the loan, I will also have to return that money. However, relatives do not expect to get any interest on the loan that they provide to their near and dear ones. Nevertheless, I will pay them back with 2 to 3 percent interest according to the existing market rate. At present, the loan sanctioned for my house amounts up to INR 2,50,000. But my house will cost INR 3,50,000. Hence I still have to manage the remaining amount from elsewhere. Also once the house is constructed, a Pooja will be done and the wiring, plumbing and extra costs would drive up the total amount to 4,00,000. My house is situated on a street corner; hence, it is profitable as houses constructed at a corner generally have a good resale value. Also if you have to rent it, you get a good rent. Also, due to good ventilation the house uses less electricity; hence, the cost of electricity is reduced. Finally, my shop will also run successfully on the corner. Therefore, I will complete my loan as soon as possible and afterwards will raise the second floor of my house and will do it with the money earned out of the rent of my house.

My husband was a diamond worker and a rickshaw driver and used to earn INR 10,000 per month. But now, as our house is being constructed, he is putting his energies in building up the same and driving the rickshaw part-time. He does not go to the diamond market anymore. I earn around INR 5,000 from my shop and manage my house quite well. My daughter and her two children also live with me. She works in the diamond market and earns around INR 6,000 per month. I had saved around INR 80,000 but due to my son in law falling ill had to spend nearly INR 45,000 towards his medical bills. My grand children are studying in Standard 7 and 3 in an English medium school and their monthly fee is INR 1,000 [total/each].

The plot that I had taken up was in my name and now we have transferred the plot in my daughter’s name because we will not live for long and no relative can claim their right on the house after our death.

Our dream is that our grand children find success in their lives and become good human beings.

---

19 Vishi is the local name for a merry-go-round or ROSCA.
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Figure 3: Shakuntalaben and her family in front of their new home

Figure 4: Just as lenders in the formal market do, MHT and the credit cooperatives use a hypothecation tablet in order to demonstrate their achievements and to advertise their product. (Note: this photo taken from another case.)
Appendix 2—Sample Documents

Step 1. Screening the eligibility of the prospective client

Step 1.1. Loan application form

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Appendix 2—Sample Documents

Step 1. Screening the eligibility of the prospective client
Step 1.2. Loanee's electricity bills (as address proof)
Appendix 2—Sample Documents

Step 1. Screening the eligibility of the prospective client
Step 1.3. Loanee's election card (as ID and address proof)

Step 1.4. Guarantors income declaration
Appendix 2—Sample Documents

Step 1. Screening the eligibility of the prospective client

Step 1.5. Guarantor 1’s driving license (as ID proof)

Step 1.6. Guarantor 1’s election card (as ID and address proof)
Appendix 2—Sample Documents
Step 1. Screening the eligibility of the prospective client
Step 1.7. Additional documents (e.g. ration card)
Appendix 2—Sample Documents

Step 1. Screening the eligibility of the prospective client

Step 1.8. Additional documents (e.g. ration card)
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Appendix 2—Sample Documents
Step 2. Screening the ownership rights on the land
Step 2.1. 7-12-Form

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Appendix 2—Sample Documents
Step 2. Screening the ownership rights on the land
Step 2.2. 8-A-Form

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Appendix 2—Sample Documents
Step 2. Screening the ownership rights on the land
Step 2.3. 6-Form

*Copy missing*
Step 2.4. Property tax bills

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Note: Property tax is calculated based on the ownership rights on the land.
### Appendix 2—Sample Documents

**Step 2. Screening the ownership rights on the land**

**Step 2.5. Proof of payment of the property tax bills**

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![Sample Document Image](image-url)

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Appendix 2—Sample Documents
Step 2. Screening the ownership rights on the land
Step 2.6. Tax arrears notice
Appendix 2—Sample Documents
Step 2. Screening the ownership rights on the land
Step 2.7. Sales contract/Kabja Rasid
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Appendix 2—Sample Documents

Step 3. Screening the compliance with the urban planning regime

Step 3.1. Status of the Town Planning Scheme (TPS)
Appendix 2—Sample Documents
Step 3. Screening the compliance with the urban planning regime
Step 3.2. Content of the TPS
and
Step 3.3. Provisions of the Development Plan (DP)
(as per partial plan—and additional documents such as written regulations)
Appendix 2—Sample Documents
Step 3. Screening the compliance with the urban planning regime
Step 3.4. Any variation of a construction permission
(Here the loanee's copy of a "plan pass" and, on the following page a village committee resolution.)
Appendix 2—Sample Documents

Step 4. Advanced Power of Attorney
WHEREAS due to my pre occupation I am being unable to look after my personal property, I am desirous of appointing some fit and proper person or persons to look after the same and accordingly requested SHREE SURAT MAHLA SEWA NAGARIK DHIRAM SAHAKARI MANDLI LTD., a Co-operative Credit Society registered under the Gujarat Co-operative Societies Act, 1961(Act X of 1962) and having its registered office at: 18/141, Khatodara Housing Colony, Bethi Colony, Udhana Darwaja, Khatodara, Surat-02, through its Managing Director/ General Manager/Manager or any other person duly authorized in that behalf (hereinafter called "THE ATTORNEY") to act for us in our name and to look after our below stated property to which the attorney has consented to do.

NOW KNOW YE AND THESE PRESENTS WITNESSETH THAT I, the above named and undersigned do hereby nominate, constitute and appoint ATTORNEY, as my true and lawful attorney to act in conduct, manage and look after the property being all that piece and parcel of the property situated at District Surat Sub-District Choryasi City of Surat Mouje Navagam Revenue Survey No.234/3-4, Block No.372-375 Land of Shirdhamnagar Society, Sub-Plot No.64, admeasuring about 12 Ft. x 35 Ft. and for the purpose as aforesaid I hereby confirm upon the Attorney the following powers and authorities.

(1) a) To manage my aforesaid immovable property belonging to me in my name either directly or indirectly and to let, to give notices to tenants or occupiers thereof, to accept surrender any tenancies and to take proceedings against tenants, occupiers or trespassers and also against any person or persons regarding any rights affecting the said property and to repair the same to collect rent and other income thereof.

b) To sell my aforesaid immovable property in such price and on such terms as the Attorney think fit and sign, execute,
delivery, present, register and perfect and carry out any agreement for sell, Deed of conveyance, Assignment, to receive consideration, issue receipt, and to accept or give such declarations, covenants, indemnities in connection with title or otherwise in connection with any sale, or otherwise as the Attorney think fit.

(2) To appear on my behalf and represent our interest before income-tax offices, Appellate Tribunal and wealth-tax, Gift-tax, Expenditure-tax and other taxation Authorities concerned with taxation of income or capital or properties or estates and also all other officers or authorities or bodies, municipal or revenue or judicial or under any Act, before any public officer or body or authority whomsoever and sign and file any application, returns, statements, claims, objections and appeals reviews, revisions refund applications as the said Attorney may think fit.

(3) To sign, to execute, to present, to deliver and to register or otherwise perfect or cause to be signed, executed presented, delivered, registered and perfected any agreement, lease, conveyance and other documents and assurances.

(4) Generally to manage all affairs in respect of aforesaid property belonging to me in such manner as the said Attorney may think fit, and to sell, sign, transfer, assign and dispose of and to make any arrangements or payments in respect of said property.

(5) AND IN GENERAL to do all such other acts, matters, deeds, and things whatsoever in respect of said property, on my behalf in doing all acts, deeds and things herein either particularly or generally described as apply and effectually and to all intends and purposes as I could do in my own personal capacity as well during our absence as during our presence at the same time and place.
AND I hereby for myself, my heirs, executors and Administrators agree to ratify and confirm all and whatsoever our said Attorney shall do or purport to do or cause to be done by virtue of these presents.

IN WITNESS WHEREOF I SHAKUNTALABEN SAINATHA PATIL,
has hereunto set and subscribed my hand at SURAT on this Thursday day of 15th December, 2011.

SIGNED AND DELIVERED BY
THE WITNENAMED

SHAKUNTALABEN SAINATHA PATIL

WITNESS:

[Signature]

Identify the Signatory Person & Exhale Documents by the Advocate

[Signature]

Solemnly Affirmed Signed / Declared Before Me

JAGRUTI YADAV
Advocate & Notary
Surat Gujarat
Govt. of India
Reg No. HTR/4590/07

Sr No. 1680 11
Date 15.12.2011

M. 99999 09122
JAGRUTI YADAV
ADVOCATE & NOTARY
Parivar Appt., Sayan Road,
Amboli, SURAT. (Guj.) INDIA
Appendix 2—Sample Documents
Step 5. Loan closing
Step 5.1. Loan Contract

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Appendix 2—Sample Documents
Step 5. Loan closing
Step 5.2. Affidavit for the collateral

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Appendix 2—Sample Documents
Step 5. Loan closing
Step 5.3. Government-certified demand promissory note

政府认证的即期票据


dimash pr. not

日期: 9月20日

借款人：

金额：

收款人：

银行：


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Appendix 2—Sample Documents

Step 5. Loan closing
Step 5.4. Letter of lien

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Appendix 2—Sample Documents
Step 5. Loan closing
Step 5.5. Declaration to pay EMI

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Appendix 2—Sample Documents

Step 5. Loan closing

Step 5.6. Dhirela nana ni kabulat: loan closure document

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Appendix 2—Sample Documents

Step 6. Loan disbursement

Step 6.1. Disbursement fee calculation

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**Note:** The table above is a sample document for the disbursement of a loan.
Appendix 2—Sample Documents

Step 6. Loan Disbursement

Step 6.2. First technical check (at plinth level)
Appendix 2—Sample Documents

Step 6. Loan disbursement

Step 6.3. First disbursement by cheque
Appendix 2—Sample Documents

Step 6. Loan disbursement

Step 6.4. Technical check (at lintel level)
Appendix 2—Sample Documents

Step 6. Loan disbursement

Step 6.5. Disbursement of next installment by cheque

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Appendix 2—Sample Documents
Step 6. Loan disbursement
Step 6.6. Technical check (at slab level)
Appendix 2—Sample Documents
Step 6. Loan disbursement
Step 6.7. Disbursement of next installment by cheque

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Appendix 2—Sample Documents
Step 6. Loan disbursement
Step 6.8. Technical check (after completion of all finishings)

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Appendix 2—Sample Documents
Step 6. Loan disbursement
Step 6.9. Final disbursement by cheque

*No document copy*
Appendix 2—Sample Documents
Step 7: Hypothecation Boards

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