

# Land as Collateral

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# Land and access to finance in India: Mapping the status

- Land as wealth.  
Land accounts for 73% of assets (buildings another 21 percent). Urban households own almost 92 percent of their assets in land and buildings.
- Land as collateral - financial inclusion, access to credit, basis for livelihoods
- Land markets - sales and lease - instrument of income and consumption smoothing, efficient allocation of productive resources.  
Have become active recently but a lot of is unrecorded.

## Desirable characteristics of a collateral

- Fixed, not movable or mobile.
- Be appropriable.
- Be salable or have the possibility of being converted into cash to cover the loan transaction.
- Constitute a loss (or feel like one) to the borrower.
- Be durable or sustainable during the contract time.
- Transactions costs of using an asset as collateral must not be too high for the borrower and must directly relate to the loan amount and terms.

Potential for land as collateral is huge, provides rationale for land records modernization, clarity of titles, etc.

## Some estimates

- Mortgage loans account for only a small part of total liabilities (23%) most Indian household debt is unsecured (56%) - Committee on household finance, 2017
- Nearly 50-60 percent of all retail loans are indexed to real estate (Krishnan, et al, 2016)
- About 80 percent of all corporate debt is secured, of which about half of all term loans are collateralised against land and buildings.
- Among agricultural loans, more than 80 percent of all loans have land as collateral. Only 10% use land as collateral from informal and unorganised lending sectors (Rajeev, Vani and Bhattacharjee (2011).

Not much clarity on numbers vis-a-vis rural finance.

Goal of mapping the status of use of land as collateral - especially rural - segue into research.

- Estimates of extent of use land as collateral.
- Who uses land as collateral? Household characteristics and spatial variations.
- Perspectives from the field (Maharashtra).
- Research in progress on two policy questions.

- Nationally representative sample (70th Round National Sample Survey 2013)
  - 18.1 Land and livestock - extent of leasing, ownership, use.
  - 18.2 Credit/collateral information.
  - 33 Agricultural households (only informal/formal lending)
- Eventually, combine these with an earlier rounds (59th and 48th Round National Sample Survey)

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## Concepts

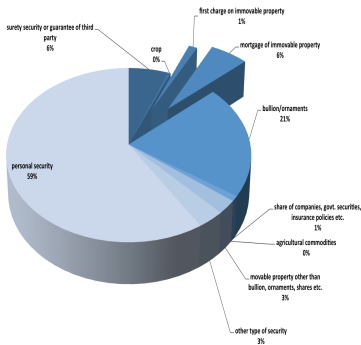
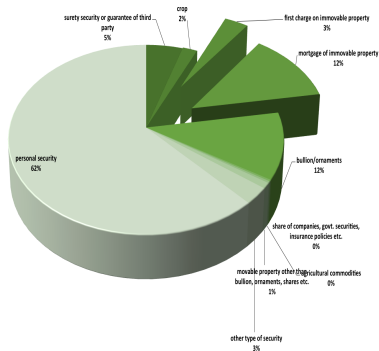
- Each household visited twice over 2013. Recall period 2012-2013.
- Outstanding as on 30.06.2012 and 01.07.2013; Loans in the recall period of the survey
- Collateral read from category of “immovable property”
- Distinction between “first” charge and “mortgage”

# Estimating use of land as collateral

- Mortgage is way more prevalent than first charge on immovable property (4-5 times more)
- 3.5% of rural households, 1.4% of urban households of report first charge on immovable property (V1)
- 3% and 1% of rural and urban loan transactions respectively, for the survey year (V1)
- 11.5% and 7.9% of total value of all loans and 2.9% and 4.5% of the number of all loans recorded in the survey (V1).
- implies borrowing against land as collateral is associated with higher ticket size.



# Proportion of transactions using different types of security



# Who uses collateral? (1)

- Single owners are more likely than joint owners to use immovable property as collateral but the odds are higher in rural areas - twice as likely in rural areas and 1.2 times in urban areas
- In each occupation category, the proportion of borrowers in rural areas using land as collateral is higher than in urban areas; those in agriculture are the highest - but only 22%
- First charge dominated by government, cooperatives, commercial banks
- Bullion dominated by cooperative banks, commercial banks and financial companies, corporation and institutions
- Urban: Professional money lenders use bullion, input suppliers mortgage on immovable; Rural: Insurance companies mortgage and first charge

# Collateral use by ownership

<b>Ownership</b>	<b>Rural</b>	<b>Urban</b>
Full ownership of land	15.60%	2.30%
Partial ownership of land	7.30%	1.90%

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## Use of immovable property as collateral by occupation

(as % of those with cash loans)

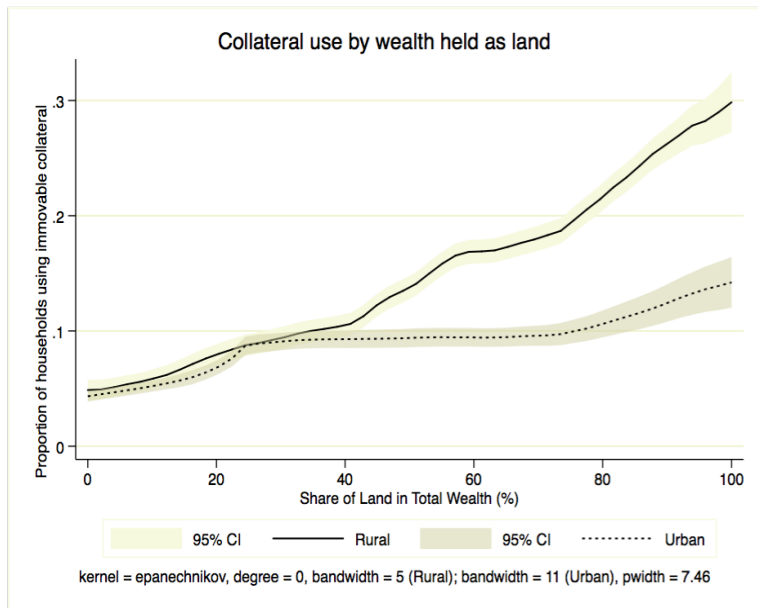
<b>Occupation</b>	<b>Rural</b>	<b>Urban</b>
1 Self employed (agriculture)	22	
2 Self employed (non-agriculture)	12	10.3
3 Regular wage/salary earning	10	7.3
4 Casual labour in non-agriculture	5	2.8
5 Others	11	5.5
<b>Total</b>	<b>15</b>	<b>7.3</b>

# Source of finance

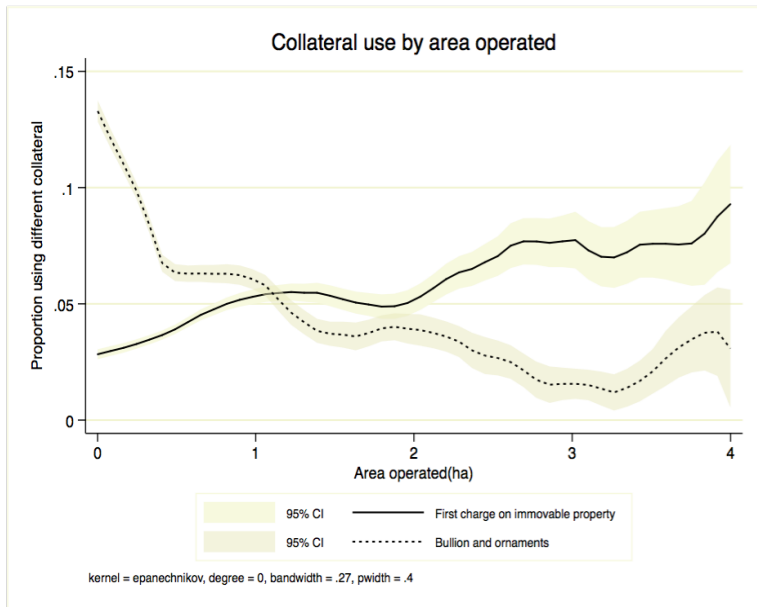
Of the total number of transactions . . .

Security	Urban		Rural	
	Formal	Informal	Formal	Informal
Personal security	47.1	73.9	48.5	79.2
Bullion/ornaments	19.7	9.7	12.2	7.2
Financial assets	8.5	0.2	5.8	0.0
Surety/third party	8.1	2.3	7.2	3.0
Mortgage of immovable property	6.0	6.8	13.4	3.8
Other type of security	5.2	5.4	3.9	4.1
Other movable property	3.3	1.4	2.1	0.8
First charge on immovable property	1.7	0.1	4.1	0.6
Crop	0.4	0.1	2.5	1.1
Agricultural commodities	0.0	0.0	0.3	0.1

# Who uses collateral? (2)



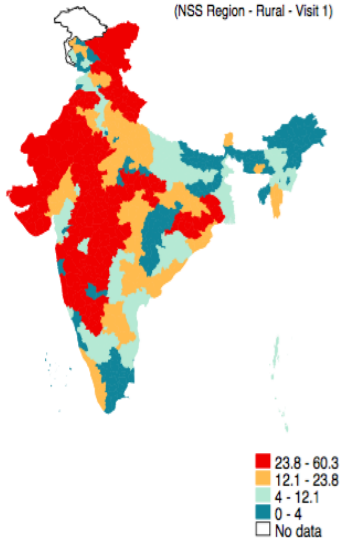
# Who uses collateral? Rural only (2)



# Spatial variations in use of land as collateral

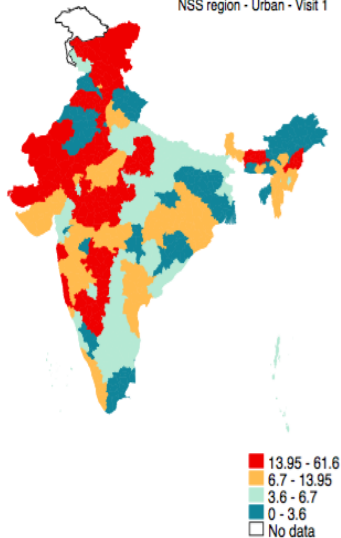
% HH using immovable property as collateral

(NSS Region - Rural - Visit 1)



% HH using immovable property as collateral

NSS region - Urban - Visit 1





# Constraints on land as collateral

- Key proponents of property rights reforms saw land titles as catalyst for credit access.
- Yes, several existing impact assessments fail to find significant credit supply response.

Why might this be the case? Quality of an asset as an ideal collateral is not absolute and is institutionally and socially determined.

- Does not support the transfer of land .
- Too valuable to risk using as collateral.
- Transactions costs to borrower of using land as collateral.

# Perspectives from the field

Field study of 102 parcel owners in Palghar and Mulshi talukas, Maharashtra, 2016-17.

By and large, little discordance with respect to ownership, yet few used land as collateral for loans/mortgage (11%), half of whom borrowed from cooperative society.

- All borrowing for agriculture
- Seems to be a matter of preference
- Many say loan is “instant” if one uses land, get more loans; other say it is the only thing they have
- Those who don't use land - say gold is available, “land is like a mother”, would be the last resort, land not in their name. Land and jewellery were the forms of wealth most trusted.
- All said if they defaulted a loan for which land was collateral, nothing would happen.

- ① Are land titling issues/ land market structure binding constraints in access to finance or is it credit market failures?
  - *Feder and Nishio (1998) land titling is most effective when robust financial markets exist.*
  - *Pender and Kerr (1999) land right had scant effect on credit —because of the scarcity of formal credit sources in the survey areas’.*

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- ② Can recognition without rights have positive impacts ? The Andhra Pradesh Land Licensed Cultivators Act, 2011

# Credit supply- land titling (1)

- Expansion of credit for greater financial inclusion, but still very uneven.
- Debt waiver
- Interest subvention
- Doubling of institutional credit
- Priority Sector Lending : Altered definitions and emphasis.

NSS 70th Round data (2012-13) 70th round suggests 42% of outstanding loans still to informal lenders. Is land the binding constraint?

# Recognition without rights(1) The Impact of APLLCA

- Historically tenants had limited access to formal sources of credit, insurance, etc. all of which were tied to ownership of land.
- Undivided AP passed a legislation called the Andhra Pradesh Land Licensed Cultivators Act, 2011
- Tenant cultivators now got a license that enabled access to financial services (despite not holding land)
- This was not land title, but it was recognition of tenancy via a Loan Eligibility Card (LEC)

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  - Tenant cultivators now got a license that enabled access to financial services (despite not holding land)
  - This was not land title, but it was recognition of tenancy via a Loan Eligibility Card (LEC)
- Triple difference estimate using AP versus other states, 70th round versus 59th round, tenants versus landlords.
- Initial estimates suggest positive impacts on access to formal credit but not increased farm investment.