A study on Housing finance in India
CHAPTER - III
HOUSING FINANCE IN INDIA

Recently, housing finance has not only become popular, but the procedure for obtaining a loan has become very simplified and housing loans are easily available. This may be attributed to the change in the housing policy of both the Central and State Governments. A redeeming feature of Indian housing finance is the recent entry of commercial banks in a big way. State Bank of India has set up a separate housing finance subsidiary called “SBI Home Finance” similarly, the Canara Bank has set up a separate housing finance company.

According to the Longman dictionary of contemporary English, housing means the “houses or conditions that people live in”. The related terms are housing association, housing estate and housing projects. A set of all financial arrangements that are made available by Housing Finance Companies (HFCs) to meet the requirement of housing is called housing finance.

Housing and land development occupy a peculiar position in India, so far as the State and Central Governments are concerned. Both the governments have the power to make enactments on the subject of housing and land. As a result, the housing policy in India has been wide and varied. The central government had adopted a five year planning strategy through which it makes some fiscal concessions for housing. State governments have the power to legislate and have their own sources as specified in the National Housing Habitat policy (1998). Further, land
development agencies can borrow from housing and land development agencies operating throughout the country.

The years after independence in India, witnessed an increased government control in the housing sector. In the pre-independence period, land owners could easily prepare housing layouts and put their lands into the market or their lands could become part of Town Planning schemes and could be brought into the market. They could even form co-operative societies and bring their land into the housing market. However, in the post – independence period, all this has changed in a big way.

A series of government measures in the post-independence period led to an increase in government control on the housing market and imposed several constraints on the supply in an ever increasing demand scenario. See the Table No. 2.1. Some of these government controls in the housing sector are as follows:

a) Creation of development authorities and housing boards as the major housing providers was initially good but later, on due to their very slow progress on account of a variety of reasons, led to the emergence of various popular forms of housing provision which were not entirely legal.
### Table 1: Various Housing programmes of the Government of India (1947 – 2003)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the program</th>
<th>Year of Launch</th>
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<tbody>
<tr>
<td>1.</td>
<td>Integrated subsidised Housing scheme for Industrial worker and EWS.</td>
<td>1952</td>
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<td>2.</td>
<td>Low Income Group Housing scheme</td>
<td>1954</td>
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<td>3.</td>
<td>Subsidized Housing scheme for Plantation workers.</td>
<td>1956</td>
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<td>4.</td>
<td>Middle Income group Housing scheme</td>
<td>1959</td>
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<td>5.</td>
<td>Rental Housing scheme for State Government Employees.</td>
<td>1959</td>
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<tr>
<td>6.</td>
<td>Slum clearance and Improvement scheme</td>
<td>1956</td>
</tr>
<tr>
<td>7.</td>
<td>Village Housing projects scheme</td>
<td>1959</td>
</tr>
<tr>
<td>8.</td>
<td>Land Acquisition and Development scheme</td>
<td>1959</td>
</tr>
<tr>
<td>9.</td>
<td>Provision of House sites for Houseless workers in Rural Areas.</td>
<td>1971</td>
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<tr>
<td>10.</td>
<td>Environmental improvement of Urban slums</td>
<td>1972</td>
</tr>
<tr>
<td>11.</td>
<td>Sites and Service Schemes</td>
<td>1980</td>
</tr>
<tr>
<td>12.</td>
<td>Indira Aawas Yojana</td>
<td>1985</td>
</tr>
<tr>
<td>15.</td>
<td>2 million Housing program</td>
<td>1998</td>
</tr>
</tbody>
</table>

**Source:**
The popular models of land and housing development are

1. Town planning schemes

2. Development Authority projects – They get the land acquired through the Central Land Acquisition Act (CLDAA) of 1894 and then develop the lands which are funded through National Housing Bank (NHB) or the Housing and Urban Development corporation (HUDCO)

3. Housing Board projects – done on a “no profit no less” basis with funds obtained from funding agencies or from purchasers themselves.

4. Co-operative society projects where people come together and form a society which arranges for land by constructing houses on its own.

PRIVATE REAL ESTATE DEVELOPERS

The real estate developer purchases lands from the landowner, gets all the required permission from various government agencies, does the booking of the houses and collects advance money from the end-users. The construction is then carried out and the property is handed over to the end users.
PUBLIC – PRIVATE PARTNERSHIP

These are partnerships between the government organizations like the development authorities and private business enterprises like real estate developers which result in better management, access to capital, speedier delivery and better quality.

SLUM BOARDS PROJECTS

They are state level organizations which carry out slum clearance and improvements, with emphasis on site development or in site upgradation.

GOVERNMENT EMPLOYEES’ HOUSING

There are a large number of government organizations, both at state and central level, which provide accommodation to government employees as part of salary perquisites.

Eg. Central and state public works Department, the Railways, the police, Post and Telegraph Departments, Defence.

GOVERNMENT PROGRAMMES

Under the various schemes fixed amounts of financial assistance are given to a select group of people so that they can build shelter for themselves. These are grants and no recovery is expected. Other programs like Night Shelter programs are also implemented for the benefit of the poor.
The major problems faced in these programmes are

1. Funds are too meagre to meet the local demands / needs.
2. Owing to lack of capacity at local agency level, funds are not spent on time and surrendered / lapsed.
3. The programmes are ‘top down’ concepts since they do not involve the people.
4. Assets created do not go to the beneficiaries intended and even if they do, they do not stay in their lands for long because the properties were constructed at remote localities and
5. Where a loan component is involved, the recovery of loan is poor and becomes “bad assets”.

HOUSING DEFICIT

It has been established that the current housing deficit will lie anywhere between 22 to 26 millions units. It will increase to 42 millions by the end of the 9th Five Year Plan. Mostly the low-income group people feel the impact of the deficit. Two – thirds of the total deficit owe to this class. Four out of every five houses in rural India are without basic amenities such as piped water supply, toilets or bathing facilities. Only 13% of the rural households occupy structures made from permanent building materials but surprisingly a mere 5 percent live in rented houses. Despite the concentration of 80% of Indian households and housing stock generally in the rural sector, its housing needs have received scanty attention. For (eg) Fourth – Five Year Plan provided but less than 20% of the total housing plan outlay for rural housing.

Source: Housing atlas
HOUSING FINANCE IN INDIA – MAJOR ISSUES

The constitution of India recognizes the right to live and have a livelihood as a fundamental right. The directive principles of state policy make it an obligation, on the state to facilitate housing. Housing demand is a universal problem, being one of the three necessities of life. However, housing demand still needs to be fulfilled mainly because of the shortage of funds and inadequacy of the financial institutions. Coupled with an increase in the building material, labour and other costs. India continues to face an acute shortage of housing units. Based on the last census, the housing shortage is estimated at 19.4 million dwelling units in 2001.

The unfulfilled housing demand in India is currently 38 million units. Only in the seventh and eight five years plans, focus has been made on housing. The contribution of housing to economic development is generally measured in terms of Gross Fixed Capital Formation (GFCF) in housing, its share in Gross Domestic product (GDP) and the share of income from housing. Currently, less than 4 dwelling units per 1000 population per annum get constructed in India where as the UN recommendation for developing countries is 8 to 10 dwelling units per 1000 population per annum.

The housing problem was perhaps at its worst in the 80’s. In the year 1981, there were 28 million slum dwellers in Indian cities and, this number rose to 45 million by the year 1991. The number of slum dwellers in the year 2001 was still 40 million. As a percentage of the
urban population, the figures increased from 17.5 percent in 1981 to 21.5 percent in 1991 and 22.8 in the year 2001.

Some of the problems faced by the sector are

(a) Introduction of Urban Land (Ceiling and Regulation) Act in the year 1976 as a central legislation had created many hindrances in the private landowners putting their lands into the housing market.

(b) Prolonged continuance of the Rent control Act in various states led to disputes, non-eviction of tenants, dilapidation of housing stock, locking up of property in prime areas of the city from redevelopment, loss of revenue on account inability to increase property tax and scarcity in the rental market on account of people not willing to let out properties on rent for fear of non-eviction and people continue to pay rent fixed at 1947 rates.

(c) Restrictive controls have made private sector participation in creation of townships difficult in terms of lack of procedural clarity, economic viability etc.

(d) Restrictive income tax provisions since the year 1986 with the introduction of pre-emptive right of the government to purchase property.

(e) High stamp duties and registering the properties at low values to evade stamp duties.

(f) Cumbersome procedures for registration of property transactions.

(g) Restriction on foreign investments.

(h) Inadequate building codes and standards. Although there are several building guidelines and standards, neither the housing
(i) developers follow them and nor do the authorities strictly implement them.

Recent Housing Sector Reforms

The post 1990 period can be seen as the era of housing sector reforms with the release of the National Housing policy in the year 1994 (a subsequent version called, National Housing and Habitat policy was released in the year 1998) in the macro economic backdrop of liberalisation of the economy as a whole, sweeping changes were heralded. The Housing policy clearly recognised the key role which all sectors- public, private and co-operative sectors, need to play in meeting the housing challenge. It clearly recognises the role of private enterprise and market forces. It envisages a ‘facilitative’ role for the state and a direct and proactive role for the other players. The major reforms and market-oriented reforms are:

1. Repeal of ULCRA Act in as many as 9 states.
2. Repeal of earlier rent control laws and enactment of more balanced rent laws.
3. Major housing sector fiscal incentives to individuals investing in house purchase in successive annual budgets continuously for the last 4 years since Budget 2001
4. Creation of over 25 housing finance sector, with innovative and competitive housing finance schemes, an increase in the tax exemption limit for interest on housing loans for self occupied house from Rs.1,00,000 was announced. In 1999-2000, the limit
(5) was Rs.75,000. In 1998 it was Rs.15,000. The budget had also announced an increase in the rebate on repayment of principal U/S 88 to 30% in certain cases.

(6) Fiscal incentives to entrepreneurs to invest in development of housing projects and permitting, Public – private partnership for developing housing projects of various types.

(7) Issue of Foreign Direct Investment (FDI) guidelines.

We now have a large number of industry players both in the housing property development sector as well as the property financing sector.

**Real Potential in Housing sector**

The housing industry is important because it directly addresses one of the basic needs of society – shelter. Improvements in productivity and output in the housing sector (i.e) lower prices and wider availability of affordable housing will therefore have a direct impact on the economy of the country.

- For every one crore of investment in the housing sector we can generate 750 man years of employment.
- A unit increase in the fiscal expenditure on construction can generate five times the additional income and eight times direct employment generated in the construction sector alone.
- The construction sector provides significant stimulus for other sectors to grow and is intimately connected with the country’s economy. There are approximately 250 industries directly or indirectly allied to this one sector alone.
Construction is the fourth most important sector amongst 14 others (Electricity, water supply, gas, forestry, transport etc) in terms of 'backward linkages' and third in terms of the 'total linkage co-efficient'.

A 10 percent increase in this sector can generate Rs.62,000 crore in National output, besides employment for 29,57,000 workers in various sectors (i.e) a 2.5 percent increase in total employment.

There is an urgent need for 15 million homes in urban centres and the rest is in rural India. Another Rs.2,50,000 crore is needed to provide the infrastructure. If the money is available, it could become a strong driving force for the Indian Economy.

Housing finance system in India has come to play a prominent role in the Indian economy in recent years. This is due to its robust growth in the midst of other sectors which have remained stagnant or grown only marginally. A recent survey by FICCI (2003) showed that the total home loan disbursements in India went up by 76% in 2002-03 over the previous year. (i.e Rs.51,672.70 crore in 2002-03 as compared to Rs.29,359.29 crore in 2001-02). Considering the vast population and the shortage of housing in India. (The demand to supply ratio for housing is 3:1) maintaining this growth should not be difficult, provided there are conducive fiscal policies in the form of tax incentives and initiatives are taken to cover the rural and Semi-urban apart from the urban area.

In March '04 SBI's home loan portfolio exceeded that of HDFC. The main drivers of this growth are tax sops on interest since 1998 and a
dip in interest rates since early 2000. It is worth while to mention here that interest rate which were prevailing at over 15% in the late 90’s are now ruling at 7.9% levels in march 2004 is the main reason for the popularity of floating rate loans. Since early November home loan rates have moved up to 25-50 basis points.

**Today’s Developer**

- The builder community has become more professional, ensuring better quality and timely delivery of dwellings constructed.
- There is an increased emphasis on quality and cost control. Documentation methods of project details are more rigorous and more meaningful.
- Today, builders are offering a range of value added services and sops to lure the end user / house owner.
HOUSING FINANCE: A MACRO PERSPECTIVE

Banks are aggressively marketing their housing loan product due to its attractive features like lower risk weight in calculation of CAR, backed by mortgage, lower default rate etc. The customers are also equally benefited with tax shelter on interest payments and easy access of fund. Owing to its strong impact on other industries, it could lead the economy from recession to boom.

The downward movement in interest rates, rent for houses, stable real estate prices, tax concessions provided by the government and the changing mindset of the middle class customer about taking a loan etc. have all contributed to this boom.

Housing sector constitutes the fundamental building block for any serving economy since it is one of the largest employment generators and also has a direct impact on all the downstream industries especially in the core sector, viz steel, cement. That is why since independence, the government recognized housing sector as an important segment of the economy, which needs a greater push and encouragement.
DEMAND SUPPLY ANALYSIS

Consequent to the falling interest rate scenario and the substantial thrust on the housing sector in the budgets, the investment in the housing sector has picked up in a major way in recent budgets because of the following reasons.

(a) POPULATION GROWTH

As per 2001 census, Indian population has already crossed the billion mark, which increased the demand for housing.

(b) CHANGING CULTURE

Joint family system is now replaced by nuclear family system resulting in demand for own houses as well as rental houses.

(c) PER CAPITA INCOME

The rise in per capita income is more than the rise in price level resulting in increase in purchasing power along with reduction in interest rates and fiscal incentives offered by the government result in higher demand for housing.
(d) FALLING RETURNS IN OTHER AVENUES FOR INVESTMENT

During the last few years, returns in capital markets, public provident Funds or National saving schemes are unlikely to be as attractive as they are today. Increased opportunities now exist for channelizing individual savings into investment in housing. Besides this, rising rents in metros are making investment in residential and commercial property more attractive.

(e) URBANIZATION IN INDIAN ECONOMY

Urban India comprises of almost 30.5 percent of country's population but contributes to more than 60 percent to the nation's GDP. Employment in urban India recorded a growth of 38 percent as against 16 percent in rural India. In urban areas, presence of big nationals and international corporates has resulted in increased employment opportunities. As Indians are moving to cities, there is an increasing demand for own and rental housing.

(f) AFFORDABILITY

Because of the falling interest rates on housing loans from an average 17 – 18 percent in 1994 to 7.25 – 8.25 percent (July 2004), loans have become cheaper. In India, the ratio of average property prices to annual incomes significantly improved from 20:1 twenty years ago to 4.5:1 today.

The current housing supply to demand ratio is 1:3. The housing shortage at the beginning of the ninth five year plan was estimated at 33 million of which 16.75 million was in the urban areas and balance 16.25
million in rural areas. According to the Survey by NBO (2002), the total housing shortfall is estimated to be 19.4 million units of which 12.76 million is from rural areas and 6.64 million units from urban areas. To further narrow down this gap, HDFC (Private Company) is playing a significant role. This success story has been due to their dedication to professional excellence, ethical conduct, consistent quality, customer care and ability to respond to customer expectations.

**VISION 2020**

Even when our urban population rises to one billion with the density of 10,000 persons per sq. km, our cities will need only 5 percent of the country’s land area. With that population density, even the poorest can be allotted as much as 70-80sq.m of space. With so much space, even if the poor live in huts, cities will be slum free. Till now, there are no logical plans for supply of water, little concern for waste disposal resulting in congestion. As a consequence, the urban poor have been forced to live in appalling slums. While the national population is increasing a little less than 2 percent a year and urban population by 4 percent, slum population is increasing at an astronomical 7 percent a year. The bottom 25 percent of the population requires no more than 10 percent of the total space. If a bare 10 percent of both residential and commercial space is reserved for the poor and their business, slums will not erupt.
Golden cities are not at all that much difficult to implement. They ask for just a few simple rules.

- Restrict population densities to 10,000 or less per square kilometre.
- Limit population size to a few hundred thousand.
- Provide for local rainwater harvesting and waste recycling in the town plan.
- Keep streets reasonably wide.
- Reserve 10 percent of the space for the poor.

Our new vision should be for better quality and not larger quantity. High quality urban development depends on five components:

i. Ample water supply of good quality.
ii. Comfortable, rapid, mass transport
iii. Adequate housing even for the poorest.
iv. Efficient waste disposal and clean environment.

Streets wide enough to allow fire engines at all times.

What India needs is not merely more urban development but quantity combined with quality.

SOCIAL OBJECTIVES AND BALANCE SHEET MANAGEMENT

Banking sector reform has established a competitive system driven by market forces. The process, however, has not resulted in disregard of social objectives such as maintenance of the wide reach of the banking system or channelisation of credit towards disadvantaged but socially important sectors. At the same time, the reform period experienced strong balance sheet growth of the banks in an environment of operational
flexibility. A key achievement of the banking sector reform has been the sharp improvement in the financial health of banks, reflected in significant improvement in capital adequacy and improved asset quality. There have also been substantial improvements in the competitiveness of the Indian banking sector reflected in the changing composition of assets and liabilities of the banking sector across bank groups. In line with increased competitiveness, there has been improvement in the efficiency of the banking system reflected, interalia, in the reduction in interest spread, operating expenditure and cost of intermediation in general.

REFERENCE
1. Excerpt from Housing Finance in India ICFAI Publications, Edited by V. Subbulakshmi.