CHAPTER II

HOUSING FINANCE – AN OVERVIEW

2.1 INTRODUCTION

This chapter is purely descriptive in nature. It deals with the brief description of the housing finance, government initiatives, schemes relating to housing finance and significance of the housing sector in the Five Year Plans of India.

2.2. AN OVERVIEW OF HOUSING FINANCE

Housing is one of the basic needs for every human being, with Food, Clothing and Education being the other three. Housing is an important component and a measure of the social economic status of people. It is regarded as a critical sector in terms of policy initiatives and interventions. The relevance of housing as a social need has been long
recognized and this has influenced the innovations and inventions made by mankind, since the Stone Age.

   Every one craves for a comfortable home and tries his best to realize his ‘dream home’. Be it a rented house or one’s own house, a lot of planning goes into it. It is indeed a lifetime investment of one’s fortune.

   The motivational theory of Abraham H. Maslow has determined the hierarchy of needs where the house is regarded as a shelter under basic need for the safety and security of human beings. There are many unique characteristics of housing distinguishing it from other goods. It is a universal necessity. Home ownership is a social goal and which brings social status to the buyer

   Housing being one of the essential needs of mankind, the demand for shelter grows in line with the increase in population and the standard of living.

   Hence, the need of financing for purchasing a house comes up. The importance of the housing sector can be judged by the fact that a house is considered as the best investment and it is required to invest our hard earned money or saving in a house.
Every one views the house as an Investment as well as consumer durable goods. House is an investment because the value of the investment appreciated and the value of asset increases for a long period. As the house is utilized for a long period, it is consumer durable goods.

Housing activity serves to fulfill many of the fundamental objectives of planned development:

- Housing provides shelter
- It improves the standard of living of people
- It provides employment opportunities
- It increases national productivity
- It mobilizes resources
- It increases the savings of the people

A wide range of financial institutions has evolved in the Indian financial system over the years, with a view to providing housing finance. It comprises banking institutions and non-banking financial institutions. The commercial banks along with usual banking products and services carry out the function of providing housing finance to the individual and corporate borrowers. However, the non-banking financial institutions are important parts of the Indian financial system. They consist of a
heterogeneous group of institutions, catering to a wide range of financial requirements such as investment companies, chit funds, hire purchase finance, housing finance, loan companies, leasing companies and mutual benefit financial companies. The major intermediary that is included in the non-banking financial institutions meant for providing housing finance is the National Housing Bank.

Housing is a significant engine for the growth and development of the economy. The growth in housing and housing finance activities in recent years reflects the balanced state of the housing finance market in the country. The multiple effects of investment in housing have grown over the past years, as the proportion of outstanding housing loans as 7.5 percentage of the GDP has increased. This is quite indicative of the potential that exists, if the proportion of investment in housing in other developed and emerging economies is considered. The proportion of investment in housing to the Gross Domestic Product is 54 percent in the USA, 57 percent in the UK, 40 percent in the European Union, 17 percent in Thailand, 34 percent in Malaysia and 7 percent in China.

Housing constitutes an important component and a measure of the socio-economic status of people. It is regarded as a critical sector in terms of policy initiatives and interventions. This is reflected in the efforts of the Government to improve housing and
habitat conditions by way of financial allocations in the Five Year Plans and financial measures related to housing announced in the Union Budgets.

The reach of the institutional financial market has been extended to serve the housing sector in different regions and different segments of the population. The accessibility of housing finance for people in general has evolved, developed and improved over the years. The financing institutions have come to see good value in funding this component of the economy. With a growing number of players and increased competition, the housing sector is becoming increasingly market-driven. The sector offers safe and secure residential assets, good business opportunities for the lending agencies and attractive terms to the borrowers. Overall, the affordability of housing loans clearly appears to have improved with fast growing number of borrowers. This has also partly resulted from higher levels of disposable income seen among the wage earners. While the borrower community has thronged the sector, the market has also witnessed change in lending practices in certain segments to accommodate customers’ needs, as an offshoot of increased competition and a buyers’ market. There is a felt need for standardization and uniformity in practices in order to improve transparency in the market and to bring greater efficiency.
The impact of these positive growth indicators and sentiments has not been uniform in the rural and urban areas. The reasons are infrastructural limitations and legal inadequacies coupled with geographical divergences. There has been growing concern about reaching credit for rural housing on market terms and conditions. The concern has been articulated in various policy pronouncements and the sector has to gear up to find market related solutions for them. Investment in housing in the rural areas, besides ameliorating living conditions, also impacts the economic profile of the region and can result in all-round development. There is a strong case for a supportive and enabling policy framework for bringing in large investments in rural housing. This can well change the economic landscape of rural India.

2.2.1 Scenario of Housing Finance Segment

Day in and day out, almost each and every bank comes out with new and innovative schemes particularly in the housing sector to attract customers. Since the banks are offering lower interest rates, Housing Finance Companies do not have a choice but to restructure their cost of funds. Banks and Housing Finance Companies have been competing amongst themselves to attract the customers. While banks draw the customers by offering them lower interest rate options, the Housing Finance Companies are targeting efficient management of risk, better services and ensuring
timely availability of credit besides being more customer-friendly. More options are made available to the customers including flexible rate options and deposit linked home loan schemes.

The customers are highly influenced to choose the housing finance institutions which are many. The main factors and comparison of the Housing Finance Company and the Schedule Commercial Banks are listed in the following Table 2.1.
### TABLE 2.1
**FACTORS CONSIDERED FOR THE CHOICE OF HOUSING FINANCE COMPANY**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Factors</th>
<th>Housing Finance Company</th>
<th>Schedule Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rate of Interest</td>
<td>Generally 1% to 25%</td>
<td>Lower than HFC exception with of some foreign banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>higher than banks</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Method of calculation of interest</td>
<td>Mostly flat basis or</td>
<td>Reducing Balance Method</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RAB method</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Administrative Charges</td>
<td>Usually 1%</td>
<td>PSB – Nil</td>
</tr>
<tr>
<td>4.</td>
<td>Processing charges</td>
<td>Usually 0.8%</td>
<td>Bank Charges 0.2% rates</td>
</tr>
<tr>
<td>5.</td>
<td>Penalty charges for prepayment</td>
<td>Generally 1 to 2%</td>
<td>PSB =Nil</td>
</tr>
<tr>
<td>6.</td>
<td>Time taken for sanction and</td>
<td>Minimum ranging</td>
<td>Generally longer time usually in months with the exception of</td>
</tr>
<tr>
<td></td>
<td>disbursement of loan</td>
<td>generally from 1 week</td>
<td>foreign banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to 1 month</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Marketing skills</td>
<td>Generally very good</td>
<td>Foreign banks show better skills</td>
</tr>
<tr>
<td>8.</td>
<td>System &amp; procedures &amp; approach</td>
<td>Customer friendly</td>
<td>Foreign Banks are customer friendly.</td>
</tr>
<tr>
<td></td>
<td>towards customer</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: IBA. Bulletin Sec 99, p.29*

#### 2.2.2 The Housing Finance Market

The Census of India, 2001 has estimated the Indian population at 102.9 million, next only to China, with an unfavourable land man ratio reflecting high density in
pockets. The demographic profile has been marked by disproportionate urbanization caused by steady migration of people from rural to urban areas at the aggregate level. This has resulted in a huge demand on the infrastructure of the cities, besides causing pressure on the land. For the average mass of people, the price-to-income ratio is still high for acquiring a house. Innovative loan products from financing institutions are facilitating their efforts to own a house. The housing finance institutions and the banks have made significant steps in this direction.

As per the Tenth Plan (2002–2007), the total number of houses that would be required cumulatively during the plan period is estimated at 22.44 million dwelling units. It is estimated that the investment required from financial institutions would be of the order of Rs.4,15,000 crores. This will have to supplement the contribution from private players to tackle the growing demand for housing finance during the plan period.

2.2.3 Government Initiatives towards Housing Finance

The Government of India has been constantly providing an enabling environment for the furtherance and development of the housing finance sector.
Role of the National Housing Bank

The National Housing Bank has been set up under the National Housing Bank Act of 1987, which has been passed on 9th July 1988. It is wholly owned by the Reserve Bank of India. It is established to encourage housing finance institutions and provide them with financial support.

The National Housing Bank also provides several other channels of support for housing finance institutions by dint of the authority invested by the National Finance Institutions to ensure that their growth takes along appropriate tracks. Besides, the National Housing Bank makes advances, gives loans to scheduled banks and formulates schemes that lead to the proper use of the resources for housing projects.

The objectives of the National Housing Bank are:

- To promote a sound, healthy, viable and efficient housing finance system to cater to all segments of the population.
- To establish a network of housing finance outlets to adequately serve different regions and different income groups.
- To promote savings from housing.
➢ To make housing more affordable.

➢ To promote appropriate technologies for housing.

➢ To expand the supply of land and building materials for housing.

➢ To enable public agencies to emerge, primarily as facilitators and suppliers of serviced land.

➢ To augment and upgrade the housing stock in the country.

➢ To strengthen the backward and forward linkages of the housing sector with the rest of the economy.

➢ To augment the financial resources for the sector and

➢ To enable the housing finance system to access the capital market for resources.

TABLE 2.2

HOUSING LOAN DISBURSEMENT BY NATIONAL HOUSING BANK TO VARIOUS HOUSING FINANCE COMPANIES

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Disbursement (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2002 – 03</td>
<td>842</td>
</tr>
<tr>
<td>2.</td>
<td>2003 – 04</td>
<td>1,008</td>
</tr>
<tr>
<td>3.</td>
<td>2004 – 05</td>
<td>1,025</td>
</tr>
<tr>
<td>4.</td>
<td>2005 – 06</td>
<td>2,710</td>
</tr>
<tr>
<td>5.</td>
<td>2006 – 07</td>
<td>3,253</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td>6.</td>
<td>2007 – 08</td>
<td>8,062</td>
</tr>
<tr>
<td>7.</td>
<td>2008 – 09</td>
<td>5,632</td>
</tr>
<tr>
<td>8.</td>
<td>2009 – 10</td>
<td>5,500</td>
</tr>
<tr>
<td>9.</td>
<td>2010 – 11</td>
<td>8,587</td>
</tr>
<tr>
<td>10.</td>
<td>2011 – 12</td>
<td>10,854</td>
</tr>
</tbody>
</table>


Housing loans sanctioned by the National Housing Bank are exhibited in the above table. The trend of housing loan distribution to Housing finance Companies at the National level is also reflected in the state level.

**Housing Loan Novel Schemes**

A person seeking investments for house or a property, selects for home loans for a variety of purposes ranging from construction to renovation. The Housing Finance Companies (HFCs) now offer individuals with various alternatives to choose for securing a home loan. The availability of Home loan offered is as varied as their requirements.

# **Home purchase loans:**

This is the basic loan for the purchase of a new house.

# **Home Construction Loans:**
This loan is available for the construction of a new home on a said property. The borrower must have purchased this plot within a period of one year before he started construction of the house and most HFCs will include the land cost as a component to value the total cost of the property. In cases where the period from the date of purchase of land to the date of application has exceeded a year, the land cost will not be included in the total cost of property while calculating eligibility.

# Home improvement Loans:

These loans are given for implementing repair works and renovations in a home that has already been purchased, for external works like structural repairs, waterproofing or internal work like tiling and flooring, plumbing, electrical work, painting, etc. One can avail such a loan facility after obtaining the necessary approvals from the relevant building authority.

# Home Extension Loans:

An extension loan is one which helps the owner to meet the expenses of any alteration to the existing building like the extension/modification of an existing home,
for example the addition of an extra room etc. One can avail such a loan facility after obtaining the requisite approval from the relevant municipal corporation.

# Home Conversion Loans:

This is available for those who have financed the present home with a home loan and wish to purchase and move to another house for which some extra funds are required. Through a home conversion loan, the existing loan is transferred to the new home including the extra amount required eliminating the need for pre-payment of the previous loans.

# Land Purchase Loans:

This loan is available for the purchase of land for both home construction or investment purposes.

# Stamp Duty Loans:

This loan is sanctioned to pay the stamp duty amount that needs to be paid on the purchase of property.
# Bridge Loans:

Bridge Loans are designed for people who wish to sell the existing home and purchase another. The bridge loan helps the new house financially, until a buyer is found for the old house.

# Balance-Transfer Loans:

Balance Transfer is the transfer of the balance of an existing home loan that you availed at a higher rate of interest (ROI) to enter the same HFC or another HFC at the current ROI, a lower rate of interest.

# Re-finance Loans:

Re-finance loans are taken, when a loan for a house from a HFI at a particular ROI already taken drops over the years and loss is incurred. In such cases, you may opt to swap your loan. This could be done from either the same HFI or another HFI at the current rates of interest, which is lower.

Housing and Tax Concessions
Availing a housing loan serves twin benefits for the borrowers. One of course is that they own a house and pay for it in easy installments. On the other hand, they get several benefits under the Income–Tax Act. Thus, the tax offering makes a home loan different from other loans.

**Tax deductions**

Under the Income–Tax Act, income is taxed under five different heads, one of them being “Income from house property.” Income under this head is taxed based on the annual value of the property. This annual value is in turn based on the income earning capacity of the property.

If the property is actually let out, the rent received is the annual value of the property. If the property is not let out, a notional amount (being rent expected to be received) is considered the annual value. The annual value of one self-occupied house is taken as nil.

Certain deductions are available from the annual income of the property, while determining the income from house property. The housing loan can be taken from any
source bank, financial institution, employer, relative or friend. Deduction is available on an annual basis and in respect of interest liability even though interest is not actually paid during the year. But interest paid or payable on unpaid interest amount is not available as a deduction. No deduction is allowed for any brokerage or commission paid for arranging the loan. An employer paying any salary to his employee shall deduct tax from that amount on the basis of tax rates in force. An employee who has taken a housing loan must furnish details of interest payable during the year. The employer should deduct tax on the lesser amount after allowing deduction for the amount of interest paid. The employee must, at the end of the year, furnish a certificate from the lender, specifying the amount of interest paid and payable by him during the year.

**Deduction of Interest amount on housing loan repaid**

Under Section 24, any interest paid on the money borrowed to purchase, construct, repair, renovate or reconstruct the property is allowed as a deduction. The entire amount of interest paid is allowed as a deduction, if the loan is taken to purchase, construct, repair, renovate or reconstruct a let-out property.

A maximum deduction of Rs.30,000 is allowed to the tax payer in respect of self-occupied house purchased, constructed, repaired, renovated or reconstructed before
1.04.99 with the borrowed money. If the loan is taken on or after 1.04.99 to purchase or construct a self-occupied house, an enhanced deduction of Rs.1,50,000 is allowed, if the house is purchased or construction is completed within three years from the end of the financial year in which loan is taken.

However, the enhanced deduction is available only, if the loan is taken to purchase or construct a self-occupied house property. If the loan is taken (even after 1.4.99) to repair, renovate or reconstruct a self occupied house, the maximum deduction available is Rs.30,000. The deduction is available only if the borrower furnishes a certificate from the lender every year specifying the amount of interest payable.

The interest paid on a new loan taken to repay the original loan is also allowed as a deduction. If a borrower has taken a housing loan before 1st April 1999 it will work to his advantage to take a new loan after this period to repay the original loan. In this case, he can claim a tax deduction of Rs.1,50,000 in respect of interest paid on his new loan.

**Pre-construction period**
The time between the date on which a loan is taken and 31st March of the year immediately before which the property is acquired or construction is completed is called the pre-construction period. If the loan is repaid before the acquisition or construction is completed, then the pre-construction period ends on the date of the repayment of the loan. For example, if a person takes a loan on 1st August 2002 and the construction of the house is completed by 30th November 2005, if the loan is fully repaid on 1st June 2004, the pre-construction period is 1st August 2002 to 1st June 2004.

The interest paid or payable in the pre-construction period is not available as a deduction in the year of payment of interest but is available as a deduction in five equal installments. The first installment is allowed as a deduction in which construction or acquisition of property is completed. Interest for that year and the subsequent four years plus one-fifth interest of the pre-construction period will be allowed as deduction. Even in such a situation, the aggregate deduction for a year in the case of self-occupied property cannot exceed Rs.30,000 or Rs.1,50,000 as the case may be.

In the case of loan amount taken by two or more persons jointly, the deduction for interest paid is available to each co-borrower based on the amount of loan actually repaid or liable to be repaid. The same deduction limit is applicable to each co-borrower and the aggregate deduction available to all co-borrowers can exceed...
Rs.30,000 or Rs.1,50,000, respectively. If the borrower has included his or her spouse for name sake, in such cases, deduction for interest will be allowed to the individual who has actually repaid the loan. Since the spouse has not actually paid any amount, he or she will not be eligible to get any deduction.

If the loan is taken from a non-resident Indian, any interest payable outside India is subject to tax deduction at source. Any interest paid or payable outside India will not be allowed as deduction, if tax is not deducted at source and if there is no agent for the NRI in India.

**Deduction of Principal Amount on Housing Loan Repaid**

Under Section 80C of the Income-Tax Act, deduction is available in respect of the principal amount of loan taken to purchase or construct a residential house. Under this section, a maximum deduction of Rs.1,00,000 is allowed per year. The borrower of the housing loan can also claim deduction under section 80 C towards payment made for stamp duty, or registration of the assessee. But all the deductions must not exceed the overall limit of Rs.1,00,000. However, the deduction under Section 80 C is not available
in respect of payment made towards the cost of any additions, alterations, renovation or repair carried out after the issue of the completion certificate for the house property.

2.3 **HOUSING: SOCIAL AND ECONOMIC SIGNIFICANCE**

Housing provides emotional and social bond to the individual with the family and the society. It is an economic and social need, irrespective of the financial status of the individual

The home conditions have a major influence on the health attitudes, opportunities, quality of life of individuals and communities. “Edith Elmer”\(^1\) a man works 44 hours a week and 50 weeks in a year, 30 minutes from the house spends a minimum of one third to the maximum of substantially over two third of his time at home. Thus, two thirds of one’s life time is spent at home.

As the World Bank paper rightly observes, “Housing” has substantial Social Benefits including the welfare effects of shelter from the elements, sanitation facilities and access to health and education services. Improved health, education and better access to income earning opportunities can lead to higher productivity and earnings for low income families. It is thus for sound economic reasons that after food, housing is
typically the largest item of household expenses for poor families and they are willing
to go to great length to obtain housing at locations with access to employment even if
this means incurring the risks of illegal squatting. Bad house conditions generally lead
to extensive social unrest, crime and other social evils. Many social evils like drinking or
gambling can be ultimately traced to the moral and physical degeneration and the
demoralization of the inhabitants which inevitably generates the bad living conditions.

Housing is one of the basic needs of mankind in terms of safety, security, self-
esteeem, social status, cultural identity, satisfaction and achievement. It is one of the
major determinants of economic well being.

Housing is not merely a physical shell but it engulfs the complete range of
ancillary and community facilities which are required and necessary for the human well
being and growth. It is a productive investment. It promotes economic activities as
wells as creates the base for attaining several national goals such as providing shelter,
employment, generating savings and creating conditions conducive to the achievement
of better health, sanitation and education.

A large share of human effort has been continuously devoted to the provision of
shelter to every member of the society. As the World Bank Housing Sector Policy Paper
observes that 15% to 20% household expenditure typically goes for housing investment and housing represents 20% to 30% of fixed capital formation in countries with vigorous housing programme. It is increasingly recognized as a profitable investment yielding a flow of income. Provision of adequate housing is an essential obligation of a democratic state. The state has the basic responsibility of alleviating housing problems faced by the economically weaker sections and the privileged in the society. Despite this, housing remains a major problem area of social and economic policy.

The acquisition of home ownership gives the essential confidence and social status to an individual by virtue of which he can reach the maximum level of his potential. In a broader perspective, home ownership stabilizes the aggregate sense, improves the housing situation, generates effective employment, and addresses to fixed capital formation and minimizes the pressure on the social welfare system. Hence, the socio–economic significance of housing is far reaching in any country and shall never be undermined particularly in the context of a developing nation like India.

2.4. HOUSING - A GLOBAL SCENARIO AND THE INDIAN SCENARIO
Even the countries like Europe and America, which have made first-time advances in science and technology, have not solved the housing problem. The report from the US is that over the last few years, the US banks and credit providers issued relatively high-cost loans to prospective home owners without making comprehensive checks into the ability and willingness of the loan takers to repay. They also did so against properties that were priced exorbitantly, convinced that these properties would appreciate with the acceleration of the US economy. But, when the US economy slowed and incomes were affected even as interest rates remained steady, the loan issuers faced increasing problems during recovery.

Housing is indeed a global problem. It is very chronic in the developing countries. The countries face this problem in varying degrees and dimensions. For quite a large number of people all over the world, housing which provides socio-economic benefits is a far distant dream. For many millions, the sky is the roof under which to sleep and billions dwell in unsafe and unsanitary settlements where the basic facilities are conspicuous by their absence. Thus, as Charles Abrams rightly observed, despite man’s unprecedented progress in industry, education and the science the simple refuge affording privacy, protection against the elements is still beyond the reach of many members of the human race.
The problem of housing is not confined to developing countries like India. A report from the Soviet Union says that they need at least 50 million new flats to satisfy the people’s basic requirement of house. In the Third World countries, there is an acute shortage of housing in urban areas due to increase in population, low income levels, low rate of addition to housing stock. Inadequate maintenance of the existing housing stock, etc. In many cities of the developing countries, 20-40% of the people are unlawful tenant with no legal title. According to Paul Streeter and Burki, over 150 million people areas of the poorest countries have less than satisfactory shelter.

The level of home-ownership is an important factor in shaping the nature of a housing system, which of course has wider social implications. Most people in advanced economies live in owner-occupied houses. Nevertheless the relative, importance of home-ownership varies greatly between countries. An overview of owner-occupation in various advanced countries has been given below.

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Owner Occupation (in Percentage)</th>
<th>Rental Occupation (in Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>71.6</td>
<td>28.4</td>
</tr>
<tr>
<td>European Union - 15</td>
<td>56.0</td>
<td>44.0</td>
</tr>
<tr>
<td>Country</td>
<td>1980</td>
<td>2000</td>
</tr>
<tr>
<td>-----------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>France</td>
<td>54.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Germany</td>
<td>38.0</td>
<td>62.0</td>
</tr>
<tr>
<td>Italy</td>
<td>68.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Japan</td>
<td>60.0</td>
<td>40.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>67.3</td>
<td>32.7</td>
</tr>
<tr>
<td>USA</td>
<td>66.8</td>
<td>33.2</td>
</tr>
</tbody>
</table>

Source: [www.housing finance.org](http://www.housing finance.org)

In the advanced economies, owner-occupation range is from 64 to 72 percent. In the United States and Australia, owners’ occupation expanded very quickly in the 1950s, reflecting government programmes that promoted owner-occupation as well as the abundant supply of suburban land, but it has been relatively stable since then. The Japanese home-ownership rate has been similarly stable since the 1960s and has remained at a somewhat lower level than the other countries. Owner-occupation rose more gradually in the United Kingdom-until the 1980s, when it was boosted by discounted sales of social rented housing to sitting tenants.

Many developing countries switched over to providing sites and services only, leaving new owners to build their own units. Building standards were often lowered to make possible use of cheap materials. Despite various government schemes to mitigate the housing problem, in many countries this problem has been worsening but, a keen awareness of the dimension of housing problem has risen. Some determinations to
tackle it, in many aspects, have become manifest in the form of direction and vigour that largely govern the available resources.

### 2.4.1 Structure of Indian Housing Finance Industry

India’s housing finance industry comprises banks and housing finance companies. They have contributed to new residential home loan at a compounded annual growth rate of more than 30 percent during the period 2002-2007.

The housing finance system in India is divided into three types. First type is the Financial Institution, the second, Banks, and the third other institutions. The first type is classified into two categories viz., Development Financial Institutions and Non-banking Financial Institution. The NHB and the NABARD come under the Development Financial Institutions. Under the non-banking financial institution, there are Housing Finance Companies and other NBFCs. The second type of financial institution is the Bank. Banks are classified into Schedule Commercial Banks under it public and private banks and Co-operative Banks include urban co-operative banks, District co-operative banks and State Co-operative banks. The last type of financial institutions is other institution under which come Agriculture & Rural Development Banks come which include Primary Land Development Banks and Apex Co-operative Housing Societies include housing societies.
Figure 2.1

Housing Finance System in India

- Financial Institution
- Development Financial Institution
- NHB
- NABARD
- Housing finance Companies
2.4.2 National Housing Policy

After 1950, the Government of India formulated ten five year plans aimed at housing and urban development, which led to the launch of the Urban Poverty and Alleviation Programme of Nehru Rozgar Yojana (NRY). These plans laid emphasis on institution building and on construction of houses for government employees and weaker sections. The Industrial Housing Scheme was widened to cover all workers. As a follow-up of the Global Shelter Strategy (GSS), the National Housing Policy (NHP) was announced in 1988, whose long term goal was to eradicate the problem of lack of housing, improve the housing conditions of the inadequately housed, and provide a minimum level of basic services and amenities to all. The role of the Government was conceived as a provider for the poorest and vulnerable sections, and as a facilitator for the other income groups and the private sector removed constraints and the increased supply of land and services.

The objectives of the National Housing Policy are:

1. To assist all people and in particular the homeless through affordable shelters with access to develop land building materials, technology and finance.

2. To encourage investment in housing in order to achieve a sustainable growth for the nation’s housing provisions and its proper conservation,
Renovation and upgradation.

3. To create an enabling environment by eliminating constraints and developing an efficient and accessible system for the delivery of inputs to maximize housing development efforts.

India has a rich social and culture texture. Housing too has social, personal and intellectual complexities beyond what is merely seen as a built structure. In India, housing is necessity shading into a luxury. Its supply does not fully meet the present needs of the Indian population. The rapid growth of population and movement of the people from the rural to urban areas increase the housing shortage. The National Housing Bank (NHB) statistics reveal that the demand supply gap in housing stands at 33 million units ceiling for an investment of Rs.1,50,000 crores and the rest in the rural India. Another Rs.2,50,000 crores is needed to provide infrastructure.

Housing is viewed in two ways. First, it is the process of housing development and maintenance of assets. Second, it is the condition of finance organization and economic resource allocation which are administered through policies. The Government of India and the state governments have evolved a reasonable housing policy to meet the housing demand with the financial help from the World Bank Housing and the Urban Development Corporation and the General Insurance Corporation etc.
Despite quantitative increase in the housing stock over the successive plan periods, the housing situation in the urban and rural areas continues to be discouraging.

A rapid rise in population results in higher demand for dwelling units. This has coupled with the growth of household formation and increased rural-urban migration resulting from non-availability of opportunities in rural areas has resulted in severe pressure on urban infrastructure in recent years. The consequence has been leading to overcrowding and unhealthy living environment, shortage of basic amenities and finally social and economic deprivation. All major urban centers in our country are gradually becoming victims of such civic deficiency.

As per the Census of 2001, India has a population of over 1027 million, which is the second highest after China, with an unfavourable land-man ratio. As the country enters an era of economic growth, economic liberalization and prosperity, cities seem not yet ready to accommodate the growing population and provide work services and environmental infrastructure for all. The twin problems are affordability and availability continues.

The housing problem should not be envisaged as a mere demand-supply problem. Because of inequitable income distribution in our country, there is bound to be a wide gap between the demand for the houses and the need. Because the need is
translated into demand only when it is backed by the purchasing power. Only a supply side intervention will not solve the problem, though it can alleviate it.

### 2.5 HOUSING SECTOR AND FIVE YEAR PLANS

Housing is an important indicator of the social and economic development. “Affordable Housing” has been an important national agenda of the Government. Various policy initiatives taken by the Government of India have resulted in significant increase in the housing stock situation with an enlarged housing finance market.

Even though the housing sector received a low priority in the Five Year Plans, the sector was not altogether neglected. In fact over the years, the housing sector has been recognized as an important element in the poverty alleviation programmes. The importance given to the housing sector under various plan periods is as under:

#### 2.5.1 First Five Year Plan (1951–1956)

The First Five Year Plan was aimed at enhancing the housing of minimum standards. It suggested reducing the construction cost of houses especially with regard to labour and material cost by encouraging economical architectural and structural
designs. The plan gave due consideration to the role of private participation in solving the problem of housing shortage. Two schemes, viz., the Subsidized Industrial Housing Scheme (1952) and the Low Income Group Housing Scheme (1954) were introduced during this plan period.

2.5.2 Second Five Year Plan (1956–1961)

It emphasized the subsidized housing and low income group housing. Seven specific schemes were introduced during this period:

- Plantation Labour Housing Scheme (1956)
- Slum Clearance and Improvement Scheme (1956)
- Village Housing Project Scheme (1957)
- Middle–Income Group Housing Scheme (1959)
- Land Development and Assistance Scheme (1959)
- Rental Housing Scheme for State Government Employees (1959)
- Jhuggee and Jhopro Removal Scheme (1960)

It should be noted that all the schemes were aimed at improving the quality of housing for the lower income category of our population.

2.5.3 Third Five Year Plan (1961–1966)
The Third Five Year Plan was aimed at enhancing the legal aspects of land acquisition and development as an effective control on urban land. The extent of finance made available was usually 80% of the cost of construction as maximum and this varied from scheme to scheme. In the case of the land acquisition and development scheme, 100% financial assistance was given to local bodies/urban estate department.

2.5.4 Fourth Five Year Plan (1969–1974)

During this Plan period, importance was given to low cost housing schemes due to high cost of house construction and insufficient contribution from private and co-operative sectors to meet the growing needs of poorer sections with deteriorating older slums. It was during this period that in April 1970, the Housing and Development Corporation (HUDCO) was started. Various State Governments started Housing Boards funded through state budgetary allocation and the slum clearance schemes were introduced. The Housing Boards of the States started issuing debentures on State Government guarantee to which institutions like nationalized banks contributed. The Housing Boards are essentially construction agencies and not funding agencies and their function is to create and manage housing stocks.

2.5.5 Fifth Five Year Plan (1975–1980)
It was during this Plan period that the Housing Finance Development Corporation (HDFC) was started. It was an important addition to the housing sector. A scheme for improving housing was also introduced in this period. The Minimum Needs Programme (1974) and the Twenty Point Programme (1975) were introduced to provide housing for the poor and housing construction through wage employment.

2.5.6 Sixth Five Year Plan (1980–1985)

This Plan made an attempt to utilize the public sector resources in such a way as to get the optimum results and to provide the maximum possible houses to the absolute by houseless population.

2.5.7 Seventh Five Year Plan (1985–1990)

It was estimated in this Plan period that the housing shortage was 24.7 million units. The plan called for the establishment of proper and diversified institutional credit for housing development. It also stressed the need to strengthen the HUDCO and the creation of new co-operative building societies.
2.5.8 Eighth Five Year Plan (1992-1997)

During this Plan period, an attempt was made in enabling a strategy of creating an enabling environment for housing activities by eliminating various constraints and providing direct assistance to the disadvantaged groups consisting of the poor, self-employed, physically handicapped, widows and single women. It was during this period, the shelter upgradation scheme under the Prime Minister’s Integrated Poverty Eradication Programme was initiated with a loan component of Rs.10,000 to be arranged from the HUDCO or any other financial institution including commercial banks subject to the condition that the borrower holds the title to the land. The plan outlay for housing was Rs.20,000 to 25,000 crores. The HUDCO sanctioned Rs.1967 crores as loans and released actually Rs.1229.5 crores during this period. About 90% of the amount was spent on dwellings for the weaker sections and low income people.

2.5.9 Ninth Five Year Plan (1997–2002)

During this period, housing was given priority as one of the seven principles of development. The scope of the Indira Awwas Yojana was expanded to the conversion of Kutcha houses into pucca or semi-pucca houses. Again a credit–cum subsidy scheme for