Chapter III

Housing Finance: An Overview
Housing is an important economic activity and plays a significant role in the development of the individuals by satisfying one of the basic necessities of human life. It has highly significant social implications as housing provides the shelter for the individuals and family. Everyone is influenced by the location, environment, and the kind of house in which one lives. The influence of housing on man is immense as man spends more than two thirds of his time in the house itself during one's lifetime.

It is obvious that house is the central place in which man satisfies his basic requirements. It is the place in which he cooks, sleeps, procreates, rears the child and educates. All his vital events take place in the house. As such his happiness is directly related to the house in which he lives. It may be further stated that houses do a great deal more than housing, they channel human relationship, establish hierarchical of egalitarian forms of behaviours, permit or constrain freedom of choice, perpetuate the past and prefigure the future. The effect of bad housing is reflected in demoralisation and

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1. Francis Cherumilam and Odeyar D Hegde, Housing in India, (Bombay Himalaya Publishing House, 1987), p 1


3. Radhakrishnan, Dr S , Occasional Speeches and Writings, (New Delhi Publication Division, Information and Broadcasting Department, Government of India, 1952-59), p 96

consequent lowering in the productive power of a great portion of inhabitants. The social evils like drinking, gambling, etc. are traced to the moral and physical degeneration and the demoralisation of the inhabitants which bad living conditions inevitably generate.

Housing also influences the intellectual growth of the people. The Adult Education Committee of the Ministry of Education felt that ‘it is difficult, often indeed impossible, for badly housed men and women to develop intellectual interest, and where such interest has been developed almost insuperable obstacles are offered to their full realisation’. Thus the provision of good housing is a fundamental duty of all governments. The governments whatever might be their political persuasions and ideologies, have an objective to ensure that all individuals have a decent housing in suitable living environment. In other words, all governments central, state and local, are concerned with developing housing for their people.

**Economic Importance of Housing**

Housing plays an important role in the economy of the country besides serving the basic purpose of providing shelter. As it is observed in Housing Sector Policy Paper, housing is important for development in both economic and welfare terms. It constitutes 15 to 20 per cent of household expenditure. For all but the wealthy, it is usually the major goal of family savings efforts.

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6 Ibid, p 18
Investment in housing represents 20 per cent to 30 per cent of fixed capital formation in countries with vigorous housing programmes and it is increasingly recognised as a profitable investment item, yielding a flow of income.  

The contribution of housing to the national economy is very significant particularly towards national income, capital formation and employment potential. The role of government in housing involves such activities as framing regulations, provision of utilities and other services. Housing generates demand for services like electricity, water, sewerage connections, health centres, banks, schools and colleges, police stations, postal services etc., which are commonly provided by the government. Residential housing also requires shopping centres, temples, medical and recreational facilities etc., which are usually provided by the private individuals and groups. The importance of housing and its role in the social and economic development of the country is very aptly recognised by the government. Accordingly it has laid stress in housing which is reflected in the priorities stated in the successive five year plans. It was stated in the draft Fifth Five Year Plan that "house construction is an economic activity which suits well with the pattern of activities to which priority will be given in the next two decades, not only because it meets basic need, but gives the application of appropriate technologies, also creates employments in a massive and decentralised scales and increases the much needed purchasing power in the hands of lower income groups."  

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8 Planning Commission, The Draft Five Year Plan, (New Delhi, Government of India, 1979), pp 16-18
Amplifying the stated goals of housing, the Seventh Five Year Plan observed that 'the development of housing must enjoy high priority in a poor society such as ours where housing amenities are far below standards that have been internationally accepted. Housing activity serves to fulfill many fundamental objectives of the plan, providing shelter, raising the quality of life, particularly of the poor sections of the population, creating conditions which are conducive to the achievements of crucial objectives in terms of health, sanitation and education, creating substantial additional employment and dispersed economic activity, improving urban, rural and inter-personal equity through narrowing down of differences in standards of living and last but not the least, generating additional savings'.

The rapid increase in population, inflation in the cost and land and building materials, non availability of easy finance and low priority given to housing in the national plans have aggravated the housing shortages. This has placed heaviest burden on the poor and lower income groups, who are forced to live under crowded conditions in inferior dwellings where sanitary facilities, light, air, peace and privacy are at a premium. When such conditions prevail in cities they constitute slums, affecting the community as a whole. Housing is a global problem and it is observed that housing progress

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lags behind the industrial progress. The unprecedented advances made in science and technology have not helped much in solving the housing problem. In other words, genius that discovered many things still have not succeeded in building a house cheap enough for the average man. The developed nations are not exception in this regard. However, the housing problem in the third world countries is very acute. The fast growing population, low income levels, low rate of additions to the housing stock, inadequate maintenance of the existing stock, etc have all contributed to the housing problem in these nations.

Problems of Housing in India

In India, the fast rate of population growth and migration of people from rural to urban areas for making a livelihood have created huge demand for housing in urban areas including metropolis. In rural areas too, the problem of housing is so acute because of low incomes and poverty. More than 30 per cent of the country’s housing stock is considered to be kutchha houses made of non-durable materials like mud, thatches, reeds, leaves etc. About 9 million of such units in rural areas and one million in urban areas are considered to be unserviceable. These structures generally last for very short period of time. In other words, the increase of housing units have not kept.

pace with the demand. This has resulted in number of problems in housing. The problem is acutely felt in the urban areas and the worst affected are the immigrants from the rural areas belonging to the low income groups. The Ninth Plan working group on housing estimated the housing shortage in the country in the year 2001 at 19.4 million dwelling units (12.8 million in rural and 6.6 million dwelling units in the urban areas).  

Furthermore, congestion, over crowding, poor housing conditions as well as growth of slums and squatter settlements have become most serious problems of the cities. Very large number of Indian population, both urban and rural need housing, at least, satisfying the minimum requirements.

**Housing Finance**

Housing finance is a term which covers financing at all stages in the development of housing - purchase of land, construction and installation of on-site infrastructure. The project of house construction is quite distinctive from others. The price of the factors involved in house construction needs to be paid mostly in cash at the time of their use. In other words, finance for a project of house construction is required at three stages viz., purchase of land, construction of house, and repayment of loan amount if borrowed funds are involved.

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Characteristics of Housing Finance

Finance for housing has some distinctive characteristics which are briefly described as under

(i) Long term Investment. Housing involves a long term investment. The personal savings or contribution by the owner generally covers only a small proportion of the total cost of housing and the balance has to be necessarily mobilised by a long term loan. The whole investment gets impounded in the form of immovable physical asset without generating any return when it is constructed for self-occupation. This necessitates housing loan to be paid in small amount spread over longer period of time.

(ii) Mortgage Finance. The mortgage finance is an important feature of housing finance. The financial requirements in house construction involve many times of the average family's income. In the absence of adequate savings, house construction compels the owners to mobilise the funds from different sources. The prospective owner of the house offers the property as security for funds to be borrowed.

(iii) Demand and Supply gap. Another important feature associated with housing finance is a large gap between demand and supply of funds. In addition to demand for funds from those who do not have their own house, demand comes from those who wish to make improvement to their existing housing units. Further, as the purchasing power increases with the people, the tendency is to go for better housing in
terms of better locality, type of structure, size and facilities. This creates additional burden on institutions supplying housing finance. Investment in housing does not give direct and immediate return as in the case of others and therefore, mobilisation of capital for investment in housing is found to be difficult. Moreover, the depression in the real estate prices during the last few years has also brought down property prices to reasonable levels, making the middle class people to go for their own houses which in turn has offered a boost to the housing sector. The interest rates in the economy have also come down to lower levels due to various reasons. This has also added to the demand for housing finance. All these would result in imbalance in demand and supply of housing finance.

(iv) Return on Investment: The self-occupied houses do not generate any return except savings as a result of non-payment of rent, which would have been paid on staying in a rented house. But psychological feeling of safety, security and happiness and physical comforts which own house gives cannot be measured in terms of money. When a house is let out, the rent received may not yield good return on the investment made except in a few cases. This feature of indirect and small limited monetary returns has made the unorganised money-lenders to be reluctant to lend or invest in housing projects.

12 Deepak Parek, A feature on Housing Finance, (Mumbai Fortunec India, January 15, 2000), p 30
Government Policies and Programmes

The involvement of the government in housing started long back and it began with providing accommodation to the employees of government particularly in cities in view of the acute shortage of housing in metropolis. In fact, it was the Mumbai Presidency which took the lead in 1921 by establishing a development department to reclaim land to construct 50,000 one-room dwelling units and to organise the supply and distribution of building materials. Further, many regulations were brought out through a number of Acts for controlling rent, particularly in cities.

Though the role of the governments in housing is not specifically mentioned in the Constitution of India, the Planning Commission indicated from time to time the roles of the central and state governments in housing development. In view of the gravity and vastness of the states, the central government has assumed a large measure of responsibility for financing the housing development programme. In other words, the role of central government is confined to laying broad principles, providing necessary advice and financial assistance in the form of loans and subsidies to the state government and monitoring the progress achieved. Whereas the state governments have been vested with full powers to formulate, sanction and execute the projects under various schemes of housing.
Housing Policy and Programmes Through Plans

Realising the importance of housing in the national economy, the government has taken steps to formulate a national housing policy. The successive Five Year Plans have been formulated by incorporating the government policy on housing development, a brief description of which is given in the following lines.

First Five Year Plan (1951-56)

A major thrust to the housing was given in the First Five Year Plan making a provision for the development of infrastructures for carrying out massive housing programme in India. It was felt that the government could not limit its role to planning and regulation of housing development and therefore, there was need for involving directly in house construction programmes particularly in the case of low income groups. In other words, the government was asked to take up house building activities particularly for low and middle income groups of people, both in rural and urban areas. The immediate need was to construct maximum number of houses to remove congestion and over crowding in urban areas and also provide shelter to the rural poor. Thus, during the First Plan period steps were taken to strengthen and expand the institutional infrastructure to promote housing activity.

The government allocated Rs.1,150 crores (Rs. 250 crores in the public sector and Rs. 900 crores in the Private sector) in the First Five Year Plan for housing which was about 34 per cent of the total investment in the economy.
In 1962, the Government of India introduced integrated subsidised housing schemes for industrial workers and economically weaker sections of the community. The Government also introduced a scheme called 'Low Income Housing Scheme.' Thus it may be stated that during the First Five Year Plan period the Government took the responsibility of providing housing for the people, of course to a limited extent.

Second Five Year Plan (1956 - 61)

In the Second Five Year Plan, attention was directed towards the housing of the weaker sections, handloom weavers and displaced persons. Some schemes were also introduced for slum clearance and improvements, plantation labour housing, rural housing, land acquisition and slum development. The total investment on housing in the Second Five Year Plan was Rs 1300 crores (Rs 300 crores in the public sector and Rs 1000 crores in private sector), which constituted about 19 per cent of the total investment in the economy.

Third Five Year Plan (1961 - 66)

The public sector outlay on housing during the Third Five Year Plan was to the tune of Rs 425 crores and the private sector investments estimated at about Rs 1,125 crores. Thus total investment in housing was Rs 1,550 crores, which was about 14.9 per cent of the total investment in the economy. During the Third Plan period, all the schemes which had been in operation in the Second Plan period were continued, but special emphasis was placed on land acquisition and development as this was considered basic to the success of all housing programmes.
Annual Plans (1966-69)

Most of the housing schemes which had been introduced earlier were continued during the Annual plans (1966-69). The total expenditure on housing programmes during the period amounted to Rs 250 crores in public sector and Rs 900 crores in private sector.

Fourth Five Year Plan (1969-74)

With the experience gained in the implementation of various housing schemes, the government felt that the crux of the housing problem was the huge cost involved in housing. It was observed the experience of housing so far was that its unit costs were high and that with the constraints of resources it was not possible for public operations to touch even the fringe of the problem. Therefore, emphasis should be on providing financial assistance to co-operative and private effort and assuming legal powers for reconditioning of slums. It was also felt that the cheaper houses should be provided by making use of new techniques and materials.

A boost to rural housing came with the establishment of the Housing and Urban Development Corporation (HUDCO) during the Fourth Five Year Plan period. The Corporation is a techno-finance institution, to cater to the needs of the weaker sections of the society.

During the Fourth Five Year Plan period the investment in housing was Rs 2,800 crores (Rs 625 crores from public sector and Rs 2175 crores from private sector). Thus, the investment in housing was 12.4 per cent of the total investment in the economy.

Fifth Five Year Plan (1974-79)

The importance of housing in creating employment for the semi-skilled and un-skilled workers and in improving the incomes of the relatively poorer sections of the society led to the feeling that direct public housing must be encouraged. Accordingly it was stated that the role of housing in economic development, both as an end and a means, was an important one. As an end, housing is an essential ingredient in the basic requirements of civilized living, as a means, besides adding to National Income, housing is a strong motivator of savings and plays an important part in the generation of employment. Thus, the important objectives of the Fifth Plan as far as housing development was concerned were as follows:

(i) Preservation and improvement of the existing housing stock,
(ii) Provision of house sites to 4 million landless labourers as a part of the minimum needs programme.
(iii) Continuance of the existing schemes to provide subsidised houses to certain weaker sections of the community.

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(iv) Extension of support to institutional agencies such as Housing and Urban Development Corporation and Housing Boards under the state governments to enable them to provide assistance to schemes for the benefit of low income and middle income groups, and

(v) Intensification of research and development of cheap building materials

Another important observation made in the Fifth Plan related to the system of financing and execution of various social housing schemes on a compartmentalised basis

The total public sector outlay on housing during the Fifth Plan period (1974-79) was Rs 796 crores and the private sector investment was estimated at about Rs 3640 crores. Thus, the total investment in housing sector was Rs 4436 crores, which was about 9.36 per cent of the total investment in the economy during the Fifth Five Year Plan period.

Sixth Five Year Plan (1980-85)

The Sixth Five Year Plan aimed at reducing substantially the number of absolutely shelterless people and to provide conditions for others to improve their housing environment.

The main objectives of the Sixth Plan with regard to housing development were as follows:15

15 Planning Commission, Sixth Five Year Plan, (New Delhi: Government of India, 1980)
(i) **Provision of house sites and assistance for the construction of dwellings for rural landless labourers**

(ii) **In view of the severe constraints of public resources, the schemes are to be directed towards the economically weaker sections of the community.** For others, policies to promote and encourage self-group housing are to be framed. It was also proposed to augment the resources of institutional agencies like HUDCO and State Housing Boards to enable them to provide infrastructural facilities as a means of encouraging housing in the private sector.

(iii) **Specific efforts to secure a reduction in costs in public housing schemes by reviewing standards and by using cheap and alternative building materials**

It was aimed to provide house sites to all the 7.7 million landless families in rural areas. It was also proposed to assist 36 million families in the construction of houses during 1980-85. Provision was made for Rs 250 per family for development of plots, approach roads and masonry, tube wells for each cluster of 30 to 40 families and construction assistance of Rs 500 per family. It was assumed that labour inputs would be supplied by the beneficiaries. These provisions involved a total outlay of about Rs 354 crores, Rs 170 crores for the provision of sites and about Rs.134 crores for construction assistance.

As far as housing in urban areas was concerned, it was stated that the vast majority of additional housing in urban areas would have to be met from private sources. The role of public sector was restricted to improvement of
slums and direct provision of housing to some of the urban poor. It was proposed to do away with the strategy of massive relocation of slums in urban areas.

The public sector expenditure on housing during the Sixth Plan period was to the tune of Rs 1491 crores. The private sector investment amounted to Rs 13000 crores. Thus, the investment in housing was 12.5 per cent of total investment in economy.

Seventh Five Year Plan (1985-90)

It was realized that the time had now come to set a clear goal in the field of housing and launch a major housing effort so as to promote housing activity by a fiscal policy such that every family would be provided with adequate shelter within a definite time. It was also stated that the public sector should not assume direct responsibility for house construction except in the case of the weaker sections of the society. That was to emphasize that the government had to pay an active role through developing the necessary delivery system in the form of a housing finance market, making land available at right places and at reasonable prices.  

As against this background, the Seventh Plan had the following objectives:

(i) Promotion of land encouragement of self-help,
(ii) Provision of house sites to the balance of rural families identified so far and assistance for construction of dwellings for those rural families already provided with house sites,

16 Seventh Five Year Plan, Op Cit., p 293
(iii) Cost of housing units under the social housing schemes should be such that they are within the paying capacity of the targeted groups, like economically weaker sections, low income group and middle income group.

(iv) Providing stimulus and support for private housing especially for the middle and lower income groups so as to channelise increased savings to housing. This will have to be accompanied by steps needed for reducing the cost of urban land.

(v) Securing reduction in construction costs not only by adopting low cost housing techniques and standards but also modifications in building bye-laws, land use control, minimum plots requirements etc, and

(vi) Harnessing science and technology efforts for improving building technology for development of cheap and local building materials.

The outlay for housing in the Seventh Five Year Plan amounted to Rs 31,458 crores, Rs 2458 crores from public sector and Rs 29,000 crores from private sector, which constructed about 9 per cent of investment in the economy.

It was also realized that the biggest bottleneck in the development of housing was the non-availability of long-term finance to individual house builders on any significant scale. To fill this gap, it was proposed to establish a specialised financial institution in the form of National Housing Bank on the lines of NABARD.

**Eighth Five Year Plan (1992-97)**

In line with the National Housing Policy which is a statement of the long term objective, the core strategy of the Eighth Five Year Plan consisted
of creating an enabling environment for housing activity by eliminating various constraints and providing direct assistance to the specially disadvantaged groups including rural and urban poor households, SC/ST, physically handicapped, widows and single women. The objective was intended to be achieved through a set of sub-tasks or instruments as specified below 17

(i) Expand the provision of basic infrastructure facilities in rural and urban areas in order to improve the overall environment of habitat and enable appropriate conditions for the majority of the households to have access to housing,

(ii) Remove major legal constraints to increase supply of serviced land as well as rental housing by way of substantially amending the existing statutes like Urban Land (Ceiling and Regulation) Act, Land Acquisition Act, Transfer of Property Act and Rent Control Act,

(iii) Provide stimulus and support for housing an expanded scale through enhancing the flow of credit both by way of mobilisation of additional resources for housing by tapping capital markets and additional savings and by directed credit from public financial institutions,

(iv) Role of private developers in fringe area development of metropolitan region/large cities, while keeping safeguards including environmental standards for the majority of present residents, not only in housing but also in trunk infrastructure needs to be explored,

(v) Promote use of low cost building materials and cost effective technologies intended for both saving in use of scarce resources like

brick, cement and steel and provision of affordable housing to poor segments of population,

(vi) Promote self-help housing as well as shelter upgradation, which is as important as creation of new housing stock, by providing better access to finance, land, materials and technology through appropriate delivery systems to the poorer segment of the rural population,

(vii) Establish links between formal and informal credit network including community level association and voluntary agencies operating in the housing sector,

(viii) Provide financial and institutional support, through both formal and informal systems to environmental improvement and in-situ upgradation programme in the slum areas and other low income congested pockets in urban areas, and

(ix) Establish an active management information system for housing and urban infrastructure accessible to both private and public development agencies with regard to the second objective of direct assistance to disadvantaged groups.

The total public sector outlay on housing during the Eighth Plan (1992-97) amounted to Rs 7750 crores and the private sector investments during the same period was estimated at Rs.69476 crores. Thus the total investment in housing was Rs 77226 crores which was about 9.7 per cent of the total investment in the economy during Eighth Fifth Year Plan period

Ninth Five Year Plan (1997-2002)

The priorities and strategies of Ninth Five Year Plan with regard to housing development are as follows:16

(i) While housing needs of all segments of the population will have to be met, the Ninth Plan will focus special attention on households at the lower end of the housing market, the priority group identified for such support, such as eg: People below poverty line, SC/ST, disabled, freed bonded labourers, slum dwellers and women headed households.

(ii) Government will, as a facilitator, create an environment in which access to all the requisite inputs will be in time, in adequate quantum and an appropriate quality and standards.

(iii) There will be provision for more direct intervention by the Government in the case of lower segments of the housing market and selected disadvantaged groups.

(iv) A package of incentives and concessions to attract private sectors would be introduced to shoulder the task of housing for the poor.

(v) Apart from new construction, the Ninth plan agenda will take-up the massive task of upgradation and renewal of old and dilapidated housing stock.

(vi) To build sustainability into the housing of the urban poor as well as in rural housing, integrated development of settlement should be promoted, on the principle of strengthening the linkage and inter-dependency between shelter and income upgradation.

The Ninth Five Year Plan has estimated an outlay of Rs. 1,50,000 crores for housing sector with the public sector's contribution of Rs. 38,000 crores and the private sector investment of Rs. 112,000 crores.

**National Housing Bank (NHB)**

On the recommendation of the High Level Group under the chairmanship of Dr. C. Ranganathan, the then Deputy Governor of RBI, the
Govt of India established National Housing Bank as an apex finance institution with its share capital being fully contributed by Reserve Bank of India in June 1986. The National Housing Bank as a statutory corporation was established to "operate as a principal agency to promote housing finance institution both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental there to."

The important features of the National Housing Bank are as follows:

(i) National Housing Bank is fully owned by the Reserve Bank of India which is subscribing entire initial capital of Rs 100 crores with a provision for increasing it to Rs.500 crores in consultation with central government.

(ii) The primary responsibility of National Housing Bank is to promote and develop specialised housing finance institutions for mobilising resources and extending credit for housing.

(iii) To extend refinance facilities to housing finance institutions (i.e., institutions which primarily transact, or have as their principal object, the transacting of the business of providing finance for housing, whether directly or indirectly) and to scheduled banks.

(iv) Inspect at its own instance or on the direction of the Reserve Bank, the books and accounts of any housing finance institution to which it has extended financial assistance.

The National Housing Bank is also permitted to raise resources by issuing of bonds and debentures, etc. It can also borrow from central government as also from other institutions approved by the central government.

10 The Gazette of India Extraordinary, (New Delhi: Government of India, 28-12-1987), p 1
government. It is also empowered to borrow foreign currency from banks and financial institutions in India and abroad. The NHB is permitted to accept both short and long term deposits on certain conditions.

The NHB provides guarantee and underwriting facilities to housing finance institutions. It is also empowered to regulate or prohibit the issue of prospectus or advertisements of housing finance institutions soliciting deposits from the public. It also provides advisory services to the central and state governments, local authorities and other agencies on the matters of housing finance.

National Housing Policy

Realising that the shelter is a basic human need and as an intrinsic part of the human settlements, closely linked with the process of overall socio-economic development, the Govt. of India announced National Housing Policy in July 1988.

The important features of National Housing Policy are stated as follows:

(i) The main emphasis of the policy is on providing shelter to SC/STs, rural landless and freed bonded labourers.

(ii) The upgradation of all kutchha houses in urban areas in particular so as to improve the housing conditions of slum dwellers, squatter and the economically weaker sections is another feature of national housing policy.

Thus, the National Housing Policy has been designed to have the following objectives:

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(i) To motivate and help people, in particular the houseless and the inadequately housed, to secure for themselves affordable shelter through access to land, materials, technology and finances,

(ii) To encourage investment in housing,

(iii) To create an environment for achieving maximum housing efforts,

(iv) To improve the environment of human settlement by providing basic services,

(v) To promote vernacular architecture and preserve the nation's rich heritage in the field of human settlements

Thus the National Housing Policy dwells at length on minimum housing norms, rural housing, informal sector housing and slums, legal environment, housing finance and the monitoring system. It also specified that certain disadvantaged categories like the physically and mentally handicapped and the aged have very special requirements for housing.

As far as rural housing is concerned, the policy aims at the following aspects

(i) Providing house sites to SC/STs, freed bonded and landless labourers on suitable loan cum subsidy basis

(ii) Providing potable water supply and promoting smokeless chulhas', built in latrines' and renewable sources of energy

For the informal sector and slums, the housing strategy includes conferring tenurial rights and reasonable rates on slum dwellers and
squatters, promoting savings schemes for housing, stepping up environmental improvement programme and associating slum dwellers in maintenance and improvement of their settlements. It was also proposed to open supply outlets for the sale of building materials at reasonable prices and promote low cost water supply and sanitation. The emphasis was also on removing obstacles in providing credit to women.

Further, the policy states that a specialised housing finance system would be developed to increase the flow of funds for the creation of new housing stock as well as for upgradation and expansion of the houses in rural, semi rural and urban areas.

The policy has also made mention of National Housing Bank, its objectives, features and its role as an apex housing finance institution.

The policy document further states that the role of public sector organisation in housing - HUDCO would be strengthened. For the purpose of housing finance, co-operative societies, savings and loan associations would also be promoted at local, state and zonal levels for mobilising savings and advancing and recovering loans. The co-operative movement in housing would not only be strengthened but constraints coming in its way would be removed.

As far as revenue generation is concerned, the policy document states that the income tax, wealth tax and gift tax would be rationalised to channelise savings into housing finance and promote investment in housing activities. Fiscal measures would also be initiated to discourage investment.
in luxury housing. To meet the increasing demand for housing building material production estates will be established wherever necessary for maintaining quality and speed in construction. The document has further underlined the need for increasing investment in the housing sector for achieving the objectives spelt out in the policy.

**Urban and Rural Housing: Government Initiatives**

The state governments play an important role in formulating specific action plans and programmes suited to local needs and conditions. In other words, the role of the central government is to facilitate the efforts of the state governments by providing fiscal incentives and bringing about legal and institutional reforms for increased flow of investments in housing. The central government may also be responsible for formulations of a comprehensive housing policy and its effective implementation particularly in the areas of social housing schemes for the poor, weaker sections and low income groups. Accordingly, the National Housing Policy has emphasised the enabling approach of the state wherein the state governments are expected to act as facilitator rather than builders or provider of housing.

The urban areas are the engines of growth in the economy and thus the major contributors to the creation of national wealth. But a steady increase in the urban population on account of rapid industrialisation, natural growth and migration from rural areas has multiplied the housing problems in urban areas. To mitigate such problems and facilitate overall development of urban
centres, several schemes and programmes have been initiated at the national level. Some of such schemes are briefly discussed in the following lines.

Night Shelter/Sanitation Facility to Footpath Dwellers in Urban Areas.

To provide night shelter and sanitation facilities to footpath dwellers at a per capita cost of Rs 5,000 with 20 per cent subsidy from the Central Government and 80 per cent as contribution from implementing agencies or through HUDCO loan, a scheme has been sponsored by the Government of India. It is being implemented through HUDCO.

Social Housing Schemes

The social housing schemes include Housing Schemes for Economically Weaker Section (EWS), Low Income Group (LIG), Middle Income Group (MIG) and Rental Housing Schemes. These schemes are implemented in the state sector with state plan provisions and loan assistance from the financial institutions.

Schemes for other Priority Groups

Housing Schemes for handloom weavers and beedi workers are also undertaken through central government subsidy and HUDCO loans. NHB has launched housing schemes for slum dwellers and poor women-headed households, out of the proceeds of the Voluntary Deposit Scheme (VDS).
Housing Schemes for Economically Weaker Section (EWS)

For providing housing to economically weaker sections, direct public sector investment is provided by the HUDCO as loans up to the extent of 15 per cent of its resources. Refinance from NHB is also available to state, co-operative and other organisations involved in EWS housing. In the Eighth Five Year Plan, the income ceiling for EWS household under the scheme was raised to Rs. 1250 per month. For the schemes financed by HUDCO, income limit is upto Rs. 2100 per month and loan ceiling is Rs. 25000 for construction and Rs. 12500 for addition and repairs of EWS houses in urban areas.

Table - III.1

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<th>Achievement</th>
<th>Proportion of Achievement to target</th>
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The performance under housing scheme for EWS in various years is presented in Table - III.1. As it can be observed from the table that in all the years with an exception of 1995-96 the achievement had been behind the targeted levels. The proportion of achievement to target had been upward stretch during the first two years, while it was downward stretch during the
year 1997-98, 1998-99 with an exception of 1995-96 as a midway between The decreasing trend in the later years explicitly indicates the relative poor performance as compared to earlier years

**Housing Scheme for Low Income Groups (LIG)**

The scheme is primarily a loan scheme being executed by the state governments through housing boards and housing departments. The budget provisions for the scheme are supplemented by the institutional finance. During the Eighth Five Year Plan the income eligibility for LIG household under the scheme was raised from Rs 1251 to Rs 2650 per month. HUDCO loan component for this category for household is Rs 70,000 for construction and Rs 35000 for repairs and upgradation.

**Table - III.2**
**PERFORMANCE UNDER HOUSING SCHEMES FOR LIG**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Target</th>
<th>Achievement</th>
<th>Proportion of Achievement to target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993-94</td>
<td>47,892</td>
<td>20,295</td>
<td>42.38</td>
</tr>
<tr>
<td>2</td>
<td>1994-95</td>
<td>40,305</td>
<td>19,028</td>
<td>47.21</td>
</tr>
<tr>
<td>3</td>
<td>1995-96</td>
<td>34,273</td>
<td>34,007</td>
<td>99.22</td>
</tr>
<tr>
<td>4</td>
<td>1996-97</td>
<td>62,000</td>
<td>26,000</td>
<td>41.93</td>
</tr>
<tr>
<td>5</td>
<td>1997-98</td>
<td>37,541</td>
<td>16,967</td>
<td>45.20</td>
</tr>
<tr>
<td>6</td>
<td>1998-99</td>
<td>57,828</td>
<td>41,244</td>
<td>71.32</td>
</tr>
</tbody>
</table>

**Source**: Report on Trend and Progress of Housing in India, (Various Issues).

As it can be observed from Table - III.2 that the performance had been so haphazard undergoing up and down in every alternate years, with the highest proportion of 99.22 per cent achievement to target in the year 1995-96. This indicates that there was no proper planning as it did not reflect any trend either positive or negative successively.
Environmental Improvement of Urban Slums (EIUS)

The Government lays emphasis on environmental improvement of urban slums rather than their massive clearance and relocation. The scheme envisages provision of seven basic amenities viz., water supply, sewerage, open drains with normal outflow avoiding accumulation of stagnant waste water, storm water drains, community baths & latrines, widening and paving of pathways, street lighting and other community facilities to the slum dwellers. The programme is linked with the Urban Basic Services for Poor and Nehru Rozgar Yojana by involvement of resident associations.

Table - III.3

PERFORMANCE UNDER HOUSING SCHEMES FOR EIUS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Target</th>
<th>Achievement</th>
<th>Proportion of Achievement to target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993-94</td>
<td>13,18,030</td>
<td>7,42,253</td>
<td>56.31</td>
</tr>
<tr>
<td>2</td>
<td>1994-95</td>
<td>14,62,660</td>
<td>8,81,088</td>
<td>60.24</td>
</tr>
<tr>
<td>3</td>
<td>1995-96</td>
<td>15,88,871</td>
<td>17,40,819</td>
<td>109.56</td>
</tr>
<tr>
<td>4</td>
<td>1996-97</td>
<td>16,70,532</td>
<td>20,10,000</td>
<td>127.98</td>
</tr>
<tr>
<td>5</td>
<td>1997-98</td>
<td>11,89,898</td>
<td>8,84,822</td>
<td>74.36</td>
</tr>
<tr>
<td>6</td>
<td>1998-99</td>
<td>43,30,000</td>
<td>7,43,000</td>
<td>17.16</td>
</tr>
</tbody>
</table>

Table - III 3 shows that during the years 1995-96, 1996-97 the performance of the scheme had positive trend in terms of its achievements which exceeded the targets. During the year 1998-99, 74,30,00 slum dwellers have been covered under this scheme as against the target of 43,30,000 slum dwellers, constituting about 17.16 per cent.

The Scheme of Housing and Shelter Up-gradation (SHASU)

For housing and shelter upgradation to the EWS category of urban population, a loan up to a ceiling of Rs 9950 and a subsidy up to a ceiling of Rs 1000 is provided under the scheme to eligible borrowers for housing/shelter upgradation. In case of capital requirement beyond Rs 10950, additional loan up to Rs 19500 is also available from HUDCO under its EWS housing scheme. The scheme has a target group in urban areas having population up to 20 lakhs.

Various projects relating to EWS housing and slum improvement in urban areas are also undertaken with the help of the overseas funds in collaboration with the Ministry of Urban Affairs Employment. These projects are funded by Overseas Development Administration (ODA), Kfw of Germany, OECF of Japan, etc. Further, the apex and primary co-operatives in different urban areas have also undertaken housing schemes with finance from the members and financial institutions. They lend on an average Rs 300 crore per annum to achieve the construction of one lakh units annually. Around 72 per cent of the houses belong to low income and economically weaker sections.
The National Housing Bank also implements refinance and direct lending schemes for slum improvement and low cost housing offering financial assistance at concessional rates of interest.

Rural Housing and National Housing Policy

The development of rural areas and improvement of socio-economic conditions of the rural people has been among the major concerns of development planning. Recognising that the rural housing is qualitatively different from urban housing, the National Housing Policy of 1992 made certain specific recommendations on the following aspects:

(i) Support to varying needs of shelter, including new construction, addition and upgradation,

(ii) Providing assistance by way of dissemination of appropriate technology and delivery system for promoting self help housing,

(iii) Assuring land and tenure rights by enactment of enabling laws for conferment of homestead rights,

(iv) Prevention of alienation of homesteads on tribal land,

(v) Avoiding unnecessary displacement or dehousing of rural settlements due to development projects and where unavoidable, ensuring proper rehabilitation of the households with full community involvement according to the national norms in this regard,

(vi) Rehabilitation of households affected by natural, calamities in terms of assistance for reconstruction and access to services within the national scheme of calamity relief.

(vii) Preserving the customary and traditional rights of access to housing resources based on forest materials and common village resources,

(viii) Promoting the maximum use of indigenous building materials and construction techniques, with due regard to geo-climatic variations in different regions,

(ix) Co-ordinated provision of water supply, sanitation, roads and other basic infrastructure services to existing and new habitations, besides employment opportunities, which will also help reduce the migration to urban areas,

(x) Establishment of a suitable institutional structure, including strengthening of existing organisations at state, district and local level, with responsibility for the implementation, supervision and monitoring of rural housing schemes and with full involvement of beneficiaries, voluntary agencies and village panchayats,

(xi) Giving special attention to the needs of poorest segments of scheduled castes, scheduled tribes and other disadvantaged persons,

(xii) The development of house sites and upgradation of rural housing is linked to activities under the Integrated Rural Development Programme (IRDP), Nehru Rozgar Yojna and other programmes for the creation of rural assets and employment.
Indira Awas Yojana (IAY)

The Indira Awas Yojana (IAY) was launched in 1985-86 to provide houses free of cost to the members of scheduled castes/scheduled tribes and freed bonded labourers in rural areas. The beneficiary for an house under IAY has to get identified by a gram panchayat and approved by the panchayat samiti/block development officer, as the case may be. The IAY is implemented primarily through the District Rural Development Agencies/Zilla Parishads. Though the state level co-ordination committee monitors the programme at the state level, the Central government is responsible for release of central share of funds, overall guidance, policy-making, monitoring and evaluation of the programme at the national level.

Table - III.4

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Allocated</th>
<th>Utilised</th>
<th>Percentage of Utilised to Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993-94</td>
<td>328.12</td>
<td>464.50</td>
<td>146.01</td>
</tr>
<tr>
<td>2</td>
<td>1994-95</td>
<td>437.69</td>
<td>174.26</td>
<td>39.81</td>
</tr>
<tr>
<td>3</td>
<td>1995-96</td>
<td>1250.00</td>
<td>1058.14</td>
<td>84.65</td>
</tr>
<tr>
<td>4</td>
<td>1996-97</td>
<td>1424.60</td>
<td>674.02</td>
<td>40.29</td>
</tr>
<tr>
<td>5</td>
<td>1997-98</td>
<td>1440.85</td>
<td>1591.48</td>
<td>110.45</td>
</tr>
<tr>
<td>6</td>
<td>1998-99</td>
<td>1854.62</td>
<td>1808.88</td>
<td>97.26</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Housing in India, (various issues)

The proportion of utilised to allocated funds under Indira Awas Yojana is shown in Table III-4. In 1993-94, the proportion of utilised to allocated was 146.01 per cent. In the later years this proportion was not uniform, and it
was in a decreasing trend. During the year 1997-98 the proportion increased to 110.45 per cent, but during the year 1998-99, it went down to 97.26 per cent.

Table - III.5

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Target</th>
<th>Constructed</th>
<th>Percentage of Constructed to Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1993-94</td>
<td>280363</td>
<td>360047</td>
<td>128.42</td>
</tr>
<tr>
<td>2</td>
<td>1994-95</td>
<td>353353</td>
<td>372275</td>
<td>105.35</td>
</tr>
<tr>
<td>3</td>
<td>1995-96</td>
<td>1000000</td>
<td>816393</td>
<td>81.64</td>
</tr>
<tr>
<td>4</td>
<td>1996-97</td>
<td>1123560</td>
<td>356855</td>
<td>31.76</td>
</tr>
<tr>
<td>5</td>
<td>1997-98</td>
<td>718326</td>
<td>770936</td>
<td>107.32</td>
</tr>
<tr>
<td>6</td>
<td>1998-99</td>
<td>937466</td>
<td>835770</td>
<td>84.64</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Housing in India, (Various Issues)

Table-III.5 shows the proportion of construction to targets of houses under Indira Awas Yojana. The proportion of construction houses exceeded the targets registering 128.42 per cent and 105.35 per cent in the years 1993-94 and 1994-95 respectively. In the next two years 1995-96 and 1996-97 the proportion declined but in 1997-98 the proportion increased to 107.32 per cent. In the year 1998-99, 835770 houses were covered under this scheme as against the target of 987466 houses and the proportion of constructions in target was 84.64 per cent.

Golden Jubilee Rural Housing Finance Scheme (GJRHFS)

The housing shortage in the country is expected to be of high order with the increasing population. The shortage of walling units in rural areas
is expected to be much higher. To deal with the problem, the Government formulated the Golden Jubilee Rural Housing Finance Scheme and launched on the occasion of the fiftieth anniversary of India's Independence. The scheme addresses the problem of housing shortage in the rural areas through improved access to institutional housing finance which would enable an individual to build a modest house or improve or add to his existing dwelling unit in rural areas.

Under this GJRHFS, loans are given for construction, purchase or improvement of houses in rural areas. Individual housing loans up to Rs. 5 lakhs for construction of new houses in rural areas are included for reporting progress under the scheme. The GJRHFS envisages lending without any compromise on the appraisal norms to be followed by the lending institutions.

The scheme is implemented through public sector commercial banks, state co-operative banks, regional rural banks, dedicated housing finance institutions, the apex co-operative housing finance societies etc.

**Table - III.6**

**PERFORMANCE UNDER GOLDEN JUBILEE RURAL HOUSING FINANCE SCHEME**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Target</th>
<th>Achievement</th>
<th>Percentage of Achievement to Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1997-98</td>
<td>50000</td>
<td>51272</td>
<td>102.54</td>
</tr>
<tr>
<td>2</td>
<td>1998-99</td>
<td>100000</td>
<td>125731</td>
<td>125.73</td>
</tr>
<tr>
<td>3</td>
<td>1999-2000</td>
<td>125000</td>
<td>141363</td>
<td>113.09</td>
</tr>
<tr>
<td>4</td>
<td>2000-2001</td>
<td>150000</td>
<td>158426</td>
<td>105.62</td>
</tr>
</tbody>
</table>

**Source:** Annual Reports of NHB, (Relevant Issues)
Performance under Golden Jubilee Rural Housing Finance Scheme as depicted in Table - III 6, states that the proportion of achievement to target was more than 100 per cent in all the years of survey. With the highest proportion in 1998-99 with 125.73 per cent, the total number of units assisted during the year 1997-98 were 51,272 as against the target of 50,000 while the total number of dwelling units assisted during the year 2000-01 were 1,58,426 as against the target of 1,50,000.

This analysis shows that the Golden Jubilee Rural Housing Finance Scheme has been most successful right from its inception in the year 1997-78 till 2000-2001 (the study period) in terms of its targets fixation, implementation, and achievement of the targets.

Origin of Institutional Housing Finance

Since housing in India is a state subject, the Central government formulates the plans and schemes and the state governments implement them.

A noticeable and significant turn took place in housing finance with the development of housing finance institutions in the country in the last two decades. In other words, a host of institutions have come up to cater to the housing finance needs of the people. At national level the Housing and Urban Development Corporation (HUDCO) has come up to cater to the needs of weaker sections and low-income groups of the population. Likewise the
institutions like Housing Development Finance Corporation (HDFC) have
been established under private sector. The Life Insurance Corporation of
India (LIC), General Insurance Corporation (GIC), Co-operative Housing
Societies, Commercial Banks, etc., have also formulated schemes to
participate in housing finance.

After more than five decades of Independence, the vital housing finance
industry is coming into its own. The government has realised the role of
housing sector in the national economy. The industry virtually monopolised
by one company all these years, has been attracting new players in the recent
years from banks, insurance companies and others.

Thus the Governments under constraints of resources are playing a
catalytic role in encouraging and promoting the development of housing
finance institutions. Mobilisation of savings and their optimal development
in house construction programmes form the important objectives of all
housing finance institutions.

Housing and Urban Development Corporation (HUDCO)

The Housing and Urban Development Corporations was set up in April
1971 to accelerate the housing development programme in the country. It is
a national level public sector institution, established to augment the efforts
of the government in housing development. The need for a national level
housing finance institution to raise funds at national and international levels
to lend at lower rates to state governments and state housing boards was felt very essential as the state housing boards and other housing agencies engaged in the construction of houses both in urban and rural areas were continuously facing the problem of inadequate finance.

The important features of HUDCO which distinguish it from other institutions are stated as follows:

(i) It predominantly caters to the needs of the weaker sections and low income groups,

(ii) It is the only institution which is helping rural housing substantially and,

(iii) It is the only housing finance institution which is looking into the environment aspects, technical details and project impact analysis of housing developments.

The main objectives of HUDCO are as stated below:

(i) To finance or to undertake housing and urban development programmes in the country,

(ii) To finance or to undertake, wholly or partly the setting up of new or satellite towns,

(iii) To subscribe to the debentures and bonds to be issued by the State Housing Boards, Improvement Trusts, Development Authorities etc., specifically for the purpose of financing housing and urban development programmes,

(iv) To finance or undertake the setting up of the building material industries,
(v) To administer the moneys received, from time to time from the Government of India and other sources as grants or otherwise for the purposes of financing or undertaking housing and urban development programmes in the country, and

(vi) To promote, establish, assist, collaborate and provide consultancy services for the projects, designing and planning of works relating to housing and urban development programmes in India and abroad

The Housing and Urban Development Corporation's operations cover all regions of the country through the active participation of the state level housing boards, development authorities, state level apex co-operative housing societies, etc.

It may be stated that the Housing and Urban Development Corporation does not undertake any house construction directly by itself. It provides financial assistance to agencies directly involved in residential construction. The agencies formulate their own housing and site and services plans (land development plan) for financial assistance on soft terms from HUDCO. Infrastructure facilities like water supply, sewage, community centres, roads, parks, etc., are also financed by HUDCO.

**Housing Development Finance Corporation Limited (HDFC)**

In India a number of financial institutions have been established to cater to the needs of industries for their long term financial requirements. But the long term financial needs of individuals for house construction had not been fulfilled by any financial institution till 1971. Eventhough HUDCO
entered into financing of house construction, the limitations of its resources, forced it to give priority to housing of the poor. The needs of others, particularly the middle class, were not met by any institution including the commercial banks. It was in this backdrop, the Industrial Credit and Investment Corporation of India (ICICI) took the lead and promoted the Housing Development Finance Corporation (HDFC) in June, 1978. The ICICI also influenced the International Finance Corporation (IFC), an affiliate of the World Bank, to subscribe to the equity of HDFC to the extent of 5 percent. The IFC also provided a loan of US $ 4 million in the beginning to HDFC. And through public issue it could collect Rs 10 crores in the beginning.

The major objective of HDFC is to provide finance to individuals, co-operatives and corporate bodies for housing development by channelising house-hold savings as well as funds from the capital market into the housing sector. It aims at promoting ‘home ownership’. The loan amount to be sanctioned by HDFC is determined with regard to the repayment capacity of the borrower as determined by HDFC. Repayment capacity is fixed by taking into consideration factors such as age, income, qualifications, mostly family expenditure, spouse’s income and savings. Initially loans were normally restricted to 70 per cent of the cost of property. For all practical purposes HDFC is synonymous with the domestic housing finance industry. HDFC was established to perform a similar task as that of Building Societies in UK and Savings and Loan Associations of USA. These institutions accept deposits from the public and lend their funds mainly to individuals to acquire house
for self-occupation. But HDFC plays the additional role of developing financial institutions in the field of housing. Thus, HDFC finances individuals and co-operative housing societies and to a less extent companies, and complements HUDCO's activities in the provision of housing finance.

**Insurance Corporations - LIC and GIC**

Life Insurance Corporation of India and General Insurance Corporation of India are the two main primary sources of funding for housing sector. LIC of India has always been at the forefront of the nation's efforts providing housing finance. In fact, more than 75 per cent of its funds are invested in schemes providing welfare to the people of India. In India, LIC occupied the place of pride among the institutions providing housing finance. Insurance funds are ideally suitable for long term programmes like housing. However, in India, LIC's contribution towards housing Programme came only very late, i.e., from 1969-60 onwards.

Life Insurance business was nationalised in Sept 1956. The nationalisation preamble lays down that LIC will invest in ventures which further the social advancement of the country. Thus in view of the provision of the Insurance Act 1938, at least 50 per cent of the LIC's investible funds have to be spread for the Govt. and approved market securities and 25 per cent for the socially oriented schemes such as housing, rural electrification etc. The share of the housing sector has been around 16 per cent of the accretion in the controlled fund maintained by LIC.
The LIC is empowered to advance against the security of movable or immovable property to the extent of 50 per cent of its value. The corporation can finance any housing scheme in India through any housing society or cooperative society, provided the sum is guaranteed by the central government. LIC’s contribution is under plan head as decided by the Planning Commission and the non-plan head disbursements are decided by the LIC itself. In addition, the central government has decided that a maximum of 50 per cent of annual accretions will be invested by the LIC in National Housing Bank (NHB).

The LIC has been active in the area of housing development right from the time of its formation. The endeavours of the LIC have been two pronged:

(i) In making available financial resources to

(a) the State Governments for financing social housing schemes, such as Low Income Group (LIG), Middle Income Group (MIG), Rental Housing, Urban Development, Rural Housing etc

(b) housing besides at various levels including apex bodies like NHB, State Co-operative Housing Federations etc

(c) development Authorities, Builders etc

(d) employers for employees housing and

(e) individuals

(f) building up residential houses for sale
The GIC started functioning from May, 1971 and was nationalised in January 1973. It has four subsidiaries, The oriental Fire and General Insurance Company, the United India Fire & General Insurance Company, the New India Fire & General Insurance Company and the National Insurance Company.

The GIC started providing housing finance from 1977. As per the GIC guidelines, it gives loans to the State Governments for Social Housing Schemes to the extent of 20 per cent of its investable funds and 15 per cent of HUDCO. It also sanctions housing loans to its staff. Thus, around one-third of fresh accruals to its investable funds to be invested in the housing sector.

Co-operative Societies

Co-operative housing societies are considered to be the best organisational set-up for housing development in the country. Housing co-operatives comprise a group of people who join together to provide for themselves housing. The membership represents a cross-section of the society, cutting across barriers of income, religion, caste, creed, language, etc.

The first co-operative housing society in the country was set up in 1909 in Bangalore, and was known as Bangalore Building Co-operative Society. This was followed by the Bombay Co-operative Association established in 1913. These two organisations enlightened the people on the advantages of undertaking house construction programmes under co-operative movement.

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They framed a set of model by-laws which later became the guiding factor for the organisational set up of many co-operative housing societies in other parts of the country.

**Commercial Banks**

The role of commercial banks in housing finance has remained negligible for a long time. The overall policy of banks and the guidelines issued by RBI in 1979 in this respect had tended to restrict the flow of bank funds into housing sector. The RBI revised these guidelines in November 1988 and took many steps to increase the flow of bank credit to the housing sector, particularly for the weaker sections. The important features of commercial bank finance to housing are as follows:

(i) The yearly quantum earmarked for housing finance by the banking system is now 3 per cent of incremental bank deposits during the preceding 12 months, and there is no objection to banks exceeding this level up to a reasonable limit provided they have regard to their resources position and compliance with the statutory reserve requirements.

(ii) Previously term loans granted by banks to housing finance companies other than HUDCO, HDFC and companies promoted/sponsored by commercial banks, were restricted to their net owned funds. With effect from January 1990, such companies have been made eligible for term loans from banks to the extent to three times their net-owned funds.
Further, with effect from October 1989, the restriction on the quantum of housing loan per individual (of Rs 3 lakhs) has been removed, and it is left to the banks to charge a higher rate of interest over the minimum rate of 16 per cent per annum on housing loans exceeding Rs 3 lakh per individual. Moreover, now such housing loans will not form a part of bank's housing finance allocation.

With effect from October 1988, margin requirements for bank's housing loans have been fixed at 20 to 35 per cent, and the repayment period has been fixed at 15 years. The banks give housing loans against mortgage of property, government guarantee, LIC Policy, government promissory notes, shares and debentures. The loans are now made available for repairs, additions, acquisition and development of land.

Apart from individuals, housing finance institutions, private housing finance companies, and private builders also can obtain housing loans from banks.

Besides the institutions as described above, there are a few housing finance companies operating in the private/joint sector. Important among these are Gujarat Rural Housing Finance Corporation (GRUH) established in 1986, Dewan Housing Development Finance Ltd., established in 1984, India Housing Finance Development Ltd., (1986), Can Fin Homes Ltd., (1987), SBI Homes Finance Ltd., (1987), and PNB Housing Finance Ltd., (1990).

**Sources of Housing Finance**

Finance for housing flows both from formal and informal sources. The formal sources comprise of central and state governments, through budgetary
allocations, public sector agencies through direct house building loans, National Housing Bank as the apex institutions for mobilising the resources for housing and for refinance support to housing finance institutions, general financial institutions/organisations such as life insurance corporation, general insurance corporation, commercial banks, provident and pension funds, specialised housing finance institutions, in public and private sector, apex co-operative societies, etc. The informal sources include savings of house holds, public and private employees providing housing loans to their employees, private builders and developers providing houses on hire purchase basis and money lenders.

Central and State Governments

Both the Central and the State Governments support house building activities mainly by aiding the institutions in the housing sector. The Government of India has introduced several housing schemes for financial assistance to housing sector. It also provides support to HUDCO and guarantees the bonds and debentures issued by HUDCO. Some of the state governments implement social housing schemes, and provide funds for construction of houses for their employees and loans to housing boards and other agencies for construction of houses for general public.

Pension and Provident Fund

Pension and provident funds mobilise 19 per cent of the household financial savings. The regulatory provision regarding the investment of these funds stipulates that 35 per cent of the fund has to be invested in special deposit scheme of the government. Thus good portion of funds is utilised as
The contribution of provident fund to housing is currently by way of loans to its members. At present, the percentage share of housing loans to total public provident fund collections is around 16 per cent as compared to 11 per cent in 1983-84.

**Housing Finance Companies**

Housing finance companies (HFCs) give financial assistance for construction/acquisition of new houses for individuals and also for repairs and upgradation. They also lend money to the co-operative sector for construction of houses for its members and to professional developers and co-operative housing societies, for land development and shelter projects. A large number of other housing financing companies which provide loans to individuals and state agencies have been established in the recent past.

The NHB provides refinance to the recognised finance companies. There are about 30 companies with 340 offices in the country which have been recognised by NHB for refinance. Out of these housing finance companies, HDFC was the first one to be set up in private sector in 1976 to tap household savings and funds from the capital market for promoting ownership housing. Like other housing finance companies, HDFC gives loans under various schemes to individuals, association of individuals, member of public societies and co-operative sector employees.

The informal sector in India plays a significant role in extending financial assistance for housing particularly to the poor and low income groups. Absence of cumbersome formalities and the flexibility in repayment terms in the informal sector make this quite popular even though the rate of
interest charged is much higher than that in the formal sector. The share of
the informal sector is much more than the formal sector in financing the
housing activities. However, the possibility of integrating the informal sector
with the formal sector and also of somehow mobilising the fiscal assets and
other resources lying with the households into the formal housing finance
stream needs to be examined so that funds available to this sector may
increase.

Borrowing from friends and relatives without formal security is quite
common in the lowest categories. A higher percentage of these households
also borrow at zero interest rate—mostly from shopkeepers, money lenders and
landlords. But, the implicit rate of interest turns out to be generally quite
higher because of the high prices charged from the borrowers for the
commodities purchased, contractual obligations to be meet, or free labour to
be provided by them. Thus informal sources contribute over 95 per cent of the
loans for the lowest category of people who borrow for house construction
activities.

India faces housing shortage both in urban areas and rural. The rural
housing shortage is acute and requires that it should be tackled by
institutional approach. Recognising this need the Government of India from
the First Five Year Plan itself allocated funds for housing development. The
Seventh Five Year Plan document observed that housing must enjoy high
priority in a poor society such as ours where housing amenities were far
below the standards as compared to the international standards. The rapid
increase in population, high inflation in land and construction cost have aggravated the housing shortages. The increase in housing units have not kept pace with the demand.

Housing finance which covers supplying of finance at all stages in the development of housing namely purchase of land, construction and installation of on-site infrastructure requires a institutional framework with a clean cut housing policy. In the First Five Year Plan major thrust was towards development of infrastructure facilities. The Government introduced integrated subsidised housing programmes for industrial workers and economical weaker sections of the society. In the Second Five Year Plan attention was directed towards the housing of the weaker sections of the society. In the Third Five Year Plan the emphasis was placed on land acquisition and development as this was considered basic to the success of all housing programmes. During the Fourth Five Year Plan, the Housing and Urban Development Corporation (HUDCO) was established as a techno-finance institution to cater to the needs of weaker sections of the society. The Fifth Five Year Plan gave importance to preservation and improving housing stock and planned to provide sites to four million landless labourers as a part of the minimum needs programme.

The Sixth Five Year Plan attempted at reducing substantially the number of absolutely shelterless people and to provide conditions for improving their housing environment. During the Seventh Five Year Plan, the Government felt that it should not directly involve in housing.
development. It felt that its role should be only a facilitator. The Eight Five Year Plan indicated the role of the Government through its 'National Housing Policy.' The policy indicated long-term objectives, the core strategy. The Government felt that it had to remove all the constraints and provide direct assistance to disadvantaged group. The Ninth Five Year Plan aimed at focussing special attention on householders at the lower end of the housing market and the priority group such as people below poverty line, SC/ST, disabled, freed bonded labourers, slum dwellers, etc.

On the recommendations of Rangarajan Committee, the Government of India established National Housing Bank in 1986 as an apex finance institution. The National Housing Bank was established to operate as principal agency to promote housing finance institutions at both local and regional levels and provide financial and other supports.

A noticeable and significant turn took place in housing finance with the establishment of housing finance institutions. Today at apex level there are National Housing Bank and HUDCO. At the lower level we have institutional agencies such as HDFC, LIC Housing Finance Ltd., Co-operative Housing Society, Commercial Banks. The National Housing Bank is providing refinance facilities. At present there are about 29 companies in the country which have been recognised by the National Housing Bank. There are a number of NBFCs which are contributing substantially for housing development in the country.