CHAPTER-VII
FIELD SURVEY, CONCLUSION AND SUGGESTIONS

A. FIELD SURVEY AND TABLED DATA

i. Questionnaire asked to 110 employees of the Cement Industry, Satna (M.P.)

CUSTOMER SATISFACTION RELATED ISSUES

Q1: Have you ever heard that Banks and HFCs are financing for housing?

Q2- Have you availed housing loan?

Q3- How satisfied are you with: (Please mention satisfied or not satisfied)
   - the Mortgage choices you made ( satisfied or not satisfied)
   - the advice you received ( satisfied or not satisfied)
   - the service you received (satisfied or not satisfied)

Q4: What would you want your lender / adviser to do differently the next time you arranged a mortgage?

The questions relating to the customer satisfaction issues were asked to 110 people working in the Cement Industries including 40 women. The answers recorded as under:

Q.1- Have you ever heard that Banks and Housing Finance Companies are financing for housing?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>70 Men</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>40 Women</td>
<td>36</td>
<td>04</td>
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It is revealed that 86 % men were aware that housing loan is granted by banks and housing finance companies whereas 14 % men were ignorant about the fact. 90% of women were aware and 10 % of women were ignorant.

Conclusion: Majority of the women were knowing the fact that housing loans are granted by banks and housing finance companies.

Q.2- Have you availed housing loan?

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<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>70 Men</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>40 Women</td>
<td>25</td>
<td>15</td>
</tr>
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</table>

It is revealed that 57 % men had availed the housing loan whereas 43 % had not availed so far. Similarly 62 % of women had availed loan facility whereas 38 % of women had not availed.

Conclusion: It indicates that majority of men and women are availing housing finance for their dream houses.
Q.3- How satisfied are you with the following:-

- The mortgage choice you made
- The advise you received
- The services you received.

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<thead>
<tr>
<th></th>
<th>Satisfied</th>
<th>Not satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 Men</td>
<td>35</td>
<td>05</td>
</tr>
<tr>
<td>25 Women</td>
<td>23</td>
<td>02</td>
</tr>
</tbody>
</table>

It revealed that 87% of men were satisfied with the mortgage choices, advice and services rendered by the banks/hfcs whereas 13 % of men were not satisfied. 92 % of women were fully satisfied whereas only 8% of women were not satisfied.  
**Conclusion:** Most of the women were more satisfied than the men.

Q.4- What would you want your lender to do differently the next time you need mortgage loan?

<table>
<thead>
<tr>
<th></th>
<th>Reduce the processing fee</th>
<th>Payment through eleorinc mode</th>
</tr>
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<tbody>
<tr>
<td>40 Men</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>25 Women</td>
<td>25</td>
<td>25</td>
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</tbody>
</table>

In fact, question was limited from two angle, reduction in the processing fee and the payment of instalment through the electronic mode. In this connection all the men and women were of the view that the processing fee be reduced to a maximum of Rs.500.00 and the payment of equated Monthly Instalment (EMI) be recovered through the electronic mode, debit and credit card.  
**Conclusion:** Borrowers feel that present structure of processing fee is not suitable to them and it should be reduced. Payment through electronic mode (egovernance) was welcomed by every one to avoid physical payment through cheque/cash.

Q.5- Details of problems faced, if any?

<table>
<thead>
<tr>
<th></th>
<th>Not releasing instalments timely</th>
<th>Delay in processing loan application</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 Men</td>
<td>02</td>
<td>05</td>
</tr>
<tr>
<td>25 Women</td>
<td>Nil</td>
<td>02</td>
</tr>
</tbody>
</table>

It is observed that out of 40 men only 2 were unhappy and faced problems in getting the instalments belatedly whereas 5 had problems in processing of their loan application. Out of 25 women none had problem in release of instalments. Only 2 women had faced problems in processing of their loan applications.  
**Conclusion:** Men had faced more problems than women There are less problems overall in getting home loan sanctioned.
ii. **MORTGAGE FEATURES RELATED ISSUES** sent to 30 housing finance companies including 2 from the public sector sponsored by the commercial banks.

**Q.1**: What type of mortgage HFCs are having?

<table>
<thead>
<tr>
<th></th>
<th>English Mortgage</th>
<th>Equitable Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 other HFCs</td>
<td>Nil</td>
<td>28</td>
</tr>
<tr>
<td>02 Public Sector HFCs</td>
<td>Nil</td>
<td>02</td>
</tr>
</tbody>
</table>

It revealed that the equitable mortgage is very popular in India. Housing Finance Companies preferably grant housing loan through the equitable mortgage process only.

**Conclusion**: Housing Finance Companies (HFCs) feel secured while financing by creating equitable mortgage.

**Q2**: What were the main reasons for selecting the mortgage by customers?

- Low interest rate with 15 years tenure
- Low interest rates

<table>
<thead>
<tr>
<th></th>
<th>Low interest rate with 15 years tenure</th>
<th>Low interest rates with extended tenure of 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 other HFCs</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>02 Public Sector HFCs</td>
<td>02</td>
<td>Nil</td>
</tr>
</tbody>
</table>

It has been observed that out of 28 HFCs 10 offered low rate of interest with 15 years tenure whereas 18 HFCs offered tenure of 20 years and above with low rate interest. Both the Public Sector Banks offered short tenure of 15 years with low rate of interest.

**Conclusion**: HFCs always offer extended tenure even more than 20 years whereas Public Sector HFCs always offer short tenure of 15 years and less. It is better to avail housing loan from the private HFCs.

**Q3**: What is the range of margin money?

<table>
<thead>
<tr>
<th></th>
<th>60-70% of the cost of house</th>
<th>Above 70% to 80% cost of house</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 other HFCs</td>
<td>Nil</td>
<td>28</td>
</tr>
<tr>
<td>02 Public Sector HFCs</td>
<td>02</td>
<td>Nil</td>
</tr>
</tbody>
</table>

It is observed that all the HFCs grant loan above 70% cost of the house whereas both the Public Sector HFCs granting loan up to 70% of the cost of dwelling unit.

**Conclusion**: Private Sector HFCs are liberal than Public Sector HFCs. Private HFCs take more risk. It means Private HFCs are more popular than Public Sector HFCs.
Q. 5: What type of interest rate do you have? e.g. floating or fixed.

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<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Floating</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 other HFCs</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>02 Public Sector HFCs</td>
<td>02</td>
<td>02</td>
</tr>
</tbody>
</table>

All the Private and Public Sector HFCs are offering both type of interest rates.

Conclusion: It is up to the customer that what type of rate of interest they choose fixed or floating as may be suitable to them.

B. ISSUES IN THE DEVELOPMENT OF THE HOUSING FINANCE SECTOR

Dilemmas for the policy makers

1. The recent housing bubble in the United States (US) which in many ways contributed to global financial market crisis is still fresh in the minds of all the stakeholders in the financial markets. The housing crisis in the US has yet again proved that the mission of social objectives, if not driven with regulatory caution, can lead to financial instability. Such events not only cause severe structural damages to the financial system but also lead to further intensification of the problem that the mission originally was seeking to overcome. Therefore, dilemma for policy makers is to choose either a policy which aims at affordable houses for all without compromising the stability of the financial sector or a policy which enables all to afford houses with focus on inclusive growth for the people at large.

2. The mandate of Reserve Bank of India, whether stated explicitly or otherwise, is for promotion of inclusive growth without undermining financial stability. The dilemma is all the more significant in the context of housing sector initiatives as they involve framing policies on affordability of housing and also harnessing and promoting markets so as to serve the entire spectrum of customers, irrespective of their levels of income and the phase of business cycle.

The extent of problem

3. Housing shortage has always been a major problem over the years in our country since independence. Such shortage estimated as excess households over houses including houseless households, congestion (number of married couples requiring

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1 www.rbi.org.in. speeches
separate house), and replacement/ up-gradation of kutcha/ unserviceable kutcha houses and obsolescence/ replacement of old houses, etc. had grown over the decades.

4. The Working Group on Rural Housing for the Eleventh Five Year Plan (2007-12), has estimated the total housing shortage in rural areas at 47.43 million units at the end of 2012. As per Government estimates, the total housing shortage in the urban areas, at the beginning of the 11th Plan period was around 24.71 million units and is likely to go up to 26.53 million units by 2012. The urban situation is equally appalling with 99 per cent of the housing shortage pertaining to the Economically Weaker Section (EWS) and Low Income Group (LIG) categories. It is also of major concern that 90 per cent of the rural housing shortage (approximately, 42.69 million units) are in respect of Below the Poverty Line (BPL) categories.

5. According to a report of Information and Credit Rating Agency (ICRA)\(^3\), housing loans as a percentage of GDP have remained at around 7 per cent, significantly lower than the levels achieved in most of the developed countries. It indicates the extent of opportunity for deeper penetration of such market. With improving demographics and economies of scale, the mortgage to GDP\(^4\) ratio is likely to increase. The stakeholders, however, need to reckon with problems and impediments in the process which may arise from changes in the economic cycle, uncertainties surrounding land acquisition policies, changes in the policy framework and systemic risk that could arise out of rapid credit expansion with lax due diligence standards.

**Concept of affordability**\(^5\)

6. “Affordability” as a concept is very generic and could have different meanings for different people based on differences in income levels. Different countries have defined affordable housing to present the economic potential of an individual buying a house. In developed countries like the US and Canada, a commonly accepted guideline for affordable housing is that the cost of housing should not exceed 30 per cent of the gross income of the household. Affordable housing and low-cost housing are often interchangeably used but are quite different from each other. Low-cost housing is generally meant for the Economically Weaker Sections (EWS) categories.

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\(^4\) Gross Domestic Product.

and comprises bare minimum housing facilities while affordable housing is mostly meant for the Low Income Groups (LIG) and the Middle Income Groups (MIG).

7. Defining affordable housing in India is a difficult task given that for every square kilometer of the country the dynamics of the market are different. Keeping in mind that the housing shortages affect mostly the EWS and LIG, and the younger group of urban-urban migrants changing cities in search of better prospects, affordable houses, for the purpose of such schemes, are taken as houses ranging from about 300 square feet (super built up area) for EWS, 500 square feet for LIG and 600 to 1200 square feet for MIG, at costs that permit repayment of home loans in monthly installments not exceeding 30 per cent to 40 per cent of the monthly income of the buyer.

8. A major issue involving the affordable low cost housing is the quality of housing. As per the 2001 census data, only 51.62 per cent of Indian households stay in pucca (concrete) houses. As on end-June 2009, 55 per cent of the rural households and 92 per cent of the urban households lived in pucca structures.

The Challenges in India - Reasons for low affordability

9. Although India has been registering a fast paced growth during the first decade of the 21st century there is still a significant population below the poverty line (BPL), irrespective of the parameters defining the line. This requires economic and social support to get above the poverty line. The levels of unemployment also remain significantly high, thereby rendering housing unaffordable to many. It is also important to reckon the fact that even today there is a large population which remains financially excluded from the formal banking/financial systems and, in the process, is deprived of access to housing finance.

Rural housing

10. The vulnerabilities to the rural housing sector are often thought to be limited to the delivery system for housing materials, services and finance. The sector, however, is deeply affected by infrastructure deficit – roads, electricity supply, drinking water and sanitation. The housing finance which played a key role in the urban housing revolution, as the researcher has found is rather conspicuous by its absence in the rural setting. To aggravate the situation further, there is a real paucity of common or

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non-agricultural land for meeting the housing needs of the poor; whatever little is available is preempted by the demands from other sectors. The lack of vibrancy in the market for village properties and the marked volatility in agricultural incomes combine to dampen the prospects of this nebulous sector.

**Challenges from urban migration**

11. The other challenge emanates from the economic condition of our rural areas which leads to migration of population. The number of people in urban cities and towns has gone up substantially primarily as a by-product of demographic explosion and poverty induced rural-urban migration. This situation has resulted in tremendous pressure on urban infrastructure and consequent increase in the number of homeless people living on the streets. As per the 2001 census, the total urban homeless population was 0.78 million, which would be much more currently given the inadequate availability of affordable/low cost housing. As per the 2001 census, the country’s urban land mass (2.4 per cent of total land mass) housed approximately 28 per cent of the population, excluding people who live on the streets.

12. If we look deeper into the extent of availability of basic amenities, the position is all the more disturbing. As per the Report of Housing Condition & Amenities in India (2009), 65 per cent of rural and 11 per cent of urban households do not have adequate sanitation facilities. 34 per cent of the rural and 4 per cent of the urban households did not have the facility of electricity. Only 18 per cent of the rural households had all the three facilities (drinking water within premises, sanitation & electricity) whereas in urban areas, all the three facilities were available to 68 per cent households.

**Constraints to housing sector**

13. Any sector is likely to be influenced by both demand and supply constraints. On the demand side, mainly income levels of the people, overall cyclical condition of the economy and affordability of housing play the most important role and availability of land, finance at reasonable price, infrastructure, legal and regulatory framework are some of the major constraints from the supply side.

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Constraints of land availability

14. Amongst the four constraints, land bears particular relevance in the Indian context. The continuous tussle between agriculture and industry in a country with a vast segment employed in agriculture and with a policy attempting to boost the manufacturing sector has its undesired effects on sectors like housing. But the required policy support to the housing sector cannot be ignored since construction has direct linkages with the manufacturing sector and any boost in this sector is likely to boost the manufacturing sector as well. On the other hand, with growth in the rural sector, demand for low-cost and affordable housing is expected to increase. The bill on Land Acquisition and Rehabilitation & Resettlement has proposed to fix the compensation for rural and urban land at four and two times the market value respectively. It also stipulates a specified period for the completion of projects. Many feel that the law is likely to increase prices of land and property and also further constrain land availability. If this happens, it may increase the proportion of land cost in the total cost.

15. As mentioned earlier, urban land mass is under severe constraint to meet the housing requirement of the country’s urban population which is growing rapidly. This implies that the vision of “Affordable Housing for All” will require acquisition/supply of large land parcels on a regular basis. At the same time, we need to ensure proper development of the housing sector; otherwise we may be seeing increasing number of slums and unauthorized settlements.

Financial constraints

16. Another important constraint that has been existent all along for the housing sector is finance for the developers as well as finance for the households, particularly for the low cost/affordable housing category. The current financing mechanism prevalent in the country mostly targets middle and high income sections of the society while the households falling under low income and economically weaker sections category find it difficult to secure formal housing finance. Commercial banks and traditional means of housing finance typically do not serve low-income groups, whose income may vary with crop seasons or is below the ‘viable’ threshold to ensure repayment or those who

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cannot provide collateral for loans. In India, as mentioned earlier, the mortgage to GDP ratio is estimated at around 7 per cent. This contrasts with mortgage to GDP ratio of over 51 per cent in USA. However, even if one were to benchmark with more comparable counterparts, the ratio ranges between 15 and 20 per cent for South East Asian countries. The penetration level of mortgages is miniscule when compared with the shortage of housing units. This problem is more acute for low income families seeking affordable houses.

**Need for long-term debt market**

17. Housing constitutes a long term asset for a large segment of population in rural and urban areas. As debt markets are not very deep, access to long-term funding for housing finance institutions is difficult. Most lenders/banks use their shortterm funds from deposits and deploy these funds in long-term housing loans, thereby creating an asset liability mismatch. Reserve Bank of India has cautioned banks of the dangers of borrowing short and lending long. To mitigate such problem, in some countries, banks have been permitted to float long-term mortgage bonds to match their mortgage assets. To tackle the interest rate risks, most assets and liabilities are on a floating rate basis. In India, there has been a long-standing demand to allow pension and provident funds to invest in housing finance. These funds are suppliers of long-term capital. They typically have a low risk tolerance but do crave for diversification. The mutuality of interest is strong between homeowners and long-term institutional investors. Going forward, to tide over the paucity of funds, it is imperative to develop the secondary mortgage market. Securitization ensures recycling of funds. While some countries in South Asia have issued mortgage-backed securities, most transactions are sporadic and ad-hoc. Rigidities in the legal framework, high stamp duties and lack of uniformity in underwriting norms are recognized as some of the hindrances in the development of mortgage market. Of course, regulatory concerns for unbridled securitization and massive growth in home loan portfolio with very lax underwriting standards which caused considerable damage to the financial markets, particularly in the context of the advance economies like the US, have to be kept in view. Drawing upon the lessons from imprudent securitization of mortgages which contributed to a larger extent to the recent global financial crisis, Reserve Bank of
India is reviewing the regulatory framework for securitization in India. It is expected that the market for residential mortgage backed securities (RMBS) will develop on safe and sound lines under the new regulatory framework.

**Loan products**

18. A housing loan is inherently different from any other retail loan. This is because a house is probably the single largest investment a person makes in his/her lifetime. It has been noticed that a customer seeking a housing loan does not just require finance – they may also need ancillary services like loan counselling or legal advice to ensure the title of the property is clear or technical advice to ensure that the structural aspects of the property are in order. It is these add-on services that distinguish the good quality of services from not so good. The typical mortgage borrower of South Asian countries, including India belongs to the upper or middle class, is of an average age of 35-40 years, usually a first time home buyer and by and large a salaried employee.

19. Most loan products are fairly standardized – plain vanilla home loan products, loans for home improvement and extension, land loans, loans for non-residential premises and the newer breed of loans include home equity and top-up/ personal loans. Against the backdrop of lower interest rates seen across the region, most home loans are on floating rate loans. In India, the floating rate of some banks and housing finance institutions is benchmarked to prime lending rate. It has been noticed that several customers opt for floating rate loans without understanding the inherent risks involved. Even most of the existing fixed rate loans have been converted into floating rates. To tide over the dilemma of whether to opt for a fixed or floating rate loan, blended options are being offered wherein the customer can hedge part of the interest rate risk by opting for a combination of fixed and floating rates. The major issue, however, is that most individual borrowers find it difficult to manage the interest rate risk under pure or semi floating interest rate regime. Hence, there is greater need for fixed interest rate loan products for individual borrowers. Coming to currency risk, fortunately, home loan borrowers in the Asia-Pacific region and India, in particular, are not exposed to exchange rate risks as borrowings are in domestic currency. Another area of product innovation could be deposit linked home loan products. This

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9 "KUDUMBASHREE Housing Scheme of the Kerala Government, Annual Report (State Poverty Eradication Mission), 2009."
would be very useful for low income groups as they can build equity and establish payment capability track record for availing of home loans.

**Legal constraints**

20. A major feature of the Indian urbanization process is its non-uniform geographical spread. While smaller cities and towns are fast emerging as centre of demand, the pressure on existing four metros remains enormous. A crucial factor behind this tendency is the barrier for major players in real estate in tapping the vast land potential in rural areas reinforced by poor enforcement of laws against encroachment of public lands as well as lack of clear titles to private lands causing an artificial scarcity of land in rural areas. Another major issue is absence of large scale digitization of land records and the easy access to such records for checking titles/encumbrances.

21. The dynamics between rural and urban housing demand is also different with housing in rural India still largely for own use rather than for sale and resale. A possible reason for this, among other things, could be the problem of transferring ownership rights. As we reach limits to urbanization in metros, rural areas should increasingly come under the focus of real estate development and we would require strong legal framework to prevent the bottlenecks.

**Role and responsibilities of stakeholders**

22 Given the dimensions of the problem and various constraints that affect a viable and sustainable solution, well-coordinated and concerted effort on the part of all the stakeholders, including the private sector, is required. This will ensure that all segments of the population genuinely aspiring to own a house are effectively catered to without of course compromising on financial stability and ecological balance. Efforts of regulators and government/ government bodies to tackle this colossal housing shortage will have limited impact until and unless the private sector joins hands to meet the challenge.

**Commercial banks and HFCs**

23. The Indian banking sector has an expansive reach and is well geared to serve all segments of the society, including the underprivileged. The banking sector has been

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actively involved in lending to the housing sector with an outstanding of Rs. 3786 billion as on December 30, 2011, which is an increase of Rs. 410.10 billion (12.10 per cent) over the previous corresponding year. The housing loan portfolios of HFCs registered a growth of 21.71 per cent during 2010-11. This was comparatively higher than 15 per cent growth reported by commercial banks.

24. The housing loan portfolio of any financial institution is a product of two variables – number of accounts and loan outstanding per borrower. It has been observed that there has been a noticeable slowdown in the growth of the portfolio. One plausible reason is that post-crisis, banks have realised that while the demand for housing loans is tremendous, there is no substitute for prudent lending policies. This probably explains the slowdown in the growth rate of number of accounts. Another reason which has affected the demand has been the rising prices of property and prevalence of relatively high rate of interest in the context of high inflation rates.

25. It is encouraging to note that the share of HFCs in the Indian housing market has been exhibiting a rising trend. Looking ahead, HFCs are likely to gain sufficient experience in the sector and would be able to maintain their market share on the strength of their focused approach, targeting of special customer segments and relatively superior customer service. This in a way would pave for constructive competitive environment as traditional lenders like banks would need to tap their extensive network and broad customer base more effectively and at the same time maintain the priority sector lending targets.

26. In order to remain competitive, both commercial banks and the HFCs need to realize that a customer seeking a housing loan does not just require finance – they also need ancillary services and hand-holding like loan counseling, legal advice, etc. Selling a loan product is a small step in the process of making affordability of housing a reality; bigger leaps by way of encouraging deeper financial inclusion coupled with financial literacy is the need of the hour.

27. Re-engineering of the existing business models is extremely essential given the fact that a large number of the targeted and potential customers are possibly financially excluded. Assessment of the customers and their credit requirement can be achieved more effectively by adopting a field based approach, such as, using
surrogates, triangulation and building up knowledge about the customer. Banks and HFCs have to provide innovative products to the sector and work in close collaboration with the other stakeholders in the industry. They also need to adopt different appraisal and risk management methods for low ticket housing loans.

**Micro Finance Institutions (MFIs)**

28. In the wake of micro-finance revolution in India, housing micro-finance has assumed a lot of importance and has potential of having notable impact on the stakeholders engaged in the mission for affordable housing. Microfinance has the potential to enable small borrowers to start planning for a house and arranging requisite resource for it. At the same time, these institutions can have an impact on the household decision making, portfolio diversification of lenders, expansion of housing sector and growth of the local economy as a whole.

29. Microfinance for housing is believed to progressively upgrade poor families homes. Such upgradation would include improving existing rooms, adding a room, or installing water or electricity. Based on their credit history microfinance for housing should be designed for the low-income households who wish to expand or improve their dwellings or build a home in incremental steps, relying on small loans raised over a period of time. It has to be a sustainable approach suited to the needs of the low-income market.

30. MFIs are considered to be the next best alternative for financing the EWS and LIG category. MFIs, however, face challenges which prevent them from extending housing loans. The challenges are primarily due to the longer period of housing loans (typically between five to seven years minimum, if not more) as against usual micro loans of one to two years duration and due to the larger amount of loan compared to usual micro loans extended by MFIs. Typically, a house, particularly in the urban areas, will be about `1 lakh, whereas when MFIs extend livelihood finance, between `10,000 to `35,000. If they have to lend to a significant number of people, the amount to be loaned has to increase substantially. This can lead to problem for MFIs. Another problem with the MFIs is of availability of finance and ensuring regular collection of

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larger installments from the borrowers. Recognising the importance of community-based financial institutions as delivery mechanisms for housing finance to the financially excluded, the NHB has initiated a housing microfinance programme by way of financial assistance to the MFIs. The programme is based on an integrated habitat and partnership approach with customised product intervention aimed at supplementing various other financial sector interventions.

**Private sector stakeholders**

31. Today, technological innovations have transformed the conventional style of trade and commerce. There are numerous examples which reflect that with adoption of technology, the end-product can be highly improvised and made affordable to all segments of customers. Some of the best examples would be the rapid technological innovation in the mobile telephone industry, marketing innovation in consumer non-durable sector, etc. It is high time that the real estate sector also invests resources for more research and development to enable construction of environment friendly, low cost houses. It is important to realize that the terrain of our country, climatic conditions of regions, economic conditions of people and the intensity of the problem changes as we traverse across the country. A search for one technology fits all would not be viable and practically feasible.

32. One model which could be considered and developed is the hub and spoke model for enhancing rural housing construction. The ‘hub’ of the service could be located in a district/taluka headquarters and the services into rural/interior areas are provided by local rural centres i.e. the ‘spokes’. The hubs will be the centre, say, for pre-fabrication of semi-finished structures for housing and skilled labour and will provide men & material to the spokes. This will ensure scale of economies in technologically innovative and homogenous low cost housing to the rural centres.

**National Housing Bank (NHB)**

33. NHB was setup with an objective of channelizing long-term finance to individual households, thereby proving the much needed impetus to the housing sector. NHB acts as a principal agency to promote housing finance institutions both at local and regional levels and also provides financial and other support to such institutions. The

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year 2010-11 has been an important year for the NHB as it had crossed Rs. 120 billion loan disbursements, of which approximately 50 per cent was for rural housing, during the financial year. Since inception, NHB has been supporting the housing finance companies and during the year 2010-11, over 50 such companies had a portfolio of over Rs. 1100 billion. One of its flagship projects is the Golden Jubilee Rural Housing Finance Scheme which aims at the rural households. The scheme offers a platform for easier access to housing finance to enable an individual in the rural area to either build a house or improve the existing house. The initial success of the scheme can be gauged from the fact that over 3 million dwelling units have been financed.

34. NHB is also playing a significant role in creating market infrastructure for housing finance and has made efforts in plugging the demand supply gaps, particularly for the low and moderate income households in urban and rural areas. It had led initiative in developing the secondary mortgage market and the standards for securitisation market in the country. The Bank is also leading the initiative for setting up a Government-sponsored Credit Guarantee Trust Fund for low income housing in close collaboration with the Ministry of Housing, Govt of India, and for setting up a Mortgage Guarantee Company in partnership with other International Financial Institutions.

**Government/Government bodies**

35. The Government policies have remained geared towards alleviating poverty with a host of direct intervention programmes. The early eighties was the period of shift in the policy orientation from the exclusive focus on nutrition based approach towards poverty to cover broader perspectives of providing affordable housing to all. The Scheme of Affordable Housing in Partnership promotes various types of public-private partnerships – of the government sector with the private sector, the cooperative sector, the financial services sector, the state para-statals, urban local bodies, etc. It has the potential to provide a major stimulus to economic activities through affordable housing for creation of employment, especially for the construction workers and other urban poor who are likely to be amongst the most vulnerable groups in during the economic downturns.

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14 National Urban Housing and Habitat Policy 2007 (NUHHP), Ministry of Housing and Urban Poverty Alleviation, Govt. Of India, New Delhi.
36. Government bodies can consider single window clearance mechanism for the purpose of further simplifying the approval processes for low cost affordable housing along with reconsideration of the taxation policies. The public agencies and the state and local governments should work to bring efficiency in land market, approval processes, provision of efficient infrastructure and egovernance viz. introducing electronic record for land and bringing in more transparency in the record of land and houses, etc. It will add good value if the financing agencies can also connect into these developments and together drive the reforms at the state and local levels. In order to meet the enormous needs of the housing sector, short cuts through the subsidy approach are no longer sustainable over the long period. As subsidy based approach cannot be stretched beyond a point, a more viable and sustainable strategy has to be evolved. There is, therefore, a need for having a market oriented mechanism to meet the challenge of the affordable housing sector.

**State Governments**

37. In the entire process for creating an enabling environment for affordable housing, the role of State Government is extremely critical. State Governments may contemplate forging Public-Private Partnerships to ensure a fair return on investment to the private land owners/developers through guided development and availability of serviced sites for allotment to low income families at affordable prices. Incentives and provision of infrastructure can induce private sector entrepreneurs to invest in housing including that for the poor. It can consider measures to control the spiralling increase of land prices and curb speculative activities for developing land and also check unregulated and environmentally damaging land development activities. Another aspect which may be considered is the promotion of high density housing in selected areas in cities through appropriate amendments to zoning and land use regulations. This may obviate the necessity of costly land acquisition and avoid high infrastructure costs. State Governments may also revisit the current provision of tenancy rights and promote rental housing by creating a balance between the interests of the landowner and the tenant. This will pave the way for supply of rental housing at affordable rents and act as an incentive for people to build houses for themselves and for others.
38. The supportive policy of the Reserve Bank of India and enabling fiscal regime has together contributed to the growth and expansion in the housing market. As regulators of the banking system, it is, however, important for the Reserve Bank of India to remain cautious against imprudent practices for short term gains. The current focus of its regulations is to ensure orderly growth of housing loan portfolios of banks. The policy orientation of the Reserve Bank, simply put, is to ensure and promote inclusive growth without adversely impacting the equilibrium of financial stability. Reserve Bank remains supportive of initiatives of the stakeholders as long as the programmes of affordable houses for all do not lead to structural damages to the financial ecosystem.

39. Along with the Government, SEBI, Reserve Bank’s endeavors have been to develop a deep and vibrant debt market including for mortgage securities in a calibrated manner so as to ease financing pressures on the banks and also to provide an alternate avenue for raising long term resources. Reserve Bank has permitted investments by banks in mortgage backed securities subject to certain conditions. It is also constantly reviewing existing policy framework including those governing the priority sector lending to ensure that the bank credit to these sectors remain growing, smooth and uninterrupted.

40. Reserve Bank has been using pre-emptive countercyclical provisioning and differential risk weights - supplemented by varying loan to value (LTV) ratios - to contain excessive credit growth to sectors which show signs of risk build-up. In order to prevent excessive leveraging, the Reserve Bank had advised banks in December 2010 that the LTV ratio should not exceed 80 per cent in respect of housing loans. However, for small value housing loans, i.e., housing loans up to 2 million LTV ratio was prescribed at a higher maximum level of 90 per cent. Further, the risk weight for residential housing loans of higher amounts, i.e. `7.50 million and above, irrespective of the LTV ratio, has been prescribed at 125 per cent to prevent excessive speculation in the high value housing segment.

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15 www.rbi.org.in
41. In the recent past, it was observed that some banks were following the practice of sanctioning housing loans at teaser rates, i.e., at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. This practice raised concern as some borrowers may find it difficult to service the loans once the normal interest rate, which is higher than the rate applicable in the initial years, becomes effective. It was also observed that many banks, at the time of initial loan appraisal, were not taking into account the repaying capacity of the borrower at normal lending rates. Therefore, in view of the higher risk associated with such loans, the standard asset provisioning on the outstanding amount had been increased from 0.40 per cent to 2.00 per cent with effect from December 23, 2010. The provisioning on these assets would revert to 0.40 per cent after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'. Since restructuring of an account is normally indicative of some problem in the account, it was decided in November 2008 that restructured housing loans should be risk weighted with an additional risk weight i.e. 25 percentage points over the risk weights normally applicable to the account.

42. Although some of these prudential norms appear to be restrictive for growth of the housing finance sector, it needs to be kept in view that they are essential for sustainable and orderly development of the sector as they are meant to address macro-prudential concerns of financial stability.

43. The desire for a safe and secure home is timeless and universal\textsuperscript{16}. The twin problems of affordability and accessibility that impede the progress of housing in our country need to be addressed on a sustainable basis. For this, it would be desirable for the governments to withdraw from direct participation in the housing and housing finance sector and instead they need to take on the role as facilitators to create the enabling environment to encourage greater private sector participation. Further efforts of the government are required to strengthen foreclosure laws, land records need to be computerized and archaic land laws, especially rental laws, need a complete overhaul. Steps, such as, digitization of land records, linking of central regulations with state

\textsuperscript{16} Planning Commission \textit{Report of the 11\textsuperscript{th} Five Year Plan} (2007-12). Working Group on Urban Housing with Focus on Slums, Govt. of India, Ministry of Housing and Urban Poverty Alleviation, New Delhi-110011 p.31.
regulations, encouraging credit bureaus, introducing mortgage insurance, allowing real estate mutual funds and creating a favourable environment to facilitate foreign direct investment in housing for genuine and needy customers will help stimulate the housing finance sector.

44. Currently, the real estate sector is largely unregulated with consumers often unable to procure complete information or enforce accountability on builders and developers in the absence of effective regulation. In order to plug the gap, the Central Government has proposed to establish the Real Estate Regulatory Authority in each state with specified functions, powers, and responsibilities. The objective is to ensure regulation and planned development in the real estate sector. Once these authorities are established, they should act as the nodal agency to co-ordinate efforts regarding development of the real estate sector and render necessary advice to the appropriate government agencies to ensure growth and promotion of a transparent, efficient and competitive real estate sector and also establish resolution mechanisms for settling disputes between the builders/promoters and the allottees/buyers.

45. There is also a felt need for the institutions involved in the financing of housing sector to consider developing segment specific credit products to enable more people to afford a house. One such product could be savings induced home loan or a home loan deposit. The willing consumers may be induced to generate a savings balance by way of monthly or periodic deposits. This will enable creation of a track record for repayment of a future home loan product. Once the customer reaches a threshold balance, the financial institutions can consider sanctioning of a housing loan. The balance in the account could act as collateral or the margin. The amount deposited every month would act as the base to assess the repayment capacity of the customer for the purpose of calculating the monthly repayment installments.

46. The credit risks originating in the housing sector, particularly low ticket housing segment, should also be internalized through proper insurance schemes for banks and other lenders. The various stakeholders should aim at timely completion of projects, delivery of houses/flats to target segments without cost escalations and with valid titles and all necessary clearances.
47. In short, a comprehensive and holistic approach involving easy availability of land, accessible financing, supportive legal framework and innovative technology is required for making housing affordable for all.\textsuperscript{17}

48. The major issue in the development of the housing finance sector in India is the availability of long term resources for the sector. One such source is mortgage securitization which has still not been done in India. Though, it seems, NHB has been making sustained efforts to launch a pilot issue of mortgage backed securities by pooling the mortgage loans originated by a few select housing finance companies. However, in absence of conductive legal and regulatory framework, NHB has been constrained to design the transaction within the existing legal and regulatory framework, leaving scope for certain amount of imperfection.

The constrains are specifically emerged from some legal issues, taxation matters and the regulatory environment. As the mortgage as the mortgage debt is regarded as an immovable property in India, its transfer can be effected by means of an instrument in writing, which require payment of stamp duty for the instrument to be valid. The stamp duty on convincing range from three to seven percent of the consideration for transfer in different states. Further, such mortgage debt can be transferred only by a registered instrument. As securitization envisages pooling of mortgages originated by housing finance institutions in different states, the requirement of registration not only make the transaction unviable from cost consideration but also impractical. In addition there are problems in the area of foreclosure of mortgages. In order to tackle the problem of registration, National Housing Bank has proposed to constitute a ‘trust’ only in the debt component of the mortgage debt and hold the underlying securities with the originator or the issuer with adequate legal safeguards. Some of the State Governments are prepared to reduce the stamp duty on such instruments.

\textsuperscript{17} Inaugural address delivered by Shri H.R. Khan, Deputy Governor, Reserve Bank of India at \textit{International Conference on Growth with Stability in Affordable Housing Markets} organized by the National Housing Bank and the Asia Pacific Union for Housing Finance on January 30, 2012 in New Delhi.
OTHER ISSUES IN THE DEVELOPMENT OF THE HOUSING SECTOR

Availability of land is crucial for the development of housing sector. A major constraint has been the availability of land. In order to improve ceiling on vacant land in urban agglomerations and for the acquisition of such land in excess of the ceiling limits with a view to prevent the concentration of urban land in the hands of a few persons, the Government has enacted the Urban Land (Ceiling & Regulation) Act in 1976. Based on the experience and review of working of the Act, it was evident that none of the objectives laid down in the preamble to the Act had been achieved. Therefore, this Act has since been repealed. This along with the proposal to levy a vacant land tax should release substantial amount of vacant land. Once the supply increases, the price is also expected to come down and many households who considered themselves priced out of the market could think of owning a house.

Another legislation that come in the way of providing rental housing has been the Rent Control Act which in its existing form is titled in favor of the tenants. The Central Government has already passed an Act to remove this anomaly and it is yet to be adopted by the State Government. Similarly, the existing fore-closure mechanism is also cumbersome and time consuming. In order to protect the interests of the lenders, suitable suggestions have been made to simplify the foreclosure mechanism. High rate of stamp duty has also come in the way of development of the housing sector. Efforts are on reduce the stamp duty so that the buyer’s burden is reduced. Recently the Government has given thrust to the development of the housing sector both from the demand and supply side by providing fiscal concessions to the providers of the house.

C. PROBLEMS AND ISSUES WITH THE HOUSING FINANCE INDUSTRY IN INDIA

The housing sector is witnessed varying standards and practices among the lending community, be it in origination and documentation or monitoring and supervision. Variation in standards across the industry imposes systematic risks, which can be a potential threat. Aggressive approach may lead to defaults. Growing competition

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18 Awas Bharti, July-Sept, 2011 An article by P.P.Vora, Ex-CMD of National Housing Bank, New Delhi.
19 Centre for Microfinance Working Paper Series No.19, IFMR, Chennai.
coupled with reduction in risk weights on housing loans has led the lending institutions to adopt aggressive practices including very high loan has led the lending institutions to adopt aggressive practices including very high loan to value loans, softening of collateral requirements, competitive pricing etc., with such an aggressive approach being followed may lead to increase in the default rates.

Cost of funds- The prevailing interest rate war has resulted in constant downward revision of interest rates. Further, the spreads are increasingly becoming thin as the lending rates are fast nearing the cost of funds. Many primary lending institutions are making terms and conditions of sanction flexible and liberal, thus enabling the borrowers to avail the loans even more than value of security for long tenure of 20 to 25 years. The large quantum of institutional finance in the property transactions may lead to the problem of security deficit. Logically, the RBI has stipulated higher risk weightage of 75% as against 50% in November 2004. Due diligence issues are increasing. There have been instances of dilution in due diligence on the part of lenders. Sometimes, loans are sanctioned without strictly complying with laid down rules, systems and procedures. This situation arises primarily out of fierce competitive pressures. It is observed that the growing customer expectations force the PLIs\textsuperscript{20} to compromise due to diligence, field verification process and appraisal norms, in a rush to sanction the loan at the earliest.

Lack of Uniformity of norms amongst industry players- While banks and HFCs are the prominent players, HFCs face few constraints. The regulatory norms stipulate 10% capital adequacy for banks whereas the same is 12% for HFCs. Further, banks have access to lower cost retail funds compared to HFCs. Uniformity in norms and hence a level playing field has to be ensured for a healthy housing finance system. These are newer challenges which need to be addressed and resolved in times to come.

Industry Fragmentation- The fragmented nature of the housing finance industry is a major impediment for its further growth. Despite this, the industry has managed to grow mainly due to consistent decline in interest rates, tax incentives given by the government and changing income profile of the Indian middle class population.

\textsuperscript{20} Primary Lending Institutions.
Conflicting Interests—While the private housing finance institutions are required to abide by the guidelines of the NHB, the general financial institutions, which include the commercial banks, follow the guidelines set by the RBI. Today, both these sections are competing with each other for the same housing pie but their functioning and lending practices seem to bear no similarity.

Asset Liability Mismatch\(^{21}\)—Asset liability mismatch is one of the biggest risks housing finance institutions are confronted with. Funding of long term loans with short term deposits, leads to a mismatch between assets and liabilities that can be overcome by adopting appropriate asset liability management (ALM) techniques. FDI Constraints FDI guidelines for real estate development have come under a lot of flay. Guidelines requirements such as a minimum capitalization of US$10 million for a wholly owned subsidiary and US$5 million for joint ventures with Indian partners, development of a minimum area of acres, a minimum lock in period of 3 years from completion of minimum capitalization before repatriation of original investment, act as constraints to foreign investors.

D. PROPECTS, CONCLUSION AND RECOMMENDATIONS -A FUTURE OUTLOOK

a. Though Indian housing finance system has got its own share of problems, given the huge tapped housing loan market, Government support and favourable macroeconomic environment, reasonably resilient banking system, the industry has got excellent growth prospects. The present growth rate at about 40% appears to be sustainable in the foreseeable future. Active private sector participation is very much essential for achieving this goal, atleast partly. Thus, there is a need for following measures to help the market perform more efficiently:

i. Adoption of uniform practice by the housing finance industry relating to matters like appraisal and documentation, prepayment of housing loans, conversion of fixed rate loans into floating rate loans etc.

ii. Greater transparency in dealings with the borrowers to enable them to exercise informed choices about products and lending institutions.

\(^{21}\) www.nhb.org.in
Promotion of Securitization. In the budget 2002-03, the FM announced that NHB would launch a mortgage credit guarantee company will work to achieve the following goals:

- Generate a greater volume of mortgage lending in the Indian market
  Lower down payment requirements to as low as 5%
- Broaden the eligibility for mortgages; and Extend mortgage repayment periods upto 25 years.

These changes will facilitate capital market development by promoting securitization and increasing home ownership. Further, measures to promote residential mortgage backed securitization market in India can further strengthen our housing finance system and make it more competitive.

In order to address the issue of rising incidence of frauds in housing finance, section 20 of the SARFAESI Act, 2002 introduced the provision of setting up a central registry to provide a statutory backing to the security interest created in favour of banks and financial institutions and enabling them to claim priority over other claimants while enforcing the securities. Introduction of such a registration system would be conducive to credit would become easy resulting in competition amongst lenders and better interest stared for the borrowers.

Reverse mortgages are a financial tool to enable consumers and investors tap this source of funds for more productive usage. It is an arrangement wherein once the monthly installments, a lump sum amount or a line of credit. The present circumstances like higher life expectancy, growing nuclear families, house rich but cash poor populations suggest that the time is just right to introduce this instrument in India. ALM Techniques and schemes should be put in place for a proper asset liability management and explain the generally followed ALM techniques to counter an issue that could threaten the very existence of an institution. It should be permitted to the banks through RBI, to undertake lending for housing purposes as it will provide a remunerative avenue. The RBI has permitted banks to grant loans for housing schemes upto certain limits from their own resources. Introduced stipulations

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23 Asset Liability Mismatch.
regarding maximum loan amount and margins, security, term of the loan, graduated installments (where installments are progressive), etc., for PCBs\textsuperscript{24} housing loans. Interest rates not too much of a concern. Both the banks and HFCs are increasing their business at the stake of decreasing returns. However, a consoling factor is that mortgages are just 2% of GDP and about 10% of the advances of the banking sector. Hence even if the bubble were to burst, it may be withstood by the country.

\section*{E. SUGGESTIONS}

In view of the different aspects of the housing finance discussed in this thesis it can be seen that there is a standardize system of financing shelters. The Government of India is also putting its thrust on housing to be provided to every one of the citizen of the country. Affordable housing is also an important agenda for the Central and all the State Governments for the poor and people belonging to the economically weaker section of the society. Ever since establishment of the National Housing Bank which has been appointed as the regulatory authority for the housing finance companies the system and procedures have been put in place. There are only other issues pertaining availability of land/free land for urban development, payment of stamp duty and registration charges, resources mobilization for the housing finance companies to lend the public more aggressively and prevention of frauds in the system etc., wherein improvement/regulations/supervision is required. These are other areas also where further study/research is also required.

\subsection*{a. Government of India}

i. Rationalisation of stamp duty and registration charges relating to transfer of mortgages.

ii. Amendment in Indian Stamp Act for reduction of stamp duty and registration charges.

iii. Amendment in foreclosure laws and bringing mortgage loans of any size under Debt Recovery Tribunal.

iv. Declaring mortgage as an “approved security” /statutory liquid ratio (SLR) security under Indian Trust Act, Insurance Act and Banking Regulation Act.

v. Extending Guarantee of Mortgages.

\textsuperscript{24} Primary Urban Co-operative Banks.
vi. Clarification of issues on taxation for originators, issuer and investors.

vii. Take measures to create awareness and investors confidence in home loan seekers.

b. State Governments
   i. Rationalisation of stamp duty and registration charges through amendment and State Stamp Acts.
   ii. Granting permission to religious and other trusts under the state jurisdiction to invest in mortgage securities.
   iii. Clarification on taxation aspects, if any.

c. National Housing Bank
   i. Effective Prudential Norms relating to capital adequacy, income recognition and provisioning, asset classification, depreciation etc., for the housing finance companies.
   ii. Encouraging banks to invest in mortgages.
   iii. Considering additional allocation for mortgages investment under housing finance.

d. The Institute of Chartered Accountants of India
   ii. Monitoring further development of mortgage market and making suitable amendments in accounting policies.

e. Housing Finance Companies (HFCs)
   i. HFCs should change their assessment methodology to finance nano housing strategies which are being implemented on a large scale now a days. This segment is catering to person with diverse professional profile like shop keepers, office boys, house maids whose monthly income is within the bracket of Rs.8000 to Rs.10000.
   ii. Today the role of housing finance institutions is also catering the needs of pigmy customers through their marketing network. Housing finance companies should give some directional inputs to create comprehensive habitat including water supply and sanitations.
iii. One major problem in financing long term asset like housing through short
term resources which having finance companies are finding it difficult to
mobilize from house hold savings. There should be, therefore, mortgage
guarantee associations in the lines of western countries with appropriate
backing support of the Government.

iv. The cost of housing varies from area to area depending upon agro climate
zone and availability of raw material. There should be therefore, an
organization for, proper system of rating of borrowers depending on their
income. As lot of small income earning house hold are also resorted to
contribute of house a system of issuing biometric smart cards can be thought
of.

v. Centralized directory for mortgaging the houses which is very useful in
preventing prudential transactions of mortgages.

vi. As housing is basic necessity of life, therefore, there should be proper
intensive in reduction of stamp duty/registration charges with uniformity All
India Level.

vii. Housing Finance companies should also take precautions while financing for
shelter.

HFCs will also keep in mind the broad features in terms of the guidelines issued by
the National Housing Bank as under:-

i. Need of more options for housing for poor

ii. Housing finance options for low-salary earners and the self-employed poor
in India are severely limited and have significantly affected their housing
conditions.

f. Collapse of affordable housing

A drastic intervention that combines incentives, subsidies and regulation is
required to address the housing crisis. The organizational and financial history of
the Integrated Village Development Project (IVDP) and the self-help group
(SHG) network which supports in rural areas needs to be strengthen with the
financial assistance.
Housing for low income families: Policy concerns and norms

Even after concerted efforts made by Central and State Governments, housing shortage has assumed frightening proportions. It is estimated that there is a housing shortage of nearly 25 million dwelling units affecting 67 million households. Most of this housing shortage pertains to low income families. Government and Housing Boards should prepare fast track schemes to cater needs of the people. Private lenders should be facilitated and encouraged for bringing some discipline in them. They should be brought under certain regulations/licenses/control in each housing schemes i.e. there should be some regulatory agency for private builders/developers. Major observations and findings emerging from the study, important from policy viewpoint, are presented below:

**g. Major Findings**

1. Demand for housing credit found very high in both urban and rural, but the nature and type of demand vary across groups and regions. Key factors influencing the housing demand among low-income groups are current housing condition, purpose of housing, available housing credit (formal & informal) family structure, pattern of employment and income, asset holding pattern like livestock and other socio-economic features. However, demand for housing credit found almost confined to creation of space for immediate self living and not for income generation activity as often argued in the literature. This largely due to acute inadequacy of housing facility and poor living conditions of low income groups.

2. Housing credit lending institutions like Banks and HFCs fail to assess low segment housing finance market and supply credit to meet the credit need. There is grossly underestimation of size of low segment housing finance market.

3. Amount of housing finance delivered by microfinance institutions found to be inadequate throughout, it meets roughly about one third of the credit requirement of the borrowers. This resulted in huge gap between demand and supply which has its own consequences such as approaching several informal credit lenders, compromising with quality of housing, diverting other credit for
housing etc. One of the major factors for this is the nature of housing activities in demand i.e. high cost housing activities like new house construction, major expansion of house by additional room etc.

4. Microfinance for housing despite of its smaller quantity, found notable impacts on different stakeholders. It has acted as kick start for planning of housing activity and arranging for remaining fund among low-income groups hitherto excluded by the mortgage finance markets. It has also positive impact on household decision making, institutional credit lenders, housing sector and the local economy as a whole.

h. Policy suggestions
Given the complexity of demand and supply of low segment housing finance in the country like India, it is important to understand and estimate the nature and size of housing finance market for low income groups and design suitable policy measures in the regional perspective. Understanding about housing demand and priority of low income groups, poor product design, delivery method, housing portfolio of lending agency and overall housing infrastructure are some of the key areas for policy interventions to make MHF more effective to address the problem of housing. Interestingly, housing subsidy which has been a liability for the Govt. over period is not a major issue for development of MHF programme. However, there is need for policy intervention in select areas to facilitate functioning of low segment housing market such as standardize MFH products, improving credit delivery methods and ensuring the best practices to expand access to housing finance by the poor low income groups.

Based on the analysis on two different housing microfinance programmes suggestion is given on following points, important for policy implications and wider outreach of microfinance for housing programme:

1. **Intermediary Model of MFH:** Instead of individual MFH model as followed by MFIs and commercial banks an intermediary model for delivery of housing microfinance would be better on operational and fund management ground, where MFI will service the microfinance portfolios of established commercial banks. The example of ICICI Bank which has formed partnerships with some MFIs to service its specialized

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25 Micro Housing Finance.
microfinance product lines, including MFH may be followed by other financial institutions.

2. Housing Subsidies: Findings of the study supports the argument that microfinance for housing programme can be a viable option to improve pro-poor housing without liability of housing subsidy. For many low income but economically active households, provision of MFH could be better option than extending housing subsidy, which involves lengthy selection process, to improve their housing condition. It will also make them bankable in the line of conventional mortgage finance and creation of asset. However, housing subsidy, wherever possible, can be used for reducing the cost of fund for credit lending institutions like MFIs, NGOs involved in MFH.

3. Measuring Housing Demand & Priority: There is need to measure and document housing demand and priority among different low-income groups and sub-groups. In this regard, focus should be given on current housing condition, structure of family, asset holding, income and occupation, alternate sources of credit and other indicators to assess the actual housing credit need. For this, different housing measure index such as housing index developed by Cash poor can be used. This is important from policy point of view.

4. Product Design: From the analysis on exist of wider gap between housing credit demand and supply, it appears that current MFH product fail to cater the needs of target groups, where housing demand and activities are diverse in nature. So, there is need for categorizing of housing credit demand based on nature of housing activities, repaying capacity, source of income and other suitable criteria. Variety of MFH product lines should be followed than single product line having uniform loan amount and loan terms.

5. Housing Loan Repayment: Since majority of the clients/borrowers are employed in informal avenues with variations in income flows, credit lending institutions for MFH should work out with borrowing households to arrive at a realistic estimate of income, credit need and repaying capability before sanctioning housing loan. More flexible and rationalization of individual loan amount, repayment period and EMI should be replaced suitably by the single and uniform practice. The nature of household occupation, income, asset holding, past records and other specific factors should be
considered while selecting and sanctioning housing loan. For instance, agriculture income comes after harvesting when the clients can repay more loan amount than rest of the year.

6. **Beneficiary Selection & Credit Risk:** The current selection process in both of the study areas found stringent and exclusive in nature. The credit lenders have been overcautious while selecting and sanctioning housing loan. Based on the credit risks they perceive may not be always true. Under this situation group lending method can be better option to use collective group liability to arrest delay in repayment and default cases. Regarding selection of households for housing loan some pars-legal documents like electricity bills, revenue receipts, bank accounts and other proofs and evidences may be accepted within the legal framework and that govern rights to property.

7. **Up-scaling of Housing Microfinance:** Scaling up MFH program to reach the potential clients remains a major challenge for credit lending institutions. Since client base of housing microfinance programs is generally lower than the microcredit, there is huge scope for expansion and growth of MFH programme. The focus should be given on the excluded such as landless, moderate income households and others. A special package that includes subsidized fund supply for MFH lending, low cost housing technology and other supports, relaxation in fund raising etc. can help development of MFH with wider impacts. Inclusion of some moderate-income clients, excluded in both of the programme, can improve the financial and operational base of the MFH programme.

8. **Partnership between Banks & MFIs:** An effective partnership between different stakeholders, particularly financial institutions is required for success of MFH programme. It is expected that MFH will grow in India if credit lending institutions will expand their operation on the same scale as microenterprise credit. In particular, there is need for development of partnerships between banks and microfinance institutions for financing and implementing housing finance programme. In order to use comparative advantages of different stakeholders in MFH an effective partnership between banks and MFIs partnerships, is urged for development and functioning of low segment housing finance market is crucial.
9. Housing Plan with Low Cost Housing Technology: Suitable housing plan and provision of technical assistance should be a part of the housing microfinance programme. Effort should be made to document and make available suitable housing technology matching to the local conditions. Capacity building of the lending institutions in terms of provision of training and other support to their staffs should be made on regular basis. Demonstration of new housing technology, better practices of house construction, repair and maintenance should be conducted in the client’s towns. Selection of such technology need to be justified by simplifying it with local condition.

10. Low Cost Housing: There is a growing concern that persisting shortage of cost-effective building materials is one of the serious impediments for improving the housing conditions in the country. While traditional housing materials generally used by poor and low income households are declining or short in supply, demand for new and costly housing materials are not affordable for them. Building materials account for major share of basic inputs in any housing programme and their costs can go up resulting in increase in cost of houses. There are some new and alternate housing materials and construction techniques developed which are cost-effective and environment-friendly. But due to poor awareness and access to these materials they are yet to be translated into marketable products for mass application. There are several institutions and agencies engaged in low-cost housing of different models for different soil and environment conditions. For instance, Central Building Research Institute (CBRI), Roorkee is known for low cost housing technology development and dissemination. Similarly, some new non-government organizations like Micro Home Solutions, New Delhi offers awareness, education and training on practice of low cost housing at community level. Rural Buildings & Environment Division of CBRI has been conducting studies on rural housing and is engaged in the development of appropriate construction technologies, to improve traditional houses, new technologies for low cost houses and other buildings and environmental improvements. Micro Home Solutions a multi-disciplinary social enterprise based in New Delhi provides economically viable housing solutions for under-served populations, low income communities. It has brought some low cost, hi-design housing

26 Central Building Research Institute
opportunities to the urban poor on innovative financial terms suitable to them. The approach is to introduce sustainable design and adopt microfinance like principles to facilitate access to quality housing. Micro Home Solutions has conceptualized Design Home Solution (DHS) as a service that provides customized technical assistance combined with finance to low income households interested in home-improvements.

There is missing link between these low cost housing technology and housing credit lending institutions. There is need for collaboration of housing finance institutions and the agencies dealing with low-cost housing technology to make it available and accessible to the targets people. In this context, training programme on low cost housing technology for the staffs of different stakeholders of MFH should be organized in the different location with focus on local conditions. Similarly, educating people on use of locally available housing material can be conducted, wherever possible. The focus should also be given on provision of hygienic and sanitation and strength of roof and wall which incur regular expenditure on housing. Representative from local NGO, MFIs and the concern line departments (block and Panchayat level) and local workers (masons and labourers) should be trained. The training should be followed by on location demonstration of some housing model and housing techniques for wider use.

These activities may be conducted on regular basis and monitored from time to time. The coordination between housing credit lending institutions, MFIs, NGO and line departments to popularize low cost housing technique among the target groups is a vital area for pro-poor housing development. Regular demonstration, training and updated information on low cost housing technology suitable to local conditions and monitoring of the programme is essential for wider adoption. Staffs of MFIs and other housing credit lending institutions dealing with the MFH should be given regular training on these topics. Regarding training on different aspects of low segment housing and for different stakeholders (credit lending institutions, MFIs, NGOs and the borrowers) collaborations between research institutes like CBRI and training institutions like BIRD27 are important. These type of inter-organization collaboration and supports can play a catalytic role in developing and disseminating low cost housing technology.

27 Bankers Institute of Rural Development, Lucknow.
which is crucial for development of housing sector as a whole and low segment housing finance.

i. Housing Finance - Issues
The housing finance system in India has evolved and steadily grown through various stages. The housing industry and a responsive housing credit system can potentially play an important role in stimulating the local and national economies and in the distribution of economic resources. “Scaling up” and “Affordability” are key challenges in the sector and market-based solution would be most sustainable.

With the primary housing finance market growing over a period of time, there has been a steady expansion of credit flow in the sector. Though a gap still exists in fulfilling the housing needs of the lower and moderate income households, both in urban and rural areas, a number of initiatives are underway to address the same. Role of market infrastructure and new mechanisms that can support the cause of home ownership particularly for the low and moderate income segments, are clearly recognized. Penetration in these market segments is still low and the right business model will include efficient financing, risk mitigation, credit enhancement and specialist approach that can result in more innovative products. The link between the institutional delivery mechanisms in the formal sector and the vast segment of the population in this market is crucial for reaching to these segments. Though volumes are potentially large, individual transactions tend to be small and geographically scattered, which can escalate costs. Organizational structures, whether within the existing providers or independent, have to be developed to accommodate these specific market conditions.

j. Credit Expansion
Credit growth has moderated during 2010-11 and the same is evident from the lending operations of the public sector banks. However, year on year flow of credit continued to register high growth in industrial, services and personal loan sectors including housing.28

The Reserve Bank of India has been pursuing an anti-inflationary monetary policy stance since October 2009, with a view to containing inflation and mitigating inflationary expectations in the economy. The sustained increase in policy rates has

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28 Macroeconomic and Monetary Developments, RBI, Mumbai.
been reflected in the increasing borrowing as well as lending interest rates. The year-on-year growth in home loan disbursals can be affected due to increasing interest rates and tight monetary conditions. Another factor which has affected the growth in home loan disbursals was the withdrawal of ‘Teaser Home Loans’, which had significantly contributed to home loan credit growth during the previous year. With further expectations of monetary tightening in the near future, it can further affect growth in home loan disbursals during the current year.

k. Affordable Housing
The issue of “Affordable Housing for All” is a huge challenge. Issues pertaining to land, legislation, urbanization, technology, finance, risk assessment and mitigation tools etc., are some of the key issues that will need to be addressed for promoting affordable housing in the country. Credit risk mitigants such as mortgage insurance/guarantee, risk funds, credit enhancement, risk sharing mechanisms and other instruments will enhance lenders confidence in lending more liberally to all segments of the population, particularly low and moderate income segments. Serving the informal sector market requires specialized skills for financing as well as construction. Though volumes are potentially large, individual transactions tend to be small and geographically scattered, which can escalate costs. A sustainable business model based on an appropriately focused organizational approach will need to be developed. This can be facilitated through learnings from other markets in the developed and the emerging economies. From a regulatory perspective, the expansion of services in the informal market segment will have associated risks which will need to be identified and provided for. NHB, in partnership with other Primary Lending Institutions (PLIs)\(^{29}\) will be expected to play a key role in addressing the housing needs of the informal sector people. The housing finance sector has enormous developmental impact in terms of social stability and economic empowerment at the individual level and larger economic development at the sector level.

l. Rural Housing – Special Focus
Nearly 70% of India’s population is living in the rural areas. The quality and volumes of rural housing shortage is emerging as a critical and unique challenge considering the

\(^{29}\) Primary Lending Institutions
varied dimensions of the rural landscape and lifestyle. Though the credit flow to housing sector has witnessed a buoyant growth, however, a large part of these are centered in the urban areas and lending to rural areas has been confined at about 10%.

The Committee to Formulate Concrete Bankable Schemes for Rural Housing, constituted by the Ministry of Rural Development (MoRD), in July 2010, submitted its Report/Recommendation to the Government in May 2011. The Committee has recommended different approach/products for BPL (Below Poverty Line) and APL(Above Poverty Line) segments with subsidy, subsidy-cum-credit, credit Schemes for these segments. Further a group-based lending approach viz. Self-Help Group and Joint Liability Group modes for rural housing for giving better recovery/results as also reducing the transaction costs of lending institutions has been recommended. Considering the problems of land ownership in rural areas, a close consultative approach with the State Governments and Panchyati Raj institutions has been suggested for adoption and finding appropriate solutions. Some of the other key recommendations include the following:

i. The Committee has also pushed for Policy changes on certain fronts viz. flexibility in repayment schedule viz. linking of repayment of rural housing loans to crop cycles and permitting defaults of two crop season instalments in respect of housing loans of upto Rs. 2 lakh, incentivizing lending institutions etc.

ii. The Committee has proposed setting up a dedicated “Rural Habitat Development Fund” to support interest subvention Schemes, awareness building programmes, training and capacity building, technology and building materials, research & development etc. The contribution of such Fund maybe derived from the profits of various Development Financial Institutions (DFIs), Reserve Bank of India, Banks, etc, besides budgetary support.

iii. Similarly the expert group has recommended setting up of a “Rural Risk Fund” with contributions from all stakeholders, including beneficiaries and to encourage insurance-linked products with housing so as to reduce the cost of housing finance to various stakeholders.
iv. A further recommendation was to expand the Rural Housing Fund (RHF) of the National Housing Bank by contribution from the Ministry of Rural Development. Further, the scope of RHF\(^{30}\) may also be considered for financing on both supply and demand side of the rural housing market and may also be considered for financing beneficiaries identified under IAY through the RRBs with some cap on the on-ward lending rate as also financing housing projects on the supply side.

The recommendations of the Committee are being examined by the Government of India.

**Housing Finance Future Outlook**

The urbanization scenario in the country raises serious concerns. By 2030 it is estimated that 600 million of the country's population will be living in cities. Infrastructure gaps in cities, particularly in respect of housing and basic services will continue to engage the city planners, policymakers, financers and the community at large. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the flagship programme of the Government of India in partnership with the State and Local Governments seeks to provide resources for urban investments, based on the State Government's commitment towards resources, reforms and governance at the state and city levels.

Phenomenon such as rapid increase in land prices, inadequate/slow legal infrastructure, absence of long term funding and lending market at fixed rates, limited developer finance and deficient access to housing finance for low-income, rural and informal groups are some of the serious impediments that need to be addressed through proactive regulatory and promotional measures. The markets need balanced funding models that could be sustainable over the long haul.

To supplement ownership housing, rental housing also needs to be placed on the larger urban policy agenda. An enabling rental policy framework will go a long way in mitigating the housing problems in the cities that attract people from other places for work and livelihood at these growth centres. The cities will need to have an integrated plan for promoting ownership housing as well as rental housing as part of their

\(^{30}\) Rural Housing Fund, Government of India.
perspective city plan. The rental housing policy at the State level will bring greater focus on the subject.

Micro-mortgages, with loan size ranging from ₹3-10 lakhs and targeted at low-income customers, can act as an important vehicle for advancing financial inclusion. A housing unit for this segment of the population constitutes the most permanent asset that can also be used as collateral for other borrowings meant for economic upliftment and poverty alleviation. Potentially, Micro-mortgage lending and supply of affordable housing units could play a transformational role in promoting the financial inclusion of millions of low-income households in the formal and informal sectors. Risk mitigating instruments can play an important role in overall confidence building. These may range from savings-linked loans, mortgage guarantee, government-guaranteed funds, capital/interest subsidy product, credit information bureaus, Government-sponsored credit enhancement etc. As this segment continues to grow, they need to be served through measures of financial inclusion and inclusionary housing. However, they will need to be protected/hedged against the inbuilt uncertainties and volatilities in the financial and the housing market. On the supply side, incentive-based construction by the private sector and/or suitable public-private partnership vehicle with risk-mitigation provisions will need to be explored and supported.

The low income market can be served efficiently and sustainably, through the combined support of the financial sector institutions and the real sector policy makers dealing with land and infrastructure, tax, stamp duty and subsidies, approvals etc. The Central Government through the Ministry of Housing and Urban Poverty Alleviation and the State Governments, together with their private sector counterparts are getting increasingly engaged on the issues related to housing for the low income and the informal sector people. All stakeholders in the financial and the real sector, as well as the policy makers at the Centre, State and local levels will need to jointly work to promote the cause of affordable housing in the country.

Sound and prudential regulations for housing finance, innovative housing finance products, and increased mortgage affordability will contribute to an expanded market for housing and housing finance. On the back of the growing primary mortgage market, the securitization market for residential mortgages will add considerable value
and depth to the system. NHB will be expected to play a key role in the promotion of affordable housing and development of a deep and vibrant secondary mortgage market in the country.

Summary

Shortage of housing is commonly believed as problem of urban areas which is augmented over period by increasing migration from rural areas. But housing problem in rural areas is equally challenging. Low segment housing sector in terms of demand for housing credit is large and, extremely diverse and underestimated. With increasing in level of income and changes in socio-economic life of the rural people their housing needs are also changing resulting in high demand for housing credit than the supply. From supply side, inadequate and high cost of fund, high administrative costs and credit risks involved with housing finance are major problems. Suitable policy interventions are needed to ensure supply of cheaper credit for lending and facilitating partnership between organizations to reduce administrative cost. This will help in provision better access to low cost housing credit and of longer terms.

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