CHAPTER 1

HOUSING LOAN: AN OVERVIEW
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1.1 Introduction

1.2 History of Housing in India

1.3 Housing Finance Scenario in India

1.4 Housing Situation
1.1 Introduction

Roti, Kapada aur Makaan are the three basic necessities of human beings. A couple decades ago, it was said that fools build houses and wise people stay in them! Times have radically changed and the ownership of a house, today, bestows honor and pride to recipient. The social structure of the Indian families is going through a sea change as the joint family is fast giving way to the nuclear family concept. The pressure to have one’s own home is high among these families.

For more than being a shelter, the term ‘House’ come in connotation because of the significant role it played in shaping the life style of the individual and molding the future of the society. It is the lifetime achievement for a common man to own a house and for achieving this desire one has to invest a lot. Traditionally, in India, many service people used to depend on their provident fund and gratuity amounts received after retirement while considering buying a home. A large number of home options are available.

The person who is purchasing a house today has not only the option of competitively lowest rate of interest, but also choice of different type of loans starting from the house purchase loans to house-improvement loans, home equity loans, home extension loans and NRI loans. It has never been better than this before.

As far as availability of finance to the retail customers is concerned, there has been a tremendous improvement in the possibility over the last five years. There are over 32 NHB (National Housing Board) recognized Housing Finance Companies which dot the map of this country with their presence of all over India. Leading Financial Organization like the HDFC, ICICI also have a wide-spread network all over the country giving out loans to customers for housing.

The development of housing finance market is a dual dimensional policy issue. On one hand, a well-developed housing finance system is a quintessential element of the housing policy of market-based economy, people need reasonable financial arrangements for the construction and acquisition of a dwelling; normally a very costly undertaking relative to an individual’s income increasing the availability of such financing is an important objective of a social policy which aims to satisfy the basic needs of population. On the other hand, the housing finance market represents a significant segment of the financial sector. Not only does it constitute the major part of consumer credit, it can also initiate the establishment of market
based financial instruments, as has been observed in many advanced market. An efficient housing finance policy is pivotal for development of a comprehensive financial system.

The establishment of well functioning housing finance system has emerged an important and urgent policy requirement of transition economy due to privatization, globalization and liberalization. During the last decade of economic transformation, government has stepped in from their role under the former economic system as the purveyors of housing for their population. The privatization of dwellings has already been carried out in India. However, private sector construction and transaction of residences yet to be develop.

Over all for the Indian economy, the growth of housing industry and housing finance would have a multiplier effect on economic growth.

1.2 History of Housing in India

1.2.1 Early Landlordism

Early efforts at housing development in India were mostly by individuals. People provided housing for themselves. While the kings and noblemen had their palaces and mansions, the lesser fortunate had smaller buildings to live in. There were a few people who did not really had a shelter to hide their head from the elements, since the very poor were invariably looked after by their ‘landlords’; people who extracted work and as a compensation, provided some accommodation.

India had been a state of ‘zamindars and ‘jagirdars’. They were rich landlords who owned large chunks of land and carried out agriculture. People working under them were allowed to stay on their premises, by putting small hutments, outhouses or farmhouses. Landlords procured lands from erstwhile kings and rulers of a large number of kingdoms that existed in nineteenth century India. Such lands were granted either in return for favors rendered, or as a part of political diplomacy.

The ‘master-servant’ relationship that emerged out of such an arrangement had its own extremes. Exploitation was a well known consequence. The hold which the landlord had on the families under his fold was by virtue not only of economic livelihood control but also in terms of social control. Enormous dependency on landlords led to the suppression and oppression of the lower social orders. The deep rooted caste system had its own role to play in the entire scheme of things. Whilst housing was not so much of a problem, it did
present its dirty face in terms of dependency. It was only towards the end of the 19th century that social reforms movements had brought out, all such asymmetries into the mainstream debate and ultimately paved the way for late reforms, initially by the colonial British who ruled India and subsequently, the independent Government of India itself. During this period, the physical form of housing in India was mostly in terms of large agricultural estates, with one huge mansion, surrounded by shanties or hutments and agricultural lands.

1.2.2 Colonial Interventions

India has long heritage of presence of three hundred years and colonial rule of nearly two hundred years. During this period, while several foreign powers came in, it was the British who succeeded in colonizing and ruling India. As a part of their own long term strategy, the British brought in many reforms, mostly under pressure from local native groups and leaders. In the particular area of housing, the major intervention of the British was the introduction of the Victorian concept of a municipality. The municipal body in India was established in the city of Madras (now called Chennai). Subsequently, other parts of the country were also brought under municipalisation. The major concerns of municipalities were among other things, to ensure cleanliness and sanitation in the city and approve new land sub-division layouts by individuals for the creation of housing. The British colonial ‘bunglow’ was a popular form of housing during the 19th century in the Presidency towns of Calcutta, Madras, Bombay and later, in New Delhi.

Improvement Trusts were created in many cities of India, the first being in Bombay. These trusts were supposed to take up various town improvement works. Later, with enactment of the Town Planning laws, the first being again in Bombay in the year 1915, provision for implementation of Town Planning (TP) Schemes by Municipalities was made. This system spread to various states of India and the TP Schemes could be considered the first major intervention of the government in the housing sector. Another major colonial intervention was the War Rent Restrictions that were imposed in the state of Bombay in the 1930s. This came about in the aftermath of the Second World War when the accommodation scarcity in Bombay was very high. According to these restrictions, landlords could not exploit their tenants and predetermined rents were to be paid. Unfortunately, these rent restrictions continued for over sixty years before they could be reformed.
1.2.3 Independent India – The Task of National Building

When India became independent from British rule in the year 1947, it was a divided country that the citizens inherited. Rehabilitation became a major concern and thus, housing received a lot of political attention. The Central Government of India accorded a high degree of importance to the housing sector. India’s first Prime Minister, Pandit Jawaharlal Nehru stated that every one his countrymen should have a two-roomed house. National building taken up zealously, there were many competing demands on the resources, but housing did receive importance in as much as over a third of the total allocation of the First Five Year Plan went into the housing sector. Rehabilitation colonies were set up in Delhi, the capital city of independent India, as also in several cities. These rehabilitation colonies were planned residential areas were properly laid out roads, parks, community facilities, etc. It was also during this time that new towns and ‘model towns’ were developed. Further, the migration of people from various rural areas into the erstwhile Presidency towns, mostly from jobs in the newly formed central and state governments had led to a growing housing shortage in these big cities. The government created several housing schemes with help of the Central Public Works Department for the central government employees. In fact, in subsequent years, other agents such as the State Level Public Works Departments, Post and Telegraph Departments, Police and various other departments stated creating housing infrastructure for their employees.

One can there for see that in the years immediately after the independence of the country, a lot of direct government housing provisions had taken place. The direct intervention was in terms of land acquisition, construction, service provision and allotment, all with finances of the governments alone. The fifties and sixties were the decades of direct involvement of the state in housing provision.

1.2.4 Land Reforms

Another major intervention in the post-independence India was land reforms introduced by various state governments as a socio-economic development measure. With the introduction of these reforms, the erstwhile landlords had to surrender their large estates and could only retain a limited amount of agricultural land. While in some states like Kerala, the agricultural worker-tenant was granted land ownership rights as part of this reforms process, this did not happen in the other states. As a result of extremely low compensation for lands taken over, several agriculturists shifted from rural areas to urban
areas in search of new avenues of livelihood. All this led to degree of population concentration in various state capitals. A new wave of urbanization began in the country. Metropolisation started becoming phenomena which needed more attention. Land and housing was now needed in cities; housing started increasing and housing started becoming a problem. This was also the period when slums started emerging in cities.

### 1.2.5 Government of India – Plans and Programmes

The Government of India adopted a central planning model of development. The Planning Commission of India is the central think tank which prepares the five years plans. These plans give broad direction regarding the policy of the government of India. They also give the broad allocation of financial resources to various sectors the economy. Based on the five year plans, annual plans are prepared by state government for implementation of housing sector.

A look at the five year plans reveals the manner in which the Government of India had perceived the housing sector in the initial years and the same can be seen now. Financial allocation for housing as a percentage of the total investment in the economy was as high as 34 percent in the First Five Year Plan (1951-56) but has now come down to as low as 2.4 percent in the Tenth Five Year Plan (2002-07).

As part of the Five Year Plans, the Government of India had launched various programmes for providing housing to the people. Broad lists of the programs launched by the Government of India are given below:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Program</th>
<th>Year of Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Integrated Subsidized Housing Scheme for Industrial Workers and EWS</td>
<td>1952</td>
</tr>
<tr>
<td>2</td>
<td>Low Income Group Housing Scheme</td>
<td>1954</td>
</tr>
<tr>
<td>3</td>
<td>Subsidized Housing Scheme for Plantation Workers</td>
<td>1956</td>
</tr>
<tr>
<td>4</td>
<td>Middle Income Group Housing Scheme</td>
<td>1959</td>
</tr>
<tr>
<td>5</td>
<td>Rental Housing Scheme for State Government Employees</td>
<td>1959</td>
</tr>
<tr>
<td>6</td>
<td>Slum Clearance and Improvement Scheme</td>
<td>1956</td>
</tr>
<tr>
<td>7</td>
<td>Village Housing Projects Scheme</td>
<td>1959</td>
</tr>
<tr>
<td>No.</td>
<td>Programme Description</td>
<td>Year</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>8</td>
<td>Land Acquisition and Development Scheme</td>
<td>1959</td>
</tr>
<tr>
<td>9</td>
<td>Provision of House Sites of Houseless Workers in Rural Area Environmental Improvement of Urban Slums</td>
<td>1971</td>
</tr>
<tr>
<td>10</td>
<td>Sites and Services Schemes</td>
<td>1972</td>
</tr>
<tr>
<td>11</td>
<td>Indira Aawas Yojana</td>
<td>1980</td>
</tr>
<tr>
<td>12</td>
<td>Night Shelter Scheme for Pavement Dwellers</td>
<td>1985</td>
</tr>
<tr>
<td>13</td>
<td>National Slum Development Program</td>
<td>1990</td>
</tr>
<tr>
<td>14</td>
<td>2 Million Housing Program</td>
<td>1996</td>
</tr>
<tr>
<td>15</td>
<td>Valmiki Ambedkar Aawas Yojana</td>
<td>1998</td>
</tr>
<tr>
<td>16</td>
<td></td>
<td>2001</td>
</tr>
</tbody>
</table>

It can be seen that while many programmes were initiated in the early decades, not many existed in the later years. Substantial literature exists on the nature and extent of these programmes. However, the major finding could be generalized as follows:

(a) the fund available in these programmes are too meager to meet the requirements of the local needs,
(b) funds are not spent on time on account of the lack of capacities at local agency level,
(c) most programmes are ‘top down’ concepts which do not really involve people and therefore not acceptable,
(d) assets created from these funds often do not go to the beneficiaries intended and even if they do, they do not stay in their hands for long and
(e) where a loan component is involved, the recovery is very poor.

1.2.6 Increasing Government Control in the Housing Sector

The years after independence in India witnessed increasing government control in the housing sector. In the pre-independence period, landowners could easily prepare housing layouts and put their lands into the market or their lands could become part of TP schemes and could be brought into the market. They could even form cooperative societies and bring their land into the housing market. However, in the post-independence period, all this changed in a big way.

A series of government measures in the post-independence period had led to an increase in government control on the housing market and constraints on supply in an ever increasing demand scenario. Some of these government controls in the housing sector are as follows:
(a) Creation of development authorities and housing boards as the major housing providers was initially good but later, due to their very slow progress on account of a variety of reasons, led to the emergence of various popular forms of housing provision which were not entirely legal.

(b) While the early TP schemes were good, somehow, their speed of implementation had slowed down considerably and the whole process has come be viewed as cumbersome one.

(c) Although the cooperative sector had initially been encouraged (with incentives such as stamp duty exemptions, etc.), the movement did not catch up as envisaged.

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

(e) Prolonged continuance of the Rent Control Acts in various states led to many problems such as disputes, non-eviction of tenants, dilapidation of housing stock, locking up of property in prime areas of the city from redevelopment, loss of revenue on account of inability to increase property tax and scarcity in the rental market on account of people willing to let out properties on rent for fear of non-eviction.

(f) Restrictive town planning laws development controls which have made private sector participation in creation of township difficult in terms of lack of procedural clarity, lack of economic viability, etc.

(g) Regressive fiscal policy and lack of incentives for investment to be channelized into the housing sector.

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

(i) High stamp duties and consequent lack of compliance.

(j) Cumbersome procedures for registration of property transactions.

(k) Restrictions on foreign investments.

All the above factors had made investment in the housing sector very difficult. The result was that while on the one hand, the government promoted housing suppliers like the housing boards and development authorities were totally dependent on credit financing from various funding agencies like the home grown Housing and Urban Development
Corporation, the private enterprise had little interest in getting into an industry which was highly unorganized. Over the years, government housing suppliers have taken huge loans from various agencies but have been finding it difficult to ensure cost recovery and repayment. The housing problem was perhaps at its worst in the ’80s. In the 1981, there were 28 million slum dwellers in Indian cities and this number rose to 45 million by the year 1991. The number of slum dwellers in the year 2001 was still at 40 million. As a percentage of the urban population, the figures increased from 17.5 percent in 1981 to 21.5 in 1991 and 22.8 in the year 2001.

1.2.7 Recent Housing Sector Reforms

The post 1990 period can be seen as the era housing sector reforms. With the release of the National Housing Policy in the year 1994 (a subsequent version called National Housing and Habitat Policy was released in the year 1998) in the macroeconomic backdrop of liberalization of the economy as a whole, sweeping changes are heralded. We must hasten to add that the full impact of National Housing Policy came to be felt only in the late 1990s. The Housing Policy clearly recognized the key role which all actors - public, private and the cooperative sectors – need to play in meeting the housing challenge. It clearly recognizes the role of private enterprise and market forces. The policy envisages a ‘facilitative’ role for the state and a direct and proactive role for the other players. The major housing sector reforms and market oriented policies that were brought about are:

- Repeal of the Urban Land (Ceiling and Regulation) Act in as many as 9 states
- Repeal of earlier rent control laws and enactment of more balanced rent laws
- Major housing sector fiscal incentives to individuals investing in housing purchase in successive annual budgets continuously for the last 4 years
- Creation of over 25 housing finance companies for credit off-take in the retail housing finance sector, with innovative and competitive housing finance schemes
- Fiscal incentives to entrepreneurs to invest in development of housing projects
- Permitting public-private partnerships for developing housing projects of various types
- Issue of Foreign Direct Investment (FDI) guidelines
- Creation of an Urban Reform Incentive Fund (URIF) so that there is an incentive for urban local bodies and state governments to embark on the road to reform.
• Creation City Challenge Fund for taking care of transitional and transactional costs of restructuring urban civic services which are very much essential for housing projects

• Provision of Pooled Finance Development to enable a group of small municipalities to come together and raise funds through bonds and other market borrowings

• Enhancing the resource base of the Housing and Urban Development Corporation, the principal domestic funding agency for public housing projects, coupled with internal restructuring, so that viable housing projects can be taken up for the lower income groups.

• Enhancing financial resources through funding agencies

• Clearing road blocks for real estate investments.

• Alternative technology propagation through Building Material and Technology Promotion Council and more than 500 Building Centers all over the country.

All the above major reforms have brought about a sea change in the housing scenario in the country. Today, it is ever so easy for a middle class working couple to take a housing loan and have an own house. Such a thing was possible only at the time retirement in the pre-reform period. Of particular interest are the public-private partnerships in the housing sector that have emerged in the last decade. In the case of Gurgaon, a New Delhi suburb, over 5000 hectares of land has been developed by private entrepreneurs for housing. Similar developments have also emerged in Lucknow and Ghaziabad where huge housing condominiums have been developed. The state government of Punjab, Haryana, Uttar Pradesh, Karnataka, West Bengal and Orissa has policies for involving private developers in the housing development process. In the city of Calcutta (now Kolkata), the West Bengal Housing Board and the Government of West Bengal have promoted joint sector companies with as many as seven major developers. The Karnataka Housing Board is another agency which has taken a major lead in promoting private developers in many towns.

The huge amount of housing stock generated by private real estate developers, coupled with aggressive marketing strategies and home loan packages have heralded a virtual housing boom in recent times. Competition amongst home loan providers has also led to a steep fall in interest rates, thereby making the housing market more accessible.
1.3 Housing Finance Scenario in India

1.3.1 Role of Housing Finance

In developed countries, the mortgage (housing loans) to GDP ratio ranges from 25% to 60%, whereas in the case of our country, it stood at an abysmal 2.5% in 2001, which has improved to 3.91% in 2003 when compared to 57% in USA, 40% in EU, 7% in China and 14% in Thailand. The mortgage to GDP ratio in various countries is represented graphically as follows:

Chart 1.1: Mortgage (Housing Loans) to GDP ratio as a percentage

As could be observed from the above chart, the mortgage to GDP is the least in India. Though the housing finance has picked up during the last two to three years, still the percentage for the year 2003 is at 3.91 and it was expected to improve to 8.50% by 2007, even if the institutional finance to housing continues at the exorbitant growth rate of 30%.

Housing finance, being an engine of economic growth can be regulated by the government both by fiscal and regulatory measures. Various fiscal benefits offered by government in recent past in terms of tax benefits coupled with reduction in interest rates have really improved the demand for housing loans. Housing loans is bound to grow in the years to come also on account of its advantages to the banks in the incentives provided by the government in order to boost economic growth.

Source: Ramanidharan S. and Uberoi Rajeev, Sep-2004 “Challenges in Basic Finance to Housing” Vol. XXVI No. 9; P-19, IBA Bulletin
In view of the role of housing in economic growth, even if India has to achieve a housing loan to GDP ratio of at least 10% by 2007, the required growth in housing finance is projected in the table given below:

**Table 1.2 : Growth in Housing Loans**

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<tbody>
<tr>
<td>HFCs</td>
<td>17832</td>
<td>23165</td>
<td>30114</td>
<td>39000</td>
<td>50699</td>
</tr>
<tr>
<td>Banks</td>
<td>33840</td>
<td>46557</td>
<td>60526</td>
<td>78382</td>
<td>101897</td>
</tr>
<tr>
<td>Total Disbursements</td>
<td>53671</td>
<td>69722</td>
<td>90640</td>
<td>117382</td>
<td>152596</td>
</tr>
<tr>
<td>Demand for Housing finance</td>
<td>132160</td>
<td>161489</td>
<td>174767</td>
<td>167127</td>
<td>159325</td>
</tr>
<tr>
<td>Deficit/Excess</td>
<td>-78489</td>
<td>-91767</td>
<td>-84127</td>
<td>-49475</td>
<td>-6729</td>
</tr>
<tr>
<td>Housing loan as % of GDP</td>
<td>3.91</td>
<td>4.89</td>
<td>5.89</td>
<td>7.06</td>
<td>10.00</td>
</tr>
</tbody>
</table>


**1.3.2 Significance of Housing Finance**

All the developing and developed countries give top priority for providing housing to its people. Housing provides necessary impetus to the economy to grow. It is especially true when the economy is facing recession, where the industrial growth almost becomes stagnant. It has the potential to kick-start the economy. Housing sector has forward and backward linkages, even a small initiative in housing will propel multiplier effect in the economy through generation of demand in recession hit core sectors. Housing and infrastructure can substantially drive the economy by creating additional demand and improving the spending capacity of people through the chain of linkage effects. The main reason being the investment in housing increases income levels of the people having low income, who normally have high Marginal Propensity to Consume (MPC). This high MPC gives rise to demand for the consumption goods, which result in higher GDP. It is estimated that Re.1 increase in expenditure in housing increases the GDP by 0.78 due to multiplier effect. Accordingly, if the housing loan disbursement increases by Rs.10,000 crores our GDP will grow by 0.5%.
The housing sector is supposed to be one of the top employment providers. Construction of new houses provides jobs and higher tax revenues for local, state and central government. According to an international study, construction of each new single-family house requires 1591 man-hours of labour equivalent to 0.869 year of full time labour. According to the survey conducted by the National Building Organization, 2 million housing units per year will lead to creation of an additional 10 million man years of direct employment and 15 million man years of indirect employment. So, housing sector is recognized as a major employment generator. It also results in increase of the real purchasing power of the workers, which will result in growth of many industries like consumer durables, watches, household articles etc.

From the bankers view, housing loan is considered to be the safest advance as it is backed by mortgage. The delinquency rate in housing loan are going up in the recent past in India, it is due to the exorbitant growth during the past 2-3 years. Banks have entered in the housing finance only a few years back and now that they are stabilized with systems in place for appraisal and follow up, it is expected that the increasing delinquency will be arrested shortly. The delinquency rate in housing sector is the least while compared to other segments of loans. Another advantage to the banks is lower risk weight attached to the housing loans. Housing loans attract only 50% risk weight.

1.3.3 Real Potential in Housing Sector

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

- A unit increase in the fiscal expenditure on construction can generate five times the additional income and eight times direct employment than the income and employment generated in the construction sector alone.
- The construction sector provides significant stimulus for other sectors to grow and is intimately linked to the country’s economy. There are approximately 250 industries directly or indirectly allied to this one sector alone.
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Construction is the fourth most important sector amongst 14 other (electricity, gas, water supply, forestry, transport, etc.) in terms of ‘backward linkages’ and third in terms of the ‘total linkage coefficient’.

The stimulus for the economy will come from higher off-take of inputs for construction, particularly cement and steel, as part of the backward linkage. The forward linkage is with the things that people need to put in their new homes, such as furniture, consumer durables, furnishing, and so on, demand for which also gets a fillip.

A 10 percent increase in this sector can generate Rs. 62000 crore in national output, besides employment for 29,57,000 workers in various sectors i.e., a 2.5 percent increase in total employment.

Shortage in Housing – The demand-supply gap in housing stands at 33 million units, calling for an investment of Rs. 1,50,000 crore. There is an urgent need for 15 million homes in urban centers, and the rest is in rural India. Another Rs. 2,50,000 crore is needed to provided the infrastructure. If the money is available, it could become a strong driving for the Indian economy.

The above facts clearly reflect the potential in the housing sector, and also on the country’s GDP and employment.

1.3.4 Property Market in India

1.3.4.1 Real Estate Scenario

The boom in the market in the early nineties led to mushrooming fly-by-night developers who were driven by the motive of profit maximization with little commitment to trade. The hideous nature of their operations left an irreparable dent in the market, which has been perceptible in the period of recession.

The slump in the real estate market that started in the mid nineties has since bottomed out and the present trends are encouraging.

Property exhibitions have assumed importance in real estate selling.
Today, property exhibitions are without doubt the best to buy. All the best properties are available under one roof to compare, the best deals on them to consider and the best home plan option to finance it. Plus advice on any legal and technical matters that need consideration is available at the spot.

1.3.4.2 Today’s Developers

The builder community has become more professional, ensuring better quality and timely delivery.

- There is an increased emphasis on quality and cost control. Documentation methods of project details are more rigorous and more meaningful.
- Today, builders are offering a range of value added services and sops to lure the end-user.

<table>
<thead>
<tr>
<th>Shift in Focus</th>
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<tbody>
<tr>
<td><strong>TRANSACTION FOCUS</strong></td>
</tr>
<tr>
<td>- Short-term market share mindset</td>
</tr>
<tr>
<td>- Lower emphasis on customer service</td>
</tr>
<tr>
<td>- Lower commitment to meeting customer expectations (fixed product)</td>
</tr>
<tr>
<td>- Product quality is the concern of production staff</td>
</tr>
<tr>
<td><strong>CUSTOMER RELATION FOCUS</strong></td>
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<tr>
<td>- Long-term market creation mindset</td>
</tr>
<tr>
<td>- Higher emphasis on customer service</td>
</tr>
<tr>
<td>- Higher commitment to meeting customer expectations (customized product)</td>
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<tr>
<td>- Product quality is the concern across the value-chain</td>
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<table>
<thead>
<tr>
<th>Change in the Customer Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YESTERDAY’s Customer</strong></td>
</tr>
<tr>
<td>- Average of those buying flats was in the late forties</td>
</tr>
<tr>
<td>- Either ‘naïve’ or ‘King’</td>
</tr>
<tr>
<td>- Role of women confined to household chores</td>
</tr>
<tr>
<td>- Cautious or even a negative outlook</td>
</tr>
<tr>
<td>- Questions normally asked – ‘Bhav kya hai’</td>
</tr>
<tr>
<td>- Would buy what the developer wants to sell.</td>
</tr>
<tr>
<td>- Demand during specific months</td>
</tr>
<tr>
<td><strong>TODAY’s Customer</strong></td>
</tr>
<tr>
<td>- The average in the twenties due to the easy availability of loans</td>
</tr>
<tr>
<td>- ‘Well informed’ and decisive-Protective of his/her rights.</td>
</tr>
<tr>
<td>- Young women have begun making individual decisions about purchasing properties on their own</td>
</tr>
<tr>
<td>- Open and a positive outlook on taking loan-feels it enforce a sense of financial discipline.</td>
</tr>
<tr>
<td>- Pre-prepared questionnaire with queries ranging from location to amenities, legal clearance to approved plans and knowledge about similar other projects.</td>
</tr>
<tr>
<td>- Wants ‘Money’s worth’ or ‘Right Value for Money’.</td>
</tr>
<tr>
<td>- Steady demand across the year.</td>
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</tbody>
</table>
From the above, it is evident that all the segments of the housing industry have undergone a transformation over the year – the market, the developer and the consumer. These changes will definitely improve the overall growth and health of the market.

**1.3.4 Government Initiatives**

The Government is taking a lot of steps to boost the Housing Sector.

- **Registration of Leave and License Agreements**

  The Government has made registration of all documents mandatory, including leave and license agreements. However, there is some respite to both, the Licensor and Licensee with Government finally reducing the Stamp Duty for the Leave and License Agreements. This will encourage longer lease agreements.

- **Budget 2007-08**

  - Infrastructure Equity Fund is being set up with a Corpus of Rs. 1000 crore – IDFC to manage the fund – Contribution to the fund to be made by public sector insurance companies, financial institutions, banks, etc.
  - The requirement of obtaining 37.1 clearance from the Income Tax Department for the purchase/sale of properties has been dispensed with for all such transactions undertaken on or after 1st July 2007.
  - Deduction for interest on housing loans for self occupied houses will be allowed in respect of houses acquired/constructed after 31st March 2007 if such acquisition construction is completed within 3 years from the end of the financial year in which the housing loan is taken.

- **Credit Policy**

  - The credit policy announced by the Reserve Bank of India (RBI) is expected to restore confidence in an otherwise dull market place. The inclusion of features like the reduction of risk weight age on housing loans against residential property, the liberalization of prudential requirements for housing finance by banks and the encouragement of investment by banks in the securitised debt instruments of HFCs (Housing Finance Companies) will all pave the way for better credit flows to the housing sector.
The limit for individual loans by HFCs has been raised from Rs. 3 lakhs to Rs. 5 lakhs. Loans given by HFCs will qualify for refinance from banks at a lower interest rate. The removal of the discount (of 1.5 percent) on the Prime Lending Rate (PLR) to the housing sector will ensure market driven rate structure. By spreading the risk, banks/HFCs will be able to increase their home loan customer base, all lending to boosting the market, people, who would have otherwise postponed their decision to purchase a property, would now do so.

Home Shopping made easier

- The interest rate on Housing Finance has been lowered and there is a possibility of them sliding further down in the near future. A rate war is triggered off between the banks/Financial Institutions.
- Falling interest rates have led to marginal pick up in the property investment market. Also, the Housing Finance Companies are witnessing healthy growth as the low interest rates have attracted many of the salaried class to invest in residential property.
- According to information furnished by National Housing Bank, the housing finance disbursed by commercial banks and housing finance companies has increased from Rs.19,723 crore in 2006-07 to Rs. 29,600 crore in 2007-08, and was expected to touch Rs. 37,000 crore in 2008-09.

1.3.6 Challenges of Housing Finance

The scope available for housing finance is not without challenges. Banks and other institutions are facing the following challenges in the area of housing finance.

1. Declining spread

There has been a generalized decline in the rate of interest charged by banks of housing loans. The rate of interest charged by the State Bank of India has declined from 11 percent in April 2002 to 8.5 percent in April 2004. Banks due to competition keep on reducing their interest rates in order to capture maximum market share. Banks by only lowering the interest rates are approaching their cost of funds. Though banks are having advantage over HFCs in accessing to low cost funds, the interest rate war among the banks to capture the market is not healthy.
With the increasing delinquency rates, some of the banks might be charging just their cost of funds as interest on housing loans.

2. **Asset liability mismatch**

Banks are mobilizing short-deposits. Housing loans are given for longer terms of 15-20 years. Thus, the present ALM positioning of banks due to short-term borrowing do not supporting housing finance. However, banks are in an advantageous position while compared to HFCs. Banks have the advantage of access to low cost retail funds like savings deposits. Current account and float funds are low cost funds account for around 33-35% of the total deposits of banking sector. However, with increasing demand for housing loans from the banking, there is a bound to be asset liability mismatch.

But this mismatch can be set right with the following solutions:

- Securitization
- Mobilization of long term deposits
- Issue of deposit linked home loans.

3. **Concentration on salaried classed only**

At present, banks in India have been catering mostly to the housing needs of the urban salaried class only. The expected demand in housing from this particular segment is only around 30%. Banks have selected this category due to two main reasons. The income of borrower can be judged accordingly. Thus, banks are mitigating their credit risk by selecting a borrower who has got the means to repay the loans.

It is estimated that the demand for housing loans from the salaried class is only around 30% of the total demand. But, there is a very large demand from the other sections of the society too like business class self-employed, professionals, unorganized sectors, non-service people and laborers etc. Banks are averse to this category of borrowers because of high credit risk. But, it is a fact that these segments of customers are also acquiring houses by borrowing money from the moneylenders etc. at an exorbitant rate of interest. They do repay the loans. Another bottleneck with this segment is that these customers are tax averse and are evading tax. They do not file their returns and banks are not in a position to assess their income from authentic sources like audited balance sheet or income tax returns. Similarly, their repayment capacity also could not be estimated authentically. These reasons have kept the bankers away from this
segment. But, the current demand from the segment, coupled with the fact that the salaried class of borrowers has been mostly covered already, banks have to turn towards other segment. Introduction of a suitable Mortgage Guarantee Scheme will encourage banks to finance to this segment.

4. Increasing delinquency rates

Housing finance is one of the most preferred segments for bankers on account of its least delinquency rates. But of late, the delinquency rates in housing finance are going up. This may be due to the fact that the growths in housing loans during the past two to three years were exorbitant and banks were also new to the field of housing finance. Now, that the banks gained sufficient experience, the delinquency rates will come down in the years to come. A study of a sample of 100 NPA accounts spread over four nationalized banks was conducted and the outcome of the study is furnished below:

The main reason for housing loans turning NPA as per the outcome of the study are:

- Loss of job
- Closure of the factory/company where the employee was working.
- Illness/demise of the borrower.
- Dispute between builder and borrower. The assets turning NPA are more in such cases where 100% finance is made by the bank.
- In some cases, where the rental income from the proposed property to be financed was also considered for the purpose of arriving at the eligible loan amount, non occupancy of the house also result in decreased income to the borrower and as a result, installments are not paid properly.
- Housing loan turned to NPA in most of the cases, where other incomes like agricultural income etc. are considered to jack up the loan eligibility. Banks in their anxiety to book business, over finance the borrower, who is unable to service the installments regularly.
- Another reason for housing loans turning NPA is frauds. This is mainly due to the anxiety of the bankers to book business. Fraud has occurred in such cases, where an agent approaches the bank for sanction of housing loans in bunches. Lack for proper appraisal and follow up were also observed in such cases.
- In the few cases, the same property is mortgaged to two three banks using colour zerox documents. Bankers have to be extremely taken care regarding this situation.
5. Fixed rate lending risk

In case of fixed rate loans, banks may face a problem if the cost of funds of the bank goes up due to increasing interest rate regime. But at present, most of the bank housing loans are bearing adjustable rate or floating rate. In case of adjustable rate, the interest rate risk gets passed on to the customer. In case, interest rate move up, the probability of defaults may go up if adequate income margin for adjusting the increase EMI out go is not made. Ideally around 40% of the monthly income is considered as affordable EMI.

6. Customer expectations

Aspiring homeowners in the country have been making the most competition in housing finance industry over the past couple of years. In process of attracting more customers and increased competition, the rate wars among the banks and HFCs have brought down the housing loan interest rates to the lowest in recent past. However, when the dust settles, the question at hand remain: Is it the interest rate the only determining factor that will ensure business in situation where most banks and institutions end up offering similar rates of interest with only negligible margin of differences?

1.3.7 Areas of Concern and the Reforms needed in the Housing Sector

There are a few key reasons for the poor productivity performance of the sector.

1. Land Holdings
   - There is a great paucity of land available for construction. There is a lack of clarity over who holds the titles for the vast majority of the landholdings
   - Moreover, the lack of clear titles makes collateral based financing very difficult, thus reducing liquidity both in the primary and the secondary markets and further reducing activity and competition in the market.
   - The real estate developers also confront numerous hurdles in land acquisition, registration, development and construction.
   - At every stage, the state and municipal laws are very cumbersome and complicated, making it difficult for transactions to happen.

2. Lack of Building Standards
   - There is also the distinct lack of standards as far as building materials are concerned coupled with ineffective enforcement of the few standards that do exist.
Maintaining an enforcing material standard would facilitate the dissemination of the best practices and create greater transparency in the housing market thereby allowing consumers to compare prices.

It also makes it more difficult for contractors to profit by sourcing cheap and substandard materials and compels them to focus on earning their profits by lowering labour costs.

3. **Lack of Private Sector Participation**

- There is lack of infrastructural development in city suburbs (such as water and sewerage systems). As a result, housing and real estate projects lack the much needed infrastructure like water supply, drainage, roads, and transport connectivity.
- User charges in India are mostly subsidized and not related to the real cost of providing infrastructure services.
- Water and sewerage services are typically government owned and pricing decisions are often taken on political rather than economic grounds.
- There is a great need of development of utility, social and economic or commercial infrastructure in urban areas across the country.
- One cannot expect a foreign investor to invest in India when we do not have proper roads, power and water supply.

4. **Stamp Duty**

- Stamp duty is exorbitantly high and need to be drastically brought down and rationalized. Stamp duty in most Indian cities ranges between 10-15%, states such as West Bengal, Kerala and Bihar levied as high as 20%. Some states even have double stamp incidence, first on land then on its development.
- Market across Singapore and Europe levy a maximum of 1-2% as compare to the above. Even the National Housing and Habitat Policy 1998, recommends a stamp duty of 2-3%.

5. **FDI in Real Estate**

Present conditions for FDI are:

- The minimum area to be developed by a company will have to be 100 acres.
- The minimum capitalization norm will be $10 million for a wholly owned subsidiary and a $5 million for joint venture with Indian partners.
- A minimum lock-in period of 3 years from completion shall apply before repatriation of original investment is permitted.
- A minimum of 50% of the integrated project development must be completed within the period of 5 years from the date of possession of the land.
- The company must be registered as an Indian company under the Companies Act, 1956 and will be allowed to take land aggregation and development.
- FIPB under the Ministry of Urban Development & Poverty Alleviation will process all FDI cases set guidelines for the companies.

1.4 Housing Situation

The total housing stock in the country was 148 million units in 1991 as compared with 116.7 million units in 1981. However, the usable housing stock was only 133.8 million units in 1991 and 101.5 million units in 1981. The usable housing stock rose by 31.9% during the period 1981-91. In comparison, the total number of households was 153.2 million in 1991 and 123.4 million in 1981. The number of households increased by 24% during 1981-91. It has been increased by 23% during the period 1991-2001 and the households increased by 16.5% during the same period. Thus, the usable housing stock was 164 million and the number of households 178 million by the year 2001.

We continue to face the problem of shortage of housing units in the country. The housing shortage was 22.90 million units in 1991 and it came down to 19.40 million units in 2001.

While the growth rate in dwellings continues to be relatively lower in the rural areas, it has been showing an increasing trend in the urban areas thereby indicating greater tendencies of urbanization. The period has also been witnessing an increased influx of population from the rural to urban areas leading to unorganized settlements due to which there has been a tremendous pressure on the infrastructure and services available in the urban areas.

1.4.1 Housing Storage

Housing shortage has been estimated on the basis of the number of households including homeless households, available housing stock, acceptable housing stock, aspects of congestion and overcrowding. The population census provides background information on households including homeless households, housing stock, acceptable housing stock (material of wall and roof). Overcrowding and congestion is assessed on the basis of number of living rooms in the dwelling unit, number of members and number of married
couples in the households. Using the regression growth rates, the present housing shortage has been estimated at 20.41 million.

1.4.2 Issues in Development of the Housing Finance Sector

The major issue in the development of the housing finance sector in India is availability of long term resources for the sector. One such source is mortgage securitization which has still not been done in India. 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 the absence of conducive legal and regulatory framework, NHB has been constrained to design the transaction within existing legal and regulatory framework, leaving scope for certain amount of imperfection.

The constraints are specifically emerged from some legal issues, taxation matters and the regulatory environment. As the mortgage debt is regarded as an immovable property in India, its transfer can be affected by means of an instrument in writing, which requires payment of stamp duty for the instrument to be valid. The stamp duty on conveyancing ranges from three to seventeen percent of the consideration for transfer in different states. Further, such mortgage debt can be transferred only by 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 mortgage debt and hold the underlying securities with the originator or the issuer with adequate legal safeguards. While some of the state governments have realized the importance of mortgage securitization have reduced the stamp duty payable on the instrument of securitization to 0.1%, the other state governments are expected to reduce the stamp duty on such instruments.

As securitization is very recent phenomenon in the Indian context, Indian income and other tax laws are not supportive to such transactions. The interpretation of these statues in their present form make the transferor liable to taxation of the transfer is without the transfer of legal interest or the underlying assets. These other related issues are being sorted out by NHB with the tax authorities.

There are no regulatory guidelines/prudential norms in India on transactions involving mortgage securitization. In the absence of such guidelines, investor acceptability for such
products may be limited and may hamper development of secondary markets for such products. These are being addressed to them.

The efforts of NHB to structure its pilot issue of mortgage backed securities is to develop the market awareness about the product and to sensitize the regulatory authorities about the need to create an enabling environment.

1.4.3 Issues in Development of the Housing Sector

Availability of land is crucial for the development of the housing sector. A major constraint has been the availability of land. In order to impose ceiling on vacant land in urban agglomerations and for the acquisition of such land in excess of the ceiling limits with 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 the 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 very recently. This along with 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 has come in the way of providing rental housing has been the Rent Control Act which in its existing form is tilted in favour 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 Governments.

Similarly, the existing foreclosure mechanism is also cumbersome and time consuming. In order to protect the interest 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 the development of the housing sector. Efforts are on reduce the stamp duty so that the buyer’s burden is reduced.

The silver lining is that recently the Government has given thrust to the development of the housing sector both from the demand and the supply side by providing fiscal concessions to the providers of the house as well as to the buyers who borrow to acquire the house. The effect of these measures have become evident since the rate of growth of
The nationalized banks were more responsive to the social needs of the community. Today, in India, the commercial banks required to earmark a minimum of 3% of their incremental deposits for extending to the housing sector. For the year 1999-2000, this was worked out to Rs. 36,000 million.

The state co-operative banks are the apex level institutions of the State co-operative credit structure. There at present 28 such apex state co-operative banks. While the co-operative
banks and the Regional Rural Banks are allowed to lend for housing, they have not been very active in this field.

The Agriculture and Rural Development Banks (ARDBs) are term lending institutions operating exclusively in the rural sector. Housing finance was not originally within the ambit of their functions. Following the thrust given to the housing sector in the late eighties and more particularly after the establishment of NHB, several states have amended their respective Acts to enable these institutions to hold for housing in the rural areas. At present there are 19 ARDBs in the country either operating through 854 of their own branches or through 745 branches of the primary co-operative agriculture and rural development banks.

The housing financial companies are basically non-banking financial companies. A non-banking financial company is classified as a housing finance company if providing housing finance is the principal object of the company or where there are more than one principal object as per the Memorandum and Articles of Association, housing finance should form a major share of the company’s asset pattern as revealed by its latest balance sheet. At present there are 354 such companies. However, most of them very small companies having little or no business. There are 29 major companies which account for more than 95% of the total housing loans sanctioned by all these companies put together. These 29 companies have been recognized by NHB for refinance assistance. To be eligible for approval for availing refinance facility from NHB, a minimum of 75% of the capital employed should have been by way of long-term finance for housing. These 29 companies have 474 branches all over the country.

The other set of specialized housing finance institutions are the co-operative housing finance societies. They essentially have a two tier structure, comprising the Apex Cooperative Housing Finance Society (ACHFS) at the state level and the primary cooperative housing finance society at the retail level. Several different types of cooperatives housing societies operate the primary level and these can be broadly classified into four major types:

a) Tenant Ownership Housing Societies
b) Tenant co-partnership housing societies
c) House construction or house building societies
d) House mortgage societies
There are 25 State level Apex societies and the number of registered cooperative housing finance societies in the country more than 90,000.

NHB has formulated schemes to support all these agencies and help them to provide to the housing needs of the community at large. The bank is extending financial assistance directly to public agencies for undertaking housing infrastructure projects.

1.5.1 Types of Housing Loans

Most of the institutions offer a standard fixed rate mortgage to the prospective borrowers. Usually, the housing loan can be repaid over a maximum period of 15 years. Repayment does not extend beyond the retirement age of a person (60 years) if employed or 65 years of age if self-employed. Repayment of the loan is done through the equated monthly installment method. In case of borrowers expecting a reasonable growth in their future income, installments can be on graduated basis. Besides, interest rate, the borrower also has to meet certain other cost viz. interest tax, processing fee and administrative fee. The lender is required to pay a tax to the Government on his interest income at the rate of 2% per annum. The lenders usually pass on this tax burden to the borrower. The banks and the housing finance companies also charge a fee for processing the application and it varies from 1% to 2% of the loan amount. Besides they also charge what is known as an administrative fee 1% of the loan amount.

The interest rate on housing loan offered by the housing finance companies has been falling in the recent years and it is now the lowest in the last 17 years. The interest rate on loan amount of Rs.500,000 which used to be in the range between 14.5-15.5% some years ago have come down by 100 basis points now. Similarly, there have been 100 basis points across the board reduction in the interest rate for loan amount beyond Rs.500000. Some of the housing finance companies do have system of charging either 50 basis points or 25 basis points more than the normal lending rate in case the term of the loan is extended beyond 10/15 years. In respect of the banking system, the Reserve Bank of India has given the freedom to commercial banks to fix the interest rate on term loans beyond Rs.200000 and these rates are related to commercial bank’s prime lending rates which are in range of 12.5% to 13% per annum. Since the cost of funds to the banking system is lower than the cost of funds to the specialized institutions, their interest rates are comparatively lower than the rates charged by the specialized housing finance institutions. However, the share
of the housing finance companies in the housing finance business is more than that of the banking system.

Summary

Shelter or housing is a dire need of a person. Banks prefer service people for housing finance for their safety. Hence unorganized sector, unemployed persons and poor remain untouched by banks. Government policy towards poor and un-service sector is now changed but lot of work is yet to be done in this field.
References

Books


Articles


