Chapter - I

Introduction

Housing is a part of basic need of human being. Besides, being basic need housing plays a positive role in economic development of the country. Housing is an important part of the physical and social environment where individual grows and matures as a good citizen. Housing also play an important role in human life like providing employment, social stability etc.

1.1 Concept of Housing

According to Longman dictionary of contemporary English “Housing means the houses or conditions that people live in.” Associations formed by a group of people so that they can build homes for themselves, or buy houses for themselves, or buy houses of their own is called ‘housing association’. Housing and land development occupy a peculiar position in India so far as the state and central governments are concerned. Both the government has the power to make enactments on the subject of housing and land. The central government has adopted a five year planning strategy through which it makes some fiscal concessions for housing. At present India’s population crossed a mark of 1 billion and it is predicted that by the end of 2021, 350 million people will be added to the in total population. One of the big challenges faced today is the widening gap between demand and supply of housing finance system improves affordability through institutional and product innovation. Affordability is a challenge in all emerging economies both in respect of credit flow and scale as well as pricing. According to the current scenario housing development is the main requirement of India. Increasing urbanization has lead to tremendous pressure on land, civic infrastructure, transport, open spaces etc.

To address the problem in the larger national context a number of countries across the world exploring integrated end-to-end solutions through holistic approach involving demand and supply responses in the housing and housing finance industry. With the sustained demand for housing for India’s population coupled with commercial and industrial boom, large scale real estate projects were launched across the country.
Housing is an important engine for the development as well as success of any economy. With the development of housing the employment and standard of living of the society is also increasing. Housing having has strong backward and forward linkages to over 250 ancillary industries which include construction workers, builders, developers, suppliers, property consultants, furnishers etc. Housing shortage has always been a major issue in our country. According to twelfth five year plan (2007-2012) the total housing shortage in rural areas is at 43.67 million units. The increasing demand of housing and development of slum drags down the productivity of the country. Out of this housing shortage the congestion factor contributes to 12.67 million of household and need for fresh housing contributes to 16.29 million units. (Reports on trend and progress of housing finance in India 2011-12, NHB)

Table 1.1: Investment Estimates for Affordable Housing

<table>
<thead>
<tr>
<th>Units</th>
<th>Slum areas (million)</th>
<th>Non slum areas (million)</th>
<th>Total (million)</th>
<th>Unit Cost (‘crore)</th>
<th>Total Cost (‘crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for fresh housing units</td>
<td>10.61</td>
<td>5.68</td>
<td>16.29</td>
<td>350000</td>
<td>570150</td>
</tr>
<tr>
<td>Incremental housing to address</td>
<td>4.78</td>
<td>7.89</td>
<td>12.27</td>
<td>60000</td>
<td>76020</td>
</tr>
<tr>
<td>Proportion of infrastructure for</td>
<td>10.61</td>
<td>5.68</td>
<td>10.61</td>
<td>120000</td>
<td>127320</td>
</tr>
<tr>
<td>new housing units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upgradation of infrastructure in</td>
<td>10.85</td>
<td>0</td>
<td>10.85</td>
<td>70000</td>
<td>75950</td>
</tr>
<tr>
<td>existing slums</td>
<td></td>
<td></td>
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</table>

Source: Report on trend and progress of housing in India 2011-12, NHB

Table 1.1 shows the total demand of new housing in slum and non slum areas. According to census 2011 the population of India was 1.21 billion as compared to 1.02 billion in 2001. The population is increasing in urban areas in comparison to rural area. According to census the level of urbanization increased from 27.81 per cent in 2001 to 31.16 per cent in 2011 due to migration, inclusion of new areas etc.
1.2 Housing Finance

In India majority of home purchases are made through borrowing from banks and financial institutions. According to Loic Chiquier and Michael Lea (2009) housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country’s legal environment or culture, economic makeup, regulatory environment, or political system. The purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain. The housing sector in India historically had significant gaps in term of credit flow and market infrastructure, lack of sufficient and affordable finance and construction has resulted in poor living conditions for a large segment of the urban slum population lacking access to basic civic amenities and sub-standard hygienic conditions.

The housing finance system has evolved over a period of time. The mainstream financing institutions in the country including the commercial banks and the housing finance institutions are increasing their presence and role in providing housing credit. In India National Housing Bank (NHB) operates as a principal agency for promoting, regulating and providing financial and other support to housing finance institutions at local and regional level with the emergence of the banks in the housing finance sector, there has been an exponential growth in housing finance during the last five years. Since 1988, the number of specialized entities, viz. Housing Finance Companies (HFCs) has increased significantly both in public and private sector. At present 57 HFCs having branches across the country are registered with NHB. Besides the network of formal financing institutions, a large number of Micro Finance Institutions (MFIs), Self Help Groups (SHGs) etc. are working in India both in urban and rural areas, seeing the needs of Indian population related to housing finance. Lending capacity of MFI’s has grown over the years, they are now also entering into housing credit to provide long term and higher volume loans to the borrowers. The concept of
microfinance was introduced to ensure improved access to finance for poor and weaker section, particularly in the rural areas. Scheduled Commercial Banks (SCBs) constitutes the largest mobilizer of saving in the country. Market became increasing demand driven with favorable demographic and employment trends. Housing finance sector is becoming increasingly demand driven and market oriented. NHB sees sustainability of the trend, combined with robust risk management skills, as a key to the health and soundness of the housing financial system and the market. Because of increasing competition there is introduction of new mortgage product in the market like variable interest rate loans, customized products etc. Housing finance has evolved through various stages with NHB as the key institution at the centre stage. The housing industry and the responsive housing credit system play an important role in stimulating the local and the national economies.

Housing is the key input in economic, social and civil development. Housing investment is a major driver of economic growth. Housing is an effective way to promote good governance. In developed economies housing finance plays a very important role. Housing market has a significant macro-economic impact. Due to size the housing sector has a major impact on any country’s macro economy. Home building is an important portion of annual GDP growth. In western countries housing and real estate are seen as a distinct asset class. The fact leads to greater market efficiency, stability and liquidity. Housing finance is a significant contributor to the fiscal health of local government. Housing finance also generates non-housing related expenditure that are drivers for the economy like family formation and life cycle expenditure. Housing through property taxes is a significant contributor to the local government finance.

Housing is important in the developing world for many of the same reasons that it is for developed world. A review of housing policy in developing countries by the World Bank shows that investment in housing ranged from 2 per cent to 8 per cent of GDP and represented between 15 per cent to 30 per cent of fixed capital formation.

In 1985-90 at the time of seventh five year plan(1985-90) major problem in the progress of the housing sector was identified that non availability of long term finance
to individual households and recommended the setting up national level institution. So that government made a committee under the chairmanship of Dr. C. Rangarajan. The recommendation of the high level group was accepted by the Government of India. The Prime Minister of India announced the decision to establish the NHB for housing finance in 1987. In 1988 the national housing policy envisaged the setting up of NHB as the apex level institution of housing. NHB is wholly owned by Reserve Bank of India (RBI). The head office of NHB is at New Delhi.

1.2.1 Objectives of NHB

NHB has been established to achieve, inter alia, the following objectives –

a. To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.

b. To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.

c. To augment resources for the sector and channelize them for housing.

d. To make housing credit more affordable.

e. To regulate the activities of HFCs based on regulatory and supervisory authority derived under the Act.

f. To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.

g. To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

1.2.2 Functions of NHB

1. Regulation

According to NHB Act, 1987, NHB is expected to regulate the housing finance system of the country to its advantage and to prevent any housing finance institution being conducted in such a manner which may be against the interest of depositors or of the housing finance institution. For this purpose, NHB has
been given power to determine the policy and to give directions to the housing finance institutions and their auditors.

2. Financing
The financing of housing sector by the NHB is done by extending refinance to different primary lenders in respect of
   I. Eligible housing loans extended by them to individual beneficiaries.
   II. For project loans extended by them to various implementing agencies.
   III. Lending directly in case of projects undertaken by the public housing agencies for construction of houses and development of housing related infrastructure
   IV. Guarantying the repayment of principal amount and payment of interest on bonds issued by the housing finance company.
   V. Acting as special purpose vehicle for securitizing the housing loan receivables.

3. Promotion
The NHB also contributes to improve or strengthen credit delivery network for housing finance in the country. As a part of this role NHB has framed a scheme for guarantying the bonds to be issued by the housing finance company. NHB has designed and conducted various training programmes considering the need for trained personnel in this sector.

4. Urban Housing
   (a) Refinance of construction finance for affordable housing
   (b) Interest subsidy scheme
   (c) 1 per cent interest subvention scheme
The new products recently introduced by NHB are
   (a) Residential mortgage backed securities
   (b) Reverse mortgage loan
   (c) Reverse mortgage loan enabled Annuity
Table 1.2: NHB Performance At a Glance
(Amount in ` crore)

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</tr>
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<tr>
<td>Sanctions</td>
<td>9076</td>
<td>9101</td>
<td>13362</td>
<td>15729</td>
<td>12715</td>
<td>14293</td>
<td>23460</td>
<td>24266</td>
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<tr>
<td>Disbursements</td>
<td>5998</td>
<td>5672</td>
<td>9036</td>
<td>10889</td>
<td>8160</td>
<td>12035</td>
<td>14454</td>
<td>17542</td>
</tr>
<tr>
<td>Gross NPAs</td>
<td>27</td>
<td>27</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>3.56</td>
<td>184</td>
</tr>
<tr>
<td>Net NPAs</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>3.03</td>
<td>156</td>
</tr>
<tr>
<td>Profit After Tax (PAT)</td>
<td>86</td>
<td>101</td>
<td>170</td>
<td>236</td>
<td>280</td>
<td>279</td>
<td>387</td>
<td>450</td>
</tr>
<tr>
<td>PAT Per Employee</td>
<td>1.05</td>
<td>1.41</td>
<td>2.13</td>
<td>2.62</td>
<td>3.15</td>
<td>3.21</td>
<td>4.07</td>
<td>4.84</td>
</tr>
<tr>
<td>CRAR (per cent)</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>18</td>
<td>20</td>
<td>21</td>
<td>20</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Report on trend and progress of housing in India 2012-13, NHB

Table 1.2 shows the performance of NHB for last eight years. The total quantity of loan sanctioned in 2005-06 was ` 9076 crore and it increased to ` 24266 crore in 2012-13. The total disbursement in 2005-06 was ` 5998 crore and it increased to ` 17542 crore in 2012-13. In 2005-06 profit after tax was ` 86 crore and it increased to ` 450 crore in 2012-13.

1.3 Evolution of Housing Finance in India

The early development of housing finance in India came as an upshot of government housing policies, as seen in the five year plans.

Initially, the housing needs were either self-funded or funded by the government-owned institutions in the realty sector like State Housing Boards and Development Authorities. In 1970, the central government set up the Housing and Urban Development Corporation (HUDCO) to finance housing and urban infrastructure activities in the country by providing technical and financial assistance to State Housing Boards, Urban Development Institutions, and the housing co-operative sector. This marked the beginning of formal housing finance in India.
To supplement government support, various state-owned cooperative housing finance institutions were set up in respective states, and joint sector (public-private sector) initiatives were introduced. One major joint sector initiative was the setting up of the HDFC in 1977. The inception of HDFC made the beginning of private sector involvement in the Indian housing finance market, and within a decade several HFCs were set up as either private venture or joint ventures with state governments or banks/insurance companies-sponsored HFCs. The cooperative institutions that are state specific have also provided housing finance, especially in semi-urban and rural areas. The requirement of more housing finance institutions to cater to the needs of people through formal mechanisms led to the establishment of NHB in 1988, as an apex institution. In the late 1990’s commercial banks actively got involved in housing finance and built retail housing finance portfolios. Their entry into the housing finance market was triggered by multiple factors including lower interest rate regime, rising disposable incomes, relatively stable property prices, financial incentives, and vast demand for housing loans.

The aggressive entry of commercial institutions in the housing finance market fuelled the growth of the industry. The Regional Rural Banks (RRBs) and MFIs are the later entrants for providing housing finance. With institutional housing finance mechanism
gaining attraction in India, the housing finance sector has grown exponentially since 2000 as depicted in the figure 1.1.

Major players in the housing finance market in India include State Bank of India (SBI), ICICI Bank Limited, HDFC Limited, LIC housing finance limited; few foreign banks like Citi Bank, Standard Chartered Bank are in the housing finance market focusing on urban areas.

Many large real estate developers have tied up with banks and HFCs to provide home finance to the buyers as a marketing/sales promotion measure. Some builders have also entered the area of home finance through their associate concerns. Major Banks like ICICI Bank are entering into tie ups with builders to offer home loans for their projects. (Reports on trend and progress of housing in India 2000-2013, NHB)

1.4 Components of Housing Finance

Purchase of a house in India involves various costs which in the aggregate may be referred to as acquisition costs. These costs can be broadly classified as capital cost of the house, transaction costs which are charges payable towards taxes, duties, brokerage and documentation and financing cost in respect of the loan if taken for financing the acquisition.

- **Capital Costs** refer to the cost of the house including land and construction cost, apportioned cost of on-site and off-site infrastructure, parking space costs and basic interiors costs without which the house is not ready for occupation.
- **Transaction Costs** which include the charges payable towards stamp duty and registration, document preparation, brokerage charges, transfer and mutation charges etc. The transaction costs can vary because of:

  a) Source of purchase of property which could include purchase from a public agency, private developer individual owner, or a co-operative society;
  b) Type of purchase which can imply a fresh allotment/original booking, re-sale directly by the owner or through a broker:
c) Applicable duties, taxes, charges payable to the local government/authorities.

- **Financing Charges** (in case the property has been financed) which would include the pre-EMI interest, loan interest; administrative and processing charges, legal and valuation fee, insurance charges etc. These costs are directly dependent upon quantum of loan and interest rate. Other charges such as administrative and processing fee, legal fee, valuation fee, property insurance fee etc., have a minor impact.

- **Regulatory Framework**
The two key regulatory bodies for the Indian housing finance system are RBI and NHB apart from government (Central/State). While RBI regulates the Commercial Banks, NHB oversees the HFCs and is a subsidiary of RBI. The cooperative sector institutions are regulated by the concerned state governments and also supervised by NABARD (National Bank for Agricultural and Rural Development).

- **Funding Sources in the Sector**
Banks and HFCs in India have inherently different funding sources. There are three types of institutions for funding, Primary Lending Institutions (PLIs), Refinance Institutions, and Secondary Mortgage Market, as depicted below.

**Figure 1.2: Funding Sources in the Sector**

```
Borrower

Primary Lending Institutions
These include banks. Regional Rural Banks Microfinance institutions and Co-operative institutions

Refinance Mortgage
These include NHB. NABARD and other fund providers (LIC)

Secondary Institutions Market
These include investors that are mostly institutions
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*Source: Report on trend and progress of housing in India 2011-12, NHB*

The major source of funding for banks is deposits and secondary mortgage market. Sources of funding for the HFCs include deposits, institutional borrowings (domestic
and international), refinancing from NHB and their own capital. The institutions funding cooperatives include Life Insurance Corporation of India, General Insurance Corporation of India, NHB, government, etc. In spite of the impressive growth witnessed in the last one decade, the reach of the formal housing finance system in the country is mostly limited to income tax payers and people with a regular flow of income from the organized sector, for example, salaried employees. Such organized/formal sector accounts for only 25 per cent of the total capital expenditure in housing in India (ICRA, 2003). Hence, a good part of the home finance requirements in the country is met by the informal sector, especially in the rural sector which does not have easy access to institutional finance and is catered mainly through informal finance (Report on trend and progress of housing in India 2012-13, NHB).

1.5 Housing Finance Industry in India

India’s housing finance industry mainly comprises banks and HFCs, SHGs and smaller institutions etc. In India Banks and HFCs are managed and regulated by the RBI and the NHB operates as the principal agency for promoting and regulating and other support to HFCs at local and regional levels, while 57 companies have been granted certificates of registration by NHB. In the past, the housing finance industry was dominated by HFCs. However, from the beginning of 1991, the SCBs became very active in lending to the housing sector in the backdrop of lower interest rates, rising disposable incomes, stable property prices and financial incentives by the government.

While banks depend on their own equity and reserves and large deposit base for funding their housing loan portfolios, HFCs primarily depend on funding sources such as loans from banks and financial institutions, financing from NHB, borrowing through bonds and debentures, commercial paper, subordinate debt and fixed deposits from public, besides their own equity and reserves. Increased competition in the housing finance industry has also led to the introduction of new mortgage products in the market, such as variable interest rate loans, loan for repairs and renovation, and customized products with features like ballooning EMI, depending on the need and
eligibility of the borrowers concerned. In addition, some banks and HFCs also offer home equity loans (loans against the mortgage of existing property), which may be used for non-housing purposes.

According to CRISIL estimates, housing finance disbursements are estimated to have grown by around 16.1 per cent in 2012 to ` 2044 billion as compared with ` 1760 billion in 2011. Over the next 5 years, housing finance disbursements are projected to grow at a CAGR of 16 per cent to reach ` 4269 billion by 2017. Increase in transaction volumes, rise in property prices and higher Loan To Value (LTV) ratios are some of the key drivers behind the growth in disbursements in the housing finance industry.

The quantum of outstanding loans is impacted by a combination of disbursements, repayments and pre-payments. As per CRISIL estimates, housing finance outstanding portfolio, i.e. the total loan book of a housing finance player, grew by around 19 per cent YoY in 2012 (to ` 6150.5 billion as compared with ` 5173.6 billion in 2011), due to a steady growth in disbursements and lower prepayments. The housing finance outstanding portfolio is expected to grow at a CAGR of 17 per cent to reach ` 13602.8 billion in 2017.

For the housing finance industry to grow there has to be an available stock of houses, which can be mortgaged. Any growth in this available stock of houses will provide additional impetus to the growth of the housing finance industry. The annual addition to housing stock in India peaked in 2008 after a period of continued growth driven by increase in demand, especially in urban areas.

As per CRISIL Research, housing stock is estimated to grow at a CAGR of 2.3 per cent over the next five years (2012–2016) with a higher growth expected in the urban segment (CAGR of 3.3 per cent from 2012 – 2016) as compared to the rural segment (CAGR of 1.8 per cent from 2012 – 2016). As a percentage of total housing stock the share of rural housing stocks expected to fall marginally by 2016 as compared to 2011.
Over the years, the market share of HFCs has significantly improved vis-à-vis banks on account of robust growth in disbursements of the former. In slowdown time in corporate credit, banks are aggressively focusing and competing with HFCs in the home loan segment. However, with diverse channels of sourcing business, strong origination skills and HFCs will continue to gain market share.

In the past banks and HFCs have largely focused on the salaried class, as can be seen by the fact that salaried borrowers account for 80-85 per cent of the total outstanding loans. The key reason behind this the salaried segment is the ease in validating the income levels and the repayment capabilities of salaried borrowers vis-à-vis self-employed persons. So that self-employed borrowers are being largely ignored by the organized lenders, forcing them to rely on personal loans or loans from unorganized sources at higher interest rates.

According to CRISIL, HFCs have a net profit margin slightly higher than the banks despite having a higher cost of funds as compared to banks, have been able to maintain comparable gross spreads and with improved efficiencies, lower operating costs and better risk management practices. As per their estimates, banks at 1.5-1.6 per cent of loan book as against HFCs are expected to maintain a net profit margin of 1.6-1.7 per cent of loan book based on incremental disbursements.

The main funding sources for HFCs include bank loans, Non-Convertible Debentures (NCD), NHB refinancing and other loans, fixed deposits, and commercial papers. Larger HFCs have been able to build a more diverse funding base due to their superior credit rating and their ability to target the NCD market for funds. In contrast, smaller HFCs have leveraged the NHB refinance facility for priority sector/rural lending, which is offered at lower than market interest rates. This has helped the smaller HFCs to compete with banks and larger HFCs by reducing their cost of funds.

Housing loans in India are based on fixed interest rate or a floating interest rate. A fixed rate loan is one where the rate of interest remains same throughout the period of the loan or for a specific number of years. Whereas, in a floating rate loan, the borrower pays interest at a rate that is linked to the benchmark prime lending rates of
financiers. The rate charged on fixed rate loans is higher than that charged on floating rate loans, due to the higher interest rate risk in case of the former.

Due to the long-term nature of the housing loans and medium-term nature of the lender’s liabilities, lenders prefer to lend at floating rates, as it allows them to re-price the loans as and when their cost of funds increase. The proportion of floating rate loans has been increasing for the last several years, primarily due to the indirect push from the lenders side by way of a higher spread between fixed rate loans and floating rate loans. According to CRISIL, the proportion of floating rate loans is expected to continue rising and reach around 97 per cent in 2017. According to the Census, during the period of 2001 to 2011, number of households has increased by 47 per cent, while housing stock increased by 51 per cent. Urban India in 2012 had an estimated shortage of about 19 million houses. Most of the housing shortage is for Economically Weaker Section (EWS) 56 per cent and Low Income Group (LIG) 39 per cent people. Institutional housing financing in India is dominated by commercial banks. According to 31st March 2012, outstanding housing loans by HFCs and banks were ` 6.2 trillion, of which about two-thirds were accounted for by banks. Annual growth of credit of scheduled commercial banks in India indicates that the share of credit for housing in aggregate credit rose from under 5 per cent in 31st March 2001 to 12 per cent by 31st March 2006. This was because of a number of favorable factors: First, lowering of lending rates because of sustained reduction in inflation. Second, removing the restriction of Prime Lending Rate (PLR) as the floor rate for pricing housing loan coupled with reduction in risk weight from 100 per cent to 50-75 per cent for housing loan to individuals aided competitive pricing of such loans. Third, the growth in GDP raised the demand for housing consequently. Outstanding housing credit from banks as per cent of GDP rose from 1.2 per cent in 2001 to 4.2 per cent by 31st March 2012. The Weighted Average Lending Rate (WALR) on housing loan was 8.6 per cent in 2006 before rising to 11.1 per cent by 31st March 2012. The interest rate on housing finance rose up since 2006; it is below the overall weighted average lending rate of banks.
The moderation in growth of housing credit after 2006 could be attributed to the following factors: First, because in the global financial crisis GDP growth also moderated which dampened the demand for housing. Second, the limits of prudential norms of increasing risk weights to a range of 50-125 per cent (Report on trend and progress of housing in India 2011-2012).

1.6 Housing Finance Sector: A closer look

Finance is a key driving force behind any business or non-business oriented activity. Housing finance as the major factor helps in assessing the movement of housing market to the precise point. This section discusses in detail the role of banks, HFCs, MFI, SHGs etc. in the growth of housing sector in the country.

1.6.1 Housing Finance Sector in India

Home to over a billion people, India has been making considerable efforts to develop the housing finance sector and improve the affordability and availability of housing. Housing finance in India has seen rapid growth on account of various factors including:

- Increased urbanization.
- Favorable demographics.
- Rising disposable incomes for a large section of the population.
- Holistic approach for housing finance adopted by the government through housing policies, tax incentives, secondary mortgage development, development of institutional housing finance system, legal reforms (such as repeal of Urban Land Ceiling and Regulation Act (ULCRA) and stamp duty reduction.
- RBI monetary policy and guidelines/norms for healthy development of housing finance such as 3 per cent incremental deposits earmarked for housing loans, liberalized interest rates, treatment of housing sector loans as priority sector loans, and liberal risk weights for housing loans.
- NHB's active role in deepening the system by facilitating setting up of HFCs and providing refinance and capacity building (training) support to them.
• Larger supplies of better quality constructions.
• Relatively stable property prices.
• Easy access to housing finance with entry of commercial banks.
• Lower interest rates and loan transaction costs.
• Technological innovations that have enhanced efficiency in housing finance transactions.
• Improved underwriting standards.

Another key reason that has fuelled the growth of the housing finance sector is a change in the mindset of Indians who, until recently, were debt-averse, but have now become more open to the credit culture.

Housing finance had grown at a fast pace in the last decade with the outstanding housing loans as per cent of GDP increased from 3.4 per cent in 2001 to 6.1 per cent by 2004. The mortgage penetration as per cent of GDP is, however, extremely low in India when compared with countries such as the USA (76 per cent of GDP) and the UK (86 per cent of GDP). This clearly illustrates that institutional mechanism and players have room to penetrate the Indian housing finance market in order to meet the rising demand for housing loans, especially in the low- and middle-income segments of the populace.

Another notable feature of the Indian housing finance sector today is that it is a 'buyer's market' where housing finance providers are trying to align their service standards with the ever-rising customer expectations so that they can retain their customers. (Report on trend and progress of housing finance 2011-12, NHB)

1.7 Policy Formulation for Housing Finance Sector

Housing activity has a direct impact on the level of employment and income of people in an economy in view of its large potential for employment. It is, therefore, identified as a key contributor for the growth and development of an economy. Housing activity also has an indirect impact on the quality of living and human capital formation in a nation. Increasing expenditure on housing would have a dramatic effect on the
economy and on living standards, as housing policy is closely linked to both the macro-economy and to social welfare.

Housing finance plays a major role in furthering the goal of affordable housing as it fuels the demand for housing as well as facilitates home ownership. Governments across the globe are taking significant measures to provide affordable housing to their people and formulate suitable housing finance policies to achieve this objective.

Generally, housing finance policy has two key objectives; namely

- Improves the efficiency of the market by removing obstacles that prevent the private sector from increasing the supply of affordable housing or the public from buying or renting housing units produced by the private sector.
- Ensures that those who cannot afford to buy or rent housing produced by the private sector are adequately housed.

Many countries feel that extension of capital subsidies to the poor to acquire a home is appropriate as they are able to access credit easily. Problems with housing credit include the inappropriateness of formal finance and the lack of a secondary or covered bond market for long term finance.

Some countries even try a two tiered subsidy system because the poor at the bottom of the pyramid require subsidies large enough to be able to provide adequate housing without any top up, but they also need access to consolidation loans at a later date. The poor with a slightly better income require loans linked to their subsidies. Therefore, in some countries the subsidies are graded according to income, i.e. the higher one’s income, the lower the subsidy.

The housing finance policies in a country depend upon the role envisaged by its government for itself in meeting the housing demand as well as the extent to which housing activity is sought to be used as an engine of growth of the economy. The government and Central Bank roles are vital in shaping and sizing of growth of housing finance market in the Country through their policies. Housing policies, taxation policies, monetary policies of a country normally facilitate the flow of
housing finance in the market and the players in the housing finance market. The various aspects of government policy in respect of housing finance activity related to

(I) **Improving supply of housing stock through**

- Creation of institutions in the public sector for promotion/execution of housing projects/programmes (including acquisition and allotment of land for housing projects/programmes) and for making houses available on ownership basis and/or on credit to various income groups, at times with budgetary support for example Housing Boards, City Improvement Trusts, Urban Development Authorities etc.
- Extension of subsidy for building houses particularly by the poor.
- Offering tax incentives to encourage promoters/builders/developers in the private sector to take up large housing projects.

(II) **Improving demand for houses and encouraging home ownership by introduction of**

- Subsidy Schemes to the EWS section for construction of houses.
- Directed institutional/bank lending for housing upto a prescribed level.
- Subsidies towards interest payable on housing loans.
- Reduction of Stamp Duty/Registration charges so as to encourage transactions relating to immovable property by making the cost of such transactions (including creation of mortgage) affordable.
- Tax incentives for buying a house.
- Taxation of capital gains at concessional rates if such gains are invested in house property.

(III) **Improving supply of housing finance at affordable rates to meet the demand for housing by**

- Offering tax incentives for HFCs/ mortgage banks.
• Creation/promotion of apex housing finance organizations to facilitate policy issues as well as facilitate refinance arrangements to the mortgage originators at affordable rates
• Permitting issue of tax free bonds by select Institutions aimed at facilitating availability of cheap funds for the housing finance sector.
• Creation of an institutional framework to enable mortgage originators raise money against their home loan portfolio either through securitization or through covered bonds or permitting deposit based schemes like Bausparkassen.
• Making available to Insurance /pension funds investment in securitized/mortgage based security papers.
• Introduction of pragmatic enforcement laws to enforce security in case of delinquencies.
• Facilitating effective mortgage/title insurance/guarantee schemes (Report on trend and progress of housing in India, 2011-12, NHB).

1.8 Phases of Housing Finance in India

The housing finance sector in India has no doubt, experienced unprecedented change in its structure from its formulation stage. Indian housing finance has far moved from the stage of being a solely government undertaking provided service during the 1970’s to a very competitive sector with more than 45 housing finance entities providing housing loans worth ` 781000 million to home buyers across India.

The housing finance revolution in India can be divided into five distinct phases:

<table>
<thead>
<tr>
<th>Phases of Indian Housing Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
</tr>
<tr>
<td>Phase II</td>
</tr>
<tr>
<td>Phase III</td>
</tr>
<tr>
<td>Phase IV</td>
</tr>
<tr>
<td>Phase V</td>
</tr>
</tbody>
</table>
The first phase began before 1970 when the sole provider of any house building support was the government of India through its various social schemes for public housing. The government implemented these schemes through state housing boards which were responsible for allocating serviced land and houses to individuals based on the principles of social equity.

The second phase starts with the establishment of the public housing company, Housing and Urban Development Corporation (HUDCO). HUDCO was created to assist and promote housing and urban development programs with government agency. HUDCO still plays an important role in implementing government initiatives such as the Valmiki Ambedkar Awas Yojna which was launched by Government of India in 2001-02 to provide shelter or upgrade the existing shelter for the people living below poverty line in the urban slums. Another important private player, HDFC was established in 1977. HDFC pioneered in individual lending, based on market principles. HDFC today is one of the largest home loan providers of the country and its success displayed that financing homes can be a very profitable business.

The third phase covers the decade of 1980s, which is marked by the establishment of the country’s housing finance regulator NHB in 1987. The era also involved the government in directing various agencies like insurance companies, commercial banks (Under priority lending requirements which allowed banks to allocate 1.5 per cent of their incremental deposits to housing under RBI guidelines), provident funds and mutual funds to invest part of their increment sources on housing. Two Insurance companies, LIC and GIC, started supporting the sector both directly through their newly established HFCs and indirectly by investing a proportion their net accretions in socially oriented schemes.

The fourth phase is the era after liberalization and is characterized by dramatic changes in pricing of loans. Before 1994, the pricing of home loans were regulated by the NHB based on a differential rates charged according to the size of the loan. This policy was amended in 1994 and providers were free to charge market rates for the loans above 25000. The fourth phase saw a dominance of fixed interest rates, but variable rate offers started emerging at the end of the decade.

The fifth Phase of rapid growth in the sector started after the millennium. Home loan disbursements rapidly grew during the first few years of this phase. The lower interest

1.9 Five Year Plans and Housing

Concrete government initiatives began in the early 1950’s as a part of first five year plan (1951-56) with a focus on institution-building and housing for weaker sections of the society. The second five year plan (1956-61) has shown the enactment of legislations for orderly town and country planning including the setting up of relevant organizations and for the preparation of master plans for important towns. The third five year plan (1961-66) led to the coordination of various programmes to help housing for low income groups. The fourth five year plan (1969-74) took a pragmatic view on the need to prevent the growth of population in the large cities and decongestion and dispersal of population through the creation of smaller townships. HUDCO was established to fund housing and urban development programmes. The fifth five year plan (1974-79) yet again reiterated the policy of promoting smaller towns in new urban centres while emphasizing on the improvement of civic amenities in urban and metropolitan regions. The sixth five year plan (1980-85) refocused attention on the provision of services along with shelter, particularly for the poor. In the seventh five year plan (1985-90) focus was given to the flow of institutional finance in the housing sector and promoting and regulating housing finance institutions. The NHB was set under the aegis of the RBI in 1988. The eighth five year plan (1992-97) recognized the role and importance of the urban sector for the national economy. The new housing and habitat policy unveiled in 1998 aimed at ensuring “shelter for all” and better quality of life to all citizens by using the household potential in public, private and household sectors. In ninth and tenth five years plans the main emphasis was on the role of private sector. There has been a rapid growth in private investment in housing with the emergence of real estate
developers mainly in metropolitan centres and other fast growing townships among the democratic countries. The housing shortage is perhaps the largest in India. A total of 271 billion people constituting 37.4 per cent of the population are below the poverty line. The key objective of the policy was on creating strong public–private partnership for tackling the housing problems. Under the new policy, the government proposed to offer financial concessions, carry out legal and regulatory reforms and create an enabling environment for the development of the housing sector. The policy emphasized the role of the private sector, as the other partner, to be encouraged to take up the land assembly, housing construction and investment in infrastructure facilities. Ever since the added emphasis was given to private initiative in housing development, there has been a rapid growth in private investment in housing with the emergence of real estate developers mainly in metropolitan centres and other fast growing townships.

The planning commission suggested modification of the housing policy to incorporate affordable housing program for the BPL category. Considerable efforts were made during ninth and tenth five year plans to enlarge the resource base and initiate innovative institutional mechanisms to augment housing delivery in urban areas. Focused efforts were also initiated to cover the poor and vulnerable groups of society to enable them to access basic shelter related services. Financial concessions coupled with legislative measures were also initiated to encourage increased investments in housing by individuals and corporate.

The National Common Minimum Program (NCMP) has stated that housing for weaker sections in rural areas will be extended on a large scale. The tenth five year plan, therefore, had suggested provision of free housing only to the landless SC/ST families and shift to a credit cum subsidy scheme for the other Below Poverty Line (BPL) families. The repeal of the ULCRA, 1976 has been a significant step towards reform in the urban land market. Following the repeal of the central legislation, a number of State Governments have also repealed the state-level law.

In order to improve the quality of life in urban areas, the eleventh five year plan (2007-2012) has stressed the need for improved housing stock through urban renewal,
in city slum improvement, and development of new housing stock in existing cities as well as new townships. Furthermore, the Bharat Nirman program has also recognized and accorded due priority to the need to end shelter lessness. The program has set a target to construct 60 lakh houses from 2005 to 2009. The housing component under the program is being implemented in parallel with Indira Awas Yojana Scheme. For the eleventh plan, the focus is on targeting the poorest of the poor while targeting the remaining housing shortage with other interventions.

Investment in housing results in higher capital formation as it contributes to national wealth. Though, the housing finance sector in India has experienced buoyant growth over the past several years, the homelessness amongst the lower segments of population has continued to increase.

<table>
<thead>
<tr>
<th>Five Year’s Plan</th>
<th>Total Outlay ((₹) in mn.)</th>
<th>Housing and Urban Development ((₹) in mn.)</th>
<th>Per cent share in the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan</td>
<td>20688</td>
<td>488</td>
<td>2.36</td>
</tr>
<tr>
<td>Second Plan</td>
<td>48000</td>
<td>1200</td>
<td>2.5</td>
</tr>
<tr>
<td>Third Plan</td>
<td>85765</td>
<td>1276</td>
<td>1.7</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>159000</td>
<td>2702</td>
<td>1.7</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>372500</td>
<td>11500</td>
<td>3.09</td>
</tr>
<tr>
<td>Annual Plan 1977-80</td>
<td>121765</td>
<td>3688</td>
<td>3.03</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>975000</td>
<td>24884</td>
<td>2.55</td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>1800000</td>
<td>42295</td>
<td>2.35</td>
</tr>
<tr>
<td>Annual Plan 1990-92</td>
<td>1338350</td>
<td>3001</td>
<td>2.24</td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>4341000</td>
<td>105000</td>
<td>2.42</td>
</tr>
<tr>
<td>Ninth Plan</td>
<td>8592000</td>
<td>158800</td>
<td>1.85</td>
</tr>
<tr>
<td>Tenth Plan</td>
<td>15256390</td>
<td>405000</td>
<td>2.65</td>
</tr>
<tr>
<td>Eleventh Plan</td>
<td>36447180</td>
<td>368700</td>
<td>1.01</td>
</tr>
</tbody>
</table>

**Table 1.3.: Plan Outlay in Housing and Urban Development Sector**

*Source: mhupa.gov.in*

According to table 1.3 in the first five year plan the outlay for housing and urban development was `488 million out of total outlay of `20688 million and it increased gradually and was `2702 million in fourth five year plan out of total outlay of `
159000 million. In the seventh five year plan outlay for housing and urban development was ` 42295 million out of total outlay of ` 1800000 million which further increased to ` 368700 million out of total outlay of ` 36447180 million in the eleventh five year plan.

1.10 Housing Sector Reforms

The post 1988 period can be seen as the era of housing sector reforms by establishing the NHB in 1988 and releasing National Housing Policy, 1988, National Housing Policy 1994, National Housing and Habitat Policy 2005 and National Urban Housing and Habitat Policy 2007. The following major housing sector reforms are:

Role of Government as the Facilitator

The government envisages to evolve parameter for optimal use of available resources, keeping in view the issue of ecological balance in the environment and towards this end, it is to provide financial concessions for housing innovative, infrastructure and energy saving construction materials and methods and also to set up a regulatory mechanism to ensure that the concessions are correctly targeted and utilized. Most significantly the policy envisages the role of the government as the promoter of a secondary mortgage market for housing finance in the country to combat the growing need for resources in the fund–deficient housing sector. Further, the state governments are also expected to come forward by way of liberalizing the legal and regulatory regime to give a boost to housing and supporting infrastructure and promote participation of private sector and cooperatives in housing activities. State governments are also expected to facilitate training of construction workers by covering other development programs through building centres and other agencies and empower the local bodies to discharge their responsibilities in regulatory and development functions. The full potential of 74th constitutional amendments envisaged to be utilized.

Liberal Housing Finance Availability
The housing finance institutions are expected to redefine their role and move away from their traditional approach to housing finance. HFCs are required to adopt a more flexible approach band modified the present system of collateral, assessment of repayment capacity and system of creating mortgages. HFCs may also earmark a part of their resources for rural housing projects. These dedicated institutions are expected to devise schemes to lend support at affordable rates to those who are in need of housing finance support and to cover the poorer segments that depend on the informal sector. Affordable finance is the next most crucial input for housing and infrastructure service.

**Supply Side Innovations**

To generate substantial employment in the rural areas it is proposed that shelter related forestry could be taken up with faster recycling on waste land and other land unsuitable for agriculture. Extensive research needs to be undertaken to innovative cost effective, environment friendly and every efficient construction material and technologies which would be responsive to the different climate conditions in the country. For new constructions disaster mitigation techniques as well as strengthening of existing houses are an urgent necessity to prevent continuing loss of housing stock and human lives from major natural hazards like cyclones and floods.

**Land Assembly and Development**

Availability of usable land at affordable rates is the most critical input for housing. The policy makes room for public agencies to undertake land acquisition proceedings for housing and urban services. Other alternatives like land sharing and land pooling and arrangements, in the urban fringes, would be considered through public and private initiative with appropriate statutory support. Land acquisition and development by the private sector and optimization use of urban land, in turn call for suitable amendment to town and country planning regulations.

**Technological Innovations and Technology Transfer**

The government would take an active lead in promoting and using building materials and components based on agriculture and industrial waste, those based on fly ash, red
Besides reducing the use of scarce natural resources in order to reduce energy consumption and pollution, low energy consuming construction techniques and material would be used. Government would promote use of such innovative and eco friendly materials through financial concessions and levy confessional tax on such material which is high consumers of energy. There are certain regions in the country which are prone to natural calamities like earthquake, flood and cyclones. The code for disaster resistant construction and land use planning would be observed and enforced without exception besides augmenting public awareness in this area.

**Establishment of Rating Agencies**

The government would encourage setting up an independent rating agency for builders to inspire public confidence in their activities. Similarly, a professional body would be needed to undertake demand assessment and survey for the housing projects. This step would help in reducing speculative pressures created in the land and the housing market.

**Rating of Real Estate Projects and Developers**

Established in 1987 credit rating information services of India limited has come a long way in pioneering the concept of credit rating in India. Today, it has become the market leader with dominant share in the rating business in India and is instrumental in developing the framework and methodology for rating rupee denominated debt obligations of Indian corporate and financial institutions along with the debt issues of large infrastructure projects.

**Establishment of NAREDCO**

National Real Estate Development Council (NAREDCO), the apex national self regulatory body dealing with all matters related to real estate development, has been formed by Hon’ble minister for urban affairs and employment, its Chief Patron, and it represents all enterprises dealing with various aspects of real estate development including land development, construction of residential, commercial and institutional building/complexes, development of townships, provision of urban infrastructure (roads, electricity, sewerage, water supply) and social infrastructure (recreational,
educational and medical facilities), architecture, town planning, supply of building materials, estate finance insurance, estate marketing and brokerage, and allied fields.

Establishment of Special Economic Zones (SEZs)

Establishment of SEZs and relocation of industrial units which provide substantial employment would be considered in the context of regional planning so as to avoid over congestion of the large and metro cities. The corporate should provide housing for employees as a part of their industrial projects. Further, financial concessions could be provided to them.

1.11 Regulatory Bodies for Housing Finance Sector in India

The high-growth housing finance sector in India is supported by a facilitative regulatory framework to ensure smooth functioning of the financial sector. The RBI and NHB are the key regulatory bodies along with the Central and State Governments. Commercial Banks and Housing Finance Institutions, which are registered companies, are also regulated by the capital markets regulator the Securities and Exchange Board of India (SEBI).

RBI regulates the banks, and NHB oversees the HFCs. In the earlier days, RBI was the sole regulatory body overseeing the functioning of the housing finance sector. The State Cooperative Banks and Institutions are governed by the respective State Governments as per the provisions of the respective State Cooperatives Societies Acts and supervised by the NABARD.

1.12 Policy Environment for Housing and Housing Finance

Various schemes were developed by the Central and State Governments for improving the level of housing in India. Indira Awas Yojana (IAY), Golden Jubilee Rural Housing Finance Scheme (GJRHFS), Bharat Nirman, National Urban Housing and Habitat Policy (NUHHP) are a few examples of initiatives taken by the
Government of India. The government also ensures announcements in the annual budgets for the housing sector.

1.12.1 Housing Schemes Implemented by the Government of India

The major policies/schemes implemented by the Central Government in housing are as outlined below:

1. The National Urban Housing & Habitat Policy, 2007 strives to promote equitable distribution of land, shelter, and services by promoting “various types of public-private partnerships for realizing the goal of affordable housing for all”.

2. To prevent frauds in loan cases involving multiple lending from different banks/HFCs on the same immovable property, the Government has facilitated setting up of the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) under the SARFAESI Act, 2002. This Registry has become operational with effect from 31st March, 2011. The objective of setting up the Central Registry is to provide a database of security interest over property rights to secure loans and advances granted by banks and financial institutions. Availability of encumbrance status, inter alia, help in preventing frauds involving cases where loans are taken from different lenders against the same property by creating multiple mortgages by deposit of title deeds as well as fraudulent sale of property without disclosing the security interest over such property. The operation of CERSAI is currently being managed by NHB partially.

3. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM), a Central Government Programme launched in collaboration with various State Governments and Urban Local Bodies, supports 63 cities across the country. The focus of the programme is on improving efficiency in urban infrastructure, services delivery mechanism, community participation and accountability of Urban Local Bodies. The Bharat Nirman programme, launched in 2005, is continuing its focus on the provision of basic amenities like drinking water, roads, irrigation facilities, electricity and the construction of houses in rural
areas through its six flagship programmes.

4. The Indira Awas Yojana is focused on the provision of cash subsidy to rural BPL families for construction of dwelling units using their own design and technology. The funding under the Scheme is provided by the Centre and State in the ratio of 75:25 respectively. The Two million housing programme, launched in 1998-99 is a loan based scheme and seeks to facilitate the construction of 20 lakh additional houses per annum of which 7 lakh are targeted in urban areas and 13 lakh in rural areas.

5. To improve the affordability of housing loans by EWS/LIG segments in urban areas, Ministry of Housing and Urban Poverty Alleviation (MHUPA), Government of India introduced Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) scheme on December 26, 2008. Under the Scheme, an interest subsidy of 5 per cent per annum for whole duration of the loan (15-20 years) is provided for loans up to `1 lakh extended to the EWS/LIG beneficiaries by PLIs. This interest subsidy was provided on NPV and upfront basis. The Scheme is being implemented through Primary Lending Institutions viz. Banks and select HFCs. The Scheme envisages the appointment of State Level Nodal Agencies (SLNA) by various States to facilitate the identification and selection of eligible beneficiaries for its effective implementation.

6. NHB and HUDCO are designated as the Central Nodal Agencies (CNA) for the implementation of the Scheme. NHB as Nodal Agency for the aforesaid Scheme had taken various measures to bring awareness through wider publicity and building co-ordination among the various agencies for facilitating effective implementation of ISHUP. As on June 30, 2012, NHB has entered into MoU with 33 primary lending institutions (27 banks including 5 Regional Rural Banks and) 6 HFCs for implementation of the Scheme. As on 31st March, 2013, NHB as nodal agency has disbursed subsidy claims of `7.85 Lakh covering 8884 beneficiaries under ISHUP Scheme. The status of subsidy claims disbursed during the last four years 2009-13 is as follows:
Table 1.4: Status of Subsidy Claims in the Past 3 Years

<table>
<thead>
<tr>
<th>STATE</th>
<th>CLAIMS RECEIVED</th>
<th>CLAIMS SANCTIONED / DISBURSED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of beneficiaries</td>
<td>Amt. of NPV of interest subsidy in `</td>
</tr>
<tr>
<td>2009-10</td>
<td>7934</td>
<td>58546967.37</td>
</tr>
<tr>
<td>2010-11</td>
<td>702</td>
<td>11978660.35</td>
</tr>
<tr>
<td>2011-12</td>
<td>220</td>
<td>5500574.55</td>
</tr>
<tr>
<td>2012-13</td>
<td>9</td>
<td>154647.65</td>
</tr>
<tr>
<td>2009-10</td>
<td>1</td>
<td>22798.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>18</td>
<td>410241.64</td>
</tr>
<tr>
<td>2011-12</td>
<td>95</td>
<td>2752966.43</td>
</tr>
<tr>
<td>2012-13</td>
<td>1</td>
<td>28895.02</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8980</td>
<td>79395751.01</td>
</tr>
</tbody>
</table>

Source: Report on trend and progress of housing in India 2011-12, NHB

As is evident from table number 1.5 the highest amount of disbursements have been witnessed in the State of Andhra Pradesh for an amount of ` 5.64 crore covering 7687 beneficiaries followed by Karnataka and Tamil Nadu.
7. The Government has also launched a scheme of “Affordable Housing Partnership” with an outlay of ` 5000 crore for construction of one million houses for EWS/LIG/MIG with at least 25 per cent reserved for EWS category. The Scheme seeks to foster partnership between various agencies/ Government/ parastatals / Urban Local Bodies / developers for realizing the goal of affordable housing for all.

8. Rajiv Awas Yojana envisages a 'Slum-free India' with inclusive and equitable cities in which every citizen has access to basic civic and social services and decent shelter. It aims to achieve this vision by encouraging States/Union Territories to tackle the problem of slums in a definitive manner. The Ministry of Housing & Urban Poverty Alleviation (MHUPA) has formulated the guidelines relating to implementation of Rajiv Awas Yojana (RAY) for realizing the vision of creating a slum free India. The Scheme envisages financial assistance to states willing to assign property rights to slum dwellers for provision of shelter and basic civic and social services for slum redevelopment and for creation of affordable housing stock. The Scheme is expected to cover 250 cities by the end of the 12th Plan.

9. Credit Risk Guarantee Fund Trust for Low Income Housing: In pursuance of the Union Budget announcements in 2010-11 and 2011-12, the Credit Risk Guarantee Fund Trust for Low Income Housing was set up & registered by the Government of India on 1st May, 2012 through the Ministry of Housing and Urban Poverty Alleviation (MoHUPA). Under the arrangements, the NHB will be managing the Fund Trust and will facilitate and oversee the implementation of the Scheme. The scheme has since been notified in the Gazette of India (July 7-13, 2012) and is effective from June 21, 2012. Under the Scheme, the Fund will provide credit risk guarantee to the lending institutions against their housing loans upto ` 5 lakh for new borrowers in the EWS/LIG categories in urban areas without requiring any collateral security and/or third party guarantee. The extent of guarantee cover to be provided under the Scheme is 90 per cent of the amount in default in respect of loan amount upto ` 2 lakh and 85 per cent of the amount in default for housing
loans above ` 2 lakh to ` 5 lakh. The lending institutions eligible to avail benefit of the guarantee cover under the scheme of the fund trust are commercial banks for the time being included in the second schedule to RBI Act, 1934, Regional Rural Banks, Urban Cooperative Banks, NBFC-MFIs, Apex Cooperative Housing Finance societies registered under the State Co-operative Societies Act eligible under RBI Guidelines as may be specified by the Trust from time to time and housing finance institutions registered with NHB or any other institution (s) as may be directed by the Government of India from time to time (Reports on trend and progress of housing in India, 2000-12, NHB).

1.12.2 Rural Housing

Rural population is the backbone of the country’s economy and it includes nearly 68.33 per cent of the country’s population (Report on trend and progress of housing in India, 2012). According to working group on rural housing for the twelve five year plan the housing shortage in rural areas is estimated to 43.67 million units. The main reason for the shortage of housing finance is lack of financing resources. There are various schemes introduced by the government from time to time but could not address the magnitude of rural housing requirement on account of larger quantum loans, long lead time and lack of regular income. There is a definite need to encourage the lending institutions by proper incentives by way of financial benefits and there is a need to formulate suitable financial products which could cater the rural population.

1.12.3 The central and state government operating some dedicated schemes in rural area.

1. Indira Awas Yojana:

This scheme was introduced in 1985-1986 as a sub scheme of Rural Landless Employment Guarantee Programme (RLEGP) after that in 1989 it became a sub scheme of Jawahar Rozgar Yojana (JRY) but in 1996 it was delinked from JRY and made an independent scheme. Main purpose of this scheme is to construct houses for the Below Poverty Line (BPL) population in the rural areas and villages.
For the new construction financial assistance provided in the form of full grant is `45000 per unit for the plain areas and `48500 for hilly/difficult areas. The objective of this scheme is to upgrade the weaker section of the society so that increasing the quality of households. (Report on trend and progress of housing in India 2011-12, NHB)
Table 1.6: Year Wise Breakup of total Houses Constructed under Indira Awas Yojana

<table>
<thead>
<tr>
<th>Year</th>
<th>Total houses constructed under IAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–2006</td>
<td>1551923</td>
</tr>
<tr>
<td>2006–2007</td>
<td>1498367</td>
</tr>
<tr>
<td>2007–2008</td>
<td>1992349</td>
</tr>
<tr>
<td>2008–2009</td>
<td>2134061</td>
</tr>
<tr>
<td>2009–2010</td>
<td>3385619</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10562319</strong></td>
</tr>
</tbody>
</table>

Source: Report on trend and progress of housing in India 2012-13, NHB

2. Bharat Nirman Programme

Bharat Nirman Programme which was launched by the Government of India in 2005 represents a vision for rural infrastructure development on a national scale. Among its various components, the programme also includes basic amenities such as water, sanitation, sewage, local roads and connectivity etc. and is being implemented by the Government of India. It covers providing safe drinking water to all the under developed areas in the country, and to develop housing facilities for the poor. 71.8 lakh houses were constructed during the first phase of Bharat Nirman against a target of 60 lakh houses, and now the plan has been extended to the year 2014 and the targeted number of houses to be constructed has been increased to 120 lakh houses. Against this target more than 53.07 lakh houses have already been constructed/upgraded at a cost of around `20976 crore.

3. Golden Jubilee Rural Housing Finance Scheme

The Golden Jubilee Rural Housing Finance Scheme (GJRHFS) was announced by the Hon'ble Finance Minister in the Union Budget for the year 1997-98. Subsequently, NHB, with the support and commitment of the Government of India, had formulated and launched the Scheme in 1997 to mark the Golden Jubilee of India's Independence. The objective of the Scheme was to address the problem of rural housing through improved access to housing credit for individuals aspiring to build a new house or to improve or add to their old dwelling in rural areas. In course of the last fifteen years of
operation of the GJRHFS various Primary Lending Institutions (PLIs) have improved their reach and penetration in the rural housing market. The public sector banks (including Regional Rural Banks), HFCs and co-operative sector institutions have contributed to the success of the Scheme. In the process, a number of important lessons have been learnt which will help in developing a sustainable market based solution in this segment. Annual cumulative targets set by the Government of India and NHB under the scheme has been successfully achieved over the years. Till 31st March 2012, a total of 3496108 dwelling units have been financed by the HFCs, Banks and Co-operative sector institutions as against a target of 3730000 dwelling units (approximately 94 per cent of the target) during the fifteen year period from 1997 to 2012.

Further, the Scheme has been operating at the national scale for providing increased access to institutional credit both from the perspective of lenders as well as borrowers. GJRHFS has been instrumental in expanding the reach, depth and capacity of the PLIs in rural housing. This has offered opportunities and challenges to the PLIs for their lending while opening both new avenues in administering long term credit to this vast segment of the population.

4. State Governments Rural Housing Programmes

Long before the Central Government introduced any scheme for rural housing some State Governments had rural housing programmes. Currently, around 15 States/UTs like Andhra Pradesh, Karnataka, Kerala, Gujarat and Tamil Nadu have their own schemes. About 30 lakh houses were constructed under the various housing schemes of state governments during the eleventh five year plan.

Some Notable State Run Schemes are Mentioned Below:-

i. **Tamil Nadu:** In the year 2010, the Government of Tamil Nadu launched the “Kaliagnar Housing Scheme (KVVT)” as an aid on to the IAY. Under the scheme, all huts in rural areas will be replaced by permanent houses with concrete roof.

ii. **Kerala:** The housing scheme envisioned with the objective that there should
be no homeless family in the state. Under their housing scheme `1 lakh assistance is provided to each BPL/SC family. Similarly, under the housing Scheme of ST Department, an assistance of `1.25 lakh is provided to eligible ST families.

iii. **Gujarat:** The Government of Gujarat is implementing 9 other schemes complimenting the IAY Scheme of the Government of India. Some of the important schemes initiated by the state are Sardar Awas Yojana implemented by District Panchayats, Dr. Ambedkar Awas Yojana for assisting SC families and Deen Dayal Upadhyay Awas Yojana for primitive tribal groups. In the year 2009, all the rural housing schemes of the State Government were brought under a common platform with uniform financial assistance of `55500 per unit.

iv. **Karnataka:** The State Government is having two major schemes to help the homeless people. These are the Basava Vasathi Yojane which is for Special Occupational Groups and the Ambedkar Housing Scheme which is for the Economically Weaker Section of the society. Under Basava Vasathi Yojana for economically weaker sections in rural areas, the assistance provided is `63500 of which `50000 is subsidy provided for all categories, `10000 are provided as loan under DRI Scheme and `3500 is beneficiary contribution. Under the Ambedkar Housing Scheme a total subsidy of `50000 is provided as subsidy and `10000 as bank loan under DRI Scheme the beneficiary contribution is `3500.

v. **Rajasthan:** In the year 2011, the Government of Rajasthan launched the 'Mukhya Mantri Gramin BPL Awaas Yojana’as a complimentary scheme to IAY. The scheme aims to provide housing to 10 lakh rural BPL households in the course of next 4 years. The scheme has been financed through a loan of `3400 crore arranged by the state government from HUDCO for Zila Parishads in the state.
These State housing schemes are a supplement to the efforts for rural housing under IAY. There is also a major thrust on all BPL housing schemes to construct earthquake resistant housing design and construction.

1.12.4. Impediments in Rural Housing Finance

The lending agencies generally associate higher credit risk with the rural housing portfolios on account of a number of factors. Some of the key impediments identified by the PLIs for rural housing are as below:

1) Fluctuations in the level of income of the borrowers particularly agriculturists due to vagaries of nature;
2) Difficulties faced by lending institutions in assessing the income of the rural borrowers in the absence of a uniform model for this purpose;
3) Limited tax benefits for the lenders and in most cases borrowers;
4) Limited reach particularly in respect of branch network of HFCs;
5) Limited housing loan products for the rural segments;
6) Higher costs on account of stamp duty towards creation of simple mortgage;
7) Difficulties in obtaining tangible marketable securities for housing loans and difficulties encountered in enforcing the securities in rural areas;
8) Non-availability of title deeds poses problems in legally establishing title to the property in Abadi/Lal Dora areas;
9) Overall high operational costs for lending institutions in rural areas and risk perception associated with rural lending for housing make rural housing a less attractive business for lender:

1.12.5 Needs of the Market and the Rural Households

There is a felt need for a flexible approach involving individuals as also groups and communities in partnership with both formal and informal sectors. Options could include demand led housing programs or supply oriented housing. Whereas demand led housing is individual oriented, supply oriented housing is cluster/group housing and mass housing which can be standardized and replicated. There is need for customization of credit products according to the profile and requirement need of various segments of the rural population with the help of collaboration between formal
financial institutions and grass root level local agencies including Non-Governmental Organizations (NGOs) and SHGs etc. More importantly, the resource flow from the banking sector as also the long term institutional stake in rural housing needs to be leveraged and sustained for substantive impact on housing shortage in the rural areas. The entire process in housing and housing finance is essentially a “people's process” particularly in rural area and requires adequate and relevant information on various aspects relating to rural housing.

1.12.6. Role of NGOs, CSOs and Panchyati Raj Institutions (PRIs)

Given the quantum of shelter lessness and the need for improving efficiency, it is important that local stakeholders are able to effectively participate in housing delivery. PRIs need to be supported to take a lead in micro-planning and prioritizing habitat development needs. NGOs can be professionally engaged to support PRIs to facilitate safe and sustainable habitat development in rural areas.

It is now fairly well recognized that demand for rural housing is constrained, among other factors, surprisingly by availability of land for building houses. The rising requirement of land for livelihood over time has meant that there is hardly any common panchayat land available for non-agricultural uses, including for housing. Also most government land and forest land in the countryside has also been fairly extensively encroached. Besides the physical availability of land in rural areas for housing, the land problem has yet another dimension: the legal ownership rights to village land are often undefined and unclear. All this essentially means market for land for rural housing is also thin and ineffective. Paradoxically, there are indeed hot land markets in the villages close to the large cities and metros as the urban requirements for land have also increased in the recent years. Housing in rural India is still largely for own use rather than for sale and resale and one important reason for this again is the problem of transferring ownership rights. A distinctive aspect of rural housing, which is seldom recognized, is the lack of planning of rural habitations. They probably were planned at some point of time keeping in mind the security aspect besides their being less suitable for cultivation or having better drainage. But growth of population and other economic activities have led to deterioration of the quality of local environment. The problem is particularly acute in low rainfall and unirrigated areas.
The poor state of habitations is an economic problem. Financial resources for the panchayats are obviously constrained. Village panchayats have not been able to raise adequate revenues from property taxes and therefore not able to do much on improving the quality of habitation. The separation of land record and land revenue functions from the panchayats has meant that the panchayats have taken the state of the habitations given and whatever improvements have occurred are mainly the outcome of the schemes planned from government bodies above. The prosperity of rural areas has meant better houses for only a few individuals and has not necessarily resulted in better habitation as a whole. The overall income of the panchayats from grants and own resources is still too inadequate to bring about any significant changes on their own. There are two directions in which the village panchayats can play a more active role in rural housing development. In one direction, there is a need to strengthen the governance role of panchayats: influencing construction of better houses and in a manner so that the village infrastructure is optimally utilized; the land and property records are improved. This in turn would catalyze the other services- particularly finance- that helps in turning some of the latent demand into effective demand. The second dimension in which the panchayats can play an important role is bringing greater convergence of many of the rural development programs for greater impact. The partnership with the NGOs, private sector and other civil society organizations will remain imperative as in many other rural development programs. The panchayats can also play a major role in facilitating the implementation of drinking water supply and sanitation programs (such as the accelerated rural water supply scheme and the total sanitation program) in the villages; they also facilitate building of rural roads as well as the execution of many other programs of rural development. The housing development perspectives actually provide greater convergence to many of these services as location of houses or new houses can be planned with reference to the various services. Their intimate knowledge of local needs, people and local conditions make them pre-eminently credible facilitators (Reports on trend and progress of housing in India 2000-2012, NHB).

1.13 Setting up a Housing Finance Company
The formation of a housing finance company needs a structured approach, which includes registration process, finance flow process, risk factors involved and much more. This section delineates relevant information to finance investors, before starting their Housing Finance Company.

The government of India has been making considerable efforts to develop the housing finance sector and improve the affordability and availability of finance for housing. Housing finance in India has seen rapid growth on account of various factors such as increased urbanization, favorable demographics, rising disposable incomes for a large section of the population, government tax incentives, increased supplies of better quality houses, lower interest rates and relatively stable property prices.

Housing is an important asset acquired by an individual in his/her life. Previously, individual's purchased or constructed houses in the late 30s and 40s to settle down. But the economic developments witnessed by India have made younger individuals in the late 20s and early 30s realize the value of owning a house and workplace. Banks and financial institutions target this younger group of customers by offering various products including housing loans.

Figure 1.3: Consumption pattern amongst the Indian population is expected to change by 2013

Source: NCAER
In the recent past, this sector has seen considerable participation from the Central Government, HFCs, SCBs and Cooperatives Banks. Housing finance has grown at a fast pace with a compounded annual growth rate of 30 per cent in the last five years (2002-03 to 2007-08). This growth has triggered the attention of multinationals like Deutsche Bank, American International Group (AIG), GE Money and large corporate houses like the Mahindras, Tatas and Reliance to make an entry into the housing finance markets to explore the business potential and avail the various opportunities and benefits of this sector.

The outstanding housing loans as per cent of GDP have increased from 6.1 per cent in 2004 to 8.50 per cent in 2006. This penetration a per cent of GDP is, however, extremely low in India when compared with countries such as the U.S. and the U.K., where the combined value of mortgages is over 60 per cent of GDP. Therefore, there are considerable growth opportunities in the Indian housing finance sector that can be tapped. Setting up a Housing Finance Company continues to be a profitable business venture owing to the lucrative and long-term opportunities presented by the housing finance sector. Tax concessions offered by the Central Government further incentivize many Housing Finance Company players.

The Central Government and the RBI announced another set of measures to stimulate the economy in 2009, after having announced a few measures in December 2008. The package focuses on reviving demand for the housing sector by:

- Lowering the interest rate on home loans up to `20 lakh.
- Grant of priority sector lending status to loans up to a maximum limit of `20 lakh per dwelling unit.
- Allocation of `4000 crore to NHB for facilitating the liquidity flow to HFCs.
- Concessional treatment to commercial real estate loans which have been restructured up to 30 June 2009.
The housing finance flow in India mainly comes from institutional mechanism supplemented by the informal mechanism. Recently, the institutional mechanism has gained prominence with the guided mechanism provided by the NHB.

Institutional mechanism provides housing finance through significant players such as HFCs, NBFCs, SCBs, RRBs, Cooperative Institutions and many more. HFCs are specialized institutions in housing finance operations, and are the primary providers of housing finance to individuals for construction or acquisition/purchase of house/flat from development authorities, private builders/groups and housing societies. NBFCs, SHGs and MFIs, on the other hand, are engaged in housing finance apart from other activities like hire-purchase finance, equipment lease finance, loans, investments, etc.

Over the past few years, SCBs have taken over the HFCs in the home loan market. According to the Comptroller and Auditor General of India (CAG), the share of HFCs has fallen from 51.06 per cent in 2001-02 to 29.23 per cent in 2005-06, while the share of SCBs has risen from 35.90 per cent to 51.06 per cent for the same period. However, HFCs continue to be the focused players of housing finance to individuals offering various add-on services to customers.

How to set up a Housing Finance Company and Acts Governing the Setting Up of an HFC

The laws of a land govern the formation of a Housing Finance Company. In India, the formation of a company is governed by the Companies Act, 1956, and in addition the NHB Act, 1987 governs the setting up of an HFC. A company wishing to commence operations as HFCs needs to first register under the Companies Act, before registering under the NHB Act. The company needs to have housing finance as one of its main object clause while registering under the NHB Act.

Under these Acts, HFCs can be formed as government, Private or not-for-profit companies. Under these three categories companies can function as Public limited, Private limited, Joint Ventures, Foreign-owned companies or part of a corporate group. The NHB is entrusted with the responsibility of regulating and supervising the HFCs, while the Banks carrying on housing activities are regulated by the RBI.
As per the section 2(D) of the NHB Act, "Housing Finance Institution" includes every institution, whether incorporated or not, which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly."

NHB is also empowered to issue a Certificate of Registration to an HFC and the certificate issued by NHB can be with or without the permission to accept public deposits. As per the provisions of Section 29A of the NHB Act, no company, which primarily transacts in housing finance or has as one of its principal objectives as providing finance for housing, whether directly or indirectly, shall commence or carry on the business of an Housing Finance Company without–

a. Obtaining a certificate of registration that is issued by NHB.

b. Be in possession of net owned fund of `200 lakh or such other higher amount, as the NHB may, by notification, specify.

Thus, HFCs which shall make an application for registration to the NHB in such form as may be specified.

There are two options for obtaining a Certificate of Registration by NHB for setting up an HFC:

1. Commencement of a Housing Finance Company: Company established as a Housing Finance Company follows this option to obtain Certificate of Registration from NHB.

2. Additionally, to commence business of housing finance public limited HFCs should have:

- Certificate of Incorporation
- Certificate of Commencement
- Certificate of Registration

In case of Private Limited Companies, there is no need for the Certificate of commencement.
NHB registers an HFC as:

1. An HFC granted certificate of registration with permission to accept public deposits.
2. An HFC granted certificate of registration not valid for acceptance of public deposit.

The NHB act also empowers NHB to cancel the permission of an Housing Finance Company to accept public deposit.

All HFCs registered with NHB are required to follow the prudential guidelines and commitment to customers as specified by the NHB Act. The Act also provides for provisions for safeguarding the interest of depositors and stakeholders (Reports on trend and progress of housing in India, 2000-12, NHB).

1.14 NHB RESIDEX

Housing prices are somewhat different from the prices of goods and services that are generally determined by supply and demand. Real estate prices additionally reflect the market’s expectations of future prices. In India, there are two publicly available House Price Indices (HPIs), viz NHB-Residex compiled on survey-based information for 20 cities and RBI-HPI based on registration prices information for 9 cities. The work of compilation of a HPI was initiated by the RBI in 2007, beginning with Mumbai city. Subsequently, the coverage has been extended to eight more cities: Delhi, Chennai, Kolkata, Bangalore, Lucknow, Ahmedabad, Jaipur, and Kanpur. Apart from data for individual cities, a composite HPI covering these nine cities (with base 2008–09:Q4=100) is currently being disseminated by RBI on a quarterly basis. As per RBI’s composite HPI, house prices have nearly doubled since 2008–09. According to the housing census, during the decade of 2001 to 2011, while housing stock increased by 51 per cent, the number of households had increased by only 47 per cent. In 2012, urban India had an estimated shortfall of about 19 million houses. The housing shortage is acute for economically weaker sections (56 per cent) and low income group (39 per cent) of people.
Keeping in view the prominence of housing and real estate as a major area for creation of both physical and financial assets and its contribution in overall National wealth, a need was felt for setting up of a mechanism, which could track the movement of prices in the residential housing segment. Regular monitoring of the house prices can be useful inputs for the different interest groups.

In order to guide and oversee the construction of NHB RESIDEX and extension of its coverage, to include all the 63 cities under Jawaharlal Nehru National Urban Renewal Mission (JNNURM); a Standing Committee of technical experts has been constituted under the Chairmanship of CMD, RBI, NHB with representations from the Government of India, (Ministry of Finance, NSSO, CSO, Labour Bureau), and other prominent market players. At present, index is being developed only for residential housing sector. However, at a later stage, based on experience of constructing this index for a wider geographical spread, the scope of the index could be expanded to develop separate indices for commercial property and land, which could be combined to arrive at the real estate price index.

1.14.1 NHB RESIDEX: Salient Features

A study covered 5 cities viz. Delhi, Mumbai, Kolkata, Bangalore and Bhopal representing the various regions of the country. Actual transactions prices considered for the study in order to arrive at an Index which will reflect the market trends. Year 2001 was taken as the base year for the study to be comparable with the WPI and CPI. In this study, year to year price movement during the period 2001-2005 has been captured and subsequently updated for two more years i.e. up to 2007. Thereafter, NHB RESIDEX was expanded to cover ten more cities, viz, Ahmedabad, Faridabad, Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat. At the time of last updation and expansion of coverage of NHB RESIDEX to 10 more cities, the base year has been shifted from 2001 to 2007. From quarter January-31st March, 2012, NHB RESIDEX has been further expanded to cover 5 more cities viz Bhubneshwar, Guwahati, Ludhiana, Vijayawada & Indore. The Index for Delhi has been expanded to cover Gurgaon, Noida, Greater Noida and Ghaziabad thereby expanding its coverage to National Capital Region (NCR). Thus, from April-June, 2012 onwards the Index of Delhi would cover National Capital Region (NCR).
Further, with 2007 as base, NHB RESIDEX has been updated up to quarter ended 31st March, 2013 with quarterly update (January-March, 2013). NHB RESIDEX has been expanded to include 6 new cities namely Chandigarh, Coimbatore, Dehradun, Meerut, Nagpur and Raipur from the quarter January-March, 2013 thereby taking the total of number of cities covered to 26. The proposal is to expand NHB RESIDEX to 63 cities which are covered under the Jawahar Lal Nehru National Urban Renewal Mission to make it a truly national index. Prices have been studied for various administrative zones/property tax zones constituting each city. The index has been constructed using the weighted average methodology with price relative method.

**Annual Change (Per Cent) of Local House Prices in India for Major Cities**

However, during the second quarter of 2012-13. There was a marginal decline in the overall property prices across the country. According to the NHB RESIDEX data for the quarter July-September 2012, the prices have declined in smaller towns and the increase in other cities is just marginal, barring Kochi and Jaipur. There are signs of convergence of prices around this level across the cities covered in NHB-RESIDEX (for 20 cities).

**1.15 Global Development and Economic Trends**

After the shock of recession in 2008-2009 the global economy meltdown continued to be felt in all parts of the world in 2011-2012. In Indian economy faced slowdown in manufacturing and service sector. However, housing sector was not hit by the slowdown. Global growth prospects for 2012 have been revised from 2.0 per cent down to 1.5 per cent for advanced economy and from 6.0 per cent down to 5.6 per cent for emerging economies and developing economies. Slow down and uncertainties in advanced economies are affecting the emerging and developing economies. The world outlook report October 2012 by International Monetary Fund (IMF) has predicted India’s growth to be 4.9 per cent viz a viz 5.5 per cent in the previous projections. The losses of growth continue in 2012-2013 in India. After continuous deceleration GDP growth was marginally higher at 5.5 per cent in Q1 of 2012-2013 because of growth in construction and agriculture sector.
Domestic Outlook and Projections

The growth predictions for the Indian economy have been declining in the projections of IMF to 4.9 per cent and the RBI to 5.8 per cent in October 2012. The growth predictions have declined on account of worsening global macroeconomic conditions, decline in domestic industrial activity and service sector growth falling below trend. The mortgage and housing finance market of India is on a commendable traction despite the turbulent trend prevailing in the micro and macro economic conditions globally. The sector has been demonstrating the same resilience as it did during the global meltdown in 2007-09. This is due to the steps taken by the regulators, by developing enhanced risk management systems and constantly keeping a vigil on the exposure limits, capital requirements and asset qualities while benefiting all the stakeholders viz the PLI's and the borrowers. Despite the global economic slowdown and recessionary pressure, The Reserve Bank's quarterly house price index suggests that house price inflation remained firm in Q1 of 2012-13. Further, notwithstanding the increase in house prices, the volume of housing transactions have grown at a faster pace viz a viz the previous year than in the preceding quarter.

1.16 Key Challenges Faced by Indian Housing Finance Sector

Despite the high growth rate, the Indian housing finance market is faced with multiple challenges including:

- Gaining access to larger, long-term, low cost funding sources.
- Getting access to reliable land records and borrower's credit history.
- Developing standards and technology innovations.
- Evolving State laws to minimize regional constraints.

Extending the reach of the housing finance to the Lower Income Group and Economically Weaker Sections.

1.17 Ways Forward for Housing Finance in India
The Indian housing finance market has evolved considerably over the past two decades. However, certain improvements can eliminate the challenges faced by the market.

- Segmented approach
- Introduction of new products pertaining to housing finance
- Setting up an independent floating rate benchmark
- Evolving standards with built-in firewalls
- Applying uniform codes for greater transparency
- Consumer awareness and disclosure
- Formation of central mortgage repository
- Application of valuation standards and usage of NHB Residex
- Introduction of safety nets like mortgage insurance, title insurance products, better access to credit history
- Addressing long-term funding issues. For instance, securitization of mortgages/covered bonds needs to be developed into a well-regulated, long-term funding source for the sector.
- Building an information database.

Many PLIs are moving towards risk-based pricing to adjust interest rates based on borrower’s economic profile. Under this, they offer lower interest rates to consumers with better creditworthiness, whereas high-risk customers are charged higher interest rates. The common factors used for risk-based pricing are a borrower’s credit history, property use, property type, loan amount, loan purpose, income, and asset amounts, documentation levels, and property location.

**1.18 Indian Housing Finance Industry—March 2013**

The total outstanding housing loans in India is 8.3 per cent of its GDP (at current prices) in 2012, indicating a prospective market due to its lower mortgage to GDP ratio compared to its Asian peers like–China (20 per cent), Singapore (54 per cent), Korea (36 per cent) and developed economies of USA (77 per cent), UK (85 per cent). CARE Research estimates that total housing loan (HFCs and banks) to grow at the
rate CAGR of 19 per cent during 2013-2015, leading to total housing loan market of `11579 bn. in 2015e (from `6896 billion in 2012). CARE Research expects HFC loan book to grow at a higher rate compared to housing loan provided by banks. However, CARE Research estimates NIM to expand by 20-40 bps in 2014e. The HFCs have been able to bring down the Non Performing Assets (NPA) from 4 per cent in 2004 to 0.75 per cent in 2012. It is pertinent to note that HFCs have maintained comfortable level of NPA during global economic slowdown indicating their robust business practices. CARE Research expects favorable regulatory policies will continue to support the growth of Indian housing finance industry. Some of the leading Indian banks promoted CARE, in 1993 and financial institutions including Industrial Development Bank of India (IDBI), Canara Bank and others is amongst the premier credit rating agencies in India and provides credit rating, research and information services.