CHAPTER - III

REVIEW OF NATIONAL HOUSING POLICY AND PROGRAMMES

Introduction:

As already discussed in the preceding chapter, the state of Indian housing sector is by no means a satisfactory one. Not only was the development of this sector inadequate considering the potentials of the country in this regard, but also the achievement was far from satisfactory in the absence of a clear policy of the Government. As the housing sector requires huge investment, the shortage in housing stock is increasing due to resource constraints. It is, therefore, necessary to examine the policy measures undertaken by the Government, the outlay and achievements during the various plan period, the agencies involved in housing finance and the generation of employment in the housing sector.

'The housing problem, with its present symptoms of homelessness, slums, land shortages and soaring costs, remains major concern of governments and numerous statements are made about policies and priorities. The amount of legislation in the housing field is formidable but despite statements of intent and increasing complex machinery for control the actual housing situation remains intractably difficult. This is due partly to the fact that housing policies are politically controversial and subject to sudden changes of direction when successive governments replace one another'.

1
National Housing Policy:

After more than four decades of planning, the Government has not been able to finalize a National Housing Policy [NHP].

"The Seventh Five year Plan saw a beginning with formulation of an NHP and in January 1987, the draft of an NHP was circulated to all State Governments, Union Territories and various agencies engaged in housing soliciting their views. The aim of the policy was to set before the nation a package of policies and programmes to hold the State Governments to translate them into concrete Action Plans for improving the housing stock quantitatively and qualitatively."²

On 12th May, 1988 the NHP was laid down on the table of both the Houses of Parliament and was approved by Rajya Sabha in November, 1988. It was, however, contemplated that the policy will be periodically reviewed. But, due to change in the government at the Centre, NHP could not be finalized.

In the context of overall improvements of human settlements and economic development the Global Shelter Strategy (GSS) adopted by the United Nations in November 1988, called upon different Governments to achieve the goals of the strategy. In the light of the developments in the national and international scene after the presentation of the NHP in May 1988 and in the context of the formulation of the Eighth Five Year Plan, another draft of housing policy was again circulated in May, 1990. After discussions and consultations at various levels, the NHP had again laid down on the
Table of both the Houses of Parliament in July 1992 and till October 1992, the same had not been passed.

The broad and generally agreed goal of our housing policy is to provide a separate home at a decent standard for every household that needs one. A major aspect of housing policy is the basic supply of new dwelling. The government has restated the NHP.

Objectives of the National Housing Policy:

"The basic objectives of the National Housing Policy are:

a. to assist all people, and in particular the houseless, the inadequately housed and the vulnerable sections, to secure for themselves affordable shelter through access to developed land, building materials, finance and technology;

b. to create an enabling environment for housing activity by various sections by eliminating constraints and by developing an efficient and equitable system for the delivery of housing inputs;

c. to expand the provision of infrastructure facilities in rural and urban areas in order to improve the environment of human settlements, increase the access of poorer people to basic services and to increase the supply of developed land for housing;

d. to undertake within overall context of policies for poverty alleviation and employment, steps for improving the housing situation of the poorest sections and vulnerable groups by direct initiative and financial support of the state;

e. to help mobilize resources and facilitate expansion of investment in housing in order to meet the needs of housing construction and upgradation and augmentation of infrastructure; and
f. to promote an equitable distribution of land and houses in urban and rural areas and to curb speculation in land and housing in consonance with macro-economic policies for efficient and equitable growth.¹³

Highlights of the National Housing Policy:

'The highlights of the National Housing Policy are as follows:

i) Simplification of existing legal provisions relating to the acquisition of land to enable taking over land speedily.

ii) Payment of adequate and timely compensation to the land owners.

iii) Encouraging the involvement of licensed private developers in land development, construction and infrastructure provision with adequate legal safeguards.

iv) New legislation for the optimum use of land for housing and urban services and suitable measures for their development of land occupied by industries which is in a state of decline or causing environmental pollution.

v) A fiscal and municipal taxation policy including tax on vacant urban land in order to curb speculative activities to increase the supply of land.

vi) Increased investment by central, state and local agencies in infrastructure within the framework of regional plans.

vii) Adequate investments made to increase the coverage of urban population to 100% for potable water and 80% for basic sanitation including the total elimination of rural scavenging.

viii) Development of small and medium towns by strengthening their linkages with contiguous rural areas as a part of integrated planned development of the region.
ix) Encouragement of housing schemes with approved guidelines in the major cities of channel investment of Non-Resident Indians in convertible foreign exchange in residential property.

x) Fiscal incentive to promote desired investment in housing activity by the private sector and individuals and channel additional savings for housing activity.

xi) Incentives to be given for investment in rental or ownership housing especially for low income employees in the organized sector including industry to provide housing for their workers.

xii) Rationalisation of stamp duties and registration fees.

xiii) Review of slum improvement laws in order to provide for conferment of occupancy rights wherever possible, acquisition of private slums and speedy provision of basic services.

xiv) Enhancement of Apartment Ownership Act in states not having such a law and suitable amendments to the existing laws wherever necessary in order to provide for the transfer of occupancy rights of individual owners, management of common areas and to enable the creation of change on the apartments by lending institutions.

xv) Simplification of procedure for registration of documents and execution of mortgages.

The main elements of the new housing policy have been briefly discussed below.

1. **Housing Norms**:

Housing norms would be evolved at the regional levels with due regard to different geo-climatic conditions and life styles of the people.

In rural areas, the size of the plot should not be less than 85 square
meters with a provision for built-up accommodation of not less than 20 square metres and with adequate provision of services. In urban areas, the size of the plot should not be less than 25 square metres with a provision for permissible built-up accommodation and services on individual or shared basis in a neighborhood adequately served with civic amenities.

2. **Rural Housing**

   It is recognized that housing activity in rural areas depends much more on land rights and access to resources. The development of house sites and the upgradation of rural housing will be linked to activities under the Integrated Rural Development Programme [IRDP], Jawahar Rozgar Yojana [JRY] and other programmes for the creation of rural assets and employment.

3. **Slums and Squatter Settlements in Urban Areas and Housing for Urban Poor**

   The growth of slums is a sign of inability of people to afford land and shelter through the normal market and the failure of the Government to ensure the equitable access of the poor to the land and services. The Central and State Governments would take necessary steps to arrest the growth of slums in urban areas keeping in view with the policies of planned growth of urbanization, income support and poverty alleviation.
4. Special Programmes for Disadvantaged Sections:

Housing policy should accord priority to the promotion of access to shelter for the houseless inadequately housed and the disadvantaged groups like the households below poverty line, rural landless labourers including artisans, victims of natural calamities, scheduled castes, scheduled tribes and freed bonded labour, widows, single women and women headed households, construction workers below poverty line and physically handicapped.

5. Role of Government, Private Sectors and the Community:

It would be Governments' endeavour to guarantee conditions for involvement of several agencies including the Government at all levels, the corporatives, the community and the private sector. The Government will remain just as a facilitator.

6. Supply and Management of Land:

Availability and equitable distribution of land, its proper and timely development through the laying of requisite infrastructure facilities and services and its proper management are essential for facilitating a sustained growth of housing activity. Government will review the working of Urban Land (Ceiling and Regulation) Act, 1976 to make available the surplus land for housing activities.
7. **Infrastructure**:

Government will provide the necessary infrastructure facilities like serviceable road, external water supply, sewerage, external electricity to the people of Economically Weaker Sections and Low Income Groups [EWS and LIG].

8. **Conservation of Housing Stock and Rental Housing**:

Through various policy measures Government will promote investment in conservation, upgradation, expansion and renewal of the existing housing stock including investment in new housing stock. Rental Housing will continue to play an important role particularly for low income and middle income groups (LIG and MIG).

9. **Housing Finance**:

Lack of financial resources is a crucial constraint to housing activity for the ordinary individual along with land and services. Easy access to institutional finance at affordable rates is a pre-requisite for accelerating the growth of housing activity. To achieve this, Government will take necessary measures as discussed in Fourth chapter.

10. **Building Material and Technology**:

Availability of building materials and appropriate technology is crucial to the growth of housing. Increased construction activities,
their dependence on traditional high cost building materials and components, inadequate supply had pushed up the cost of building.

11. Fiscal Policy:

Government will provide various fiscal incentives in order to promote desired investment in housing, manufacture of new building materials and components out of various wastes as well as manufacture of standardized building components. Government will also consider to give adequate concessions in taxes and duties on transfers, conveyances, leases and mortgages.

12. Legal and Regulatory Framework:

Various provisions of the existing laws and regulations create problems and inhibit housing activity. The entire gamut of legal provisions contained in the various Acts would be reviewed by the Government. Wherever necessary new legislations will be enacted with the cooperation of the State Government.

13. Human Resource Development:

As the development of human resource is a crucial component of housing policy, the Government proposes various steps like training of architects, engineers, planners, formal and non-formal training facilities to upgrade skills of construction workers, artisans and opening of large vocational centres.
14. **Action Plan**:

As Housing is State subject, action plans would be formulated for each State/Union Territory within a time frame of one year for time bound implementation by state and legal agencies. The NHP will be periodically revised in the light of emerging needs of different sections of the population and the country.

The policy also stipulates that NRIs will also be accorded a pivotal role in the policy. Government has recently permitted NRIs to own apartments in India.

The Estimates Committee of Lok Sabha has taken up for examination of the NHP (August 1992).

**National Housing and Habitat Policy, 1998**:

The housing sector was brought within the ambit of infrastructure industries to give boost to the housing activities. The Ministry of Urban Affairs and Employment announced the National Housing and Habitat Policy on July, 1998.

The salient features of the policy are presented below:

**Background**:

Based on the 1991 Census figures, the estimated housing shortage was at 31.0 million units. More than 90 per cent of the shortage was in respect of the poor and low-income categories. This deficit, along with the autonomous growth in the needs of housing during the Ninth Plan,
would require an investment of Rs.1,51,000 crore. It was estimated that urban infrastructure alone would need Rs.2,50,000 crore in the next 10 years. Only 10 per cent of this would be available from Government sources.

**Objectives of the Policy:**

'The objectives of the National Housing and Habitat Policy are the following:

i) providing quality and cost effective housing and shelter options to the citizens, especially the vulnerable group and the poor;

ii) creation of surpluses in housing stock either on rental or ownership basis;

iii) guiding urban and rural settlements so that there is planned and balanced growth;

iv) planning for urban transport as an integral part of the Urban Master Plan;

v) using the housing sector to generate more employment and to achieve skill up-gradation in housing and building activity;

vi) ensuring easy accessibility to basic sanitation facilities and water for all dwelling units;

vii) removing legal, financial and administrative barriers for facilitating access to land, finance and technology;

viii) progressive shift from a subsidy based housing scheme to cost sharing or cost recovery-cum-subsidy scheme for rural housing;
ix) forging strong partnership between private, public and co-operative sectors to enhance the capacity of the construction industry to participate in every sphere of housing and habitat;

x) involving women at all levels of decision making and enabling them in the formulation and implementation of the housing policies and programmes; and

xi) establishing a Management Information System in the housing sector to strengthen monitoring building activity in the country.5

Role of Government and Other Agencies:

The objectives of the policy would be carried out through time bound initiatives at all levels of Governments.

According to the policy, the Central Government would have the following role:

i) taking steps to bring about legal reforms including formation of effective foreclosure laws;

ii) creating and promoting secondary mortgage market;

iii) enabling the flow of resources to housing and infrastructure; and

iv) providing fiscal concessions for the sector and innovative materials and methods.

The role envisaged for the State Governments are:

i) liberalizing the legal and regulatory regime;

ii) promoting private sector and Co-operatives in undertaking housing construction;

iii) ensuring easy access to land; and
iv) facilitating training of construction workers.

Local Authorities will have the following important roles:

i) identifying specific shortage and prepare District Housing Action Plans for rural areas;

ii) planning expansion of both urban and rural infrastructure services, and

iii) enforcing effectively regulatory measures for planned development.

The role of Public and Private Housing Finance Companies would be:

i) developing a debt market for housing, which would be fully integrated with the financial markets;

ii) promoting asset securitisation and a secondary mortgage market;

iii) attracting resources from provident, insurance and mutual funds;

iv) setting up of National Shelter Fund to finance housing for the poor;

v) setting up of a Risk Fund to underwrite or cover the risk in financing the rural and urban poor; and

vi) encouraging investment in housing from NRIs and welcoming FDI consistent with national interest.
Housing Policy - Future Directions

Since independence, the concerns of the Central Government have been in national integration, reducing inequalities, encouraging economic development and dealing with the problems of urbanisation. Policies have not always been effective especially in economic development and in social welfare. However, housing has received more systematic attention in recent years with the World Bank and the urgencies of urban problems influencing a change in the approach.

'The federal and inter-governmental nature of India influences the development of housing and urban policies. The patterns of influence are varied with some originating in Central Government, some to the states and some more recently, under world bank participation.'

The most important objectives of India's economic planning for housing are:

i) reduction in economic and social inequalities;

ii) promotion of balanced regional development; and

iii) a socialist pattern of society with the public sector playing a predominant role in key sectors of the economy.

Thus, the above said plan objectives are confirmed that the public sector was assigned a direct role in the provision of housing especially for poor (EWSs) and low income households. However, since the mid-seventies, the philosophy has undergone substantial change with prevailing wisdom now suggesting that public agencies should
supplement rather than replace private sector activities in the housing sector.

Housing policy and programmes have been examined by expert groups like: Task Force reports of the planning commission on urban development and management including housing, the report of the National Commission on urbanisation, the report of the study team headed by J.B.D'Souza, the RBI's Working Group Report on Housing Finance, the report of the Working Group on private housing headed by M.K.Mukherji, and the report of the Working Group on Housing for the Seventh Plan constituted by the Planning Commission have provided valuable background material for the formulation of the NHP Document (1988) and the setting up of the NHB (1988). In deep the intention of the Union Government was made known in advance through the budget proposals for 1987-88 which asserted this by stating that 'Housing is high on our list of priorities'. The International Year of shelter for the homeless seems to have acted as a catalyst to some of these decisions.

In reality, the public sector cannot adequately play the role of building builders of housing units. But it acts as a promoter and facilitator, will create an atmosphere and environment that permits the private sector to take initiative. In the housing sector which hopefully will successfully add to the national housing stock. The NHP and the seventh plan have recognised and assigned the dominant role to the private sector. Also, the household and co-operative sectors are
assumed to play a significant role. To quote the Seventh Plan, 'The Government has to play an active role through developing a necessary delivery system in the form of a housing finance market and taking steps to make developed land available at the right places at reasonable and fair prices.' The seventh plan also maintains that the legal framework should be adjusted to reduce the non-financial disincentives to housing investment such as rent control, costly building regulations and restrictive and management policies.

In the context of housing for the EWSs the NHP seeks 'to accord priority to promoting access to shelter for the homeless and disadvantaged groups'. While many public sector institutions profess to favour housing programmes for disadvantaged groups, an assessment of these programmes would probably identify only marginal success. While the importance of legislative reforms have been duly recognised in various policy documents, in effect existing laws have only been marginally modified.

It would be meaningless/worthless to mention the shift in the general approach to India's housing problem is reflected in the following:

i) The shift in programmes from slum clearance and relocation to environmental improvement schemes and later to sites and services;

ii) The setting up of specialised housing finance institutions for provisions of housing finance in the early 1970's in the public
sector and in the 1980's encouragement to private sector institutions and involvement of commercial banks by setting specific targets;

iii) The recognition of the importance of supply or availability of land let to experiments in Land Banking and socialisation of land Urban Land (Ceiling and Regulation) Act;

iv) A comprehensive view of the housing problems and the integration of housing projects with urban development and employment projects; and

v) The involvement of Non-Government Organisations (NGOs) in the housing activities.

In conclusion, it is appropriate to enumerate the four broad issues identified in the World Bank Staff Appraisal Report on India’s HDFC, which characterise. India’s emerging housing policy:

a) increase efficiency and effectiveness of resource mobilisation including affordable design standards and low cost technologies;

b) market oriented and improved cost recovery and resource mobilisation;

c) strengthening of public sector management in terms of planning budgeting and operations and improve the efficiency of public sector management; and

d) a more rational allocation of responsibility between the public and private sectors.
Housing Finance - The Future Strategy:

With formal form of institutional finance for purchase of home being in its infancy in India, the major objectives of a future strategy would seem to be the following:

i) to enhance the loan originate process for housing throughout the country;

ii) to develop an institutional network that would facilitate this origination process;

iii) to identify the potential resource base for the system as a whole;

iv) to codify and simplify the legal system with respect to risk management of housing finance institutions (liquidity, interest rates and default risk in particular);

v) to rationalise and reorient the fiscal system to reallocate funds to the housing sector by providing incentives for household thrift as well as institutional growth; and

vi) to link formal networks with informal networks which are the major source of financial and economic activity for the rural and urban poor.

The current debate for policy formulation attempts to resolve the vexing and burning question of how the loan origination process can be developed and expanded in the short run with a combined strategy for institutional development and resource mobilisation in the long run. In this regard, recent developments in the sector include the following:
1. A major entry by the Life Insurance Corporation of India Ltd., (LIC) in direct household mortgage loan origination until 1988, the LIC's total direct loan origination for housing under its 'Own Your Own Scheme' were 37,730 loans amounting to Rs.1.6 billion. During 1988 alone, 4,525 loans were originated for a total of Rs.330 billion and 16,737 loans were originated for a sum of Rs.1.1 billion during 1989. These are likely to be established a subsidiary company exclusively to undertake housing finance activities;

2. A major initiative by the NHB to include the commercial banking system in the direct loan origination process through its 55,000 branches throughout the country;

3. A major initiative by the commercial banks to create housing finance subsidiaries either jointly with the existing housing finance institutions or on their own; and

4. The entry of the General Insurance Corporation of India Ltd., (GIC) into the loan origination through a subsidiary company.

Supply Constraints:

The above said recent developments will be considerably strengthened the loan origination process. An attempt has been made, at present to identify the long term strategic issues posed by the supply constraints of housing in the years to come. These issues include the following:

a) While housing finance availability is critical to household effective demand for housing, how will housing supply resonance cope with this additional demands;
b) Land parcelling and servicing is the critical constraint on urban housing development largely as a result of the urban land (Ceiling and Regulation) Act which limits permissible land holdings in urban areas and freezes the remainder as well as the inability of the judicial system to expedite cases involving land disputes;

c) The house price to Household Income Ratio in India on an average is 6:2, well above the average for developing countries of about 5.25, indicating that housing remains expensive in relation to income thus limiting the affordability of market related housing finance; and

d) The Housing Delivery System is characterised by relatively small "builders" rather than large-scale construction companies, limiting the benefits that might be derived from the economies of large scale, modular construction and industrialised techniques.

As a result of these constraints, the input costs of housing development (especially land) are extraordinarily high. Housing for the poor can, therefore, be limited only to areas where land is either Government owned or acquired for the purpose.

While the private developers are the major suppliers for housing in most major urban centres, housing for the poor remains largely outside the formal private delivery system. Much remains to be done in designing and financing low income housing. A recent evaluation of sites and services projects by the World Bank concluded that, while the concept was valid one, replicability remained elusive largely owing to erroneous judgements on appropriate affordability estimates.
This would seem to highlight the need to link low income housing or shelter projects much more closely to the perceived needs of the beneficiaries backed by their willingness to pay for the service stream of benefits. Links between formal financial institutions and informal local level networks would seem to be critical to future policy in this area.

The Indian experience is that the potential for these links can be extremely effective in understanding local problems and designing specific approaches for their solution. HDFC recently promoted the Gujarat Rural Housing Finance Corporation (GRUH) specifically to deal with some of these issues. GRUH finances for acquisition or upgradation of housing in rural areas and small towns with a population below 50,000.

GRUH reaches out to local level networks in order to administer and disseminate housing finance, e.g., dairy and cotton co-operatives, non-government organisations and those networks in turn have positive incentives to utilise GRUH’s financial services. GRUH is experimenting with new methods of credit appraisal and training programmes which are planned collectively with GRUH staff as well as local level organisations to help jointly administer operating systems more effectively. Resource mobilisation and efficient intermediation have become the key ingredients of an effective financial system. The rational for specialised institutions lies precisely in the development of specialised human resources, technological systems and managerial
techniques to deal with very specific forms of activity in the most efficient (cost-effective) manner possible.

India is now fortunate that these skills have been gradually developed and are being embodied in the emerging housing finance system. Their future evolution, however, will require a framework which will permit these institutions to fit into the financial system at large.

The initial basis requirement for an emerging structure would be access to a resource base. The narrower the base, the fiercer the competition for available resources, which would result in enhancing costs. It would seem, therefore, that Government policy would need to define the savings base and the capital market base for housing finance institutions carefully, keeping in mind the critical role of the price of housing credit. An institutional development strategy would demand that new institutions transform themselves from mortgage banks in their initial operations (whole sale borrowing and retail lending) to savings institutions (retail borrowing and retail lending) as they establish themselves in their respective market segments.

A future system would need to ensure that it was designed to be sufficiently robust to generate its own resources from within the system as well as contribute to financial deepening and institutional diversification of the financial system at large. It is this aspect of sound structure of institutions within an evolving financial system that
will prove to have the most impact on the real development of housing activity in India, and indeed in developing economies at large.

Some Strategic Speculation for the Future:

India has over the past few years, experienced with greater liberalisation of economic policy. Fiscal reforms, which began in 1986 were designed to place much greater reliance on both efficiency and modernisation of Indian Industry. Deregulation, increased liberalisation of trade specially capital goods imports, rationalisation of the tax system and a greater consistency in economic policy making become the centre piece of policy making. As a result, the performance of the Indian economy was remarkably better in the Seventh Five Year Plan than in the previous plan. Growth measured by GDP owe to the period will exceed per cent per annum with a 9 per cent growth rate in 1988-89.

Buoyancy in the capital markets during the period demonstrated clearly the absorptive capacity of investors for very large capital issues. In the past few months (end 1989), Indian companies have raised US $ 2.5 billion in the domestic capital market compared with US $ 1.8 billion in the whole of the previous year. Recognising the enormous potential of financial reforms, which would give market forces much more importance, the Government of India has begun a series of reforms to improve the system's competitiveness.
With the new Government installed in the country, it is not as yet clear what strategy will be adopted in financial policy. It is more than likely that financial discipline will be imposed and that financial institutions will have to rely increasingly on raising their own resources to meet their financial requirements. Whether this will be by way of competitive resource mobilisation or by redefining the directed credit system remains to be seen. Whatever the strategy, the future of housing finance hinges on one key element, i.e., the extent to which housing finance is integrated into the financial system in both its retail and wholesale form and the place of specialised financial institutions within this system.

In the present system, the flow of credit is carefully controlled through a complex and multi-tiered system of borrowing terms, refinancing rule and tax incentives, all of which determine where savers finally choose to place their savings. The banking system is, perhaps, the main instrument of the directed credit system, financing both developmental institutions as well as ‘priority’ sectors. As a result, low deposit rates as well as subsidised lending to the priority sector (with substantial loan write-offs) compensated to a certain extent by high lending rates to the commercial sector has created a largely unprofitable banking system with low loan recovery performance and consequent inefficiency. Financial savings have gradually shifted to the relatively more market oriented non-bank finance sector and to the capital market. HFIs, in particular, are significant players in this
market, though recent regulatory guidelines are likely to diminish this trend.

The major barrier to future growth is likely to be the process of deregulation which, if it occurs unsystematically will usher in elements of 'unfair' competition providing certain institutions with regulatory privileges which are not available to others. A private and public partnership depends on clearly defined principles regarding the role and responsibilities of each partner and future policy would do well to provide these clearly and unequivocally.

In the long run, given the nature and size of resource mobilisation for housing finance, HFIs will need to integrate themselves into the financial system and mobilise resources at market rates in competition with other financial institutions and commercial banks. This is inevitable if housing credit is to emerge as a major financial service. American families have, for example, borrowed US $ 2.2 billion for their homes and since 1982 consumer credit has increased by US $ 280 billion while mortgage credit has increased by US $ 1.3 trillion demonstrating the enormous importance of housing finance in the financial system. In the UK, nearly 50% of net cash assets of the private sector are held by building societies. Housing finance can, therefore, only be studied in the context of financial sector strategy and cannot remain on the periphery of the system without being a major drain of budgetary resources of the Government. The
process of integration, however, will be a major policy initiative which needs to be thought through carefully and acted upon expeditiously.

A second major concern is the apartment trend in policy especially by NHB to use the commercial banking system as a central institutional element for the dissemination of housing finance. It constitutes yet another attempt at expanding the much overcrowded directed credit system to undertake additional responsibilities for which it possesses neither the inclination nor the resources. Housing finance is a retail activity with transaction costs that could be potentially high. Requiring the banks to offer the Home Loan Account (HLA) to enhance their direct lending to individuals, public agencies and finance land acquisition will simply add to a long series of activities, which in the normal course of their business, they may not have undertaken. This would add to their administrative burden.

This policy is somewhat surprising as the HDFC's key experience illustrates. HDFC's success has demonstrated that housing finance as a specialised financial activity is not only viable in India but also potentially profitable which, on its own, has attracted a number of new entrants. A measure of financial dependence is the growth of specialised intermediaries that offer a range of financial services profitably which were not available before; this is precisely what has been created for housing without the prior creation of a regulatory framework or a refinance institution. As the institutional structure grows and develops, it attains a size that may require a loosening of the
fabric of financial inter-connections to make room for the new activity. India’s housing finance has now reached this stage. Policy issues now concern the extent to which housing finance will be given room to grow, preferably in the context of the financial evolution rather than a privileged beneficiary of the directed credit system.

The presence of the NHB, however, also presents some strategic opportunities. The NHB represents, in some sense, the institutionalised instrument for policy actualisation in the housing sector. Housing policy has been broadly framed both in the Housing Policy Document and in the conclusions of the Housing Ministers’ Conference held in 1989. However, the bridge between housing policy and financial sector strategy has not yet been built. NHB must play the role of a financial institution rather than as an ‘Apex Institution’ conduiting fund especially for housing. Major financial policy changes will be required if housing finance is to emerge as a self-sustaining financial activity which has very little to do with housing per se. The quality of housing and urban development is only likely to reflect the financial resources devoted to it whether public/private. Defining the role of both public and private efforts by carefully identifying the comparative advantages of each and working through them to achieve commonly agreed objectives seems to be crucial at the present time for policy planning.
National Housing Bank:

The Background:

The idea of installing an Apex Housing Finance Institution (Housing Bank) in India has been emerged over a period of time right from 1971 with the recommendation of the Study Group appointed by the Banking Commission. Later, the Working Group on Housing Finance appointed by the RBI, observed that the housing problem was so gigantic, crucial, delicate and complex that there was need for a specialised system for demarcating exclusively to the housing sector to impart thrust which is required for tackling the various financial, legal and non-financial problems those faced in financing housing.

The Group recommended the setting up of a well-developed and organised housing finance system in the country. The Group strongly advocated an idea of a national level apex housing institution in order to supervise and co-ordinate the activities of housing finance institutions. The recommendation for formation of specialised housing finance institution thus came to occupy the centre stage.

The Sub-group on Housing Finance for the Seventh Five Year Plan observed that,

'the flow of public resources through existing finance institutions was limited and felt it imperative that the system be built through a multitude of institutions at the regional level that mobilise resources for housing from all parts of the capital market and directly from households.
In order to set up such a system, the sub-group recommended that national level housing finance institution be established to discharge the task of promoting decentralised institutions, which will gradually develop the effective delivery system for housing to all sections of the society in the country.

On the basis of the above recommendations, the Ministry of Urban Development took the initiation for setting up of a National Housing Bank at national level to help, promote and develop institutions at various levels which would be instrumental in financing housing activities. The proposal was considered by the Committee of Secretaries and the Committee recommended that a high level group consisting, *inter alia* of Deputy Governor of RBI as the Chairman should be constituted. This led to the setting up of high level group under the Chairmanship of C. Rangarajan, the then Deputy Governor, RBI. Apart from examining the proposal for the formation of a NHB, the Group was also entrusted to look into the manner in which flow of resources to the housing sector could be augmented, to recommend the mode of creation of housing finance institutions of the type of HDFC and to suggest fiscal incentives considered necessary for encouraging and promoting housing activities.

In its recommendations, the Rangarajan Group suggested that a number of steps would have to be taken to tackle the housing problems. The measures included development of land and housing system and modification of some of the existing law, in order to encourage and
expedite construction of houses. The Group also laid down stress on development of technology for low cost housing. The group further suggested that initiative be taken to create a network of specialized housing finance institutions, which will mobilise additional savings and provide finance for house construction.

The Rangarajan Group Report explicitly envisaged two types of base level institutions:

1. Local institutions (Building Society Institutions) to mobilize local savings, i.e., household savings and to provide home loans.
2. State level institutions or regional HDFC type institutions with a wider territorial jurisdiction to mobilize household savings and to provide housing finance to middle and higher income groups.

Setting up of National Housing Bank:

Spurred by United Nations Declaration of 1987 as the *International Year of Shelter*, combined with the resolve of the Government of India to initiate processes which would reallocate resources to housing and urban development, a number of initiatives were taken, all to emerge in 1988, to design a policy framework for the sector. These could be listed as follows.

1. 'The formulation of a National Housing Policy Document;
2. The publication of the final report of the National Commission on urbanization; and
3. The establishment of the National Housing board as a wholly owned subsidiary of the RBI.8

Despite of these initiatives, the future role of the public and private sector, the constraints faced at present and an operational strategy for the future have not been tackled analytically for the sector as a whole. The NHB document makes only two references to this issue, one in the preamble:

'There is obviously a need to recognize and rely on a multiplicity of factors including the Government in the production and improvement of housing on the scale required. Government will need to devise and implement coherent and well-set-out shelter strategies which will enable all the various actors to complement one another and to ensure most efficient utilization of resources'. And the other in the objective statement: 'To create an enabling environment by eliminating constraints and developing an efficient and accessible system for the delivery of inputs to maximize housing efforts'.9

The document does not however illustrate how this might be achieved. The setting up of National Housing Board apparently to be the principal agency to encourage and promote housing finance institutions and provide financial and other support to them will be of great operational significance to the future growth and development of the emerging housing finance system as it evolves in the years to come.

As a consequence to the above mentioned developments and in recognition of the need for establishing, developing and promoting a network of specialized housing finance institutions. The Government of
India has acted to create the Indian National Housing Board giving it a key place in the development of housing policy, as revealed in the NHP. The NHB was established on 19th July, 1988 under the Act of Parliament, viz., the National Housing Bank Act, 1987 at the apex level on the lines of the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD). The Act envisages that NHB will remain a wholly owned subsidiary of the RBI. It started with a paid up capital of Rs.150 crore. The paid up capital at the end of June 1998 (1997-98) is Rs.350 crore.

Generally, NHB would mobilize capital for housing from all parts of the capital market as depicted in Chart 3.1.

**CHART- 3.1**

The National Housing Bank in the Flow of Funds

<table>
<thead>
<tr>
<th>Capital Market</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>Public sector</td>
</tr>
<tr>
<td>- LIC</td>
<td>- GIC</td>
</tr>
<tr>
<td>- Provident fund</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td></td>
</tr>
<tr>
<td>- World Bank</td>
<td></td>
</tr>
<tr>
<td>- Development Agencies</td>
<td></td>
</tr>
<tr>
<td>Secondary</td>
<td>Mortgage</td>
</tr>
<tr>
<td>Housing Bank</td>
<td>Market</td>
</tr>
<tr>
<td>State level</td>
<td>Financial Institution</td>
</tr>
<tr>
<td>Local Institutions</td>
<td>Housing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firms Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households Saving</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secondary Mortgage Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Bank</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International</th>
<th>State level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institution</td>
<td>Local Institutions</td>
</tr>
</tbody>
</table>
It would have an intermediary role between the capital market on the one hand and the state level and local institution on the other, with the latter having direct link between housing finance and housing development, which has been shown in the chart.

Chart – 3.1 indicates long circuits between the capital market and the ultimate housing finance development, via state level institution and local saving or building society institutions. The longer the circuits and the greater the number of intermediaries, the more the system is exposed to political and organisational difficulties. These range from disharmonies in the intergovernmental relations to gaps in the development of grass root institutions.

'The NHB would also have its own intermediary costs, and if it were inefficient. This would add to the rate of interest for the ultimate consumers. The conceptual basis for a Housing Bank rests upon the demand side of the market with good possibilities for extending affordability in housing. But supply side of provision also needs to be addressed.'

**NHB's Mandate:**

The Act enjoins upon NHB to operate on 'business principles with due regard to public interest.' NHB is the apex agency to promote and encourage housing finance institutions, at the state as well as local levels and to provide financial and other support to such institutions connected with housing and human settlements.
The Act, among other things, empowers NHB to:

i) issue directions and provide guidelines to housing finance institutions to ensure their promotion, management and growth on sound lines;

ii) provide loans and advances and render any other form of financial assistance to scheduled banks and HFIs;

iii) formulate schemes for the weaker sections of the society which may be subsidized by the Central or State Governments or others;

iv) form, promote and manage subsidiaries for carrying out functions under the Act;

v) organize training programmes, seminars, symposia etc. on housing finance;

vi) encourage investment in housing and housing activities;

vii) encourage increased flow of credit from rural housing; and

viii) provide financial assistance through eligible primary lending institutions including HUDCO.

Sources of Funds:

1. Capital Bonds and Debentures of NHB:

   NHB issues two types of capital gain bonds. They are, viz.,:

   i) bonds redeemable after 3 years, and

   ii) bonds redeemable after 7 years.

   The rate of interest on both the bonds is at 9 per cent payable half yearly or on discounted basis at the beginning of the year. Both
types of bonds offer tax exemption under Sections 54EA and 54EB of Income Tax Act, 1961.

2. **The Foreign Collaboration**:

   Recently, the NHB of India has raised a loan to the tune of US $25 million from US AID. This fund will be used by the NHB for advancing to housing finance companies. The period of the US AID Loan is for 30 years and the rate of interest is at 8.63 per cent.

3. **Overseas Economic Collaboration Fund (OECF) of Japan**:

   OECF has agreed to provide loan assistance of Yens 2.97 billion (Rs.32.38 crore) for 1990-91 to support the NHB's indirect lending for housing in India.

4. Lastly, as a subsidiary of the RBI, NHB can always rely on it for instant financial assistance.

**NHB's Equity Participation**:

NHB has participated in the equity of HFCs. During the year 1995-96, NHB contributed Rs.1.20 crore to the equity share capital of VI Bank Housing Finance Ltd., housing finance subsidiary of Vijaya Bank Ltd. Equity participation of NHB till 30th June 1996 is given in the following Table 3.1.

Up to the end of June 1996, NHB's equity participation in the seven HFCs was Rs.852.29 lakh formed about 12.03% of the paid up
capital of Rs.7,083.50 lakh. Approximately, 1/3 of (32.89%) of the paid up capital of the BOB Housing Finance Ltd. is held by the NHB. NHB’S equity participation in the Can Fin Home Ltd. is Rs.50.00 lakh which formed 2.44 per cent of the paid up capital.

**TABLE - 3.1**

NHB’s participation in the Equity of HFCs

(Amount in Rs.lakh)

<table>
<thead>
<tr>
<th>Name of the HFC</th>
<th>Paid-up capital (As on 31.3.96)</th>
<th>NHB’s participation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. AB Home Finance Ltd.</td>
<td>900.00</td>
<td>190.00</td>
<td>21.11</td>
</tr>
<tr>
<td>2. BOB Housing Finance Ltd.</td>
<td>760.00</td>
<td>250.00</td>
<td>32.89</td>
</tr>
<tr>
<td>3. Cent Bank Home Finance Ltd.</td>
<td>1000.00</td>
<td>160.00</td>
<td>16.00</td>
</tr>
<tr>
<td>4. CanFin Homes Ltd.</td>
<td>2048.55</td>
<td>50.00</td>
<td>02.44</td>
</tr>
<tr>
<td>5. GRUH Ltd.</td>
<td>1325.00</td>
<td>44.79</td>
<td>03.38</td>
</tr>
<tr>
<td>6. Vysya Bank Housing Finance Ltd.</td>
<td>450.00</td>
<td>37.50</td>
<td>08.33</td>
</tr>
<tr>
<td>6. VI Bank Housing Finance Ltd.</td>
<td>600.00</td>
<td>120.00</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7083.53</strong></td>
<td><strong>852.29</strong></td>
<td><strong>12.03</strong></td>
</tr>
</tbody>
</table>


**Objectives of NHB :**

NHB’s ‘primary objective was to ensure the establishment and development of a viable and accessible institutional system for the provision of housing finance. The NHB apart from the above said primary objective has set up for itself the following objectives:

i) to promote a sound, healthy, a viable and cost effective housing finance system to cater to all segments of the population;
ii) to establish network housing finance outlets in order to adequately serve different regions and different income groups;

iii) to promote savings habit specifically for housing;

iv) to make housing more affordable;

v) to augment the supply of land and building materials for housing;

vi) to encourage public agencies to emerge primary as facilitators and suppliers of serviced land;

vii) to upgrade the housing stock in the country;

viii) to use the complimentary roles of financing and promotion to enhance the performance of the housing sector; and

ix) to encourage flow of credit and real resources to the small ones first.12

In its initial year, the NHB has taken a number of steps to operationalise its objectives.

i) In November 1988, NHB announced the role that it envisages for the commercial banking in housing finance. Under the guidelines issued by RBI, commercial banks had hitherto allocated a certain quantum of funds each year, for both direct and indirect lending for housing finance. The new guidelines indicated the terms and conditions on which banks could finance individuals, institutions, Housing Boards and Private Developers. The terms for individual households were comparative to those currently offered by HDFC.
ii) In March 1989, NHB announced detailed guidelines for a home loan account (HLA) scheme that would be offered and operated by banks through their branch network in the country. (the details are given in the later part of this chapter).

iii) In April 1989, the NHB announced its refinance guidelines to existing HFIs. The guidelines aimed at refinancing these institutions, especially for loans made to lower income households and loans made for renovation or upgrading of low cost housing.

From 1st January 1990, the NHB has introduced its refinance schemes and the primary lending institutions eligible for refinance from NHB are:

- Recognised Housing finance companies
- Scheduled commercial Banks
- Schedule State Co-operative Banks
- State Apex Co-operative Housing Finance Societies
- Scheduled Urban Co-operative Banks
- State Co-operative Agriculture & Rural Development Banks

**NHB’s Disbursements:**

As at the end of June, 1996, NHB’s cumulative disbursements to eligible HFIs, Scheduled Banks, Co-operative Sector institutions and ARDBs (by way of subscription to their SRHDs) were of the order of Rs.3,626.99 crore. Of the cumulative disbursements, HFCs accounted for Rs.2,852.90 crore (78.66 per cent), co-operative sector institutions
### Table 3.2
Disbursements by National Housing Bank under its Refinance Scheme

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursements</td>
<td>Outstanding</td>
<td>Disbursements</td>
<td>Outstanding</td>
</tr>
<tr>
<td>Housing Finance Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>115.47</td>
<td>115.36</td>
<td>307.90</td>
<td>416.54</td>
</tr>
<tr>
<td>LDSP</td>
<td>--</td>
<td>--</td>
<td>8.01</td>
<td>8.01</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>--</td>
<td>43.54</td>
<td>43.55</td>
<td>--</td>
</tr>
<tr>
<td>Sub Total</td>
<td>115.47</td>
<td>115.36</td>
<td>359.45</td>
<td>469.10</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>1.11</td>
<td>1.07</td>
<td>3.72</td>
<td>4.90</td>
</tr>
<tr>
<td>LDSP</td>
<td>6.87</td>
<td>6.87</td>
<td>17.22</td>
<td>24.09</td>
</tr>
<tr>
<td>Sub Total</td>
<td>7.98</td>
<td>7.94</td>
<td>24.94</td>
<td>28.79</td>
</tr>
<tr>
<td>State Co-operative</td>
<td>0.04</td>
<td>0.04</td>
<td>--</td>
<td>0.04</td>
</tr>
<tr>
<td>Urban Co-operative</td>
<td>0.04</td>
<td>0.05</td>
<td>1.12</td>
<td>1.12</td>
</tr>
<tr>
<td>Apex Co-operative</td>
<td>0.73</td>
<td>0.73</td>
<td>19.66</td>
<td>20.29</td>
</tr>
<tr>
<td>ARDB (SRHDs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>7.44</td>
<td>7.44</td>
<td>34.60</td>
<td>41.78</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Sub Total</td>
<td>8.25</td>
<td>8.26</td>
<td>55.57</td>
<td>63.33</td>
</tr>
<tr>
<td>TOTAL</td>
<td>131.70</td>
<td>131.56</td>
<td>435.76</td>
<td>560.12</td>
</tr>
</tbody>
</table>

**LDSP**: Land Development and Shelter Project  
**SRHD**: Special Rural Housing Debentures  
including ARDBs Rs.627.99 crore (17.31 per cent) and scheduled commercial banks Rs.146.10 crore (04.03 per cent). Table 3.2 provides details.

**Interest Rates on NHB's Refinance:**

During the year 1995-96, NHB revised the interest rates twice on its refinance schemes, first with effect from August 1, 1995 and the second with effect from January 1, 1996. Besides, the earlier slab of Rs.25,001 to Rs.1 lakh was changed to Rs.25,001 to Rs.2 lakh with effect from August 1, 1995. Similarly, the stipulation that at least 60 per cent of the refinance will be for the loans up to Rs.3 lakh and 40 per cent for the loans above Rs.3 lakh and up to Rs.5 lakh was withdrawn.

However, the eligibility of HFCs to draw refinance within the prescribed overall ceiling of 60% of its outstanding housing loans was reduced to 50 per cent with effect from November 1, 1995.

The rates of interest on refinance, direct finance to eligible institutions and lending rates to ultimate borrowers, however, are given in Table 3.3.

iv) In the month June 1989, NHB again announced its guidelines for acceptance of deposits from public by HFIs. The major feature of these guidelines is that HFIs cannot now accept deposits for a period of less than 24 months.
<table>
<thead>
<tr>
<th>Size of the loan (Rs.)</th>
<th>w.e.f. 1.6.1995</th>
<th>w.e.f. 1.1.1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Refinance Rate (%)</td>
<td>Lending Rate (%)</td>
</tr>
<tr>
<td>I. HFCs and scheduled commercial banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Loans to individual beneficiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 25,000</td>
<td>10.00</td>
<td>12.00 (m)</td>
</tr>
<tr>
<td>Rs. 25,000 to Rs. 1 Lakh</td>
<td>14.00</td>
<td>15.25 (m)</td>
</tr>
<tr>
<td>Above Rs. 1 lakh and up to Rs. 5 lakh</td>
<td>14.50</td>
<td>Free</td>
</tr>
<tr>
<td>B. For repairs and upgradation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 60,000</td>
<td>14.50</td>
<td>Free</td>
</tr>
<tr>
<td>II. Co-operative sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Up to Rs. 25,000</td>
<td>10.00</td>
<td>12.00 (m)</td>
</tr>
<tr>
<td>Rs. 25,000 to Rs. 1 Lakh</td>
<td>14.00</td>
<td>15.25 (m)</td>
</tr>
<tr>
<td>Above Rs. 1 lakh and up to Rs. 5 lakh</td>
<td>14.50</td>
<td>Free</td>
</tr>
<tr>
<td>B. For repairs and upgradation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 60,000</td>
<td>14.50</td>
<td>Free</td>
</tr>
<tr>
<td>III. Project Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Public Agencies</td>
<td>15.00</td>
<td>Free</td>
</tr>
<tr>
<td>B. Primary co-operative housing societies</td>
<td>15.00</td>
<td>Free</td>
</tr>
<tr>
<td>C. Professional developers</td>
<td>16.50</td>
<td>Free</td>
</tr>
<tr>
<td>IV. Rental Housing</td>
<td>15.50</td>
<td>Free</td>
</tr>
<tr>
<td>IV. Housing infrastructure Development Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Public Agencies</td>
<td>15.00</td>
<td>Free</td>
</tr>
<tr>
<td>B. Others</td>
<td>17.00</td>
<td>Free</td>
</tr>
<tr>
<td>VI. Direct Financing</td>
<td>--</td>
<td>15.50</td>
</tr>
</tbody>
</table>

v) NHB has issued guidelines for the promotion and development of HFIs in private and joint sectors which would be applicable if these institutions expect financial support from NHB. The guidelines, *inter alia* include paid up capital requirements, gearing ratios, rules for acceptance of deposits, and terms and conditions offered by these institutions for housing finance. Up to 30th June 1996 there were 21 recognised housing finance institutions.

vi) In November 1989, NHB announced its intention to finance Land Development and Shelter projects undertaken by public housing agencies such as State Housing Boards (SHBs) and Area Development Authorities (ADA). The policy emphasizes, however, on land development where public agencies would be 'reoriented to work more as promoters and facilitators for housing activities rather than as builders of housing units'. Further, these public agencies would be "well advised to give up the role of long term housing finance, i.e., providing plots/houses on a hire purchase basis. The financing role should be left to the banks and HFIs".

vii) In January 1990, NHB made it clear its intention to provide finance to Co-operative Housing Societies as short term (3 years) project loans to assist societies with land parceling and development matters relating to housing and co-ordinate with various agencies in the housing sector.

viii) Subscribe to stocks, bonds and securities of every other description.

ix) Land Development and Shelter Projects (LD and SP)

NHB has launched the scheme known as Land Development and Shelter Projects (LD & SP) in 1989 under which, NHB will
provide loans to HFCs, scheduled commercial banks, Co-operative societies and professional developers for implementation of the project within a stipulated period, which includes development, construction, allotment and handing over of plots/dwelling units. Under LD & SP scheme, NHB had approved, up to 30th June 1996, a total of 218 projects with a total project outlay of Rs.679.13 crore and a loan component of Rs.519.23 crore.\(^{14}\)

x) Rental housing Projects:

The NHB has announced a scheme for financing of rental housing projects for low income employees of the public and private sector organizations as per the norms.

xi) Slum Redevelopment Scheme:

NHB provides refinance to the eligible institutions for slum improvement and low cost housing programmes executed by public agencies, local bodies and non-governmental organisations in conformity with NHB guidelines, from the special fund created in terms of Voluntary Deposits (Immunities and Exemption) Act, 1991. Projects involving resettlement of slums to alternative locations are also considered for assistance out of this fund. The scope of the scheme has since been extended to include financing projects for EWS and LIG Categories also, both in rural and urban areas. Under the scheme 'NHB till 30\(^{th}\) June 1996, had sanctioned 15 projects with a total cost of Rs.43.28 crore and a loan amount of Rs.27.08 crore. These envisage construction of 20,816 dwelling units in the states of Andhra Pradesh and Karnataka.'\(^{15}\)

xii) Financing housing for Women
Recognising women's contribution to economic and social development of the families and communities, NHB felt it essential to offer opportunities to improve their living conditions and achieve adequate sense of security – both economic and social independence.

NHB has finally decided to introduce a scheme to offer financial assistance directly for integrated shelter projects of public agencies and local bodies for disadvantaged group of women.

Projects eligible to avail financial assistance under the scheme are:

1. The housing projects exclusively for women;

2. The integrated housing projects of registered women societies/women workers association under the umbrella of NGOs; and

3. The housing projects for the disadvantaged group of women workers engaged in scavenging, tea/coffee/rubber plantation, bidi making, weaving, cultivating etc.

It should be noted that, the beneficiary in all the above mentioned categories of projects should belong to EWS or LIG category.

Under this scheme, the maximum loan amount per unit will be limited to 80 per cent of the cost or Rs.45,000 per unit whichever is less. However, the interest rates (8 per cent for loan up to Rs.25,000 and 11 per cent for loan between 25,001 and Rs.45,000) prescribed are related to the amount of loan sanctioned per dwelling unit on slab basis.
xiii. Scheme for Non-Resident Indians (NRIs) Investment.

Recognising the needs of the Non-Resident Indians (NRIs) for plots and construction/purchase of residential houses, the Government of India had, during the year 1992-93, formulated a scheme for NRIs investment in housing and real estate. As a part of the scheme, a nodal cell has been set up in NHB for co-ordinating decisions on policy and procedure relating to the scheme.

Total investment made under the scheme up to 31st March, 1996, amounted to Rs.91.83 crore. The cumulative inflow on account of investment in shares/debentures of Indian companies engaged in housing and real estate development by NRIs OCBs stood at Rs.101.93 crore up to 31st March, 1996.

Certain Provisions of HFCs (NHB) Directions, Amended on September 17, 1997:

The National Housing Bank continued to promote the development of the system of housing finance by improving the availability of housing credit. The credit delivery network was also enlarged by inducing more primary lending institutions to undertake the activity of housing finance and enhancing the sub/ceiling in respect of refinance facility for individual housing loans from Rs.5 lakh to Rs.10 lakh. A concessional rate of interest in respect of loan for housing in rural areas was also introduced by NHB.
'Certain provisions of the Housing Finance Companies (NHB) Directions, 1989, were amended, effective September 17, 1997. The amendments related to:

i) compulsory registration with NHB of housing finance companies (HFCs) with net owned funds (NOFs) of Rs. 25 lakh and above;

ii) restriction on acceptance of deposits by HFCs with NOF below Rs.25 lakh;

iii) maintenance of certain percentage of liquid assets by all HFCs;

iv) keeping the approved securities in custody with a scheduled bank and submission of quarterly return to NHB; and

v) creation of a reserve fund before declaration of dividend.

In all, 119 companies applied for registration with NHB. The guidelines for extending equity support to HFCs were also revised by NHB.

During 1997-98 (July-June), NHB raised resources amounting to Rs.425 crore for providing refinance to the eligible institutions and disbursed Rs.533 crore by way of refinance and direct lending.17

Cumulatively, the total financial assistance amounted to Rs.3,648 crore, which is disbursed to the eligible institutions as given in Table 3.4.

Table 3.4 reveals the percentage of financial assistance in the form of refinance and direct lending as provided by the NHB. Of the
cumulative financial assistance HFCs accounted for 78.2 per cent of the total disbursements, followed by the co-operative sector institutions, scheduled banks and public agencies and local bodies 15.8 per cent, 5.5 per cent and 0.5 per cent respectively. The larger portion of NHB’s financial assistance enjoyed by the HFCs. Very negligible size of assistance provided to the public agencies and local bodies.

**TABLE - 3.4**

Amount disbursed by NHB by way of refinance and direct lending.

<table>
<thead>
<tr>
<th>Name of HFCs</th>
<th>Percentage of financial assistance to total amount of Rs.3,648 crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. HFCs</td>
<td>78.2</td>
</tr>
<tr>
<td>2. Co-operative sector Institutions (Inclusive ACHFSs and ARDBs)</td>
<td>15.8</td>
</tr>
<tr>
<td>3. Scheduled Banks</td>
<td>5.5</td>
</tr>
<tr>
<td>4. Public Agencies and Local Bodies set up by Central and State Government</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

ACHFSs  -  Apex Co-operative Housing Finance Societies.
ARDBs  -  Agricultural and Rural Development Banks.
Strategies Formulated by Government under NHP:

Under the NHP, the Government formulated two strategies to help the people acquire or construct the houses within reasonable time limit. Strategies include the following:

1. Making available developed land at reasonable rates for housing.
2. Savings for Housing Scheme under Home Loan Account Scheme.

Home Loan Account Scheme (HLA):

NHB has launched the HLA scheme on 1st July 1989. This is a deposit scheme linked guaranteed loan from scheduled banks and preferential allotment of house by public agencies.

The objective of this scheme is to encourage the people to inculcate the habit of savings for housing. This scheme is offering rate of return of 10 per cent compounded annually and an assured loan for housing in multiples of accumulated savings (including interest) after a minimum period of savings of 5 years for acquiring houses allotted under LD and SP financed with NHB's assistance. This scheme is backed up by tax rebates under Section 88 of the Income Tax Act, 1961 and tax concessions under Section 5 of the Wealth Tax.

The minimum contribution is Rs.30 per month. The contribution can also be made quarterly, half yearly or yearly installment subject to a minimum of Rs.90, Rs.180, Rs.360 respectively. The amount to be saved / contributed by one account holder, would have to bear some
relationship to the cost of plot / house / flat proposed to be acquired.

The objectives, priorities and strategies for promoting sustained development of housing policy are to be stated separately as follows:

**Objectives:**

1. To motivate and help all people and in particular the houseless and the inadequately housed to secure for themselves affordable shelter.

2. To encourage investment in housing in order to achieve sustained growth of the nations' housing stock.

3. To guarantee the protection of ownership rights.

4. To make more land available for the poor and the common man for residential use.

5. To assist the financial institutions which provide housing loans, in making more funds available for the purpose.

6. To execute scientific research on low cost housing with low cost budget.

7. To encourage Co-operative housing, group housing by suitable tax structure.

8. To encourage small scale industries to produce quality building materials.

10. To promote repair, renovation and upgradation of the existing housing stock.

11. To curb speculation and profiteering in land and to arrest spiralling rent and land values.

Priorities:

The policy seeks to accord priority to promoting access to shelter for the houseless and the disadvantaged groups such as:

a) Scheduled Caste and Scheduled Tribes;

b) rural landless labourers, including artisans; and

c) widows, single woman and women headed households.

Rental housing will continue to play an important role, particularly for low income and middle income people. Investment in housing for rental purpose will be stimulated by:

a) facilitating access in land, institutional finance and building materials,

b) fiscal incentives, and

c) modification of the rent control laws to supervise the objectives, priorities and strategies.¹¹⁸

The government must come forward to encourage the big industrial and commercial undertakings to build houses for their employees. This helps to avail of the benefits of tax and creates lot of
economic sense to them rather than losing the same by way of income tax.

The government has permitted foreign companies to investment to the extent of 51 per cent in the equity of companies and enterprises. But this facility has not been extended to housing companies. Therefore, such investment should not be banned from housing companies, for the purpose of deploying more funds in housing companies.

HLA scheme is therefore, providing a sense of security to home seeker, and funds to the scheduled commercial banks.
References:


9. Ibid.


12. Ibid.

14. Ibid.

15. Ibid.

16. Ibid.
