Evolution of Housing Finance:

Lack of finance along with inadequate land and services is a crucial constraint to housing development activity. Institutional finance has also not played a prime role so far in the resource mobilisation efforts of most individuals. Most of the people are still unable to have access to formal financing institutions due to various operational and procedural problems. Similar difficulties are also faced by groups and institutions engaged in housing activity. Government as a facilitator cannot always solve the problem of housing finance for all.

It is in this context that housing finance has become a specialised and institutionalized activity for the purpose of accelerating the pace of building construction activity in the country by making adequate provision of funds to needy individuals for the construction of houses. While housing finance markets are well-developed in western countries, there is a pressing need to promote housing finance institutions in India so that these institutions respond to the ever-increasing needs of the market. Viewed in this context, institutional framework, which is available and accessible is imperative for providing housing finance.
India's progress towards a strategy of housing development would be measured by institutional processes that began in the 1970's. Initially, a network of State Level Housing Boards were set up, entrusted with the task of parcelling and harnessing available publicly owned land resources for the development of residential housing for the lowest income urban households [less than the 40th percentile of the distribution of income]. An Apex Financial Institution, the Housing and Urban Development Corporation [HUDCO], was entrusted with financing these efforts through a techno-financial link with these various house building agencies.

The second milestone of the initial strategy was the co-operative housing movement catering largely to the private sector. Households were encouraged to form primary co-operative housing societies, invest initial capital for purchase of land, and were then financed through Apex Federations at State Level Housing Finance Societies. These societies, in turn, were funded through the LIC. For this purpose the LIC set aside a particular size of the resources that the societies had for investment on an annual basis.

The third hallmark consisted of house building advances, which were made available by the Central and State Governments to the employees of public sector corporations, financial institutions and civil servants. The capital formation in housing for the rest of the private sector was left almost entirely to market forces.
Housing finance, as a financial intermediation process, started only in 1978, with the formation of Housing Development Finance Corporation [HDFC] in 1977 as a specialised housing finance institution engaged in retail lending to households and corporate entities specifically for the purpose of promoting and increasing the pace of construction activities in the country. Since then, the housing sector has grown to encompass three major regional institutions with the hope of a further seven in the near future.

**Institutional Framework:**

Institutions engaged in providing finance for housing activities in the country are broadly classified into two types, as given in Chart 4.1.

**CHART - 4.1**

```
Housing Finance Institutions

A. FORMAL SECTOR
1. Commercial Banks
2. Cooperative Banks
3. Central and State Governments
4. Insurance Corporations
   i) Life Insurance Corporation of India
   ii) General Insurance Corporation of India
5. Unit Trust of India
6. Provident Funds
7. Specialised Housing Finance Institutions

B. INFORMAL SECTOR
Household, Public and Private Sector Employees providing loans to institutions/organisations
```
A. **Formal Sector**:

Although housing is a state subject, the Central Government has taken several initiatives through five year plans to promote and develop housing situation in the country. The Central Government has successfully and deliberately been making sincere and honest efforts in the formulation of housing plans and schemes. But, the execution of these schemes is left to the State Governments.

The Life Insurance Corporation (LIC), the General Insurance Corporation (GIC), the Housing and Urban Development Corporation (HUDCO) etc., which are owned by the Central Government are the major sources of finance for housing in state public sector. Accordingly, the Central Government has a big say in the public housing programmes through its financial assistance and control policy.

In order to organize, control and regulate the housing finance, NHB, an apex body was established in the country. All the financial institutions, which follow and fulfill the various norms prescribed by the NHB are called organized, formal or public sector. Thus, the housing finance institutions owned by the Central and State governments are otherwise known as formal sector which is aimed at improving and accelerating housing stock in the country. The formal sector includes:
1. Commercial Banks:

Commercial banks became more responsive to the social needs of the society after the introduction of social control over them in 1968. In the beginning, they were mainly providing loans to their staff for construction of houses. Even after the introduction of social control, the commercial banks were reluctant to lend for housing due to various factors. It was mainly in 1976, RBI issued the first set of housing finance guidelines to scheduled commercial banks with the aim of involving them in providing housing finance for certain types of housing schemes for the benefit of weaker sections of the society.

Commercial banks' entry into the field of direct lending to individuals came in the wake of the report of the working group on "Role of Banking system in providing finance for housing schemes" (R.C. Shah working Group, RBI 1978). There was reluctance to tie up banks' short-term resources for long term lending because there was no rational policy to induce them to lend for housing. Besides legal and other practical problems in realizing the value of the security in the event of default, had also deterred banks from lending for housing activities. This is not to say that banks had not at all assisted housing. Even before 1977, commercial banks had been subscribing to the bonds/debentures of HUDCO and Housing Boards.

Scheduled commercial banks continued to provide finance for housing as per the directive issued by the RBI to compute their...
respective share of housing finance at 1.5% of their incremental deposits accrued in the preceding year. However, banks were advised not to include indirect finance sanctioned by them by way of loans to housing finance institution for the disbursement of housing loans to NRI for the purpose of annual housing finance allocation.

The total allocation for housing finance for the scheduled commercial banks for the year 1995-96 worked out to Rs.1010.51 crore. As against the total allocation, the actual disbursement by banks worked out to Rs.799.51 crore which is 79.09% of the total allocation.

The performance of the banks in the matter of housing finance vis-à-vis allocation during the last five years is given in Table 4.1.

**TABLE - 4.1**

Allocation and disbursement of housing loans by Commercial Banks during the years 1991 to 1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Allocation</th>
<th>Housing finance disbursed</th>
<th>% age to total allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>365.00</td>
<td>353.00</td>
<td>96.71</td>
</tr>
<tr>
<td>1992-93</td>
<td>569.00</td>
<td>306.02</td>
<td>53.78</td>
</tr>
<tr>
<td>1993-94</td>
<td>552.51</td>
<td>425.26</td>
<td>76.97</td>
</tr>
<tr>
<td>1994-95</td>
<td>723.78</td>
<td>748.61</td>
<td>100.27</td>
</tr>
<tr>
<td>1995-96*</td>
<td>1010.51</td>
<td>799.18</td>
<td>79.09</td>
</tr>
</tbody>
</table>

* Provisional

Housing finance by banks under different sub-allocations viz., direct loans, indirect loans and investments in bonds/debentures of NHB/HUDCO, during the years 1994-95 and 1995-96 is given in the table 4.2

**TABLE – 4.2**
Housing finance by Commercial Banks during 1994-95 and 1995-96

<table>
<thead>
<tr>
<th>Category</th>
<th>Disbursements (Amount in Rs crore)</th>
<th>1994</th>
<th>1995-96*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct loans</td>
<td></td>
<td>229.33</td>
<td>344.65</td>
</tr>
<tr>
<td>2. Loans through intermediary agencies, i.e. HUDCO, HDFC, SHBs etc.</td>
<td>384.60</td>
<td>288.16</td>
<td></td>
</tr>
<tr>
<td>3. Investment in bonds/debentures</td>
<td>134.68</td>
<td>166.36</td>
<td></td>
</tr>
<tr>
<td>4. Total disbursements</td>
<td>748.61</td>
<td>799.17</td>
<td></td>
</tr>
</tbody>
</table>

* Provisional
Source: Report on Trend and Progress of Housing in India, NHB, June, 1966

The bank group-wise housing loans disbursed during the period 1992-96 is given in Table 4.3

**TABLE – 4.3**
Banks group-wise Housing loans Disbursed

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI Group</td>
<td>63.44</td>
<td>103.52</td>
<td>54.87</td>
<td>143.66</td>
</tr>
<tr>
<td>Nationalized Banks</td>
<td>192.30</td>
<td>196.80</td>
<td>422.93</td>
<td>464.56</td>
</tr>
<tr>
<td>Private Banks</td>
<td>8.29</td>
<td>33.52</td>
<td>*</td>
<td>145.55</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>41.99</td>
<td>91.42</td>
<td>270.81*</td>
<td>45.41</td>
</tr>
<tr>
<td>Total</td>
<td>306.02</td>
<td>425.26</td>
<td>748.61</td>
<td>799.18</td>
</tr>
</tbody>
</table>

* Housing loans disbursed by private and foreign banks.
Source: Report on Trend and Progress of Housing in India, NHB, June, 1966
Interest Rate Structure for Housing Loans:

The housing loans granted by commercial banks under DRI scheme to SC/ST borrowers and to individual borrowers up to 2 lakh through normal window were at rates of interest as administrated by RBI. The rate of interest charged on housing loans above Rs. 2 lakh, which were deregulated earlier with reference to the prime lending rates of the banks. Housing loans up to 2 lakh granted by the banks continued to form part of the priority sector advances.

During the years 1995-96, RBI issued revised guidelines for commercial banks in respect of housing finance by way of term loan to housing intermediary agencies and advised that rate of interest at 1.5 per cent points below each banks prime lending rates be charged on such loans for on lending to ultimate beneficiaries for credit limits in the category of advances over Rs.2 lakh. Further, RBI advised commercial banks that loans to be granted by banks to housing intermediary agencies, the individual housing loans eligible for finance by banks should not exceed Rs. 3 lakh and Rs.10 lakh in rural/semi-urban and urban/metropolitan areas respectively.1

RBI further advised commercial banks not to sanction term loans for housing projects involving only budgetary support from the Government.

Housing Finance – Policy Measures:

The overall minimum target for 1997-98 as well as 1998-99 for housing finance allocation scheduled commercial banks was fixed at 1.5 per cent of its incremental deposits of the previous year or the amount
of housing finance allocation fixed for the previous year, whichever is higher.

To facilitate larger flow of resources to the housing sector and as a part of deregulating interest rates, effective from October 22, 1997, banks were allowed to charge interest at different rates in respect of housing finance intermediary agencies provided the rates were below the appropriate PLR rate.

2. **Co-operative Banks**:

The Co-operative banking sector can be classified as State Co-operative Banks, District Central Co-operative Banks and Primary Urban Co-operative Banks. The Co-operative Banks have also been financing housing schemes. The first comprehensive guidelines in respect of housing finance schemes for Co-operative Banks [other than urban Co-operative banks] were issued by RBI in December 1984.

Co-operation has been assigned an important role in the field of housing also. The First Five Year Plan document states,

> 'we lay special emphasis on Co-operative housing societies not only because they can mobilize private capital which otherwise would remain dormant, but because they open the way for aided self-help in the construction of houses which should be encouraged for reducing the cost as much as possible'.

\(^2\)
The first Co-operative housing society was set-up in 1909 in Mysore state (now Karnataka) and was known as the Bangalore Building Co-operative society.

Erstwhile Bombay state (now Maharastra) also lose initiative in this field by forming a non-official body in 1913 known as the Bombay Co-operative Housing Association. They were the pioneers in this field and the rules and bylaws that they framed were gradually followed by many such societies in the country.

Thus even before the commencement of planning,

‘Co-operative housing societies were attempted to a limited extent, to provide accommodation for middle and low income groups. The Madras and Bombay states have been the centers of co-operative achievements in this direction. In erstwhile Madras (now Chennai) about 4,000 houses were constructed up to August 1950 by 273 co-operative building societies. About 12,000 houses were also under construction. In erstwhile Bombay (now Mumbai), 3,500 houses were constructed in 1948 and 229 houses were under construction by 315 societies. In Uttar Pradesh, 136 societies were registered by 1949 and were provided with facilities by way of sites and loans at low rates. The Textile Labour Association at Ahmedabad constructed 200 tenements and organized workers into co-operative housing societies for providing suitable accommodation for them on hire – purchase system’.

In the field of housing, there is a three-tire Co-operative structure with the national Co-operative Housing Federation at the top
the Apex societies in the states at the middle level and the Primary Societies at the bottom.

There are different kinds of housing Co-operatives in India which range from building societies to co-operative township societies and housing co-operative hire-purchase companies.

During the first three years of the Eighth plan (1992-1995), the state level Apex Co-operative Housing Federations, (ACHFs) raised loan of Rs. 747.20 crore from various sources and disbursed Rs.884.08 crore to primary housing Co-operatives enabling construction of 2.95 lakh housing units.

As on 31st March 1996, these federations had borrowed Rs.3,692.63 crore from different agencies. Table 4.4 indicates the percentage of funds borrowed by ACHFs. The significant feature of the Table is that the dependence of ACHFs on LIC, ACHFs borrowed bulk loans, i.e., 63.6 per cent from LIC, followed by HUDCO, NHB and other banks.
3. **Central and State Governments**:  

In India, government involved in housing started long before the dawn of planning era. The subject of housing, however, is not specifically mentioned in the Seventh Schedule of the Constitution of India, which deals with matters coming within the purview of the Union and State Legislatures. In so far as housing for industrial labour is concerned, item 24 of List III may be said to cover it because it deals comprehensively with welfare of labour. This would bring the matter in the Concurrent List with which both the Union and State Governments are concerned. The residential powers in relation to subjects not mentioned in the Concurrent List of State List, however, vests in the Union Legislature. As such the Centre may be said to be directly concerned with the subject of housing in general. In the light
of this fact the Planning Commission has indicated the roles of Central and State governments.

'In view of the gravity and vastness of the problem and the financial conditions of the states, the Central Government have to accept a large measure of responsibility for financing programmes in the industrial centres where congestion and shortage have become very acute in recent years. Provision should also be made to find funds for middle class housing schemes, through co-operative housing societies. We would, however, suggest that state governments that are being relived to a large extent of the responsibility for industrial housing, should concentrate on ameliorating conditions of housing in rural areas.'

Both Central and State Governments are responsible for the housing building efforts of people preponderantly, indirectly. The Central Government has introduced from time to time various social housing schemes. The role of the Central Government vis-a-vis the social housing schemes in operation in the country is confined to laying down broad principles, providing necessary advice and rendering financial assistance in the form of loans and subsidies to the State Governments/Union Territories and watching the progress of the schemes.

4. **Insurance Corporations/Companies**:

The Life Insurance Corporation of India (LIC) as well as the General Insurance Corporation of India (GIC) support housing sector (activity) both directly and indirectly. LIC is statutorily required to
invest 25 percent of the net accretion to its controlled funds in socially oriented schemes such as housing, electrification, water supply, sewerage and construction of roads. Besides subscribing to the Bonds/Debentures floated by HUDCO and state Housing Boards/Development Authorities, LIC grants loans to State Governments for their rural housing programmes to State Co-operative Housing Finance Societies on behalf of their Federations primary societies and to public sector companies for construction of staff quarters. LIC also grants loans directly to individuals. LIC has, in June 1989, promoted a housing finance company as its subsidiary for the purpose.

The LIC lends to the Apex Housing Co-operative Societies at the state level. These allocations then form a part of the states plan resources for housing. This kind of arrangement leads to the dependency of state on Central Government owned public sector insurance companies to finance their own housing programmes. At this stage of housing plan formulation at the state level the Central Government would intervene to the matter and influence the decision-making process.

5. **Unit Trust of India (UTI)**:

UTI helps the housing sector indirectly by way of subscriptions of bonds/debentures at state level/national level agencies. Recently, UTI has started participating in the equity of housing finance companies.
6. **Provident Funds**

Provident Fund Schemes are playing key role in housing activity. The Provident Fund Organism is another important source of funds for housing sector in the country. In India there are three major provident fund schemes are in operation. These are the General Provident Funds [GPF], Public Provident Fund [PPF], and the Employees Provident Fund [EPF]. PPF is voluntary in nature. EPF is mandatory for both employees and employers, the former have to contribute a minimum fixed percentage of their pay towards PF with corresponding obligation on the part of the latter, i.e., employers. The basic difference between the EPF and GPF lies in the fact that under the first the organizations are permitted to retain the amount collected with them but deploy it in the manner prescribed in the Act. But in the second case, the amount collected from the employees is to be invested by the permits/grants of non-refundable advances by the PF organisations to the employees for a variety of purposes. Grant of advance for construction/purchase of a house is one of such purpose.

7. **Specialised Housing Finance Institutions**

There are certain institutions which have been set up mainly for the purpose of catering only to the needs of the housing sector. Such institutions are termed as specialized Housing Finance Institutions (HFIs). These institutions can further be classified as housing finance companies (HFCs), Housing and Urban Development Corporation
(HUDCO), a fully owned Central Government Limited Company, established in 1970, can be termed as Techno Financing Institution, even though certain HFCs have been in existence prior to the formulation of HUDCO, these were small and their operations were not at a significant level till recently (exception being HDFC).

The HUDCO Ltd., a public sector organization of the Government of India was incorporated in the year 1970 to accelerate residential construction activity in the country. The State Housing Boards (SHBs) and other housing agencies engaged in the construction of houses both in urban and rural areas at the state level were continuously facing the problem of an inadequate finance and the absence of re-lending facilities as housing investments were of long-term in nature. Hence, the Central Government was contemplating on the idea of establishing a national level HFI to raise funds at national and international levels and re-lend at lower rates to State Government and SHBs, the difference to be treated as Central interest subsidy on housing. This line of thinking on the part of Government of India led it ultimately to establish HUDCO in April 1970.

The aims and objectives of HUDCO is to finance housing with the prime focus on the EWS and LIGs. HUDCO has been encouraging projects which provide for simple and inexpensive but functionally and aesthetically sound development, use of locally available materials and cost effective construction methods. The policy of HUDCO is to favour the poor. At least 55 per cent of the finance goes to low and
economically weaker sections. The lower the cost, the lower the interest, the longer the repayment period and higher the HUDCO's loan component. As the Government of India has not fixed any national priorities categorically, the guidelines of HUDCO provide 55 per cent of its funds for construction of houses for the EWS and LIG categories have been considered as national priorities. HUDCO does not, however, lend directly to individuals.

'The programmes financed by the HUDCO throughout the country are Urban and rural Housing, Staff Housing, Commercial Schemes, Building Materials, Environment Improvement of Slums, Urban Infrastructure, Basic Sanitation, Co-operation Housing, Land Acquisition Schemes, Construction Loans, Repairs and Renewal, Urban Employment through Housing and Shelter Upgradation, Night Shelter, Working Women's Ownership Condominiums and Building Centres.'

B. Informal Sector

In India, there is an acute shortage of dwelling units. The Central and State Government are putting their maximum efforts to promote the cause of housing. Construction of house is one of the important economic activities of a country. It is true that the financial assistance and plan for higher allocation of funds by the Union and State Governments will not fully solve the housing crisis in the country. Therefore, participation of private and corporate sectors in the housing finance will be inevitable. All the financial institutions,
which do not follow and fulfill the norms prescribed by NHB are named as Unorganized, Informal or Private Sector.

In a country such as India, the informal sector has been playing key and significant role in extending financial assistance for housing, especially, to the poor and low income householders. The informal sector has been in a position to expand its resources of the formal sector by the poor and low income group people. As compared to formal sector, the informal sector has been quite successful in spite of several disadvantages. Because there are no cumbersome formalities to be completed to avail of assistance from the informal sector and sometimes even credit is made available without any collateral security. However, the rate of interest charged by the informal sector is almost double of what is being charged by the formal sector. Since the share of informal sector in housing finance is much more than that of the formal sector. It may not be advisable to replace informal sector by the formal sector. The best possible way is to integrate and to co-ordinate the informal sector with the formal sector.

**Existing Credit Flows and Future Sources:**

The housing finance system in India is heavily dependent on allocated credit. Housing financial institutions need to move away from their existing role as channelisers of allocated credit to that of generators of additional resources for housing sector through mobilisation of households savings at the gross root level.
Also, all the important issues of housing finance need to be tackled in a multi-pronged manner so that the rural and urban poor could avail of a properly structured and graded system of capital and interest subsidies.

The specialised housing finance institutions, viz., housing finance companies and co-operative housing finance societies, mobilise financial resources from the public. Apart from this, they also depend on the general financial institutions for resources in the form of loans and subscriptions to their debentures or bonds. State Governments' assistance to the housing sector is partly derived from the LIC/GIC. To this extent they serve as conduits. LIC/GIC funds for this purpose are part of planned funds. HUDCO avails financial assistance in the form of grants from the Government of India. There are also inter-institutional flow of funds among the specialised housing finance institutions. For example, HUDCO provides funds to Apex Co-operative Housing Finance Societies [ACHFS], which in turn lend to Primary Co-operative Housing Finance Societies [PCHFS]. Some of the PCHFS also secure assistance from LIC and Banks. The LIC and GIC are channelling most of their housing-related finance to HUDCO, which redeploy it to housing programme of State Governments.

Housing finance nowadays is occupying an important intermediary position between production – consumption economy on the one hand and the housing system on the other. With useful and
effective priorities in public policy, the capital market can be extended, and some of the flow of saving and investment can enlarge the volume of resources going into housing. Housing finance is the prime link in transforming housing and social urban investments into streams of property and benefits for the masses.

In 1970's the World Bank took its early initiatives in housing and urban conditions in the developing countries. But housing finance was largely ignored. The World Bank was taking a cautious learning approach and its activities were designed around the demonstration projects. Housing finance received greater attention in this evolving context.

In 1984, Renaud an intellectual who is closely associated with the World Bank has put forward a useful view on the prevailing situation in housing finance in the developing countries. In fact, the formal housing finance institutions in housing credit provide less than 20 per cent of the annual investment in housing. Larger portion of the investment is channelised to the HIGs and to the upper ranges of MIGs. It is expected that as an economy modernises its capital markets. They will grow and become more specialised, paving the way for some development in housing finance. By and large, housing needs longer term finance than industry. It also functions best when placed upon a revolving basis so that flow of borrowing and lending are continuous, providing the capacity to grow. The efficiency of savings institutions is important because it keeps the cost of borrowing down.
But in a developing country, the costs of reaching households and tapping the savings potential can be considerable. It is necessary to establish a network of localised branches and deploy outreach programmes in order to inculcate the savings habit among the low income households.

The development of housing credit has a number of dimensions and some problems to overcome. The HFIs will be exposed to competition in the capital market where they lend for the long-term but within the confines of intensively competitive, short-term conditions. The realities of competition, changes in the rates of interest and the general performance in national economic management, with its impact upon inflation and employment, can affect the flow of funds.

The details of the institution-wise estimated flow of funds to the housing sector during the Eighth Plan and the Ninth Plan periods are given in Table 4.5. The flow of funds as indicated therein does not include the estimated non-plan expenditure from the Government/s in implementation of various housing programmes and the estimated house building advances to be provided by various agencies in the public/private sector to their employees.

credit to the housing sector during the Eighth Plan and Ninth Plan periods respectively.

It has been observed from Table 4.5 that the contribution of LIC to the housing sector has registered a growth of 20 per cent. Keeping this in view, the revised contribution from LIC has been estimated at Rs.4,500 crore. Besides, it is also expected that LIC would continue to provide support to the housing finance company promoted by it.

**TABLE 4.5**

Flow of Institutional Credit to the Housing Sector During Eighth and Ninth Plan Periods

(Rs. in crore)

<table>
<thead>
<tr>
<th>Institutions/Organisations</th>
<th>Eighth Plan*</th>
<th>Ninth Plan**</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>5,500</td>
<td>4,500</td>
</tr>
<tr>
<td>GIC</td>
<td>700</td>
<td>1,000</td>
</tr>
<tr>
<td>Scheduled Commercial Banks</td>
<td>5,000</td>
<td>5,500</td>
</tr>
<tr>
<td>Provident Funds/Pension</td>
<td>5,400</td>
<td>5,000</td>
</tr>
<tr>
<td>Housing Finance Institutions</td>
<td>5,000</td>
<td>9,500</td>
</tr>
<tr>
<td>HUDCO</td>
<td>--</td>
<td>2,500</td>
</tr>
<tr>
<td>NHB</td>
<td>--</td>
<td>3,000</td>
</tr>
<tr>
<td>Securitisation of mortgages</td>
<td>2,000</td>
<td>2,500</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>--</td>
<td>3,000</td>
</tr>
<tr>
<td>Others (including house loan accounts UTI, etc.)</td>
<td>1,400</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25,000</strong></td>
<td><strong>38,000</strong></td>
</tr>
</tbody>
</table>


The pattern of investment of GIC is on the same lines of LIC. Its contribution towards housing finance has shown an increase during the
last three years of the Eighth Plan. It is expected to provide Rs.1,000 crore during the Ninth Plan period.

Assuming the level of allocations remaining same, the contribution from the scheduled commercial banks is estimated at Rs.5,500 crore during the Ninth Plan period as against Rs.5,000 crore during the Eighth Plan period.

Provident/Pension Fund continues to provide housing advances to the subscribers out of its annual net accretion [exempted and exempted establishments] to the controlled fund. Their contribution has decreased from Rs.5,400 crore in the Eighth Plan period to Rs.5,000 crore during the Ninth Plan period.

During the Ninth Plan period, it is expected that NHB would be able to raise resources from the market/institutions and contribute Rs.3,000 crore for the sector.

HFCs have grown in numbers. Furthermore their business in terms of volume has grown during the Eighth Plan period. The HFCs are expected to mobilise higher quantum of household savings and institutional surplus resources and would be able to contribute Rs.9,500 crore during the Ninth Plan period. Their contribution to the sector has increased from 20 per cent [1992-97] to 25 per cent [1997-2002] of the total flow of funds.
HUDCO's net contribution for the sector has been projected at Rs.2,500 crore during the Ninth Plan period due to the expectation of diversification in their lending operations. However, the flow of credit from HUDCO is expected to be about 8 per cent.

The co-operative sector has the widest base in terms of membership. The flow of funds expected from the co-operative sector is to the extent of Rs.3,000 crore, i.e., about 8 per cent to the total flow of funds.

The asset securitisation, which was expected to generate additional resources for the housing finance sector during the Eighth Plan period could not take off due to legal constraints. However, efforts have been continuing for setting up of the secondary mortgage market and it is expected that the prevailing hurdles may be overcome soon and the beginning of the Ninth Plan may witness introduction of mortgage backed securities. The asset securitisation is expected to contribute Rs.2,500 crore to the housing sector during the Ninth Plan.

With the above assumptions, the estimated total flow of funds from formal sector institutions may be of the order of Rs.38,000 crore.

Chart 4.2 clearly represents how the funds flow from household savings via an apex financial institution, i.e. HUDCO and Housing and Urban Development Boards to housing programmes of State Governments in the formal sector. Whereas in informal sector the
funds travel from money lenders, savings, dis-savings, friends and relatives to housing sector.

In formal sector HUDCO plays intermediary role between the householders and housing programmes of State Governments. HUDCO mobilises the financial resources from different origins and utilises the funds for effective implementation of housing programmes of the State Governments. The general capital market supplies a modest flow of debentures to HUDCO. But HUDCO is mainly reliant upon LIC, GIC and the Central Government allocations of equity capital to HUDCO in its Five Year Plan allocations. What the flow lines in the Chart 4.1 do not show is the volumes of funds, which ultimately pass into the housing sector.

‘As against the projected requirement of Rs.77,590 crore for housing during 1990-95 [as described in Chapter – II, Table 2.7], the overall flow from the formal sector is estimated at around 16 per cent and the Sub-Group on Housing Finance had recommended that the credit support may be increased to at least 20 per cent. It is expected that a large part of the credit flow from the formal sector would come from LIC followed by the commercial banks and PFs. The total flow of credit from the formal sector during the Eighth Plan is projected in the range of Rs.20,000 to Rs.25,000 crore [at 1991-92 prices].’

The Working Group for Urban Housing for the Ninth Plan has projected the financial requirement of Rs.1,50,000 crore [1997-2002].
Of this, an amount of Rs. 38,000 crore is expected as contribution from the formal sector institutions.

CHART – 4.2
General Pattern of the Flow of Housing Funds in India

A. Formal Sector

B. Informal Sector
Table 4.6 reveals the net amount, which the various institutions are expected to contribute to the sector.

**TABLE – 4.6**

Projected Inter-institutional Flow of Funds During the Ninth Plan Period

(Rs. in crore)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Total</th>
<th>To State Agencies</th>
<th>To Institutions</th>
<th>To Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Provident Funds</td>
<td>5,000</td>
<td>--</td>
<td>--</td>
<td>5,000</td>
</tr>
<tr>
<td>b. NHB</td>
<td>3,000</td>
<td>200</td>
<td>2,800</td>
<td>--</td>
</tr>
<tr>
<td>c. HUDCO</td>
<td>2,500</td>
<td>1,875</td>
<td>--</td>
<td>675</td>
</tr>
</tbody>
</table>

**d. Financial Institutions**

1. Scheduled Commercial Banks | 5,500 | 1,100 | 3,300 | 1,100 |
2. LIC | 4,500 | 630 | 3,285 | 585 |
3. GIC | 1,000 | 400 | 600 | 0 |
4. Others (UTI etc.) | 1,500 | 300 | 1,200 | 0 |

e. Specialised Housing Finance Institutions:

1. Housing Finance Companies | 9,500 | 950 | 0 | 8,550 |
2. Co-operative Housing Societies | 3,000 | 0 | 0 | 3,000 |
f. Assets Securitisation | 2,500 | 0 | 2,500 | -- |

**Total** | 38,000 | 5,455 | 13,685 | 18,860 |


Table 4.6 shows how the funds originate from different institutions to the sector. The total direct and indirect assistance to individuals from the various institutions amounted to Rs.18,860 crore in the Ninth Plan period formed 50 per cent of the estimated credit flow from formal sector of Rs.38,000 crore.

Financial institutions provided assistance to individuals at Rs.1,685 crore and lent Rs.2,430 crore to State Agencies like Housing Boards apart from Rs.8,385 crore to housing finance institutions. The disbursements to the State Agencies are ultimately passed over to individuals. Individuals obtained directly to the tune of Rs.13,235
crore from financial institutions and specialised housing finance institutions. The direct and indirect share of individuals from these institutions can, therefore, be put at Rs.16,615 crore.

Direct assistance to individuals from HUDCO and provident funds amounted to Rs.625 and Rs.5,000 crore respectively.

The flow of funds to housing finance institutions from NHB under its refinance assistance expected to be Rs.2,800 crore besides Rs.200 crore to State Agencies.

The asset securitisation is expected to generate additional resources to the tune of Rs.2,500 crore to the housing finance institutions.

Therefore, institutional support of Rs.16,615 crore during the Ninth Plan period formed about 11 per cent of the projected investment of Rs.1,50,000 crore. If assistance from PFs and HUDCO is included, the proportion improved to about 15 per cent.

The household sector is capable of generating savings in excess of its own requirements for investment in physical assets. Over the last few years, on account of: increase in income, the rapid geographical expansion of bank branches, the establishment of new institutions and introduction of new instruments, the financial savings of the household sector has increased considerably. Hence, out of the net financial savings of this sector about 60 per cent is in the form of financial
assets and the larger portion of these are in the form of bank deposits, insurance and loans to Central and State Governments.

Savings in the form of bank deposits and insurance premiums by the household sector generally flow back to the households that are in need of credit. However, the bulk of these funds go to government, due to a rigidly controlled directed credit system. Moreover, the need for housing having emerged as an essential investment priority, will require a larger share of these funds to be redirected to the housing sector. Therefore, in this context, under the present financial system, directed credit flows will need to be modified to include a component that encompasses housing finance as a specifically approved investment priority. However, this will not emerge as a long-term solution to the flow of credit for housing.

Accelerating the rate of involvement of banks in housing finance activities, on the lines suggested in recent meeting of the Housing Finance Ministers of State Governments will mean, reprioritisation of existing credit allocations. Keeping abreast with claims from other sectors for credit and overall monetary policy conditions, the RBI should review this allocation and improve the percentage accordingly. The RBI should call for substantial changes in the allocation policy. This would become feasible in the context of recent developments of capital market.
Life Insurance Companies all over the world play a leader role in underwriting or financing housing construction activity. In India, too, LIC has achieved a vital break through in the field of housing sector. The claims of housing sector on insurance funds is naturally justifiable particularly because one of the primary objectives of insurance, in Indian conditions, is to be able to acquire a house at the maturity of the policy. Housing finance by virtue of its long-term nature offers an appropriate avenue for deployment of insurance funds. The LIC has recognised its potential role in housing finance and as a result, LIC has set up its own subsidiary for this particular activity. However, it would be more appropriate for an insurance company to be part of a secondary market operation refinancing housing finance institutions that have already established the managerial systems for loan origination, in lieu of undertaking retail housing finance. These roles are currently being explored in greater detail.

The Provident Fund Organisation [PFO] provides advances for housing. However, this assistance for housing is insignificant in relation to the size of annual accretion to the funds. The PFO with enormous accumulated funds holding mandatory savings of formal sector employees, is also a potential investor in the housing sector. In fact, housing finance institutions should be able to offer suitable debt instruments to meet the basic needs of the PFO. With the formation of the NHB, it should further be possible to offer suitable debt instruments to meet these needs by offering the same rate of interest as
offered by government under the Special Deposit Scheme. The step up could be from the existing 15 per cent to 20 per cent of annual accretions to the PFO.

To provide further impetus to the sector, even the currently deployed funds need to be well-circulated securitising housing loans, which can then be sold to investors as mortgage-backed securities, which aims at developing a secondary market for such securities. The NHB is currently at an advanced state of finalising this proposal for a pile of issues from four HFCs aggregating about Rs.100 to Rs.120 crore. While securitisation offers new vistas for the HFCs, there are still two loopholes that need to be plugged. First, like in any mortgage-based transaction, stamp duty [decided by the states] is levied on the sale. It is considerably higher. Unless this duty is reduced, the process of securitisation will not become viable. The Centre has already recommended a reduction in stamp duties, but the states have yet to decide on the same. Delhi is, however, expected to implement the stamp duty reduction in future. Secondly, the foreclosure laws for recovery of loans needs to be made speedier to make the process of securitisation viable. Speedier foreclosure laws would also build investor confidence.

Once these two measures have been adopted, a whole new secondary market would be open for circulation of funds collected by the HFCs thereby increasing volume of funds.
There are a couple of other measures related to institutional funding of real - which the government is actively considering of them, the announcements to allow housing companies - builders and real estate developers - go in for external commercial borrowings and allowing Foreign Direct Investment [FDI] in the sector are critical. Apart from widening the scope for developers, this move will entice new players and benefit the users to the end.

The aforesaid suggestions, aimed at accelerating the pace of existing flow of resource, will necessarily lead to constraints elsewhere. The problem is one of increasing savings in the economy, that is to say, ensuring ‘additionality’. Additionality in savings can only be achieved by offering instruments that appeal to investors, focusing attention on those who have no tax benefit to look for but seek other benefits, and by diverting investments in the process away from unproductive savings in the form of gold, property and other goods. Housing, as a store of wealth as well as consumer service overtime, possesses attributes, which make it an excellent substitute for ‘non-productive’ means of storing wealth. In this sense, housing sector development [on both the demand and supply side] could provide enormous potential for switching household investments into financial assets. The long-term success of the flow of credit for housing depends mainly on the recognition of this attribute and consequently on financial sector reform which accesses household savings specifically for housing investment.
**Need for Housing Investment:**

As is evident from Table 2.24 [Chapter – II], in the past, investment in housing was not accorded with due priority in the programme of planned development. The continuous neglect of this sector has made the housing problem colossal both in urban and rural India.

Investment in housing is recognised nowadays, as a necessary component of overall package of investments for fostering the socio-economic development of the country. Therefore, there is a need for increasing emphasis on more investment in housing. The capital markets in housing are comparatively well-organised and developed in developed countries but they are in their infancy in the Third World countries. Investment in modern housing stock and housing services in the underdeveloped countries is grossly inadequate due to low per capita income, high land prices and rising construction costs on one facet and on the other on account of insufficient financial assistance from their underdeveloped financial institution systems. India is no exception to this phenomenon.

In case of developing countries, top priority has been given to economic development, while social development including housing has been left far behind. As Charles Abrams rightly points out, 'it is obvious that in the long run the failure to provide social facilities, including housing, affects economic growth'. So, investment in
housing is not only socially desirable but also necessarily becomes economically indispensable.

The investment in housing is of two types: (a) private investment and (b) public investment.

The private investment further classified into three types, viz.,

i) investment in owner occupied housing – this is always motivated by need for and the ability to pay for housing. The quantum of owner-occupied housing stock increases with the increasing ability to bear for it,

ii) private investment in housing for rental purposes. This type of investment in housing is motivated by profit force, and

iii) housing investment undertaken by the private sector organisations for housing their employees. This type of investment in housing is undertaken to satisfy the housing needs of their workers.

The public sector investment is always motivated by the national socio-economic values and objectives. The national economic motive to promote government involvement in housing investment is the belief that it would contribute to the development of the national economy, whereas the social motive intends to increase social welfare of the people through public sector investment in adequate and better quality housing.
The aggregate investment in housing and the relative shares of private and public sector investments in the total sum always 'varies according to the stage of socio-economic development and the ideology of socio-economic system'.

Investment in housing, therefore, calls for an immediate attention in terms of priorities in the following areas:

1. Housing investment will generate the demand for materials needed for construction; and

2. The materials and money put in these activities will directly go into capital formation, which would help the aggregate growth of the national economy. Apart from this it would also provide employment opportunities to millions of people.

Investment in housing operated as a catalytic factor in the social well-being of population. It is, therefore, an essential element in the socio-economic upliftment of the nation. As such it is worthwhile to remember that the expenditure on housing construction satisfies the fundamental human need and provides infrastructure for investment in human resources, without which economic development is not possible.

Relevance of Financial Policies and the Regulatory Framework:

In India, HFIs are currently controlled and regulated by the Department of Financial Companies (DFCs) of the RBI. The Registrar of Companies notifies the DFC regarding the existence of companies engaged in housing finance with a view to determine whether they can
be classified as Housing Finance Companies (HFCs) or not. Though, at present, there is free entry into the system, the DFC has control over the deposit activities of HFI as a means of protecting depositors' funds and as an adjunct to monetary and credit policy of Government.

Now NHB has been formed and assumed these regulatory functions. It is noted that NHB should exercise tighter and close control over the activities of HFIs mainly with a view to ensuring financial integrity and public confidence in the system. Such a measure could eventually help build a sound institutional base for housing finance as well as for potential future secondary market activity and ultimately to increase the flow of funds into the housing sector.

Government policy is that of directing the credit of nationalised financial institutions towards top priority sectors (like agriculture, small industry, etc.) and away from social sectors including housing, which has had an adverse effect on the magnitude of investment in housing. The banks charge high interest on non-priority lending to overcome their profitability problems. Housing finance also suffers \textit{vis-a-vis} such intermediaries as commercial banks, UTI and corporate deposits, because these can offer more attractive tax concessions and/or a wide range of financial services at implicit subsidised costs. The financial policy of the Government of India has been targeted to subserve a number of its own needs by providing preference in credit allocation to priority sectors, setting interest rates, fulfilling its own borrowing requirements at subsidised rates through high statutory
reserve requirements for captive investors, increasing depository institutions throughout rural India, providing high rates of loan write-offs to certain sectors of India's economy and supporting sick industries to maintain employment level.

All these financial policies appear to have created profitability problems for intermediaries, especially the commercial banks. The Indian banking system is, therefore, constrained to penalise depositors by giving them low or negative real returns on deposits and subsidising borrowers such as the Government. Households' access to finance has, therefore, been impaired by direct rationing and high nominal interest rates. It is not at all surprising that housing credit has accounted for only 2 per cent of total credit issued by financial intermediaries and about 1 per cent of the value of housing stock.

It is, therefore, felt that if the Government of India [GOI], over the longer term, 'follows an interest rate strategy that moves away from a tightly controlled regulatory structure to one in which the efficiency of financial resources allocation would begin to play a greater role, inflation would be easier to control and ultimately private housing finance should expand'. In the short-term, however, the changing rate structure may pose serious problems.
Role of Housing Finance Companies in Housing Development:

The HFIs have two streams – housing finance companies and co-operative housing societies. The co-operative housing finance system more than 80 years old, is the best example of 'self help' in housing. It has two-tier structure, viz., 1) Apex Federations at state level, and 2) Co-operative housing societies at primary level. These societies function under the Registrar of Co-operative Societies in various states like other co-operative banks and institutions. HFCs are comparatively of recent origin.

These streams play an active role in housing development. Their aim is to prevent an increase in the magnitude of backlog of housing shortage and inculcate a 'national' habit of saving among potential house-owners to whichever income strata they may belong. They pursue the goal of the developing a sound and healthy housing finance system, thereby promoting and enhancing the housing activities and housing stock in the country.

There are a few numbers of institutions, which are either in the private, public or joint sector besides the commercial banks and co-operative banks lending for HFIs. HFIs include institutions whether incorporated or not, which primarily transact or have as their primary object, the transacting of the business of providing finance for housing directly. The HFCs form a part of the HFIs.
Prior to the establishment of the NHB, there was no such classification as HFCs. All the companies incorporated under the Companies Act, 1956, mobilising savings of the community by way of deposits or otherwise and utilising them for the purpose of lending or investment were commonly known as Non-banking Financial Companies. Even under the Companies Act, there is no separate classification as housing finance companies. All the companies involved either in construction or financing for housing were considered housing companies and given code numbers under the industrial classification.

NHB has been entrusted with the responsibility of promoting and developing of HFCs. It has evolved guidelines and has issued the HFCs [NHB] Directions 1989 under the NHB Act, 1987, for promotion of HFCs in private and joint sectors.

'To ensure that deregulation and liberalisation in the housing finance system results in growth of the healthy and sound HFCs, NHB introduced a set of guidelines/norms for income recognition, asset classification, provisioning for bad and doubtful debts, capital adequacy, etc. HFCs with NOF of Rs.50 lakh and above were advised by NHB to ensure compliance of these on and from March 31, 1996. In order to facilitate HFCs to adjust themselves with these requirements, NHB brought changes in the norms with regard to:

i) definition of non-performing assets [NPAs] and income recognition in respect of it i.e., interest on NPAs should not be booked as income if such interest has remained outstanding for more than six months on and from March 31, 1996;
ii] asset classification in respect of assets backed by Government guarantees, i.e., to consider loans and advances to public housing agencies guaranteed by Central/State Governments, as NPAs only when the Government, concerned repudiates the guarantee; and

iii] excluding the loans and advances to public agencies with an impeccable record of servicing their debts and backed by Government guarantees for the purpose of the guidelines for the year ended March 31, 1996, with the prior approval of NHB'.

1. HFCs and Lending Norms:

The minimum and maximum quantum of loan usually sanctioned by different HFCs ranges from Rs 7,500 to Rs. one crore depending on the value of property and repaying capacity of the borrowers. It normally varies between 25 and 30 times of the borrower's monthly income. The repayment period varies between 5 and 20 years. The repayments are fixed on the basis of equated monthly instalment [EMI] method. However, in case of borrowers expecting a reasonable growth in their income, instalments may also be allowed on a graduated basis.

2. Distribution of HFCs:

'The total number of HFCs in the mailing list of NHB as on 30th June, 1996 was 363 as against 316 in the preceding year. Of the 363 HFCs, 63 HFCs had net owned funds [NOF] of Rs. 50 lakh and above of which 21 HFCs were approved by NHB for the purpose of refinance till 30th June, 1996.'
The emergence of a large number of companies in this sector denotes the growing credit demand for housing in our country.

The State-wise distribution shows concentration of these companies in the States of Maharashtra, Karnataka, Gujarat, Delhi, Andhra Pradesh and Tamil Nadu followed by West Bengal in that order. It may be interesting to note that still there are a number of States/Union Territories not having a single classified HFC. This calls for efforts for establishing more HFCs particularly in States/Union Territories where these have not been established so far.

Table 4.3 depicts State-wise distribution of classified HFCs.

**TABLE - 4.7**

State-wise Distribution of Classified HFCs

<table>
<thead>
<tr>
<th>Name of the State</th>
<th>No. of HFCs excluding HUDCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Maharashtra</td>
<td>16</td>
</tr>
<tr>
<td>2. Karnataka</td>
<td>9</td>
</tr>
<tr>
<td>3. Gujarat</td>
<td>9</td>
</tr>
<tr>
<td>4. Delhi</td>
<td>9</td>
</tr>
<tr>
<td>5. West Bengal</td>
<td>6</td>
</tr>
<tr>
<td>6. Andhra Pradesh</td>
<td>4</td>
</tr>
<tr>
<td>7. Tamil Nadu</td>
<td>3</td>
</tr>
<tr>
<td>8. Uttar Pradesh</td>
<td>2</td>
</tr>
<tr>
<td>9. Rajasthan</td>
<td>1</td>
</tr>
<tr>
<td>10. Kerala</td>
<td>1</td>
</tr>
<tr>
<td>11. Punjab</td>
<td>1</td>
</tr>
<tr>
<td>12. Orissa</td>
<td>1</td>
</tr>
<tr>
<td>13. Madhya Pradesh</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
</tr>
</tbody>
</table>

3. **Financial Assistance from NHB to HFCs:**

NHB extends financial assistance to all approved HFCs by way of equity participation and loans and advances and has formulated refinance schemes for this purpose. NHB’s financial assistance to approved HFCs increased to Rs. 3,049.32 crore as on 31st March, 1996 from Rs. 1,898.47 crore as on 31st March, 1995. The refinance support by NHB to HFCs is directed to augment the resources of the HFCs and to improve further accessibility of housing credit to the needy population. The refinance support is available only to those HFCs, which comply with the directions and guidelines issued by the NHB. HFCs have to ensure compliance with its guidelines wherein requirements with regard to minimum paid up capital, institutional participation in equity, institutional representation on Board of Directors, etc., have been prescribed.

So far 21 HFCs have been approved by the NHB as eligible to draw refinance assistance from it. As on 30th June, 1996, 21 HFCs, which have been approved for the purpose of refinance are:

1. AB Home Finance Ltd.,
2. BOB Housing Finance Ltd.,
3. Cent Bank Home Finance Ltd.,
4. Can Fin Homes Ltd.,
5. Gujarat Rural Housing Finance Corporation Ltd., [Gruh Ltd.],
6. Vysya Bank Housing Finance Ltd.,
7. VI Bank Housing Finance Ltd.,
8. Akshya Avas Nirman Vitta Ltd.,
9  Deewan Housing Finance Corporation Ltd.,
10. Fair Growth Home Finance Ltd.,
11. GIC Grih Vitta Ltd.,
12. Housing Development Finance Corporation Ltd.,
13. Industry Bank Housing Ltd.,
14. India Housing Finance and Development Ltd.,
15. LIC Housing Finance Ltd.,
16. Parshwanath Housing Finance Corporation Ltd.,
17. PNB Housing Finance Ltd.,
18. Saya Housing Finance Company Ltd.,
19. SBI Home Finance Ltd.,
20. Apna Ghar Vitta Nigam Ltd., and
21. Housing and Urban Development Corporation Ltd.

4. Refinance Policy:

Refinance policy prescribed by the NHB for HFCs is given as below:

1. HFCs will be eligible for a basic refinance limit up to five times of their NOF.

2. Additionally, in the case of HFCs with NOF up to Rs.10 crore, refinance up to three times the amount of deposits may be allowed. As regards HFCs with NOF above Rs.10 crore additional finance will be restricted to twice the amount of deposits.

3. The overall ceiling for refinance in respect of above as also *ad hoc* finance, which may be provided, will be fifteen times of NOF.
4. Refinance assistance for Land Development and Shelter [LD and SP] will normally restricted to 30 per cent of the total disbursements of HFC during the year [July-June].

5. HFC's financial assistance and LD and SP to a single borrower other than a public agency should not normally exceed 30 per cent of its NOF.

6. HFC's overdue position should be in conformity with the criteria as may be fixed from time to time.

7. Refinance from NHB is available to the extent of 100 per cent loan up to Rs.2 lakh for construction/acquisition of new housing unit, provided its built-up area does not exceed 40 sq. mtrs. For a housing unit whose built-up area exceeds 40 sq. mtrs, but the cost [including cost of land] does not exceed Rs.2 lakh, refinance from NHB is available to the tune of 100 per cent of the eligible amount of loan. All loans up to Rs.30,000 for upgradation including major repairs are fully refinanced by NHB. However, refinance for this will be restricted to 25 per cent of the total refinance to the HFC.

5. **Tax Concessions to HFCs:**

The tax sops offered to the sector is focused on making it an attractive investment avenue. Approved projects have been given a status of infrastructure projects although the approving authority is yet to be decided. This implies a 100 per cent tax holiday for the first five years of the project and 30 per cent deductions from the profits in the next five years. Similarly, only 50 per cent of the profits posted by companies carrying out housing projects will be tax deductible. With
these exemptions, the margins for investors in housing projects should improve considerably and lure private builders to take up low-cost housing.

Housing projects apart, HFCs, which are approved by the Central Government are entitled to certain tax concessions under Section 36(1)(viii) of the Income Tax Act, 1961.

Long-term borrowings from the Government/IDBI/ICICI/any other finance institution, which is eligible for deduction under Section 36(1)(viii). The most important condition is that the HFC's business as reflected in the main object clause in its Memorandum of Association should strictly satisfy the requirements as spelt in the aforementioned section of the Income Tax Act. Inclusion of any other object clause may not meet with the approval of the Central government.

An approved HFC can create a Special Reserve with 'an amount not exceeding 40 per cent of the profit derived from the business of long-term finance or the amount credit to specified reserve account whichever is less is deductible' under the head 'Profits and Gains of Business or Profession' under section 36(1)(viii) of the Income Tax Act, 1961.

However, no deduction is allowed in this respect as soon as the Special Reserve becomes equal to twice the paid up share capital and general reserve. Once the company is approved for this purpose, tax

6. Performances of HFCs:

Of the HFCs as on 30th June, 1996, 136 HFCs have furnished annual returns for the year ended 31st March, 1996. Based on the data from the statutory returns furnished by them were compiled and analysed. For the purpose of analysis of the data in terms of growth in NOF, outstanding deposits and advances, etc., the HFCs were grouped in three categories as:

A. HFCs approved for financial assistance from NHB.
B. HFCs having NOF of Rs.50 lakh and above [excluding HFCs mentioned in ‘A’ above].
C. Other HFCs.

I. Net Owned Funds [NOF] of HFCs:

A. HFCs Approved for Financial Assistance from NHB:

As on 30th June, 1996, 21 HFCs were approved by NHB for the purpose of its financial assistance. The NOF of 21 HFCs approved by NHB for financial assistance increased to Rs.3,049.32 crore as on 31st March, 1996 from Rs.1,898.47 crore as on 31st March, 1995. On analysis of the NOF it has been found that the NOF has increased substantially during the year 1995-96.
NOF had increased [growth rate] about 38 per cent during the year 1995-96.

B. HFCs Having NOF of Rs.50 Lakh and Above:

The number of HFCs in this segment had gone up to 42 as on 31st March, 1996 compared to 37 as on 31st March, 1995. NOF of these HFCs had also increased to Rs.137.04 crore as on 31st March, 1996 from Rs.69.31 crore as on 31st March, 1995, which was resulted in growth of 49 per cent during the year 1995-96.

C. Other HFCs:

73 HFCs were grouped in this category. The NOF of HFCs in this category had shown improvement from Rs.(-) 0.75 crore as on 31st March, 1995 to Rs.0.56 crore as on 31st March, 1995. The overall growth in NOF was accounted at about 175 per cent.

II. Outstanding Deposits:

The outstanding regulated deposits with 136 reporting HFCs stood at Rs.2,919 crore as on 31st March, 1996 as against the previous year's figures of Rs.2,239.14 crore. The outstanding deposits have increased significantly, which may be seen in the following paragraphs. The classification of deposits as per size, maturity and interest rate for all the HFCs is shown in Tables 4.8 to 4.10.
TABLE - 4.8
Outstanding Deposits of All HFCs – Size-wise Classification

(Rs. in crore)

<table>
<thead>
<tr>
<th>Size-wise deposits</th>
<th>Outstanding amount of deposit as on 31st March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994 Percentage</td>
</tr>
<tr>
<td>Up to Rs. 5,000</td>
<td>42.50 2.6</td>
</tr>
<tr>
<td>Rs. 5,001 to Rs. 10,000</td>
<td>120.59 7.4</td>
</tr>
<tr>
<td>Rs. 10,001 to Rs. 25,000</td>
<td>231.86 14.3</td>
</tr>
<tr>
<td>Rs. 25,001 to Rs. 50,000</td>
<td>153.36 9.4</td>
</tr>
<tr>
<td>Rs. 50,001 to Rs. 1,00,000</td>
<td>188.47 11.6</td>
</tr>
<tr>
<td>Over Rs. 1,00,000</td>
<td>890.55 54.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,627.33 100.0</td>
</tr>
</tbody>
</table>


TABLE - 4.9
Outstanding Deposits of all HFCs – Maturity Period-wise Classification

(Rs. in crore)

<table>
<thead>
<tr>
<th>Maturity period-wise deposits</th>
<th>Outstanding amount of deposit as on 31st March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994 Percentage</td>
</tr>
<tr>
<td>Within 6 months*</td>
<td>56.79 3.5</td>
</tr>
<tr>
<td>6 months to less than 12 months*</td>
<td>28.06 0.7</td>
</tr>
<tr>
<td>12 months to less than 24 months</td>
<td>213.60 13.1</td>
</tr>
<tr>
<td>24 months to less than 48 months</td>
<td>678.60 41.7</td>
</tr>
<tr>
<td>48 months to less than 60 months</td>
<td>190.88 11.7</td>
</tr>
<tr>
<td>Above 60 months</td>
<td>331.85 20.4</td>
</tr>
<tr>
<td>60 months to less than 84 months</td>
<td>26.59 1.6</td>
</tr>
<tr>
<td>84 months</td>
<td>45.65 2.8</td>
</tr>
<tr>
<td>Above 84 months*</td>
<td>55.31 3.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,627.33 100.0</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Housing in India, NHB, June, 1996, p. 27.

- Includes deposits from share holders, deposits guaranteed by the Directors, security deposits from the agents, unclaimed deposits, etc.
An analysis of Table 4.8 reveals that the outstanding deposits of all HFCs 50 per cent are for a size of over Rs.1,00,000. But in the year 1996 [31st March] this trend is declined from 55.3 per cent in 1995 to 48.9 per cent, followed by deposits size of Rs.50,001 to Rs.1,00,000. Outstanding deposits with the size up to Rs.5,000 is in increasing trend, i.e., to 3.4 per cent as on 31st March, 1996 from 2.6 per cent as on 31st March, 1995.

On the basis of maturity period of outstanding deposits of all HFCs is given in Table 4.9.

It is very much clear from Table 4.9 that the outstanding deposits for a period of 24 months or more form about 80 per cent of the total deposits, in fact about 42.3 per cent [taking an average of three years] of the deposits have a maturity period between 24 months and 48 months, followed by 60 months at 19.2 per cent. Outstanding deposits maturing within 6 months and above 84 months have shown a declining trend year by year from 3.5 per cent in 1994 to 1.1 per cent in 1996 and from 3.4 per cent in 1994 to 0.2 per cent in 1996 respectively.

On the basis of interest rate-wise classification of outstanding deposits of all HFCs is given in Table 4.10.
Table 4.10 depicts that more than 90 per cent outstanding deposits have been accepted at the rate between 11 per cent and above 14 per cent. This is because of the fall in the interest rates on deposits of commercial banks.

**Outstanding Deposits with HFCs Approved by NHB - Group-wise:**

**A. HFCs Approved for Financial Assistance from NHB:**

The outstanding deposits under this category stood at Rs.2,854.30 crore as on 31st March, 1996 as against Rs.2,196.46 crore as on 31st March, 1995. The deposits have gone up to 2,854.30 crore in 1996 from Rs.1,608.4 crore in 1994. This indicates an increase in the pace of deposits at faster rate. The total number of accounts have almost doubled within a period of two years.
B. HFCs Having NOF of Rs.50 Lakh and Above:

The deposits under this group have increased to Rs.43.10 crore as on 31\textsuperscript{st} March, 1996, from Rs.23.20 crore in the previous year. It indicates that HFCs mobilised about 46 per cent of the total deposits during the year 1995-96.

C. Other HFCs:

The amount of outstanding deposits under this type have gone up to Rs.21.60 crore as on 31\textsuperscript{st} March, 1996 from Rs.19.49 crore in the last year. It shows an increase of deposits at about 2 per cent during the year 1995-96.

The deposits with HFCs – Group-wise further classified into:

1. Size-wise classification of outstanding deposits with HFCs – Group-wise: Deposits position under this category is given in Table 4.11 AB.

   It is observed from Table 4.11 AB that:

A. HFCs Approved for Financial Assistance from NHB:

The size of outstanding deposits in the category of amount over Rs.1 lakh has shown maximum quantum of deposits. The deposits in this category have increased to Rs.1,419.26 crore as on 31\textsuperscript{st} March, 1996, from Rs.1,227.42 crore as on 31\textsuperscript{st} March, 1995. The deposits in the category of Rs.5,001 to Rs.10,000 have also increased from
TABLE - 4.11 A
Size-wise Classification of Deposits with HFCs Approved by NHB - Group-wise as on 31st March

<table>
<thead>
<tr>
<th>Size-wise Deposits</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group A</td>
<td>Group B</td>
</tr>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
</tr>
<tr>
<td>Up to Rs. 5,000</td>
<td>1,10,493</td>
<td>39.35</td>
</tr>
<tr>
<td>Rs. 5,001 to Rs. 10,000</td>
<td>1,24,171</td>
<td>117.08</td>
</tr>
<tr>
<td>Rs. 10,001 to Rs. 25,000</td>
<td>1,39,516</td>
<td>225.89</td>
</tr>
<tr>
<td>Rs. 25,001 to Rs. 50,000</td>
<td>35,495</td>
<td>151.75</td>
</tr>
<tr>
<td>Rs. 50,001 to Rs. 1,00,000</td>
<td>20,693</td>
<td>187.19</td>
</tr>
<tr>
<td>Over Rs. 1,00,000</td>
<td>13,453</td>
<td>887.14</td>
</tr>
<tr>
<td>Total</td>
<td>4,43,821</td>
<td>1,608.40</td>
</tr>
</tbody>
</table>

Source: Report on Trends and Progress of Housing in India, NHB, June, 1996, pp. 29-30
TABLE - 4.11 B
Size-wise Classification of Deposits with HFCs Approved by NHB - Group-wise as on 31 March

(Rs. in crore)

<table>
<thead>
<tr>
<th>Size-wise deposits</th>
<th>1996</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group A</td>
<td>Group B</td>
<td>Group C</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
<td>No. of Accounts</td>
<td>Amount</td>
<td>No. of Accounts</td>
</tr>
<tr>
<td>Upto Rs. 5,000</td>
<td>2,14,598</td>
<td>83.30</td>
<td>14,182</td>
<td>6.70</td>
<td>1,19,587</td>
</tr>
<tr>
<td>Rs. 5,001 to Rs. 10,000</td>
<td>2,85,548</td>
<td>270.20</td>
<td>5,607</td>
<td>3.95</td>
<td>7,973</td>
</tr>
<tr>
<td>Rs. 10,001 to Rs. 25,000</td>
<td>2,68,472</td>
<td>459.54</td>
<td>7,383</td>
<td>10.90</td>
<td>2,952</td>
</tr>
<tr>
<td>Rs. 25,001 to Rs. 50,000</td>
<td>67,964</td>
<td>282.16</td>
<td>4,098</td>
<td>13.15</td>
<td>968</td>
</tr>
<tr>
<td>Rs. 50,001 to Rs. 1,00,000</td>
<td>39,817</td>
<td>339.84</td>
<td>277</td>
<td>1.60</td>
<td>243</td>
</tr>
<tr>
<td>Over Rs. 1,00,000</td>
<td>26,210</td>
<td>1,419.26</td>
<td>172</td>
<td>6.80</td>
<td>103</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,02,609</td>
<td>2,854.30</td>
<td>32,174</td>
<td>43.10</td>
<td>1,31,826</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Housing in India, NHB, June, 1996, pp. 29-30,
Rs. 151.96 crore as on 31st March, 1995 to Rs.270.20 crore as on 31st March, 1996, which has accounted for net increase in deposits about 44 per cent. Number of accounts have almost more than doubled within a period of two years under the category of Rs.5,001 to Rs.10,000.

B. HFCs Having NOF of Rs.50 Lakh and Above:

The size of outstanding deposits in the Rs.25,001 to Rs.50,000 category constitutes a major portion. The deposits in this category have increased from Rs.1.02 crore as on 31st March, 1995 to Rs.13.15 crore as on 31st March, 1996. The deposits in this category have gone up by 119 times. The number of depositors in the category up to Rs.5,000, increased from 11,162 in 1995 to 14,182 in 1996.

C. Other HFCs:

The amount of deposits in the category up to Rs.5,000, increased from Rs.7.45 crore as on 31st March, 1995 to Rs.8.20 crore as on 31st March, 1996. However, the number of depositors in the category of deposits of Rs.50,001 to Rs.1,00,000 decreased sharply from 2,070 in 1995 to 243 in 1996.


The deposits with HFCs group-wise on the basis of maturity period, can be best seen in Tables 4.12 AB.
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**TABLE - 4.12 A**

Maturity Period-wise Classification of Deposits with HFCs Approved by NHB - Group-wise as on 31st March

(Rs. In crore)

<table>
<thead>
<tr>
<th>Maturity period-wise Deposits</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
</tr>
<tr>
<td>With 6 months</td>
<td>473</td>
<td>56.66</td>
</tr>
<tr>
<td>6 months to less than 12 months</td>
<td>310</td>
<td>27.86</td>
</tr>
<tr>
<td>12 months to less than 24 months</td>
<td>29,850</td>
<td>206.77</td>
</tr>
<tr>
<td>24 months to less than 48 months</td>
<td>1,60,506</td>
<td>670.65</td>
</tr>
<tr>
<td>48 months to less than 60 months</td>
<td>66,977</td>
<td>189.89</td>
</tr>
<tr>
<td>60 months</td>
<td>1,23,409</td>
<td>329.75</td>
</tr>
<tr>
<td>Above 60 months to less than 84 months</td>
<td>20,945</td>
<td>26.56</td>
</tr>
<tr>
<td>84 months</td>
<td>41,114</td>
<td>44.95</td>
</tr>
<tr>
<td>Above 84 months*</td>
<td>237</td>
<td>55.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,43,821</td>
<td>1,608.40</td>
</tr>
</tbody>
</table>

* Includes deposits from shareholders, deposits guaranteed by the Directors, Security deposits from the agents, unclaimed deposits.

TABLE - 4.12 B
Maturity Period wise Classification of Deposits with HFCs Approved by NHB - Group-wise as on 31st March

(Rs. in crore)

<table>
<thead>
<tr>
<th>Maturity period-wise Deposits</th>
<th>Outstanding amount of deposits as on 31st March 1996</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group A</td>
<td>Group B</td>
</tr>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
</tr>
<tr>
<td>With 6 months</td>
<td>204</td>
<td>30.27</td>
</tr>
<tr>
<td>6 months to less than 12 months</td>
<td>2,892</td>
<td>23.92</td>
</tr>
<tr>
<td>12 months to less than 24 months</td>
<td>1,34,404</td>
<td>538.30</td>
</tr>
<tr>
<td>24 months to less than 48 months</td>
<td>3,18,945</td>
<td>1,277.82</td>
</tr>
<tr>
<td>48 months to less than 60 months</td>
<td>1,30,294</td>
<td>292.32</td>
</tr>
<tr>
<td>60 months</td>
<td>1,75,977</td>
<td>485.66</td>
</tr>
<tr>
<td>Above 60 months to less than 84 months</td>
<td>80,805</td>
<td>109.78</td>
</tr>
<tr>
<td>84 months</td>
<td>61,046</td>
<td>91.62</td>
</tr>
<tr>
<td>Above 84 months*</td>
<td>42</td>
<td>4.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,02,609</strong></td>
<td><strong>2,854.30</strong></td>
</tr>
</tbody>
</table>

* Includes deposits from shareholders, deposits guaranteed by the Directors, Security deposits from the agents, unclaimed deposits.

It is observed from Table 4.12 AB that:

**Group A. HFCs Approved for Financial Assistance from NHB:**

Maturity-wise the largest component of outstanding deposits have been for a period of 24 months to 48 months, which have increased from Rs.893.88 crore as on 31st March, 1995 to Rs.1,277.82 crore as on 31st March, 1996. The number of depositors in the category of 12 months or more but less than 24 months have also increased from 51,255 in 1995 to 1,32,404 in 1996. However, the number of depositors in the category of above 84 months has considerably decreased from 218 in 1995 to 42 in 19996.

In group B, HFCs having NOF of Rs.50 lakh and above, indicates that for the year ended on 31st March, 1995, deposits of over 24 months and up to 48 months was 12.56 crore, which was the highest for any category. However, the level of deposits have come down to Rs.11.82 crore as on 31st March, 1996. As on 31st March, 1996, the deposits over 12 months and up to 24 months were the highest for any category and stood at 22 crore. The number of depositors in the category of 12 months or more but less than 24 months has substantially increased from 3,141 in 1995 to 13,397 in 1996. However, the HFCs have failed to mobilise deposits in the category of above 84 months.

In Group C consists of other HFCs and reveals that as on 31st March, 1996 the amount of outstanding deposits has been maximum in the category of 24 months or more but less than 48 months. The
deposits in this category have increased from Rs.6.51 crore as on 31\textsuperscript{st} March, 1995 to Rs.7.61 crore as on 31\textsuperscript{st} March, 1996. The number of depositors in the category of 6 months and less than 12 months have increased from 1,825 in 1995 to 4,052 in 1996. However, the depositors' number has decreased from 3,707 in 1995 to 1,938 in 1996 in the category of 84 months.

3. Interest Rate-wise Classification of Deposits with HFCs

Group-wise:

Group A consists of HFCs approved financial assistance from NHB. In this group the concentration of outstanding deposits has changed from the category of the interest rates of 11 per cent or more but below 13 per cent as on 31\textsuperscript{st} March, 1995 to 13 per cent or more but below 14 per cent as on 31\textsuperscript{st} March, 1996. The amount of deposit in the category 13 per cent or more but below 14 per cent as on 31\textsuperscript{st} March, 1996 was Rs.919.35 crore as compared to Rs.541.48 crore as on 31\textsuperscript{st} March, 1995. The concentration of maximum number of depositors was observed in the interest category of more than 14 per cent. The number of depositors in this category of interest rates increased from 1,91,865 in 1995 to 3,33,489 in 1996.

Group B includes HFCs having NOF of Rs.50 lakh and above. In this group, the concentration of outstanding deposits has shifted from the category of the interest rates of 14 per cent as on 31\textsuperscript{st} March, 1995 to more than 14 per cent as on 31\textsuperscript{st} March, 1996. The amount of
deposit in the category of more than 14 per cent as on 31st March, 1996 was Rs.21.05 crore as compared to 0.91 crore as on 31st March, 1995. 12,946 depositors were focussed their attention on deposits carrying interest rate of more than 14 per cent in the year 1995-96 as against 811 depositors in the year 1994-95. This shows that people preferred to deposit their money in higher rate of interest category.

Group C consists of other HFCs. In this group, the concentration of outstanding deposits has moved from the category of the interest rates of 9 per cent or more but below 11 per cent as on 31st March, 1995 to at 14 per cent as on 31st March, 1996. The amount of deposit in the category of 14 per cent as on 31st March, 1996 was Rs.5.60 crore as against Rs.4.88 crore as on 31st March, 1995. The category of deposits carrying interest rates of 9 per cent or more but below 11 per cent have attracted the highest number of depositors. However, the number of deposits have decreased from 67,449 in 1994-95 to 66,402 in 1995-96. The above analysis is depicted in Table 4.13 AB.

III. Borrowings of HFCs – Group-wise:

The details of borrowings of HFCs Group-wise are summarised as under:
TABLE - 4.13 A
Interest-wise Classification of Deposits with HFCs – Group-wise as on 31st March

(Rs. in crore)

<table>
<thead>
<tr>
<th>Interest rate-wise Deposits (per annum)</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group A</td>
<td>Group B</td>
</tr>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
</tr>
<tr>
<td>Below 6%</td>
<td>00</td>
<td>0.00</td>
</tr>
<tr>
<td>6% or more but below 9%</td>
<td>2,784</td>
<td>2.82</td>
</tr>
<tr>
<td>9% or more but below 11%</td>
<td>8,936</td>
<td>148.37</td>
</tr>
<tr>
<td>11% or more but below 13%</td>
<td>34,638</td>
<td>187.57</td>
</tr>
<tr>
<td>13% or more but below 14%</td>
<td>59,060</td>
<td>333.35</td>
</tr>
<tr>
<td>At 14%</td>
<td>1,17,375</td>
<td>299.97</td>
</tr>
<tr>
<td>Above 14%</td>
<td>2,21,028</td>
<td>636.32</td>
</tr>
<tr>
<td>Total</td>
<td>4,43,821</td>
<td>1,608.40</td>
</tr>
</tbody>
</table>

TABLE – 4.13 B
Interest-wise Classification of Deposits with HFCs – Group-wise as on 31st March
(Rs. in crore)

<table>
<thead>
<tr>
<th>Interest rate-wise Deposits (per annum)</th>
<th>Group A</th>
<th>Group B</th>
<th>Group C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount</td>
<td>No. of Accounts</td>
</tr>
<tr>
<td>Below 6%</td>
<td>00</td>
<td>0.00</td>
<td>6,093</td>
</tr>
<tr>
<td>6% or more but below 9%</td>
<td>2,510</td>
<td>1.54</td>
<td>86</td>
</tr>
<tr>
<td>9% or more but below 11%</td>
<td>5,989</td>
<td>6.34</td>
<td>3,236</td>
</tr>
<tr>
<td>11% or more but below 13%</td>
<td>52,035</td>
<td>259.68</td>
<td>291</td>
</tr>
<tr>
<td>13% or more but below 14%</td>
<td>2,25,609</td>
<td>919.35</td>
<td>316</td>
</tr>
<tr>
<td>At 14%</td>
<td>2,82,887</td>
<td>865.35</td>
<td>9,206</td>
</tr>
<tr>
<td>Above 14%</td>
<td>3,33,489</td>
<td>802.04</td>
<td>12,946</td>
</tr>
<tr>
<td>Total</td>
<td>9,02,609</td>
<td>2,854.30</td>
<td>32,174</td>
</tr>
</tbody>
</table>

A. HFCs Approved for Financial Assistance from NHB:

The outstanding borrowings of HFCs from other sources increased from Rs.7,102.21 crore as on 31st March, 1995 to Rs.11,035.01 crore as on 31st March, 1996. Borrowings have increased by 55.37 per cent over the previous year. NHB's refinance outstanding with these HFCs increased to Rs.1,505.00 crore as on 31st March, 1996 compared to Rs.1,375.35 crore as on 31st March, 1995 as may be seen in Table 4.14.

B. HFCs Having NOF of Rs.50 lakh and Above and Other HFCs in Group C:

Outstanding borrowings of these HFCs increased from Rs.30.27 crore as on 31st March, 1995 to Rs.44.17 crore as on 31st March, 1996. The net increase in the borrowings over previous year was 45.92 per cent as may be seen from Table 4.14.

IV. Outstanding Housing Loans to Individuals:

Housing loans sanctioned by the HFCs to individuals have been classified on the group-wise viz., :

A. HFCs Approved for Financial Assistance from NHB:

During the year 1995-96, 21 HFCs sanctioned and disbursed housing loans amounting to Rs.4,416.87 crore and Rs.3,812.12 crore respectively. The outstanding housing loans including loans for repairs
and upgradation [loans up to Rs.3 lakh only] of these HFCs stood at Rs.4,595.14 crore as on 31st March, 1996 compared to Rs.3,355.60 crore as on 31st March, 1995. However, the overall outstanding housing loans including loans for repairs and upgradation for these HFCs stood at Rs.8,162.10 crore as on 31st March, 1996. (Table 4.14).

B. **HFCs with NOF of Rs.50 Lakh and Above:**

In this group, the amount of outstanding housing loans including loans for repairs and upgradation [loans up to Rs.3 lakh only], stood at Rs.65.70 crore as on 31st March, 1996 compared to the outstanding figures of Rs.22 crore as on 31st March, 1995. However, outstanding housing loans to individuals have increased by 198.64 per cent over the previous year. (Table 4.14).

C. **Other HFCs:**

The outstanding amount of housing loans including loans for repairs and upgradation [loans up to Rs. 3 lakh only], in respect of this segment of HFCs stood at Rs.49.78 crore as on 31st March, 1996. (Table 4.14).

V. **Investments:**

The investments of HFCs were also classified on group-wise:
TABLE - 4.14

Net Owned Funds [NOF], Outstanding Deposits, Exempted Borrowings, Housing Loans and Investments of all HFCs as of 31st March, 1996

(Amount in crore and Accounts in Numbers)

<table>
<thead>
<tr>
<th>Name of the company (Group-wise)</th>
<th>NOF Amount</th>
<th>Regulated Accounts</th>
<th>Deposit Amount</th>
<th>Expected borrowings Accounts</th>
<th>Housing loans* Accounts</th>
<th>Investment amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. HFCs approved by NHB for financial assistance</td>
<td>3,049.32</td>
<td>9,02,609</td>
<td>2,854.3</td>
<td>11,906</td>
<td>11,035.01</td>
<td>1,08,070</td>
</tr>
<tr>
<td>B. HFCs with NOF Rs.50 lakh and above excluding 'A' above</td>
<td>137.04</td>
<td>32,174</td>
<td>43.1</td>
<td>174</td>
<td>39.18</td>
<td>7,617</td>
</tr>
<tr>
<td>C. Other HFCs</td>
<td>0.56</td>
<td>1,31,826</td>
<td>21.6</td>
<td>2,063</td>
<td>4.99</td>
<td>2,336</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,186.92</strong></td>
<td><strong>10,65,609</strong></td>
<td><strong>2,919.0</strong></td>
<td><strong>14,143</strong></td>
<td><strong>11,079.18</strong></td>
<td><strong>1,18,023</strong></td>
</tr>
</tbody>
</table>

* (1) Loans up to Rs.3 lakh only including loans for repairs and upgradation.
(2) Include HUDCO's loans for infrastructure development.
(3) Figures in bracket indicate overall outstanding housing loans including repairs and upgradation (loans of all size/categories).

A. **HFCs Approved for Financial Assistance from NHB**:

The outstanding investments of this segment of HFCs have decreased to Rs.2,212.00 crore as on 31st March, 1996 from Rs.2,229.44 crore as on 31st March, 1995. (Table 4.14).

B. **HFCs with NOF of Rs.50 lakh and Above and Other HFCs in Group C**:

The amount of outstanding investments of these HFCs have increased significantly from Rs.12.36 crore as on 31st March, 1995 to Rs.32.11 crore as on 31st March, 1996. However, the amount of investment has increased by 159.79 per cent over the previous level. (Table 4.14).

Overall performance of HFCs briefed in Table 4.14.

**Nature of Housing Finance**:

Every organisation irrespective of its size and mission, has to be viewed as a financial entity. Management of an organisation is not an easy task when its activity is linked to finance as it has to face several issues which have important financial implications. It is always confronted with issues and decisions relating to:

i) raising of finance,
ii) investments,
iii) management of its activities,
iv) monitoring of financial performance, and
v) credit policy.
Management of a business and its performance mainly depends on how it uses/manages its resources judiciously and effectively. The operational and allocational efficiency speaks about the financial management of an organisation. Financial management is broadly concerned with the acquisition and use of financial resources. ‘Its scope may be defined in terms of the following questions:

1. How large should the firm be and how fast should it grow?
2. What should be the composition of the firm’s assets?
3. What should be the mix of the firm’s financing?
4. How should the firm analyse, plan and control its financial affairs?

The main objective of financial management is to maximise the value of a company. This is the result of good investment decisions, prudent financing decisions and well-thought out financial planning and control.

The scope of financial management seems to be restricted to financial affairs of a firm only. But it encompasses almost all the activities of the firm. The financial strength/solvency/ soundness of an organisation will determine its prospects, progress, expansion and growth. In addition to this, the organisation should be able to analyse and plan its resources and allocate them efficiently to its lending and investment activities in [a proper] an ideal ratio so as to ensure the short-term surpluses also yield the proportionate income. A financial organisation, therefore, should have both short range and long range
plans in order to assess its funds requirements and their allocation to its activities.

Further the key objective of any firm is to maximise its profits. To maximise its profit a firm must either increase the turnover or minimise operating costs. The firm should evaluate and draw a parity between the opportunity for higher returns and the probability of not realising those returns and its consequent failure.

The efficiency of financial management can be observed more in financial companies, which operate with thinner margins, i.e., a narrow gap between the cost of funds and the return on its assets [lending portfolio]. This situation arises where the demand for funds is comparatively higher than the availability of funds. A good example in this regard is the housing finance sector. With the projected shortage of 41 million housing units by the turn of the century, the demand for housing finance appears to be unsatiable and assumes top priority in the days to come.

The HFCs in our country today have to operate in a competitive environment. The major business of housing companies is to accept deposits and finance housing. The spread between cost of funds and deployment of funds is low. In one way it may be assumed that the HFCs do not have control over the cost of funds to a greater extent. The need, therefore, is for the HFCs to check their non-interest expenses.
Various Methods of Financial Management Strategies:

The philosophy of financial management is procuring funds in the most economical and prudent manner, deploying these funds in most profitable projects of business in a given risk situation, planning future operations and controlling current and future performances and development through different tools.

For efficient operation of a business, there is a necessity for adopting different methods of financial management strategies. The application of these strategies depend on the environment in which they are functioning, the business mix, the overall corporate strategic objectives, the market and the target group served.

These strategies are aimed at minimising expenses and maximising profits, which is the ultimate aim of every business organisation. They are:

a) Expenses Reduction Strategy:

Financial companies start with cost management efforts by identifying unnecessary/excessive expenses and eliminating them. The non-interest expenses of HFCs are generally classified as staff, establishment and other expenses, salaries and wages, PF contribution. Training and staff welfare expenses come under the head ‘staff expenses’. The HFCs in India are in the growing stage and hence, they are in the continuous process of expanding their business by opening
new branches in areas with business potential and recruit human resources to manage such branches. In view of the above facts, there is no alternative for them to reduce such expenses. But it can ensure further recruitment in tune with the growth in business and also keeping an eye on the per employee business.

The expenditure incurred on training is, in fact, treated as investment by the management experts. In our country specialised HFIs are of recent origin. It is, therefore, very difficult to search people having either good academic background or enough people with rich experience in the area of housing finance. Thus training becomes a necessity and inevitable. Training is also required for existing staff for updating their knowledge.

Reduction in establishment and general office expenses will help the organisation to post profits. Since one paisa saved is one paisa earned, the industrial average based on the information available shows that staff expenses account for 36 per cent of total non-interest expenses [excluding depreciation and the preliminary expenses written off], establishment expenses amount to 18 per cent and the rest 46 per cent is accounted for other expenses.

b. Operational Efficiencies Strategy:

The operational efficiencies strategy speaks about:

i) Increasing operational efficiency in delivering the products and services at fair prices, and
ii) Increasing productivity.

Delivery of products and services at reasonable prices mean:

a) reduction of costs but maintaining the existing level of products and services, and

b) economies of scale and economies of scope.

They relate to:

i) increasing the level of output but maintaining the level of current expenses,

ii) economies of scale are said to exist when an institution’s average costs decrease as output increases,

iii) Economies of scope focuses on how the joint costs of providing several products change as new products are added or existing product output is enhanced, and

iv) improving the work flow – it involves increasing productivity.

c. Revenue Enhancement Strategy:

This strategy involves changing the price of products and services, while maintaining a sufficiently high volume of business, so as to ensure an increase in revenue. Alternatively, management can attempt to expand volume while keeping price constant. This can be achieved by target marketing to enlarge the base of consumers. If consumers see the quality in the product, they are prepared to pay higher prices.
d. Contribution to Growth Strategy:

It means allocating resources to improve overall long-term profitability. Increase in expenses are acceptable and expected, but must coincide with greater anticipated increase in associated revenues. Investing in computer systems and technology is possible to provide better customer services at reduced unit costs once volume is sufficiently large. The essence of this is that expenses are cut in the long run but not in the near future.

Risk Management in HFCs:

The predominant role of a financial manager in HFC is to invest the financial resources in maximum growth yields and also to keep cost down. However, the value of a HFC is affected by two key factors, viz., risk and return. Higher return generates higher risk and lower return the lower risk. In case of higher risk, there is possibility of losing the capital. In its operations HOUSING FINANCE may be exposed to the following risks:

1. Credit Risk,
2. Liquidity Risk,
3. Interest Rate Risk,
4. Operational Risk, and
5. Capital Risk.
1. **Credit Risk**:

   It is associated with the quality of asset and the likelihood of default. Whenever HFC provides a loan to an individual, or professional developer or co-operative society or corporate body, it assumes the risk of default. Default in the repayment of loan affects the net income and thereby causes decrease in the net profit.

2. **Liquidity Risk**:

   Liquidity means the ability of an HFC to meet its obligation in short run and the conversion of assets into cash. To be very specific shortage at the time when cash is needed is known as liquidity risk. Liquidity risk is highest when an HFC cannot:

   a) borrow the funds at reasonable rate,
   b) meet the obligation in short run, and
   c) sell its assets without much loss of time.

3. **Interest Rate Risk**:

   With the changes in environment, deregulation and liberalisation, HFCs, in certain cases, are free to borrow and lend. Different assets have different interest earning with different maturity periods. If the change in the interest rate occurs and this change does not tally with the liability maturities, there will be a gap in the interest income and interest expenses. Interest rate risk analysis helps in determining how
much net interest income will vary with movements in market interest rates.

4. **Operational Risk** :

   It refers to inefficiency on the part of the management in controlling the operating costs. Such costs could be because of:

   a) high cost of establishment,
   b) opening of number of divisions/branches without much expenses, and
   c) losses due to employees errors.

5. **Capital or Solvency Risk** :

   An accumulation of operating losses gives the scope for risk to the equity capital. When the cash inflow is not sufficient to meet the cash outflow in the long run the mismatch assumes solvency risk.

**Housing Sector and Income Tax Benefits** :

   As a part of the overall tax planning, housing loans can play an important role and bring down the tax liability. The Indian Income Tax Act, 1961 has offered the following tax benefits or incentives [fiscal sops] to the housing sector, which makes housing loans an even better proposition.

1] Under Section 24(1)(iv) of the Income Tax Act, 1961, interest on loan taken for the purpose of purchasing, constructing, reconstructing
or repairing the house property is allowable as a deduction. The quantum of deduction is as under.

i] In case of self occupied house, the annual value of the house is nil, but a deduction not exceeding Rs.75,000 can be claimed, if the house is acquired or constructed after 31st March, 1999 and/or Rs.30,000 can be claimed, if the house is acquired or constructed prior to 31st March, 1999.

ii] In case a house is let out, the entire interest paid is deductible from the rental income.

iii] In case of interest for pre-acquisition or pre-construction period is also allowable as a deduction in five equal annual installments commencing from the previous year in which the house is acquired or constructed.

2] Any sum paid (including accrued interest) as subscription to Home Loan Account Scheme. If the NHB or contribution to any notified pension fund set up by the NHB is qualified for Rebate of Income Tax Under Section 88 at the rate of 20 per cent.

3] Any payment made towards the cost of purchase or construction of residential house is qualified for Rebate of Income Tax up to Rs.10,000 at the rate of 20 per cent.

4] Any sum paid as subscription to any such scheme of:

i) public companies engaged in providing long-term finance for construction or purchase of houses in India for residential purposes; or
ii) any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning development or improvement of cities, towns, villages or for both.

The sum paid as subscription to any of the aforesaid schemes is qualified for Rebate of Income Tax U/S 88 at the rate of 20 per cent.

5] Capital Gains arising from transfer of residential house property is exempt from tax U/S 54, provided the following conditions are satisfied.

i) Residential house property should be transferred by an individual/HUF and whose income is taxable under the head ‘Income from House Property’

ii) It should be a long-term capital asset, i.e., it must be held for a period of more than 36 months before sale or transfer.

iii) A new house should be purchased/constructed: the assessee has purchased a residential house within a period of one year before the transfer or within 2 years after the date of transfer or has constructed a residential house property within a period of three years after the date of transfer.

6] Capital Gains arising from the transfer of long-term capital asset other than a house property is exempt from tax U/S 54F [of the Indian Income Tax Act, 1961]. The quantum of deduction is determined in the mentioned below:
i) If the cost of the new house is not less than the net consideration in respect of the capital asset transferred, the entire capital gain arising from the transfer will be exempted from tax.

ii) If the cost of the new house is less than the net consideration in respect of the asset transferred, the exemption will be granted proportionately on the basis of investment of the net consideration either for purchase or construction of the residential house. Therefore, the amount exempt = Cost of new house \times \frac{\text{Capital Gains}}{\text{Net consideration}}

Net consideration in respect of the transfer of a capital asset means the full value of the consideration received or accruing as a result of the transfer of the capital asset after deduction of any expenditure incurred, wholly and exclusively, in connection with the transfer.

7] i) Loss from a house property can be set off against income from any other house property Under Section 70.

ii) Loss under the head ‘Income from House Property’ can be set off against any other heads of u/s 71.

iii) A loss under the head ‘Income from House Property’ cannot be set off either under the same head or under the other heads of the same year, it may be carried forward and set off against the income of the subsequent year U/S 71 B [applicable from assessment year 1998-99 and onwards].

Nineteen ninety eight [1998] and subsequent budgets were considered as bold budgets, as far as housing is concerned. The tax sops in the Union budget, coupled with falling interest rates, have made housing finance a far more attractive proposal for an individual today.
Not only has amount of loan that is with his repayment capacity increased, the effective interest rate has also reduced considerably. In fact, the impact of falling interest rates in boosting housing activity has already become visible. Sources indicate that during the first quarter of the 1998-99, there has been a 6-7 per cent rise in the volume of business and increase funds flow to the sector.
References:


4. Ibid., p. 598.

5. HUDCO Financial Pattern (Amended up to 30th June, 1992).


9. Ibid. p. 137.


11. Ibid.
