CHAPTER SEVEN

HOUSING FINANCE

This chapter deals with the problem of housing finance in three sections. The first section is concerned with the definition, importance, problems and risks of housing finance. The second section deals with the requirements of housing finance to meet both housing backlog and annual deterioration of the housing stock. The third section traces the availability of housing finance through several agencies.

SECTION I - THE DEFINITION OF HOUSING FINANCE

"Housing finance is a factor of production quite distinct from labour, materials and risk-taking." This definition was given by Prof. Wallace F. Smith.¹ The price of other factors involved in housing construction need to be paid mostly in cash at the time they are used. In housing sector finance serves the following vital purposes. Finance is needed for:

(a) Purchase and development of house-sites, purchase of building materials and actual building a house.

(b) Meeting the annual charges consisting of the upkeep and maintenance expenses including

¹ Wallace F. Smith, op.cit., p. 116.
rehabilitation of kucha houses, taxes, interest and amortisation charges on capital, and
(c) Covering risks involved in long-term housing investment.

Importance of Housing Finance

From the foregoing definition it is obvious that housing sector is indissolubly linked with the financial sector. The fact that housing is a very expensive commodity which needs heavy capital outlay testifies to the vital role of finance in housing sector. In fact, housing leans heavily on finance which makes housing a function of finance to a considerable extent.

Let us see the extent to which housing is a function of finance. As seen earlier, land in this country is more valuable than most other commodities and, therefore, purchase and development of house-site involve a substantial amount of finance. Similarly, actual building of a house is quite expensive because it involves purchase of costly building materials and labour. Further, the fact that kucha, dilapidated and impoverished dwellings constitute as much as 77 per cent of the existing stock suggests the great financial need involved in tackling the problems of reconstruction or repair and maintenance. Since these kucha houses are made of local materials, they are to be demolished and reconstructed in two-to-three years' time. This also involves huge capital investment.
According to Prof. W.G. Grigsby\(^2\) "the matter of adequate financing for ageing sectors of the stock is, a large component of the total residential finance problem."

If this is the case in an affluent country like the U.S.A., where such structures constitute only as much as 15 percent of the occupied inventory, still greater will be the financial need for dealing with our kucha, dilapidated and impoverished dwellings which constitute the bulk of the housing stock.

On top of that, taxes, amortization charges, charges to cover risk involved in long-term investment, etc. call for an additional substantial amount. Thus, to find finance, is perhaps, the most tough assignment for all those who are concerned with housing sector.

**Problems of Housing Finance**

Problems of housing finance are many and highly complicated. Hence they merit discussion here.

(1) **Housing Finance has a long-term character**

Housing requires special kind of finance mostly and preferably long term finance for more than one reasons. The product involved is not readily saleable and does not yield

monetary return as in agriculture or industry. In addition, personal savings or contribution can cover only a very small fraction of the total cost of housing and the balance has to be necessarily covered by long-term credit.

(2) **Mortgage-Orientation**

Mortgage finance is the life-blood of housing finance. Housing is the most costly commodity and hence it needs a huge capital investment in the initial stage itself. This initial capital expenditure will be much more than the lifetime earnings of most of the families. So most of the house builders either for use or income have to resort to debt. That is why Charles Abrams has observed that "a mortgage system is accepted as essential almost everywhere," and such being the case one can conclude that, Polonious' advice, "Neither a borrower, nor a lender be," would, if followed, make it impossible for most people to own their homes.4

(3) **Imbalance between its Supply and Need**

This problem of housing finance emanates from the limitations of means of compared to huge investment needs of housing. Always financial needs of housing fall short of the provision of finance. This universal phenomenon of housing finance is the probable reason for the World

---


4 Ibid.
Bank to maintain a feeling that "housing is a bottomless pit."\(^5\)

This imbalanced condition of housing finance is prevalent both in affluent and poor countries, and this is worse when we talk of poor and underdeveloped countries.

\(\text{(4) Housing Finance is not as Self Liquidating as} \)

\(\text{Agricultural Finance or Industrial Finance} \)

This peculiar feature poses a big problem in housing finance. An investor, either in agriculture or in industry can, look for a further income stream as the source of repayment. That is to say, agricultural or industrial investment usually yield quick return. But housing investment is not so. It is true that house, after the completion, can be rented out which will start yielding a return, but this will be a very insignificant amount in relation to the huge investment, and also will come month by month very slowly and leisurely. That is why the lenders are reluctant to lend to house builders. Therefore, while in agriculture, or in industry interest forms only a small proportion of total annual cost, in the case of housing it is the largest recurring cost factor. Hence, housing finance is much more sensitive to the level of interest rates than agricultural and industrial finance. This peculiar character of housing

\(^5\) Ibid., p. 96.
finance has been highlighted by Dr. C. M. Palvia.\textsuperscript{6} A significant thing that emerges from the foregoing analysis is that housing needs long-term finance. But the paradox is that in India the so-called long-term is less than the medium term of most of the developed countries. In India, usual period of long term finance is up to 15 years, though only in exceptional cases the term is up to 20 years.\textsuperscript{7} Under Social Housing Schemes the loan is extended for 10-30 years. But in several developed countries the period of long term finance is between 35-75 years.\textsuperscript{8}

**Risks Involved in Housing Finance**

Over and above these problems, housing finance bristles with several risks. These risks emanate from the peculiarity of housing commodity. Because of its uniqueness the housing market is unstable and unorganised. This is the probable reason why Prof. Wallace F. Smith has observed that "housing market analysis is nowhere a reputable science."\textsuperscript{9} Its prices or rents are liable to violent fluctuations. Houses are much less negotiable than most other forms of

\textsuperscript{6} C. M. Palvia, "Principles and Practices of Mortgage Financing with particular reference to present situations in the ECAFE Region (Paper presented at the symposium on Housing Finance, New Delhi, 1965).

\textsuperscript{7} The Functions and Working of the Reserve Bank of India, July, 1970, p. 127.

\textsuperscript{8} Herrick, Rural Credit, p. 3 and M. Tardy, Report on the System of Agricultural Credit and Insurance, p. 15.

\textsuperscript{9} Wallace F. Smith, "Economics of Housing Policy in Developing Nations", op. cit., p. 164.
investment. House selling is a time-taking business. It is difficult to dispose of old houses. The gap between the prices or rents of old and new house property alters rapidly. As the report of the United Nations says, "when the gap is wide there is a danger of capital loss in building or buying new dwellings; when gap is narrow the older houses are risky purchases."¹⁰

There is always the risk that a particular house may fall in value owing to various reasons. With the passage of time the architectural style may become unfashionable or location of house may become notorious. A cut in the public transport services or the growth of a slum may have the same effect.

House is a very poor and unsatisfactory security because of its inherent peculiarities. In order that the loan may be safe and secure creditors must place emphasis on both the nature of the 'assets' securing the loan and the credit worthiness or the repaying capacity of the borrower. Generally, the longer the term of the loan, the greater the emphasis which must be placed on the selection of the security behind the loan. Housing needs long term finance and hence there should be greater emphasis on the security. Also, majority of the borrowers for the housing purpose have little credit worthiness. For him only tangible security is the house against which loan may be obtained.

(1) **Risks in analysis of the security**

Usually analysis of the security begins with an appraisal of the property. Here the amount of the loan and the value of the property are compared and when the margin between value and amount of loan is narrow the creditor tends to soundly appraise property before he advances the loan lest he should run into risk. The appraisal of real estate is beset with many complexities and problems. The value of a house, for example, fluctuates violently—either it may appreciate or depreciate depending on the future developments of its surrounding or locations because it is an immobile thing. Another appraisal can be the estimation of future benefits, i.e. the rental that it brings. This also depends on various factors which undergo changes often.

Thus, the valuation of the house property is quite laborious and full of uncertainties and so full of risk and hence, lenders hesitate to lend. With the result, housing finance tends to develop at a very slow pace.

(2) **Risks in affirmation of borrower's legal position.**

Another phase of analysis of the security behind housing loan is the determination of the legal position of the debtor (borrower). In certain cases the creditor in case of default, finds it difficult to establish the debtor's ability to provide the security. This difficulty is further added because housing is immobile and each piece is unique.
Possession does not indicate ownership. Ownership of houses or houses with the compound is transferred not by change of possession but by the passing of legal documents called a 'deed'.

(3) Risks in tracing the evidence of title of ownership

Before lending against the security of house, the lender must make certain that full ownership of the house is actually on the name of the borrower, and he also must make sure that no other claims to the property are outstanding.

In India, because of the prevalence of inheritance and other laws it is not easy to trace out these informations correctly, and if at all successful in that because of the Punjab Land Alienation Act and similar laws it is not easy to take possession of the mortgaged house property by resorting to court. Further the complexities of mortgage loan-laws may give rise to substantial expenses on the part of the lender if the borrower defaults on his loan.

Since housing finance is involved deeply in these risks, housing does not have the normal facilities of finance available to either agriculture or industry. In view of these risks and problems of housing finance, one can rightly conclude that financing of housing programmes presents a knotty problem for the lower income groups and these problems are of universal nature, prevalent both in advanced
and developing countries. It is commonsense to consider these risks and problems all the more present in this underdeveloped country where there is widespread poverty and backwardness and little experience in the field of housing.

SECTION II - REQUIREMENTS OF HOUSING FINANCE

We have already analysed the complexities and risks that render housing finance a knotty issue. In this study an understanding of the magnitude of the requirements of housing finance is of crucial importance because finance is the crux of the whole housing problem. As Professor Wallace F. Smith has recently stated, "there is great scarcity in housing credit." Always the financial requirements of housing will be much greater than its provision.

Now we may try to estimate the financial requirements in the light of the housing needs in this country. The total financial requirements make up of two types of needs: They are requirements to wipe off the existing housing backlog and to meet annual deterioration of housing stock.

(1) Requirements to Wipe off the Existing Backlog as revealed by 1971 Census

Here estimate is made with the assumption that every

---

household needs a separate pucca dwelling with minimum standards. Financial requirements are calculated assuming Rs. 4,000\(^{12}\) per dwelling for rural areas. To get as reasonable amount as possible, urban housing requirements are estimated separately according to the number of households belonging to various income groups - lowest; low; lower middle; upper middle, including higher income groups.

Different sections will be given houses of different values, such as lowest income group may be given dwellings costing Rs. 3,000, low income group Rs. 4,500, lower income group Rs. 10,000 and upper middle including high income group may be given Rs. 20,000 worth of dwelling. This method is not adopted with regard to rural housing owing to lack of data pertaining to different income groups.

**Amount to Wipe Off Rural and Urban Housing Backlog of 1971**

As Table 7.1 (a) shows, a sum of Rs. 26,200 crores would be required to wipe off rural housing backlog of 705 lakh unit at Rs. 4,000 per dwelling unit at 1966 price.

Rs. 8,414.6 crores would be required at 1952-1953 price to wipe off urban housing backlog of 122 lakh units as is shown in Table 7.1 (b). Thus both would make a prodigious sum of Rs. 36,614.6 crores to wipe off the entire housing

---

12 In plantation Labour Housing Scheme the ceiling cost of the houses for plantation workers was raised to Rs. 4,000 in April 1966. This amount is taken as the ideal amount for this estimate for rural housing.
Table 7.1 (a). Estimated Financial Requirements to wipe off Rural Housing Backlog of 1971 (in terms of 1966 Prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Rural Housing backlog (in lakhs)</th>
<th>Cost per unit (in Rs.)</th>
<th>Total Cost in crores of Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>705</td>
<td>4000</td>
<td>28,200</td>
</tr>
</tbody>
</table>

Table 7.1 (b). Estimated Financial Requirements to Wipe off Urban Housing Backlog as revealed by 1971 Census (in Terms of 1952-53 prices)

<table>
<thead>
<tr>
<th>Household Groups</th>
<th>Income Range Monthly Income</th>
<th>Percentage of each income group to total households</th>
<th>Actual number of houses - less households (in lakhs)</th>
<th>Cost per unit (in Rs.)</th>
<th>Total Cost (in Rs. crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Income Group (Slum Dwellers)</td>
<td>Upto 100</td>
<td>16.8</td>
<td>20.44</td>
<td>3,000</td>
<td>613.2</td>
</tr>
<tr>
<td>Low Income Group</td>
<td>100-200</td>
<td>46.0</td>
<td>56.12</td>
<td>4,500</td>
<td>2525.4</td>
</tr>
<tr>
<td>Lower Middle Income Group</td>
<td>200-500</td>
<td>31.2</td>
<td>38.12</td>
<td>10,000</td>
<td>3812.0</td>
</tr>
<tr>
<td>Upper Middle Income Group and Higher Income Group</td>
<td>500 and above</td>
<td>6.0</td>
<td>7.32</td>
<td>20,000</td>
<td>1454.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>122.2</td>
<td></td>
<td>8414.6</td>
</tr>
</tbody>
</table>

Source: Backlog of Urban housing given in column 4 is computed from data of 1971 Census.
Table 7.1 (b) continued

Note:

This table is made by the help of the following data:

Proportion of different income groups in the total urban households is taken from the Report on the Middle Class Family Living Survey (1958-59), C.S.O. Government of India, Table 5-1, p. 20. Though the distribution refers to only 34 towns of this survey, this is taken to be representative of the whole urban population.

(*) Cost per unit and total costs are assumed to be in 1952-53 prices since the Urban Housing Schemes were started in 1952-53 by the Government.

(a) Cost per unit is estimated by dividing the amount sanctioned for the Slum Clearance Scheme by the number of Housing Units proposed under the Scheme.

(b) It is assumed that the rent paid by the income group (Rs. 100-200) per month, is Rs. 20. An investment of Rs. 4,500 per house will fetch an income (or rent) of Rs. 20 per month at the 5 per cent interest rate.

(c) Since the Low Income Group Housing Scheme is meant for those whose annual income does not exceed Rs. 6,000 per annum and loans upto 80 per cent of the cost, or loans upto a maximum of Rs. 8,000 per unit is given under the Scheme, taking the amount advanced as equal to 80 per cent of the cost per house, the cost per unit is worked out to be Rs. 10,000 per unit for this income group (Lower Income Group).

(d) L.I.C. Advances loans upto 80 per cent of the Cost or a maximum loan of Rs. 16,000 for a house for the income group of Rs. 6,000-12,000 per annum (or loan upto Rs. 20,000 for those who do not possess land). The cost per unit, therefore, works out to be Rs. 20,000 or Rs. 25,000 since the amount of advance equals 80 per cent of the total cost per unit. So, it is assumed that the cost of house for the Upper Middle and High Income Group be Rs. 20,000.

It needs to be noted here that this estimate is made in terms of 1952-53 prices. If we take price increase into account which has a bearing on housing cost, the amount has to be inflated.

This method was adopted by Dr. S.N. Khot in his paper "Mobilising Finance for Urban Housing Shortage", presented at the Symposium on Housing Finance, held in New Delhi on 1-3 February, 1965, M.B.O. and U.N. Regional Housing Centre (ECFAFE), New Delhi, p. 49.
backlog as revealed by 1971 census. The Working Group on Housing (1968) estimated the financial needs to wipe off the housing backlog as revealed by 1961 Census and placed the amount at Rs. 30,000 crores.\textsuperscript{13}

(2) \textbf{Requirements to Meet Annual Deterioration of Housing Stocks}

Deterioration of housing is a regular feature of housing stock. Since a substantial proportion of our housing stock is Kucha, made of impermanent materials very early deterioration takes place, and so we have to make allowance for this peculiar feature of our housing stock. Since more than 80 per cent of rural houses are kucha and the corresponding percent of kucha houses among urban houses are much less than that, we assume that annual deterioration of rural housing stock takes place at the rate of 10 per cent and urban housing stocks at 5 per cent. At this rate for both rural and urban areas financial requirements to meet annual deterioration of housing stock may be about Rs. 3,551 crores for the housing stock of 1971. This can be verified from Table 7.2.

As Table 7.3 shows our current annual average investment in housing comes to only around Rs. 4,59 crores.\textsuperscript{14}

\textsuperscript{13} Conference of Ministers of Housing, Urban Development and Town Planning, Madras, November 8-10, 1967 (Proceedings) Ministry of Works, Housing and Supply, Government of India, New Delhi, p. 27.

\textsuperscript{14} This amount is the annual average of five Five Year Plans. See Columns 1, 4, 7, 10 and 13 in Table 7.3.
It is obvious that this amount comes nowhere near even the financial need arising from annual deterioration of our housing stock. These data indicate the leeway that we have to make up with regard to financial needs of the housing sector. It is shocking to note that against such an enormous need, the financial provision is hopelessly poor and, in fact, it is like a drop in the ocean of the investment need of our housing sector.

Table 7.2. Estimated Financial Requirements to meet Annual Deterioration of Housing Stock of 1971 (Rural and Urban)

<table>
<thead>
<tr>
<th></th>
<th>Total No. of census houses (lakh)</th>
<th>Percentage at which annual deterioration takes place (rough estimate)</th>
<th>Actual No. of houses to be replaced (annual in lakh) as per rate shown in column 2.</th>
<th>Cost per unit (in Rs.)</th>
<th>Total cost (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>927</td>
<td>10</td>
<td>72.7</td>
<td>4000</td>
<td>2708.00</td>
</tr>
<tr>
<td>Urban</td>
<td>180</td>
<td>5</td>
<td>9.0</td>
<td>9375*</td>
<td>843.75</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3551.75</td>
</tr>
</tbody>
</table>

* The amount Rs. 9375 is the average of the total costs of houses of 4 income groups as shown in column 5 of Table 7.1 (b).
SECTION III - AVAILABILITIES OF HOUSING FINANCE

With the knowledge of the enormous size as well as mounting character of housing finance it is worthwhile to examine the ways and means of getting it and their adequacy. This requires a review of the agencies which give funds to housing purpose. For the sake of convenient analysis we will take up the public sector and private sector together and then other agencies such as Life Insurance Corporation of India, Cooperative Housing Societies, the Banking Institutions, Employees’ Provident Funds, Pension Funds, Foreign Funds, etc.

As Table 7.3 shows, no balanced allocations have been made both by the Public and Private Sector for housing purpose. Another remarkable trend is that the supply of housing finance has not appreciated in proportion to the total Plan investment. Perhaps the most striking feature in the table is the decline in the importance of the Public and Private investment in housing in relation to their total Plan investment. Another outstanding fact is that the contribution of the Public Sector in relation to that of the Private Sector is quite negligible. This is quite discouraging because the Public Sector is supposed to allot more funds for housing purpose since it has several advantages over the Private Sector. For instance, unlike the Private Sector, the Public Sector has a number of resources which it can tap for raising finance. It has the taxing power
### Table 7.3. Investment in Housing and Total Investment in Five Year Plans by Public and Private Sectors

(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th>First Plan</th>
<th>Second Plan</th>
<th>Third Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Housing</td>
<td>Total</td>
<td>Percent</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Public</td>
<td>250</td>
<td>1560</td>
<td>16</td>
</tr>
<tr>
<td>Private</td>
<td>900</td>
<td>1800</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>1150</td>
<td>3360</td>
<td>34</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Fourth Plan</th>
<th>Fifth Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Housing</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>(10)</td>
<td>(11)</td>
</tr>
<tr>
<td>Public</td>
<td>625</td>
<td>13655</td>
</tr>
<tr>
<td>Private</td>
<td>2175</td>
<td>8980</td>
</tr>
<tr>
<td>Total</td>
<td>2800</td>
<td>22635</td>
</tr>
</tbody>
</table>

N.B. Percentages in columns 3, 6, 9, 12 and 15 relate to investment in Housing as a percentage to total Plan Investment.

Source: Compiled from respective Five Year Plan Reports.
and the power to create money or borrow from abroad, or seek foreign aid, but the Private Sector lack these avenues and hence it is common sense to conclude that the contribution of Public Sector in relation to that of the Private Sector is quite inconsiderable. It indicates the lukewarm support of the Public Sector and total independability of the Public Sector funds.

(1) The Central Government

In the foregoing analysis we have evaluated the contribution of the Public Sector in relation to that of the Private Sector. In this section we will appraise the financial contribution of the Central Government to Social Housing Schemes. The Central Government has certain unique advantages which will enable it to raise funds as and when need arises. But the anomaly is that though housing is a basic need and utility item, the Government is quite lethargic about it by allotting a very inconsiderable fund. This is quite evident in Table 7.4, which shows the allocation of funds by the Central Government to Social Housing Schemes. During the Four Plan Period the Central Government allotted only Rs. 459.15 crores for Social Housing Schemes. This comes to little less than Rs. 20 crores per year. This does not come anywhere near the financial need arising from annual repair and maintenance expenditure. Another sad thing is that the percentage given to Social Housing Schemes
in relation to the total plan outlay has been quite nominal to begin with and, on top of that, the percentage has been dropping off from plan to plan which can be verified from Table 7.4.

If the Government continues to give funds like this, it is pretty sure that we will not be able to bring any appreciable improvement in housing. The problem will get aggravated and go out of hand defying solution. The Government should take cognizance of this consequence, rise to the occasion and give higher priority and greater finance to the cause of housing.

(2) The Private Sector

In the absence of reliable statistical information, it is difficult to give a clear picture or comment on the performance of private sector in housing. However, the performance of this sector may be inferred, to some extent, from the statistics relating to the number of houses sanctioned for and completed by the cooperatives of industrial workers and employers. As the Table 7.5 shows, from the Plan to Plan private effort also shows a deteriorating trend. The ratio of fund given to housing in relation to total Private investment has fallen from 50 per cent during the First Plan to 22 per cent during the Fifth Five Year Plan Period.
Table 7.4. Outlay on Social Housing Schemes by the Central Government During Plan Period (1951-1974)

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan 1951-55</td>
<td>2356</td>
<td>38.50</td>
<td>1.6</td>
</tr>
<tr>
<td>Second Plan 1956-60</td>
<td>4600</td>
<td>120.00</td>
<td>2.6</td>
</tr>
<tr>
<td>Third Plan 1961-65</td>
<td>7500</td>
<td>122.00</td>
<td>1.6</td>
</tr>
<tr>
<td>Annual Plans 1966-67</td>
<td>2165</td>
<td>17.65</td>
<td>.8</td>
</tr>
<tr>
<td>&quot; 1967-68</td>
<td>2085</td>
<td>13.00</td>
<td>.6</td>
</tr>
<tr>
<td>&quot; 1968-69</td>
<td>2376</td>
<td>13.50</td>
<td>.5</td>
</tr>
<tr>
<td>Fourth Plan 1969-74</td>
<td>16000</td>
<td>173.00</td>
<td>a little above 1%</td>
</tr>
</tbody>
</table>

Source:

(1) Report of Respective Five Year Plans
(2) Progress Reports of Annual Plans
(3) Annual Reports of Ministry of Works Housing and Supply
Table 7.5. Characteristics of Housing Finance Supply by the Private Sector During the Plan Period

<table>
<thead>
<tr>
<th>Plans</th>
<th>Total Private Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>I Plan</td>
<td>1800</td>
</tr>
<tr>
<td>II Plan</td>
<td>3100</td>
</tr>
<tr>
<td>III Plan</td>
<td>4300</td>
</tr>
<tr>
<td>IV Plan</td>
<td>8980</td>
</tr>
<tr>
<td>V Plan</td>
<td>16161</td>
</tr>
</tbody>
</table>

Sources:


(3) Life Insurance Corporation of India

Insurance funds are ideally suitable for long-term programmes like housing. However, in India, Life Insurance Corporation's contribution towards housing programme came only very late, i.e. in 1959-60 onwards, when it started to give financial aid to Social Housing Schemes.

As is shown in Table 7.6 in 1959-60 it gave Rs. 5.3 crores for housing, and its contribution kept on increasing and it
Table 7.6. **Supply of Housing Finance by Life Insurance Corporation of India, 1958-1959 to 1972-73**  
(As. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959-60</td>
<td>5.30</td>
<td>1966-67</td>
<td>112.75</td>
</tr>
<tr>
<td>1960-61</td>
<td>13.80</td>
<td>1967-68</td>
<td>132.57</td>
</tr>
<tr>
<td>1962-63</td>
<td>40.99</td>
<td>1969-70</td>
<td>187.57</td>
</tr>
<tr>
<td>1963-64</td>
<td>56.94</td>
<td>1970-71</td>
<td>202.20</td>
</tr>
<tr>
<td>1964-65</td>
<td>74.11</td>
<td>1971-72</td>
<td>237.23</td>
</tr>
<tr>
<td>1965-66</td>
<td>95.68</td>
<td>1972-73</td>
<td>274.93</td>
</tr>
</tbody>
</table>

Source: **Annual Reports and Accounts of Life Insurance Corporation of India from 1959 to 1972.**
was Rs. 274.9 crores in 1972-73, making an annual average of about Rs. 114.9 crores.

In addition to its own housing supply schemes which is already discussed in Chapter VI, it gives loans to State Governments, Loans on mortgage of houses to its policy holders, Loans under 'Own Your Home Scheme', Loans to Public Limited Companies, Loans to Co-operative Societies of L.I.C.'s employees, Loans to L.I.C.'s individual employees, to Housing Boards and to Improvement Trusts.

Defects of L.I.C.'s Housing Finance System

(a) **Very low percentage only to housing and still lower to mortgages**

A close examination of the investment programme of L.I.C. will reveal that L.I.C. has given between 12 to 19 per cent of its total investible funds only to housing. These percentages are very low when developed countries have an average of 40 per cent.\(^\text{15}\)

Even after the nationalization, L.I.C.'s investment in Real Estates and Mortgages forms a very insignificant part of its total investment, in contrast to most of the developed countries. In India they constitute only 4.3 per cent in real estate and 1.5 per cent in mortgages which is not much different from the pre-war investment patterns of 6.8 per cent.

\(^{15}\) Report of the Working Group on Housing for the Fourth Five Year Plan, **op. cit.**, p. 10.
in real estates and 2.9 per cent in mortgages whereas in Australia Real Estates form about 6.0 per cent and mortgages 35.3 per cent of the total assets in 1960. In Canada during the same period loans in Real Estate constituted about 3.4 per cent and mortgages 36.2 per cent of the total assets. In the U.S.A. the corresponding percentages were 3.1 and 34.9 respectively. 16

(b) **Investment pattern is defective**

Financing of L.I.C. has certain other defects. Its investment pattern itself is defective. Most of the assets are tied to Government securities. Available data show that in 1939, 1945, 1955 and 1960, 62.6, 70.4, 53.0 and 62.9 per cent respectively of L.I.C. assets were tied to Government securities while the corresponding percentages for real estates were only 6.3, 4.0, 4.7 and 4.3 respectively. 17 Of the total investment of Rs. 1528.6 crores in 1970, 73.6 per cent was in the Public Sector 9.6 per cent in the Cooperative Sector and 16.5 per cent in the Private Sector. 18

(c) **Too much reliance on outside agencies**

Another defect of the Corporation is that it has placed much reliance on outside agencies, which are usually very weak and inefficient. The fact that the total amount of


17 L.I.C. Year Book, L.I.C. Annual Report and Accounts

Rs. 23.05 crores sanctioned by the Corporation to various State Schemes remained unutilized at their hands reflects the administrative weakness.

The financial contribution of L.I.C. to housing sector remains grossly inadequate as compared with requirements of the country and its total investible funds. L.I.C. fund is very expensive and procedures are time consuming and cumbersome. Experts like Palvia, Venugopal, Ashish Bose and Dantwala all have observed that L.I.C.’s finance is not useful for Low and Middle income groups. On the contrary, it caters to the needs of the rich people. Its "Own Your Home Scheme" is a good example for that. Under this Scheme up to one lakh rupees are given per house and a rebate of Rs. 2.5 per cent is given if the borrower satisfies the Corporation that the entire building is for his own use. Thus, this "Own Your Home Scheme" encourages only luxury housing which should not be done at present. So housing fund given by L.I.C. should be reoriented in such a way that it may be useful to the most needy people. In India insurance finance has great potentiality because its assets and business are growing steadily and hence L.I.C. may be persuaded to allot more funds and support housing programme in a big manner.

(4) **Co-operative Housing Societies**

Co-operative Societies have proved to be a very promising source of housing finance in several countries. Its
merits lies in the fact that private finance can be mobilised for housing through the instrument of cooperation.

But in this country finance raised through this source is quite meagre. A recent survey conducted by International Labour Organisation revealed that the share capital collected by 1781 cooperative societies was only Rs. 374 lakhs while Government assistance was Rs. 536 lakhs. 19

Defects with their Financing System in India

In this country housing cooperatives have not developed their own funds. They depend entirely on the Government and the Life Insurance Corporation of India as main source of funds. This can be verified from Table 7.7. The table reveals the extent of the borrowings of both state level societies and primary societies. The former has been able to borrow on an average about Rs. 29.13 crores per year while the corresponding figure for the latter is Rs. 9278. Cooperative societies could thus distribute on an average Rs. 121.91 crores annually. The main defect without housing cooperatives is that instead of functioning as viable and self reliant institutions, they act as only distributing agencies for the funds borrowed from others. We want them to mobilise their own funds within themselves and finance the housing cause in a more responsible and useful manner. At present too much dependence on other agencies for funds is an inherent defect of the Cooperatives.

To take advantage of Government loans a person should have a plot of land which under present conditions would cost Rs. 5000 and more. This keeps many off the advantage of Government loan. Though cooperatives are meant for persons of low means, there are instances, as mentioned earlier, which show that richer persons have managed to get help from cooperatives by clandestine methods. Prof. D. M. Nanundappa 20

19 International Labour Organization, Cooperative Housing Societies, pp. 61-81.
Table 7.7. Supply of Housing Finance Through Housing Co-operatives (1957-1972).

(as. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Borrowings of State Level Societies</th>
<th>Total borrowings by the Primary Housing Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957-58</td>
<td>2.43</td>
<td>24.00</td>
</tr>
<tr>
<td>1958-59</td>
<td>3.50</td>
<td>32.24</td>
</tr>
<tr>
<td>1959-60</td>
<td>5.42</td>
<td>38.08</td>
</tr>
<tr>
<td>1960-61</td>
<td>3.47</td>
<td>41.31</td>
</tr>
<tr>
<td>1961-62</td>
<td>6.98</td>
<td>50.19</td>
</tr>
<tr>
<td>1962-63</td>
<td>13.88</td>
<td>60.34</td>
</tr>
<tr>
<td>1963-64</td>
<td>18.28</td>
<td>73.75</td>
</tr>
<tr>
<td>1964-65</td>
<td>23.12</td>
<td>83.55</td>
</tr>
<tr>
<td>1965-66</td>
<td>27.00</td>
<td>87.12</td>
</tr>
<tr>
<td>1966-67</td>
<td>35.87</td>
<td>123.96</td>
</tr>
<tr>
<td>1967-68</td>
<td>47.67</td>
<td>124.27</td>
</tr>
<tr>
<td>1968-69</td>
<td>57.39</td>
<td>155.72</td>
</tr>
<tr>
<td>1969-70</td>
<td>73.11</td>
<td>186.94</td>
</tr>
<tr>
<td>1970-71</td>
<td>88.68</td>
<td>217.39</td>
</tr>
</tbody>
</table>

Source: Statistical Statements relating to the Co-operative Movement in India, for the years from 1957-1972.
has quoted the remarks of Mirdha Committee which runs as follows: "We saw a series of luxury flats in posh localities built with the assistance of concessional loan finance whose purpose it could never have been to help build these millionaire like mansions. These schemes in which crores of rupees have been sunk have done much to tarnish the image of cooperation." A recent survey of beneficiaries of societies which had obtained loans from Maharashtra Cooperative Housing Finance Society reveals that membership is opened even to those whose income exceeds Rs. 2000 per month. It is one of the ironies of Indian housing cooperatives. Thus, dearth of own funds coupled with these defects are responsible for the tardy progress of housing cooperatives in the field of housing finance.

World experience shows that there is abundant potentiality with the housing cooperative societies. We must also try to build up the Co-operative Sector in such a way that it can mobilise household savings for the cause of housing.

(5) Banking Institutions

Though the primary function of banking institutions is to give credit, they are completely indifferent to the credit needs of housing sector. Table 7.8 makes it quite clear.

Though we have over 74 Indian Scheduled Commercial Banks

21 Ibid.

Table 7.8. Supply of Housing Finance by Scheduled Banks
(1950-1966) (Rs. Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.75 (1.4)</td>
<td>5.41 (1.5)</td>
<td>5.99 (1.6)</td>
<td>6.68 (1.7)</td>
<td>6.54 (1.6)</td>
<td>6.80 (1.5)</td>
<td>6.69 (1.5)</td>
<td>6.48 (1.3)</td>
<td>8.41 (1.1)</td>
<td>7.95 (0.9)</td>
<td>-</td>
<td>8.37 (1.2)</td>
<td>8.79 (1.2)</td>
<td>8.40 (1.1)</td>
<td>9.61 (1.2)</td>
<td>10.21 (1.36)</td>
<td>10.43 (0.1)</td>
</tr>
</tbody>
</table>

(In brackets percentage of housing investment to total investments)

Sources: (i) Figures compiled from Reserve Bank of India, Monthly Bulletins.


In 1971-72, they give only a very negligible amount to the worthy cause of housing on the fuss that housing finance is sticky. As Table 7.8 shows, scheduled banks give an annual average of about Rs. 7.65 crores to housing and its percentage to total investment comes to around 1 to 1.5 only.

(6) Employees' Provident Funds and Pension Funds

These funds, like those of L.I.C. are ideally suited for long term investment in house construction. But their role is only minor one.
The subscribers to Provident Funds are entitled for a house loan to a limit of 50 per cent of their own contribution which means only 25 per cent of the total fund of a subscriber. This is not at all an adequate amount for housing purpose because of its heavy capital cost. Moreover, the term of this loan is also relatively short term, not exceeding 5 years. However, it has one merit over that of L.I.C. fund. The former's rate of interest is half per cent less than that of the latter. In the present situation this fund is of no much use to a house builder. Pension Fund also is similarly not dependable. But one can be quite optimistic about the potentiality of these funds for housing purpose. There is phenomenal increase of Provident Fund Savings in this country. At the end of March 1970 there were 56.06 lakh subscribers. The Working Group on Housing (1968), estimated that a sum of Rs. 138 crores approximately would be available for investment per annum.\(^{23}\)

(7) **Licensed and Unlicensed Money Lenders**

Since plenty of risk is involved in housing finance licensed and unlicensed money lenders are shy and reluctant to lend money to house builders. Since reliable data are not available regarding private money lenders nothing definite is possible to be said about their role in financing housing.

---

However, available information and experience show that source of finance from unorganised money market is quite uncertain, costly, short term and so not dependable in housing sector. Banking Commission's report states that in this sector the usual interest rate ranges generally between 18 and 36 per cent per annum. In some economically backward regions, the rates mentioned were much higher than this, say over 75 per cent per annum.24 The Builders' Association of India in the course of its discussion with the Commission stated that they are compelled generally to make their financial arrangements either with private sources or with indigenous bankers on a hundi basis, and have to pay a very high rate of interest on such loans.

The pitiful thing is that to house builders, unorganised money lenders are a necessary evil, because they have no alternative way to get finance. So they depend on them though costly and beset with many demerits. A sound system of housing finance may be built to relieve them from the clutches of these ambitious money lenders.

(8) Foreign Funds

In the field of house construction international source of finance has been very little and there is little prospects in obtaining a reasonable amount from foreign source. As

already noted the World Bank and its subsidiaries -- I.F.C. and I.D.A. seem to adopt a pessimistic view about housing problem that housing is a bottomless pit, and they put up an indifferent attitude towards housing finance.

India received from the United Nations some aid for setting up a Regional Housing Centre for Hot and Arid Regions of the ECAFE in the NBO. The W.H.O. and the Ford Foundation have given some aid to the Calcutta Metropolitan Planning Organisation, but out of that, housing got only a fringe benefit.

From PL 480 Funds provide 3 categories of funds which may be useful for housing construction. They are:

(a) to be given to the Government of India to the shape of loans and grants for approved development programme.

(b) to be given to the United States Companies having collaboration with Indian firms, and

(c) to be used for the Government of U.S.A. in India.

The funds of the first and the third categories are not going to come for housing sector. The funds of the second category also known as Cooly fund can, however, be used for housing purposes. Total accumulation under this particular category amounted to Rs. 113.63 crores on the 31st March, 1967, out of which Rs. 56.69 crores had been utilised by Indian concerns with American firms. Such funds can profitably be used in

---


26 Ibid., p. 12.
setting up building industries and also as seed capital of housing institution. The magnitude of our housing problems and limitation of domestic resources suggest the need for finding out ways and means of boosting knowledge and finance from foreign source.

Are the present Housing Finance Institutions adequate or not? Are we in need of specialised institutions for the purpose?

The foregoing analysis has made it clear that the financial need to liquidate the housing deficit as revealed by 1971 Census and meet annual deterioration is enormous and beyond the means of the Public and the Private Sectors. A scrutiny of the performance of the present financing agencies has indicated that they cannot cope with the enormous financial needs.

Before pronouncing the adequacy or otherwise of the present financing institutions, it is better to lay down the basic requirements of an ideal housing finance system and then to judge whether the present system satisfies these requirements or not.

Basic Requirements of an Ideal Housing Finance System are the following:

(1) Being a developing country where substantial fraction of the populace is poor the Government should provide sizable housing finance.

(2) Specialised institutions may be there to encourage
saving and give housing loans specially long term mortgage loan in adequate quantity on reasonable terms, for housing requires huge investment.

(3) Since conditions vary from place to place, it is desirable to have local institutions. It would be useful to knit these institutions into a system through a Central Institution which may help and supervise them.

(4) There should be a machinery to offer suitable guarantee and insurance to cover the risks involved in providing housing finance and conditions should be created to develop a secondary mortgage market.

In the light of these basic requirements of an ideal housing finance system, we will evaluate our Housing Finance System. At this stage looking into the experience of some countries which are successful in this field is quite rewarding and useful because they hold valuable lessons especially for India which does not have a suitable mechanism for financing housing construction. In India, though agricultural and industrial finance have developed, housing finance is an unexplored and undeveloped field.

An Evaluation of the Existing Housing Finance System.

(1) Inadequate Finance owing to Malallocation of Funds

The enormous gap between the requirements and provision of housing finance reveals that the efforts to fill the housing finance vacuum are almost foredoomed to failure. The foregoing analysis shows that the provision of funds by both
the Public and Private agencies together, is not enough even to meet the financial needs arising from annual deterioration of our housing stock. The scrutiny of the allocations of the Public and the Private Sector shows that this wide financial gap is chiefly the outcome of the malallocation of funds. The Public Sector appropriating the bulk of the investible funds and industry, agriculture, education and health receiving pampered attention, housing is not given its due share of credit and capital. Moreover, money lending legislations further restrict the flow of investible funds into housing from money lenders.

The analysis of housing finance system indicates that the whole system revolves around a nominal sum given out by the Government, Life Insurance Corporation of India and the Private Sector, though in practice we come across a parasitical type of money lenders in housing field. For instance, for the social housing schemes even the Government seeks capital from the Life Insurance Corporation of India. The same is the main source of finance of housing co-operatives. This may give a rosy picture about the financial system, but in reality it is not so. The increase in the credit issued by one agency is likely to be accompanied by a decrease in the credit issued by others. It is possible that part of the housing finance provided by the same housing finance agencies represents credit raised by other agencies. This does not amount to any net addition to housing finance or credit.
The net result is that, in effect, the net flow of housing finance or credit from the national money market via these agencies may be small. If the Kambal is too short, to cover the head would be to leave the feet bare and vice versa. Housing being allocated less than its due share of national savings all efforts to increase housing finance supply is like trying to fill hole by the dark. It implies that a sizeable fund has to be allotted to housing from plan funds.

(2) Absence of Country-wide Institution to Combine Schemes of Saving with Provision of Housing Finance

The most important lacuna in the existing finance system is that there is no countrywide institution to combine regular saving schemes with provision of housing finance in adequate amounts on reasonable terms. Eventhough the linking of saving schemes is an essential feature of the housing finance system, our system is in want of that. But several countries have such institutions. For instance, in U.S.A. Federal Saving and Loan Associations are a mutual savings and home financing association because they share capital and grant loans for the purchase, improvement or construction of houses. In 1958, about 57 million borrowers were paying for their homes through mortgage loans from these associations, amounting to $145 billion or 26 per cent of total mortgage loans of $171 billion made by all financing institutions. Britain has also provided both convenient investment services and mortgage services. German mortgage banks and savings
banks also perform similar functions to promote housing finance.

(3) Absence of Adequate Institutional Finance

Indian housing finance system is very weak institutionally. As we have seen even commercial banks are reluctant to lend against real estates on the ground that such advances are sticky. They, therefore, extend only lukewarm support to the cause of housing. This weakness of our housing finance system was pointed out by the Builders' Association when they were interviewed by the Banking Commission. The Builders' Association expressed its dissatisfaction about commercial bank's way of housing finance to the Banking Commission, saying that the amount of advance made by the commercial banks against the same property is lower than that advanced by indigenous bankers because the former advance 70 per cent of the document price whereas the latter grant loans upto 70 per cent of the actual worth of the property. But in West Germany in 1972, banks accounted for 70 per cent of the credit supplied to housing.

Along with this it may be noted that in this country, inspite of enormous need for housing finance, we do not have a specialised Apex Financial institution. This is an important lacuna of our housing finance system. Most of the countries have their own such institution. Japan, for example, established 'Housing Loan Corporation' in 1950, which loans out funds to the housing Associations which
supply houses to their members. It also helps middle income households to construct houses. This institution has a very vital function of knitting local and provincial financial institutions into a system by which some kind of supervision, help and control are possible.

(4) Absence of Facility for Mortgage Loan and for Guaranteeing Housing Credit

Other important lacuna of India's system of housing finance is that housing mortgage market is not yet developed, and there is no scheme or system to guarantee the repayment of loans. Lenders, therefore, find that their housing loans are illiquid and unsafe and hence they are reluctant to make such loans. But in countries like America, Japan, Germany, etc., these shortfalls are absent. In America, for example, as early as 1934, National Housing Act provided the facility of exchange of home mortgages for Government co-ordinated points or cash to lenders in the event of default or foreclosure. The Act also required that insured mortgages be value-amortized - a basic requirement in a continuous flow of amortization receipts and thus adding flexibility to institutional lending activity and imparting a measure of liquidity to the loans as well. These measures not only made housing loans safer and more liquid, but also they greatly expanded the activities of institutional lenders. In America 'Loan Insurance Corporation' (1934) is there to remove risk in housing finance. Japan has 'Housing
Loan Insurance System which insures banking institutions against loans made for housing. India also needs a 'Housing Loan Insurance Corporation' to provide insurance coverage to housing loans. Also, there is urgent need for developing a housing mortgage market and even a secondary mortgage market.

(5) Unfavourable Monetary and Fiscal Policy

In this country housing finance does not come forward in adequate quantities. One of the principal reasons for this is that it is discouraged by our present fiscal and monetary policy. The case is not so in many other countries. For example, in U.S.A. Housing Loan Associations, their reserves and surpluses and their loans and income were, at one time (1933-1946) exempt from all taxation imposed by the Federal Government. In Japan also privately financed housing is encouraged by exemption or reduction of fixed assets tax for private home owners. The Government guarantees tax reductions. In Britain also by law the Government confer on building societies advantages such as exemption from certain stamp duties. Dividends and interest distributed to investors paid by the societies are free of liability to income tax charges, the tax being paid directly by the societies at a specially computed rate known as the composite rate. Such fiscal and monetary measures or reliefs may be given to housing finance in India.
Summary

Unlike other factors or inputs, finance has a crucial role to play in housing sector. Housing sector is indissolubly linked with the financial sector. This universal truth is all the more true in India because of the predominance of tiny as well as Kucha houses in housing stock and enormous housing needs.

Housing finance involves several complicated problems and risks which render it shy and sticky.

Housing finance constitutes the crux of the whole housing problem. It is a universal experience that housing finance always falls short of its need. It is all the more true with India which is a poor but developing country.

To wipe off rural and urban housing backlog as revealed by 1971 Census, a prodigious sum of Rs. 36,614 crores would be required. To meet annual deterioration of our housing stock of 1971, about Rs. 3,551.75 crores would be required.

The financial supply of different housing finance agencies shows that they are unable to raise funds enough even to meet the financial needs that arise from annual deterioration of the housing stock. They seem to be inadequate for the task. The Government which is ought to allocate a substantial amount proves to be an insignificant financing agency in housing sector. No balanced allotment of funds was given by both the Public and the Private Sector compared with their total plan outlays. The declining
trend in their finance allocation from plan to plan is perhaps, the most striking as well as disheartening fact. This indicates that the effort at filling the housing finance gap is foredoomed to failure. This suggests the urgent need for correcting the misallocation of funds from Government's end.

The present system of housing finance has certain other lacunae. It is conspicuous for absence of institution to combine schemes of saving with provision of housing finance and for dearth of institutional finance. The present housing finance system lacks facility for mortgage loan and for insurance facility to guarantee housing credit. Along with these deficiencies, monetary and fiscal policies including money lending legislations choke up housing finance. These kinds of situations suggest the urgent need of making special financial arrangements through creation of new institutions and strengthening the present ones.

Very poor income earners and pavement dwellers are completely left out by all financing agencies and, therefore, some special financial arrangements may be made to cater to their housing finance needs.