Chapter - III

Housing Finance in India
CHAPTER III
HOUSING FINANCE SYSTEM IN INDIA

Every economic activity requires finance or it can be stated that economic development is the function of finance. The scarce financial resources are to be allocated and utilised in such a way that it should lead to overall economic development of the nation. But the allocation of funds to various sectors depends upon the urgency and the policy of the government, which is influenced by the philosophy of the political party at the helm of affairs. Resultantly, there will be lopsided development in some sectors and they demand for more funds to meet the emerging challenges. Especially the social services are paid less attention in the allocation of funds by the successive governments, as seen in the budgets of State and Central Governments.

Housing being one among the several social services, is ill-fated with inadequate financial resources since a long time. There is no financial assistance at required level either from the public sector or from the private sector. The individual household savings are not sufficient to construct dwelling units of their own and as a result, the gap between the demand for and supply of dwelling units is growing agitatingly. It is estimated that Rs.1,50,000, crores will be needed merely for wiping out the deficit as at the end of the present millennium. So, there is need for a conscious, co-ordinated and relentless exercise by individuals, financial institutions, State governments, the Union Government and various agencies operating in the field of housing finance to fight out the deficit upto date.
DEFINITION OF HOUSING FINANCE:

Housing finance may be defined as the need to reconcile the three Partially conflicting objectives of affordability for households, viability for financial institutions and resource mobilization for the expansion of housing sector and of the national economy.

For an individual household, it is just the problem of obtaining loan at affordable terms. The Ministry of Urban Development underlines the problem, as lack of resources for carrying out public housing programmes, while for a capital analyst, housing finance problem is that of mobilising short term resources while providing long term finance to the borrower.

According to Prof. Wallace F. Smith "Housing Finance is a factor of production quite distinct from labour, materials and risk taking."34 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 construction of a house.
(b) Meeting the annual charges consisting of the upkeep and maintenance including rehabilitation of kutchha houses, taxes, interest on capital and (c) covering risks involved in long term housing investment.

It is obvious that housing sector is linked with the financial sector. The fact that housing is a very expensive commodity which needs heavy capital outlay, testifies 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.

34 K.V.Varghese, Housing Problem in India (1901-70), Gokhale Institute of Politics and Economics, Pune, April 95, P.267.
Further, the fact that kutch, dilapidated and impoverished dwellings constituting as much as 77 per cent of the existing stock suggests the great financial need involved in tackling this problem of reconstruction or repairs and maintenance.

The matter of adequate financing for aging sectors of the stock is, a large component of the total residential financial problem. Finance is perhaps a tough assignment for all those who are concerned with housing sector. Thus, housing requires a heavy long term investment and the demand for housing is disproportionate to the available and affordable funds.

FEATURES OF HOUSING FINANCE:

Financing of house considers the age, condition and price of the property and the income, age and occupation of the borrower. The following are the salient features of housing finance.

1. Housing finance has a long term character:

Housing requires a long term finance, as the product involved is not readily saleable and does not yield quick monetary return, as in agriculture or industry, to repay loans fast. Repayment of loans invariably require longer period.

2. Mortgage oriented:

Mortgage finance is the life-blood of housing finance. Housing is an expensive commodity requiring a huge capital investment in the initial stage itself. This investment will be much more than the life time earnings of most
of the families. So most of the house holds have to resort to debt. In this context Charles Abrams has observed that "a mortgage system is accepted as essential almost everywhere".35

3. Imbalance between its supply and need:

This problem of housing emanates from the limitations of means compared to huge investment needs of housing. The shortfall of the provisions of finance, is the probable reason for the world bank to maintain a feeling that "housing is a bottomless pit."36 This imbalance condition of housing finance is prevalent both in the affluent and poor Countries.

4. Housing finance is not self liquidating in character.

This peculiar feature poses a big problem in housing finance. An investor either in agriculture or in industry can look for reasonable income which forms the source of repayment. But housing investment is not so. The rental income of the house will be disproportionately low to its huge investment. Due to this low productivity, the lenders are reluctant to lend to house builder. Therefore, while in agriculture, or in industry, interest forms only a small portion to total annual cost, in housing it is the largest recurring cost factor. Hence, housing finance is much more sensitive to the level of interest rates than in agriculture and industrial finance.


HOUSING FINANCE SYSTEM IN DEVELOPING COUNTRIES:

In a number of developing countries, a principal obstacle in providing housing finance to households in general, let alone to the poor, is the absence of well developed financial systems and institutions. Several factors explain the lack of smoothly functioning markets for housing finance in developing countries. These countries have given low priority to housing finance, because of its huge and long term nature. Inadequate legal systems diminish lender's willingness to provide mortgage finance.

Although some financing mechanisms of a traditional and some times non-monetary nature may have evolved in these countries with few exceptions do they serve to finance housing per se. Yet these conventional housing finance institutions have generally not evolved to serve the needs of the poor.

The mere presence of a well developed system of housing finance is thus no guarantee that the needs of all households will be met. A major constraint of conventional housing financing schemes with particular reference to the poor borrowers is the restrictive nature of their criteria and terms for granting loans. Additionally these policies tend to be applied in a conservative manner since these institutions must safeguard the capital entrusted to them.

HOUSING FINANCE SYSTEM IN INDIA:

Since independence, the Indian financial system has over the period expanded rapidly and at the same time experienced reasonable stability. It should be pointed out that at the time of independence, India's financial system was rather small although both savings and investment rates were not so low, being respectively around 10 per cent and 11 per cent of the GDP.
Most investment was made by savers directly with only a small portion of savings through financial institutions. An organised institutional housing finance system was lacking. Informal agencies have played a significant role in financing the housing activity. However, since the beginning of planning in India in 1951 saving rate has gone up to almost 23 to 24 per cent. This is despite India’s low per capita income.

The last three to four decades have seen significant institutional development in the area of housing finance in our country. We have now a national level public sector institution, HUDCO, established in 1970, catering to all income groups in an integrated and financially viable composition. In the private sector, the Housing Development Finance Corporation (HDFC) was established in 1977 and it is the first primary housing finance institution catering to individual loan requirements and there are moves to set up more HDFC type institutions in the country. In the last few years there has been a large increase in the number of HFIs both in the public as well as in private sector. Provident Fund resources are also made available to the housing sector at a reasonable cost. In addition to the housing development finance extended as a part of governmental regulation on investment pattern the institutions such as LIC, GIC, and commercial banks have established specialized housing finance subsidiaries to undertake direct household mortgage loan operations. National Housing Bank has been set up by the Government of India with the primary role of mobilising deposits required for the housing sector through local saving and loan associations. Deliberations also are an advanced stage to promote a separate company to take on the job of introducing mortgage insurance in India.
At the State level, apart from the State Housing Boards a number of Development Authorities with jurisdiction over specific urban areas have been and are being established which deal with area development and often also with Housing and Site and Services Programmers. There is now an attempt to further augment the institutional structure at state level by establishing specialised agencies for various purposes like Rural; Housing, Slum Upgradation, Weaker Section Housing, Police Housing, Water Supply etc. Some of these have become effective organisations whereas the others exist only in name.

A number of State Housing Development Authorities are now, with HUDCO's assistance, moving into the area of cash loans for housing to a greater extent than before. The introduction of loan linked deposit scheme by the HDFC was a beginning and in the years to come, can emerge as a significant programme at the institutional level. It will on the one hand increase the flow of household savings into the housing sector and on the other, strengthen the financial base of housing finance institutions.

A major contribution in the housing finance sector is being made by the co-operative movement. The State Apex Housing Co-operatives, largely funded by LIC, GIC and supported by HUDCO are promoting housing in a big way through the co-operative structure. There are some significant features of the co-operative structure. One is that by taking share capital contribution from prospective loanees. they are practicing 'loan linked deposits' which is being projected in recent years as a new concept in mobilising personal savings for housing. Another feature is that co-operatives provide a medium through
which the private sector namely, private promoters and builders can be brought in, to participate in housing development and provide houses at affordable cost with lower overheads.

The co-operative housing movement in India will stand greatly strengthened in the years to come as HUDCO has decided to extend its support to it in a much more positive manner.

Even though the budgetary allocations to housing have remained static or without any significant upward trend, the flow of credit to the housing sector has shown phenomenal growth mainly on account of contributions of HUDCO, HDFC, LIC, GIC, HFLs and housing co-operatives which have emerged as significant actors in the housing finance system. It may, however, be noted that despite the recent growth in housing finance as organized activity, the informal sector continues to be an important segment. The informal sector on the other hand represents the contribution through various sources for self-help housing including self generated resources such as personal savings in cash or in kind, sale of personal assets such as jewellery, land and agricultural property, and borrowings from friends and relatives etc.

Housing is being considered now as a major economic activity as it is capable of contributing to employment generation and overall socio-economic development. A through reformation is essential in the housing finance system to make it competent to cater to the goals set in the NHP.
FEATURES OF HOUSING FINANCE SYSTEM:

As there exists different forms of financial institutions in combination with various informal sources, it is difficult to characterise the Indian Housing Finance system in one dimensional manner. Instead, it would be more appropriate to bring out the distinct features of the system and the directions in which it is moving to serve a complex and ever growing housing market. Broadly speaking, the characterisation of housing finance system should on the one hand be done from the point of view of strategy adopted for the resource mobilisation and on the other, provision of credit needs for all the segments of the market. Linking the two broad aspects of the HFS the following factors of Indian housing finance system are noteworthy.

1. Public sector:

Significant role was played by Public Housing/Financial Agencies, in line with the plan objectives, both in terms of resource mobilisation and providing credit needs for the sector. The growing operations of HUDCO, establishment of NHB, support from institutions like LIC, have evidentially provided concessional finance to the economically weaker sections.

2. Private sector:

The role of the private sector in both informal and formal sector assistance through specialised Housing Finance Companies (HFCs), is condemnable. The private sector is dictated by considerations of higher efficiency and better service to the needy.
3. Specialised institutions:

Significant impact and a clear recognition of the specialised housing finance institutions have been the result of the establishment of HDFC. This trend has continued with the growth of the public and private sector HFCs in the recent past, particularly after the creation of apex agency, the NHB. What is interesting to note is that besides these specialised institutions the general credit institutions like commercial banks and co-operatives have continued to play their role in the housing sector. Moreover, operations of HFCs have been mostly limited to middle and higher income groups, that too in larger urban areas.

4. Resource mobilisation:

Analysis of resource flows to the housing sector reveal the following features.

(a) Informal sector (including own savings) has continued to play the dominant role but its share in the total credit appears to be declining.

(b) While direct Government budgetary support has never been significant, contribution by public financial institutions has been steadily increasing. The most prominent among them is LIC whose contribution has shot up from Rs.182 crores in to Rs.900 crores in 1992-93 and to Rs.2500 crores by 1999.

(c) Specialised institutions have limited role in terms of resource mobilisation either by way of mobilisation of household savings or by way of raising resources from the capital market. Much of their resources have come through the financial support from sponsoring public finance institutions. There is however, growing awareness and
effort to change this role of HFCs to a more effective deposit mobilisation and resource generation.

(d) Fiscal incentives for enhancing investment in the housing sector have been considered important contributory factor. Recent directives of the Government are not fully supportive to this measure in the changing macro-economic environment.

(e) Terms of lending have been conservative in general. In most cases, fixed rate mortgage system in the form of equated monthly installments is in practice. This system is operationally more convenient, but not in line with sound financial practices required to protect the interest of both the lender and borrower.

(f) Interest rate structure for the purpose of housing loan operations has varied from one system to another. In the case of HUDCO’s loan operations, differential interest rate is charged for borrowers classified by income categories. In the case of NHB’s refinance operations interest is determined by the size of loan. Interest charged by private HFCs is in most cases market determined subject to certain guidelines set by the Government and the Central Bank.

It appears from the above, that the system envisages a combination of features of housing finance systems of developing, as well as developed countries

WEAKNESSES IN THE EXISTING SYSTEM:

A significant portion of financial transactions continue to take place outside the formal financial system and this phenomenon is more evident in housing finance.
(i) As per certain estimates, less than 20 percent of the new housing units are financed by formal housing financing system.

(ii) Borrowings from the informal market becomes costly due to the high rate of interest prevailing thereon.

(iii) Another factor inhibiting the growth of a viable housing finance system is the non-availability of long-term finance to individual house builders.

(iv) The household savings mobilized by the banks, the financial institutions and the Central and State Governments are not being ploughed back to the households to any appreciable extent.

(v) Distortions in the land market and impediments in the supply of land.

(vi) Lack of motivation among people to participate in self-help housing programmes, absence of people's participation through institutional arrangements, have also inhibited the growth of housing sector.

In a developing economy, finance being a scarce resource direct credit allocation becomes a necessity and the availability of such directed credit for a new area of activity such as housing will have to be with in the framework and commitments of the financial system. But shift in the allocation of credit to housing sector could have an unsettling effect on other equally important sectors. Hence, solution lay in identifying the ways and means by which the availability of finance for housing could be increased.

**REASONS THAT STALLED THE PROGRESS OF EFFECTIVE HOUSING FINANCE SYSTEM IN THE COUNTRY:**

**1. The sheltered growth of housing finance institutions:**

The housing finance institutions form the core of the finance system in the country. Though they are expected to mobilize the domestic savings for
their resources, they are unable to tap them. They are also not in a position to procure funds by way of sale of shares and bonds. So they depended substantially on the banking system for their resources. As the resource base of the housing finance companies is not so strong, the share of housing investment financed by the formal financial intermediaries continued to be very small. As M.J.Pherwani observed, this may be partly due to less dedicated efforts by these institutions in marketing their contractual savings schemes.

2. The non-tradability of mortgages:

Mortgage financing is the principal mode in the housing finance. In its present form, mortgages have locked up vast sums of capital and assets for long periods, 25 to 30 years. Mortgages are also not tradable investments. Further, mortgage finance stands handicapped by the fact that a majority of them are based on fixed interest and found to be disadvantageous to lending institutions in the event of rising interest rates and to borrowers in the case of falling interest rates.

3. Absence of other innovative financing mechanisms, particularly those that will reach out to the poor household and link up formal and informal sources of financing. On the grounds that there are problems of repayment, increased frequency of late payments and default, difficulty in establishing clear title to property, and lack of credit record, no attempt has been made to down market

housing finance so as to reach households falling below the median income level. Subsidised credit is still viewed as the principal instrument to reach out to the poorer households.

4. Archaic laws and regulatory framework:

In India the onerous legislation and time consuming procedures affected the demand for and supply of housing finance. Urban Land Policies restrict the supply of land for the construction of house. Local authorities take more time to approve the plan and thereby affect the interest of the household to construct a house. Rent Control legislation protect the existing tenants at the expense of all future potential tenants, discouraging the rental housing. Consequently, new housing units are not coming up at the expected level. In case of default of repayment by the borrower, the lender is also not in a position to recover the dues with in a short period because of cumbersome and time consuming legal formalities. No separate legal mechanism is there to speed up the cases and to save the lenders against the loss of bad debts.

RESHAPING THE HOUSING FINANCE SYSTEM:

Increasing attention has come to be placed in recent years on developing a dynamic housing finance system in the country. A host of suggestions, such as tapping of the capital market, securitisation of mortgages, down-marketing of housing finance, strengthening and promotion of the contractual saving schemes, expansion of the fiscal incentive base are to be made, to imbibe dynamism into the housing finance sector. Thus it is argued that the HFIs
should take advantage of the vibrancy of the Indian Capital Market and create such conditions as would help to develop the secondary mortgage market and not depend on budgetary allocations and the "allocated credit system". It is argued that since housing is special and a generic product it may need different kinds of financial institutions.\textsuperscript{38}

\textbf{FUTURE STRATEGY IN RESPECT OF HOUSING FINANCE:}

The housing finance requirements in the country are phenomenally large. Provision of finances on this scale—approximately Rs.25,000 to Rs.30,000 crores annually for eliminating the housing deficit and meeting the incremental demand will mean using 10-12 per cent of the annual domestic savings for several years. It is even larger if other linked investment such as land development and essential off-site infrastructure is taken into account. Meeting this scale of financial requirements will be a stupendous task. The housing finance institutions will need to face this environment and compete for resources together with other, equally demanding sectors.

The housing industry is being viewed as an engine of economic growth with a major role to play in the distribution of economic resources. With recent developments in the financial sector, there is need in the country to think carefully on the over all direction of reform in the housing finance sector, focussing on expansion of financial intermediation, development of secondary mortgage markets, down-marketing of housing finance on market-based and overhaul of the legal and regulatory system.

Housing finance system can be truly efficient provided it is given due priority in the national finance system. In order to make the housing finance system viable and most competent, it is necessary to integrate all the institutions involved in the supply of housing finance.

After the establishment of NHB, several initiatives have been taken to strengthen the credit delivery system to suit the needs of the different income groups. The NHB has issued detailed guidelines for promotion of HFCs on sound lines. Depending on merits, the NHB is also participating in the equity of HFCs. Emphasis is also laid for opening HFCs or branches of the existing HFCs in those areas where the institutional framework for meeting the financial needs for housing is not adequately developed. On the initiative of NHB, RBI has also advised commercial banks for handling housing finance. Several relaxations have been introduced in respect of security, legal constraints and repayment method.

**SOURCES OF HOUSING FINANCE**

Sources of housing finance can be broadly categorised into three sectors Viz. Public sector, private sector and co-operative sector.

**a) Public Sector:**

It covers the central Govt., State Govt., State Housing Boards, Public finance institutions and Development Authorities. This sector emphasizes mainly on social housing schemes beneficial to the poorest sectors. The Contribution of this sector is very small.
b) Private sector:

This sector is represented by builders, developers and private housing development agencies. Contribution of household savings is also a significant source in this sector. This sector caters to the needs of higher-income and upper-middle income groups.

c) Co-operative sector:

This sector is represented by the housing co-operatives, the District and Central Co-operative Banks, and Urban Co-operative Banks. Among these, housing co-operative, which have been formed mostly by the economically weaker sections, low-income and middle-income groups play a significant role. They are being supported and assisted by the Government and the people themselves.

ANOTHER CLASSIFICATION OF SOURCES OF HOUSING FINANCE:

The High Level Group set up by the Government of India in June 1986, under the chairmanship of Dr. C. Rangarajan, the then Deputy Governor, RBI, has advocated yet another classification of sources of housing finance viz. formal and informal.

According to this Group, the formal sector includes:

a) budgetary allocations of central and State Governments.

b) financial institutions like GIC, LIC, UTI, commercial banks and provident fund organisations.
c) specialised housing finance institutions Viz. HUDCO, Apex and primary co-operative housing finance societies and.

d) housing finance companies like HDFC.

The co-operative banks also form a part of the formal sector (though not mentioned by the High Level Group.

FORMAL SECTOR :

The formal financial sector in most developing countries finances only a small share of housing investment. Mortgage credit from the formal sector was only 28 percent of all housing investment in a sample of eleven developing countries, where as it was more than 60 per cent in other economically developed countries. The difference partly reflects the shallowness of financial systems in developing countries. In India only at about 20% of the Housing Finance comes from Farmers Sector.

By international standards, the formal housing finance in India forms a small portion of GDP not withstanding the extra-ordinarily large growth in the volume of housing investments over the past four decades it still falls grossly short of requirements. A large part of the demand for housing finance stands unfulfilled. Table III.1 shows the formal sector contribution to housing during the Eighth plan period.
### TABLE : III.1

Formal sector contribution to Housing during VIII Plan Period (1992-97)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>LIC</td>
<td>5500</td>
<td>3129</td>
<td>4500</td>
</tr>
<tr>
<td>2.</td>
<td>GIC</td>
<td>700</td>
<td>508</td>
<td>700</td>
</tr>
<tr>
<td>3.</td>
<td>NHB</td>
<td>-</td>
<td>1127</td>
<td>1800</td>
</tr>
<tr>
<td>4.</td>
<td>Scheduled Commercial Banks</td>
<td>5000</td>
<td>1227</td>
<td>2770</td>
</tr>
<tr>
<td>5.</td>
<td>Provident/pension Funds</td>
<td>5400</td>
<td>2450</td>
<td>3900</td>
</tr>
<tr>
<td>6.</td>
<td>HFCs</td>
<td>5000</td>
<td>3550</td>
<td>4500</td>
</tr>
<tr>
<td>7.</td>
<td>Securitisation of mortgages</td>
<td>2000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8.</td>
<td>Others including UTI</td>
<td>1400</td>
<td>560</td>
<td>1200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>25000</strong></td>
<td><strong>12551</strong></td>
<td><strong>19370</strong></td>
</tr>
</tbody>
</table>

**Source:** Housing Finance - A Paper submitted in National Housing Seminar, October, 1996, Vigyan Bhavan, New Delhi, P : 3.

The total flow of funds to the housing sector by the formal sector institutions is estimated by the "working group on Housing State for Eighth plan (1992-97), planning commission" at Rs.5124.65 crores during 1990-91. Of this about two third has been by way of indirect finance and the remaining by way of direct finance to individuals. Of the direct finance, the contribution of specialised housing finance institutions was around 60 percent followed by the provident fund and LIC. The commercial Banks share was quite small.
The formal sectors contribution is known to have been traditionally small. The Eighth Five Year plan (1992-97) envisaged that approximately 25 percent of the financial requirements of the housing sector should be met by the formal sector. This level of contribution was estimated in view of the investing importance of financing institutions in the sphere of housing finance. The limited evidence shows that the contribution of the formal sector has been significantly lower than envisaged in the Eighth plan. By the end of the Eighth plan, it is expected to be about 77 percent of the envisaged flow of funds from the formal sector. On the other hand, the informal sector continues to be overwhelmingly important in housing finance.

Eighth Plan contribution from Formal Sector has given importance for both Rural and Urban area. Table III.2 shows Income Category wise and Rural Urban share of the projected flow of funds from the institutional sources during the Eighth plan.

Table III.2

Income Category wise and Rural-Urban share of the flow of funds from institutional sources during the Eighth Plan

(Rs. In Million)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Category</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>EWS</td>
<td>35050</td>
<td>39950</td>
<td>75000</td>
</tr>
<tr>
<td>2.</td>
<td>LIG</td>
<td>17600</td>
<td>32400</td>
<td>50000</td>
</tr>
<tr>
<td>3.</td>
<td>MIG/HIG</td>
<td>24450</td>
<td>100550</td>
<td>125000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>77100</td>
<td>172900</td>
<td>250000</td>
</tr>
</tbody>
</table>

There seems to be no estimate of the investment flows into housing for the poor. Observations reveal that there is little awareness of this finance system among the poorer sections. Absence of any information on this subject is a serious drawback in developing a strategy for housing finance in the country. Two observations of a qualitative nature are, however, possible.

(1) On account of the difficult economic situation, the scope of schemes designed to assist the poor has remained limited. As the planning commission’s report notes, "in the prevailing economic condition, where the Government is trying to control fiscal deficit, it may not be possible to substantially step up the budgetary resources for housing the poor". 39

(2) Inspite of a large increase in total loans sanctioned for EWS/LIG housing by institutions like HUDCO, there are indications of tapering off this focus in such financing.

1. Plan out lays for Housing under public sector:

Both Central and State Governments provide budgetary support to the housing sector. However, the extent of budgetary resources allocated for housing have not been quite high in comparison to the total public sector plan outlay. For instance, in the seventh plan (1985-90), plan outlay for housing at Rs.2424 crores (comprising of Rs.2168 crores in state sector and Rs.256 crores in Central sector) was only 1.1 percent of the total public sector plan outlay.

Even after including the allocation under Indira Awas yojana (IAY), the housing sector outlay works out to about only 1.3 per cent.

During the Eighth Plan there has been a slight increase in plan outlay for housing, estimated at Rs.6377.2 crores (including Rs.3581.67 crores in state sector) being 1.5 percent of the total public sector plan outlay.

The budgetary allocation for housing has been intended to finance the social housing programmes in urban areas and rural housing programmes for landless labour and artisans under the Minimum Needs Programme (MNP). The important scheme in the state sector is the House Sites and Construction Assistance Programme under which varying proportion of subsidies and loans are given across the states. In the central sector, to strengthen the financial base of HUDCO, the Central Government extends equity support to HUDCO. A fully subsidised Rural Housing Programme (IAY) is being operated by the Ministry of Rural Development as a part of Rural Employment Programme (JRY) for providing houses to SCs / STs and freed bonded labourours. In addition, budgetary support is provided in the central sector plan for housing, for development of building centres, community based support programmes and other R&D efforts to promote low cost housing. The State Governments and Union Territories have been vested with full powers to formulate, sanction and execute the projects under these schemes. State Governments provide funds for construction of rental houses for Government employees. It also provides loans to State Housing Boards and other agencies to construct houses for different income groups.
Over the period 1951-90, approximately Rs.62,185 crores are estimated to have been invested in the housing sector in the country as against the Eighth plan period investment Rs.77,976 crores which works out to be more than 100 per cent of the 40 years investment.

**Table III.3**

**Investment Flows Into the Housing Sector Under Public Sector (Nominal terms)**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Plan Period</th>
<th>Total Investment in housing under public sector</th>
<th>Total investment in the Economy under public Sector</th>
<th>Percentage of col 3 to Col. 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1. First Plan</td>
<td>250</td>
<td>1,560</td>
<td></td>
<td>16.0</td>
</tr>
<tr>
<td>2. Second Plan</td>
<td>300</td>
<td>3,650</td>
<td></td>
<td>8.2</td>
</tr>
<tr>
<td>3. Third Plan</td>
<td>425</td>
<td>6,100</td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td>4. Fourth Plan</td>
<td>625</td>
<td>13,655</td>
<td></td>
<td>4.6</td>
</tr>
<tr>
<td>5. Fifth Plan</td>
<td>796</td>
<td>31,400</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>6. Sixth Plan</td>
<td>1,491</td>
<td>97,500</td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>7. Seventh Plan</td>
<td>2,458</td>
<td>1,68,148</td>
<td></td>
<td>1.46</td>
</tr>
<tr>
<td>8. Eighth Plan</td>
<td>6377.2+25,000 Institutional funds</td>
<td>4,34,100</td>
<td></td>
<td>1.46</td>
</tr>
<tr>
<td>Aggregate</td>
<td></td>
<td>12722.2</td>
<td>7,56,113</td>
<td>-</td>
</tr>
</tbody>
</table>


As shown in the Table III.3, the share of public investment in housing, which was 16 percent of the total public sector investment in the First Five Year Plan has been reduced to less than 2 per cent in the Eighth Five Year
Plan. It reflects a shift in the role of Government from that of a provider of housing to that of enabler. However, the disconcerting feature of the behaviour of public investment is that in real terms (plan allocations adjusted to 1980-81 prices) public investment has not risen but at the same time declined at an average annual rate of 0.16 per cent.

Thus the share of public sector investment in the economy as a whole has increased while its share in the housing investment has decreased. We can conclude that it is the public sector, which could only help the LIG households. Even in the developed countries where the per capita income is much higher than of our country, public sector plays a vital role in housing finance.

It is learnt that out of the total expenditure of the States, the share of housing is quite meagre. There is lot of scope for all the states to participate in a transcendent way in the housing development. It is high time that the State should feel the responsibility to help in keeping the housing sector at a higher level.

2. **Plan outlay for housing under private sector**

Elaborating upon the role of the private sector in the implementation of housing programmes, the NHP states, "The private developers and the organised sector will be encouraged to invest in various forms of housing and land development by access to finance. Speedier approval of schemes and other forms of support, removal of constraints to assembling and development of land, while they will be induced to devote a significant proportion of the investment in housing for lower and middle income groups, at affordable prices and confirm to non-exploitative practice". The capability of the private sector lie in the powerful drive to accomplish a given task in the minimum time,
flexible approach on pricing, product development and delivery, adjustment to
the emerging market conditions, relatively smaller overheads, emphasis on
performance and not on the process or procedures etc. Their specific
organisational and technical adaptability equip the private sector to handle the
land assembling, development and construction activities in an efficient
manner.

Over the period 1951-90, Rs.55,836 crores are estimated to have been
invested in housing, in the country under private sector, where as it is
Rs.71,599 crores during Eighth Plan alone (1992-1997). The aggregate
investment in housing under this sector in Rs.1,27,435 crores.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Plan Period</th>
<th>Total Investment in housing under Private Sector</th>
<th>Total investment in the Economy under Private Sector</th>
<th>Percent age of col 3 to Col 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>First Plan</td>
<td>900</td>
<td>1,800</td>
<td>50</td>
</tr>
<tr>
<td>2.</td>
<td>Second Plan</td>
<td>1,000</td>
<td>3,100</td>
<td>32.2</td>
</tr>
<tr>
<td>3.</td>
<td>Third Plan</td>
<td>1,125</td>
<td>4,300</td>
<td>26.2</td>
</tr>
<tr>
<td>4.</td>
<td>Fourth Plan</td>
<td>2,175</td>
<td>6,980</td>
<td>24.2</td>
</tr>
<tr>
<td>5.</td>
<td>Fifth Plan</td>
<td>3,636</td>
<td>16,161</td>
<td>22.5</td>
</tr>
<tr>
<td>6.</td>
<td>Sixth Plan</td>
<td>18,000</td>
<td>1,50,000</td>
<td>12.0</td>
</tr>
<tr>
<td>7.</td>
<td>Seventh Plan</td>
<td>29,000</td>
<td>1,80,000</td>
<td>12.8</td>
</tr>
<tr>
<td>8.</td>
<td>Eighth Plan</td>
<td>71,599</td>
<td>7,48,620</td>
<td>9.6</td>
</tr>
<tr>
<td>Aggregate</td>
<td></td>
<td>1,27,435</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Table : III.4**

**Private Sector Contribution to Housing Plan-wise**

(Rs. in Crores)

**Source**

As shown in the Table No.III.4, from plan to plan private efforts show a deteriorating trend. The ratio of fund given to housing in relation to total private investment has fallen from 50 percent during first plan to 12.8 per cent during the Seventh Plan and 9.6 percent during the Eighth plan.

Table III.5

Total Investment in Housing Under Five Year Plans

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Plan Period</th>
<th>Total Investment in Housing (Rs. in Million)</th>
<th>Total investment in the Economy (Rs. in Million)</th>
<th>Percentage to Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.</td>
<td>First Plan</td>
<td>11,500</td>
<td>33,600</td>
<td>34</td>
</tr>
<tr>
<td>2.</td>
<td>Second Plan</td>
<td>13,000</td>
<td>67,500</td>
<td>19</td>
</tr>
<tr>
<td>3.</td>
<td>Third Plan</td>
<td>15,500</td>
<td>1,04,000</td>
<td>15</td>
</tr>
<tr>
<td>4.</td>
<td>Fourth Plan</td>
<td>28,000</td>
<td>2,26,350</td>
<td>12</td>
</tr>
<tr>
<td>5.</td>
<td>Fifth Plan</td>
<td>44,360</td>
<td>4,75,610</td>
<td>9</td>
</tr>
<tr>
<td>6.</td>
<td>Sixth Plan</td>
<td>1,94,910</td>
<td>17,22,100</td>
<td>12</td>
</tr>
<tr>
<td>7.</td>
<td>Seventh Plan</td>
<td>3,14,580</td>
<td>31,45,800</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>Eighth Plan</td>
<td>7,79,760</td>
<td>61,00,00</td>
<td>12</td>
</tr>
</tbody>
</table>


The share of investment in housing (contributed by both public and private sectors) to the total investment in the economy has gone down from 34.2 per cent in the First Five Year Plan to 9.7 per cent in the Eighth Plan as shown in Table III.5. The number of houses constructed through budgetary support during the past 50 years is a minuscule of country’s achievements in this field and a fraction of the total requirements of the country.
Inadequate financial resources have always been an impediment for fulfilling the housing requirements in the country. To accomplish this gigantic task both the public and private sectors require finance and concerted efforts on a large scale. Because of inadequate resources, the public sector leaves a large chunk of the efforts to the private sector. Examination of the resource allocation under the Five Years Plans indicates that housing has not received its due priority.

3. Life insurance corporation of India:

L.I.C of India has always been at the forefront of the nation's efforts in providing housing finance. In fact, more than 75% of its funds are invested in schemes providing welfare to the people of India.

In India, L.I.C occupied the place of pride among the institutions providing housing finance. Insurance funds are ideally suitable for long term programmes like housing. However, in India, LICs contribution towards housing programme came only very late i.e. from 1959-60 onwards.

Life insurance business was nationalised in Sept.1956. The Nationalisation preamble lays down that L.I.C will invest in ventures which further the social advancement of the country. Thus in view of the provision of the Insurance Act 1938, at least 50% of the LIC's investible funds have to be spared for the Govt. and approved market securities and 25% for the socially oriented schemes such as housing, rural electrification etc. The share of the housing sector has been around 16% of the accretion in the controlled fund maintained by the LIC.
The LIC is empowered to advance against the security of movable or immovable property to the extent of 50% of its value. The corporation can finance any housing scheme in India through any housing society or co-operative society, provided the sum is guaranteed by the Central Government.

LIC's contribution is under plan head is decided by the Planning Commission and the non-plan head disbursements are decided by the LIC itself. In addition, the Central Government has decided that a maximum of 5% of annual accretions will be invested by the LIC in National Housing Bank (NHB).

The LIC has been active in the area of housing development right from the time of its formation. The endeavours of the LIC have been two pronged.

1. In making available financial resources to
   a. the State Governments for financing social housing schemes, such as LIG, MIG, Rental Housing, Urban Development, Rural housing etc.,
   b. housing bodies at various levels including apex bodies like NHB, State Co-operative Housing Federations etc.,
   c. Developmental Authorities, Builders etc.,
   d. employers for employees housing and
   e. Individuals.

2. Building up residential houses for sale.

In 1959, the LIC introduced the M-1 scheme for grant of Mortgage Loans on immovable property. Since then it has introduced 15 more schemes till date to meet the varying needs of the different strata of our society. Table III.5 gives a list of these schemes and the years in which they were introduced.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Scheme</th>
<th>Code Number</th>
<th>Year of Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Scheme for grant of mortgage Loans on immovable property (M-1)</td>
<td>M-1</td>
<td>1959</td>
</tr>
<tr>
<td>2.</td>
<td>Own Your Home Scheme (OYH)</td>
<td>M-2</td>
<td>1964</td>
</tr>
<tr>
<td>3.</td>
<td>Scheme for grant of loans to Public Ltd., Companies for construction of houses for their employees (PLHS).</td>
<td>M-3</td>
<td>1964</td>
</tr>
<tr>
<td>4.</td>
<td>Schemes for grant of loans to Co-operative Housing Societies formed by employees of Public Ltd. Companies for purchase or construction of houses (PLECHS)</td>
<td>M-4</td>
<td>1964</td>
</tr>
<tr>
<td>5.</td>
<td>Scheme for grant of loans to co-operative housing societies formed by the employees of Corporation for purchase of construction or houses (ECHS).</td>
<td>M-5</td>
<td>1960</td>
</tr>
<tr>
<td>6.</td>
<td>Scheme for grant of loans to individual Employees of Corporation for purchase or construction of houses (IEHS).</td>
<td>M-6</td>
<td>1964</td>
</tr>
<tr>
<td>7.</td>
<td>Scheme for grant of loans to co-operative housing societies of employees of Public Undertakings for construction of houses (PSUECHS).</td>
<td>M-9</td>
<td>1971</td>
</tr>
<tr>
<td>8.</td>
<td>&quot;Own Your Apartment&quot; Scheme (OYA)</td>
<td>M-11</td>
<td>1973</td>
</tr>
<tr>
<td>9.</td>
<td>Scheme for grant of loans to Agents of the Corporation for construction/ purchase of their houses (Agent Scheme)</td>
<td>M-12</td>
<td>1973</td>
</tr>
<tr>
<td>Sl. No.</td>
<td>Name of the Scheme</td>
<td>Code Number</td>
<td>Year of Introduction</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------------------------------------------------------------------</td>
<td>-------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>10.</td>
<td>Scheme for grant of loans to individual employees of the Corporation for purchase of flats (IEH-Flat Scheme)</td>
<td>M-13</td>
<td>1981</td>
</tr>
<tr>
<td>11.</td>
<td>Scheme for grant of loans to Public Sector Undertakings for construction of Staff Quarters (PSU)</td>
<td>M-14</td>
<td>1973</td>
</tr>
<tr>
<td>12.</td>
<td>Schemes for grant of loans to co-operative housing societies of employees of Universities, Private Limited Companies and Public Limited Companies (other than approved employers) for construction of houses (PRECH).</td>
<td>M-15</td>
<td>1974</td>
</tr>
<tr>
<td>13.</td>
<td>Scheme for grant of loans to Public Limited Companies/Public Sector Undertakings for construction of commercial buildings mainly for their own use (PLCMH/PSUMH).</td>
<td>M-16</td>
<td>1984</td>
</tr>
<tr>
<td>14.</td>
<td>Own Your Home Scheme for grant of loans to Indian National residents in U.K. for construction/purchase/extension of houses.</td>
<td>M-17</td>
<td>1987</td>
</tr>
</tbody>
</table>

**Source:** NCHF, 10th Agenda, Proceedings and Background papers, NCHF

P : 41.
Table No.III.7 clearly depicts the financial assistance extended by LIC under its various schemes, as on 31.3.98. Excluding the LIC Housing Finance Ltd., Apex Co-operative Housing Federations enjoy major share of the LIC funds, earmarked for the housing sector.

**Table III.7**  
**LIC - Contribution to Housing Development**  
as at 31-3-98

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loans to State Governments</td>
<td>2413.62</td>
</tr>
<tr>
<td>2. Loans to Apex Co-operative Housing Finance Societies</td>
<td>2436.42</td>
</tr>
<tr>
<td>3. Loans to Housing Boards</td>
<td>10.15</td>
</tr>
<tr>
<td>4. Loans to Police Housing Corporations</td>
<td>34.00</td>
</tr>
<tr>
<td>5. Loans to HUDCO</td>
<td>478.00</td>
</tr>
<tr>
<td>6. Loans to HDFC</td>
<td>315.36</td>
</tr>
<tr>
<td>7. Loans to LIC Housing Finance Ltd.</td>
<td>3021.42</td>
</tr>
<tr>
<td>8. Loans to the National Housing Bank</td>
<td>1167.00</td>
</tr>
<tr>
<td>9. Bonds of National Housing Bank</td>
<td>6.97</td>
</tr>
<tr>
<td>10. Bonds of HUDCO</td>
<td>-</td>
</tr>
<tr>
<td>11. Bonds of Tamil Nadu Development Corporation</td>
<td>-</td>
</tr>
<tr>
<td>12. Loans under Property Mortgage Scheme</td>
<td>275.52</td>
</tr>
<tr>
<td>13. Loans under &quot;Own Your Home&quot; Scheme</td>
<td>953.93</td>
</tr>
<tr>
<td>14. Loans to Public Ltd. Companies for construction of Staff Quarters</td>
<td>12.05</td>
</tr>
<tr>
<td>Schemes</td>
<td>Amount</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>15. Loans to Co-operative Housing Societies of employees of Public Ltd. Companies.</td>
<td>3.42</td>
</tr>
<tr>
<td>16. Loans to Co-operative Housing Societies of the Corporation’s Employees (ECH)</td>
<td>46.70</td>
</tr>
<tr>
<td>17. Loans to individual Employees of the Corporation (IEH)</td>
<td>415.62</td>
</tr>
<tr>
<td>18. The &quot;Own Your Apartment&quot; Scheme (OYA)</td>
<td>2.24</td>
</tr>
<tr>
<td>19. Bima Niwas Yojana</td>
<td>56.66</td>
</tr>
<tr>
<td>20. Scheme for grant of housing loans to Agents (Club number) of the Corporation</td>
<td>60.85</td>
</tr>
<tr>
<td>21. LIC Individual Employees Flats Schemes (IEH) (Flat).</td>
<td>115.52</td>
</tr>
<tr>
<td>22. Loans to Co-operative Housing Societies of Employee of Public Sector Undertakings.</td>
<td>0.11</td>
</tr>
<tr>
<td>23. Loans to Public Undertakings for Construction of Staff Quarters.</td>
<td>0.84</td>
</tr>
<tr>
<td>24. Loans to Public Ltd. Companies/Public Sector Undertakings for Construction of Commercial Buildings mainly for their own use.</td>
<td>4.19</td>
</tr>
<tr>
<td>25. Corporation’s Own Building Construction.</td>
<td>153.57</td>
</tr>
<tr>
<td>Staff Quarters</td>
<td>8.06</td>
</tr>
<tr>
<td>Township Development</td>
<td>8.01   16.07</td>
</tr>
<tr>
<td></td>
<td><strong>12030.23</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual Reports of LIC.
During 1959, the share of housing in LIC's investible funds was only 3.5% against the present rate of 16%. As shown in Table No.III.8 the total loan advanced by LIC in housing sector has crossed Rs.12,500 crores by 31st March 1999, which has helped to generate 55 to 60 lakh dwelling units throughout the country.

Table III.8
Supply of Housing Finance by LIC

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959-60</td>
<td>5.30</td>
</tr>
<tr>
<td>1969-70</td>
<td>187.57</td>
</tr>
<tr>
<td>1979-80</td>
<td>1028.55</td>
</tr>
<tr>
<td>1989-90</td>
<td>3192.30</td>
</tr>
<tr>
<td>1990-91</td>
<td>4400.00</td>
</tr>
<tr>
<td>1991-92</td>
<td>5546.71</td>
</tr>
<tr>
<td>1995-96</td>
<td>9717.80</td>
</tr>
<tr>
<td>1997-98</td>
<td>12030.23</td>
</tr>
<tr>
<td>1998-99</td>
<td>12500.00*</td>
</tr>
</tbody>
</table>

(Rs. In Crores)

Estimated Figure.

Source :
1. Annual Reports of LIC
2. Significance of Housing and Human Settlements, NBO, P.16.

During the VIIth plan period, the contribution of LIC to housing sector was about 1,570 crores and during the VIIIth plan period, it could allot Rs.5500 crores which is 22 per cent of formal sector contribution during the Plan period.
Loans to Apex Co-operative housing Societies:

Apex societies borrow from LIC on the guarantee of State Governments to the extent of 12 times of their share capital and reserves less borrowings. These loans are distributed to primary housing co-operative societies for construction of houses. Till 31st March 1999, LIC has extended financial assistance to the extent of Rs.2,726 crores to apex housing finance societies.

Loans to Housing Boards:

The Ministry of Works and Housing made a special allocation to State Housing Boards of A.P., Gujarat, Maharashtra, Tamilnadu, and Uttar Pradesh under the specific housing construction projects. So the LIC has stopped lending directly to State Housing Boards and since 1972 directed its funds towards HUDCO which in turn finances State Housing Boards. It lends to National Housing Bank and also subscribes to its Bonds for providing refinance to various Housing Finance Institutions.

Loans to HUDCO:

Hitherto the establishment of HUDCO, the LIC was extending direct finance to the individual applications belonging to weaker sections. But after the inception of HUDCO, the LIC has changed its policy and started rendering indirect financial help through HUDCO. Upto 31-3- 1999, the LIC extended financial assistance to the extent of Rs.578 crores to HUDCO.
With a view to make a headway in solving the problems all over the country, LIC Housing Finance Limited was established in the year 1999, as a separate entity, to exclusively undertake promotion of housing. To each one, a house of his own’ is the motto that LIC and LICHFL would like to pursue. LIC today sanctions loans at over 2000 centres in the country. Table III.9 shows the housing finance sanctioned and disbursed by the LICHFL upto 31st March 1999.

**Table No. III.9**  
**Housing Finance by LICHFL**  
as on 31-3-99

(Rs. In crores)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>To Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Loans Sanctioned</td>
<td>3,47,673</td>
<td>5,270.35</td>
</tr>
<tr>
<td></td>
<td>b) Loans Disbursed</td>
<td>3,08,063</td>
<td>4,558.64</td>
</tr>
<tr>
<td>II.</td>
<td>To Corporate bodies/ Public Housing Agencies and Developers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Loans Sanctioned</td>
<td></td>
<td>664.66</td>
</tr>
<tr>
<td></td>
<td>b. Loans Disbursed</td>
<td></td>
<td>465.54</td>
</tr>
<tr>
<td>III.</td>
<td>a. Total Sanctions</td>
<td></td>
<td>5,935.01</td>
</tr>
<tr>
<td></td>
<td>b. Total disbursements</td>
<td></td>
<td>5,024.23</td>
</tr>
</tbody>
</table>

**Source:** Annual Report of LICHFL 98-99.

The financial contribution of LIC to housing sector remains grossly inadequate when compared with the requirements of our country. LIC loan is very expensive and procedures are time consuming and cumbersome. It can also be said that the LIC finance is not useful for low and middle income
groups. On the contrary it caters to the needs of rich. Its "Own Your Home Scheme" is a good example for that. so the LIC should reorganize housing finance activity in such a way that it is useful to the most needy people.

4. General Insurance Corporation:


The GIC started providing housing finance from 1977. As per the GIC guidelines it gives loans to the State Governments for Social Housing Schemes to the extent of 20 per cent of its investable funds and 15 per cent to HUDCO. It also sanctions housing loans to its staff. Thus around one third of fresh accretions to its investable funds are to be invested in the housing sector. GIC could contribute Rs.700 crores during the VIIIth Plan.

5. Commercial banks:

The commercial banks with their huge pool of deposits and extensive branch network offer a major potential source of housing finance. But these institutions have not played significant role in providing housing finance so far. Commercial banks provide housing finance in almost all countries of the world either directly or indirectly. Their role in the field of housing finance is more significant in countries like U.K., U.S.A and Australia.
Commercial banks and housing finance:

The banking system is the largest mobiliser of household savings. Banks have a tendency to opt out of housing finance because it represents a high risk, low volume of business and poses more difficulties in servicing as compared to industrial and other low risk, high volume ventures.

Before nationalisation, the achievement of social goals was never considered by commercial banks seriously. Housing needs long-term finance, and thus housing finance never became a part of their activities. The reluctance to extend credit for housing was basically due to:

1. their limited role in financing of working capital needs of commerce, industry and trade, and
2. disinterest to tie up their short term resources with long term loans.

Nationalisation changed the attitude of commercial banks as some banks started a few housing finance schemes. With the advent of social control and the 20 point Economic Programme, the commercial banks’ share in housing finance had increased.

Since 1976, commercial banks started participating in housing finance under RBI directions and have extended financial assistance to the following housing schemes.

a) Rural Housing Schemes.
b) Housing as well as hostels for scheduled castes and tribes.
c) Slum Clearance Schemes.
d) Family Planning Clinics and
e) Urban Housing schemes for LIG.
The guidelines further provided that bank credit should not exceed 40% of the total cost of the project. This may be provided either directly as term assistance and or indirectly in the form of subscription to debentures or bonds guaranteed by the Govt. When the schemes provide for sanctioning of direct loans by banks to the beneficiaries, the individual loans should not exceed 80% of the total cost of the house.

Direct finance should also be given to housing projects for the benefit of scheduled castes, scheduled tribes, economically weaker sections low income and middle income group people.

Based on the recommendations of the Working Group, under the chairmanship of R.C.Shaw the RBI set out the target of Rs.75 crores per annum under the category housing finance, which constituted approximately 0.5 per cent of total advances of all scheduled commercial banks as at Dec. 1978. This amount was exclusive of the housing loans meant for the bank's own employees. This target has been further increase by the RBI, in order to encourage the participation of commercial banks, in providing housing finance.

Table III. 10:

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May'79 to June '81</td>
<td>75 Per Annum</td>
</tr>
<tr>
<td>July '81 to Sept'82</td>
<td>100 Per Annum</td>
</tr>
<tr>
<td>Oct'82 to March'88</td>
<td>150 Per Annum</td>
</tr>
<tr>
<td>April'88 to Nov'88</td>
<td>225 Per Annum</td>
</tr>
<tr>
<td>Dec'88 to Jan'89</td>
<td>300 Per Annum</td>
</tr>
<tr>
<td>From Feb'89 onwards</td>
<td>1.5 Per cent of incremental deposits during the previous year.</td>
</tr>
</tbody>
</table>

The RBI proposed to direct the commercial banks to double the allocation to housing sector. The incremental deposits of commercial banks during 1998-99 expected to be Rs. 90,000 Crores. That means banks would disburse an estimated amount of 3,000 Crores as housing loans in 1999-2000.

After the establishment of NHB in July 1988, terms and conditions for housing finance were liberalised.

(a) The repayment period of 10 years has been extended to 15 years from November 2nd 1988.

(b) The ceiling on the amount of loan per individual was prescribed at Rs. 3,00,000, and subsequently, in view of the fact that there could be genuine cases for granting of loans over Rs.3 lakhs, the ceiling was removed with effect from October 11, 1989, and banks were permitted to extend any amount as housing loan, provided the other conditions were complied with. It was, however, clarified that housing loan exceeding Rs. 5 lakhs would not come under priority sector.

(c) Prior to November 2nd 1988, the security prescribed for housing loans was either mortgage of property or Government guarantee and later on extended to life Insurance Policies, Government promissory notes, shares and debentures, gold ornaments or such other security as they deemed appropriate.

(d) Banks were also allowed to consider the requests for additional finance for carrying out alterations/additions/repairs to the house/ flat already financed by them.

(e) For the individuals who have raised funds for construction/acquisition of a house from other sources and need supplementary finance, banks can extend credit after obtaining second mortgage charge over the same property.
The categories of housing finance treated as priority sector advance are :-

(a) Direct loans up to Rs.5,000 each granted to SC / ST and other economically weaker sections of the society.

(b) Assistance given to any Government agency for the purpose of constructing houses exclusively for the benefit of SC / ST and low income groups and where loan component does not exceed Rs.5,000 per unit and

(c) assistance to any Government agency for slum clearance and rehabilitation of slum dwellers subject to other conditions specified in (b) above.

Rates of interest on housing loans vary between 12.24 per cent up to Rs.25,000 and 16.32% on loans above Rs.5,00,000. Direct housing loans up to Rs.5,000 to SC /ST at 4% per annum are covered under differential interest scheme. When banks lend to Housing Finance Companies(HFCs) the rate of interest is 3% lower than the minimum lending rate .Repayment schedule is based on repayment capacity of the borrower which normally does not exceed 30% of the earnings.

The maximum amount of a loan sanctioned by banks is Rs.25 lakhs and the loanees is required to contribute 20 to 25 per cent of the construction cost as margin money. The interest charged by the banks will be 1 or 2 per cent less than that of the Housing Finance Institutions(HFIs). But, the interest rate is fixed according to the primary lending rate of the banks. It will be disadvantageous for a loanee whenever there is hike in the prime lending rate. It leads to uncertainty and mental tension among the loanees. Another
drawback is there are no consultancy cells in the banks and outside consultancy increases the cost of the loan. Banks prefer to extend housing finance to the salaried people and limit their operations only to urban areas. Rural housing loans are just a formality. But under the Golden Jubilee Housing Scheme, the nationalised banks are coming forward to sanction housing loans to agriculturists in rural areas from this financial year.

Banks also increased loans from Rs.50000 to Rs.1,50,000 as part of housing finance for undertaking repairs and additions. It is estimated that in the Eighth Plan period the contribution of scheduled commercial banks was around Rs.2600 crores.

6. Housing and urban development corporation (HUDCO):

HUDCO, a central Government enterprise is the largest housing and urban development establishment in India. Govt. of India established HUDCO in April 1970, as a Govt. company to accelerate the pace of housing and urban development in India.

Objectives:

(i) To finance and under take housing and urban development programmes in the country.

(ii) To finance or under take wholly or partially in setting up of new industrial towns.
(iii) To subscribe to the debentures and bonds to be issued by the State Housing and Urban Development Boards, Improvement Trusts and Development Authorities.

(iv) To administer the money received from time to time from the Govt. of India and other sources as grants or otherwise for the purpose of financing or under taking housing and urban development programmes in the country.

At the time of conceiving the HUDCO it was decided that sufficient funds would be provided to it to finance housing and urban development programmes, in the country on a large scale and to bring them, with in the reach of common man in view of the rising cost of borrowing and for keeping the lending rates low, The Govt. agreed to provide subsidy to the HUDCO to the extent of actual losses suffered by it on account of lending for social schemes. However due to severe strain on the resources of the Government even this order of support could not flow regularly.

These developments coupled with the rising demand for funds resulted in the HUDCO looking for market borrowings and reducing its dependence on equity support and institutional loans. The share of a market borrowing kept on rising significantly , particularly in 1990s, and was over 65% in 1998-99.

After 1988 resource mobilization through public sector bonds has been the major source of funding for the HUDCO's diversified activities in the housing and urban development sector.
Role of HUDCO:

HUDCO commenced its operations with meager capital of Rs.2 crores, and financed 12938 schemes till March 1999, with total project cost of about Rs. 25,619 crores, with a loan commitment of Rs. 12,226 crores. This contributed to the construction of nearly 6 millions housing units, 2.5 millions sanitation units over 280 infrastructure projects and over 0.8 million residential plots in different parts of the country. The HUDCO is the only techno-financing institution which gives financial assistance along with the requisite technical tie-up encompassing any city and neighbourhood level planning, lay out planning, building design, environmental protection, promotion and propagation of appropriate technologies and locally available building materials as also efficient construction management practices.

The HUDCO follows the practice of calculating the EMI on monthly reduction method instead of annual reduction method which is beneficial to the borrower.

The HUDCO has built houses for families of different income groups within their repayment capacity and who have actually occupied them. The HUDCO adopted a system where the poorer a house hold is, the lower rate of interest , the longer is repayment period and the lower is the cost of houses. In order to ensure that the HUDCO’s funds are utilised to benefit the families from economically weaker sections, 55 per cent of its loans are earmarked for EWS and LIG categories, out of which a minimum 15 per cent of total loans are meant for rural areas. It extends loans to the lower income brackets at
concessional rate of interest which is as low as 9 per cent for EWS housing loans as against 16 per cent for HIG. This resource allocation pattern has helped the construction of 90 per cent of dwelling units for EWS/LIG categories.

The National Agenda of the Government has set up a target of constructing 20 lakh additional units every year to meet the estimated shortage of 310 lakh dwelling units. The HUDCO has offered to finance up to one-third of them. Of the 20 lakh new houses, 7 lakh would be in urban areas. HUDCO has already earmarked Rs.933 crores for this. It will also contribute 2 per cent of its profits and 2 per cent of interest to the National Shelter Fund(NSF).

Now the HUDCO has launched HUDCO NIWAS, a retail financing scheme for the housing sector from 8th March, 1999. HUDCO aims at Rs.50 crore disbursements by the end of March itself under the retail schemes. The interest rates on retail loans are shown in the following table.

**The Building Centre Movement:-**

This is a gross root level technology transfer mechanism for using the benefits of research and development in the construction field. The first step towards this was taken in 1986 through the pioneering Nirmithi Kendra at Quilon in the state of kerala, which succeeded in providing quick and effective housing solutions. The HUDCO took initiative with the Ministry of Urban Development, Government of India in 1987 and as a result, the Government
of India decided to launch a national network of building centers (Nirmithi Kendras). In February 1988 the finance minister proposed to set up one Kendra in each district. The purpose of setting up at least one building centre at each district was primarily to provide:-

* Technology transfer from lab to land.
* Skill upgradation and training to the construction workers at various levels.
* Production of building material components using appropriate technologies and outletting these components
* Construction of buildings using trained work force and the produced components as a cost effective building system.
* Giving the necessary housing guidance and information to the people on the proven innovative cost effective and appropriate building materials and technology options.

The building centres have played a major role in promotion advocacy and dissemination of the relevant technologies needed for the geo-climatological variations, ranging from technologies covering mud, stone, brick, timber, cement, lime, steel, ferro-cement, timber alternates etc.

In 1991 the Ministry of Urban Development set up an expert group (The Paranjpe Commitee) for looking in to the various issues related to the establishment of building centers in all parts of a country and to strengthen the existing ones. Another major recommendation was that the Building
Centre Movement needed innovative and flexible management options. It recommended for the establishment of Building Centres under the management of both govt. and non-govt. bodies instead of district administration-driven bodies. As result of such endeavours, the movement has increasing trend in many districts and by the end of March, 1999 there are 374 Building Centres in the Country.

The Building Centre model is also an effective grass root-level institutional mechanism which reflects the enabling and facilitating approach as enshrined under the global shelter strategy. The Building Centres have been able to train work force for taking up construction work for many housing schemes. Over 35,000 construction workers during the last five years. The building centre movement has demonstrated that threat cost effective technologies are equally applicable to the workers, weaker sections, high income housing as well as public asset buildings.

**HUDCO's Assistance to Housing Co-operatives:**

The housing co-operatives are effective and powerful medium for promoting affordable housing. At the policy level, The HUDCO has decided to extend grater support to co-operatives especially for housing the lower income groups and weaker sections. This will help the housing co-operatives in more than one way. The great inflow of the HUDCO's funds will improve the financial position of the housing co-operatives which will result in construction of more dwelling units for their members. The other significant advantage is the cheaper HUDCO money available for financing the weaker sections and
lower income groups who are members of housing co-operatives. The HUDCO extends loan assistance to the EWS categories at 8% interest rate with 22 years repayment period, and for the LIG category such assistance is given @ 11.5% interest rate with 15 years repayment period. This will substantially reduce the repayment burden on the weaker sections.

However, the HUDCO has diversified its funding to co-operative housing and around 10% of its operations benefiting co-operative housing needs. The co-operative Act provides for a much superior recovery mechanism. The co-operative housing movement, therefore seems to be the most suitable vehicle to accelerate housing activity to meet the challenge of the housing shortage. The HUDCO has further liberalised the terms of financing for co-operative sector thereby providing line of credit to apex housing finance societies and plans to increase the share of co-operative societies out of the total allocation. It also finances land acquisition schemes of State Apex Co-operative Federations and endeavours for the development of housing co-operatives which is commendable in the country. However there is still scope for a closer relation ship between the HUDCO and housing co-operatives.

The HUDCO can take a few steps to further help the co-operative housing sector. The steps include a full fledged ‘Co-operative cell’ in the HUDCO to deal exclusively with the housing co-operatives in the country. A representative of the National Co-operative Housing Federation of India (NCHF) can also be taken as member on the board of directors of HUDCO in order to represent the full aspirations on financial and technical needs of the co-operative housing sector. The HUDCO can also liberalise the
terms and conditions of providing loans to the housing co-operatives under its various schemes to enable the co-operatives to get the maximum benefits of these schemes. Training programs of the HUDCO on co-operative housing for the benefit of the members and office bearers of the housing co-operatives extremely helpful.

**HUDCO and Rural Housing:**

A vast majority of families in rural areas are not only economically poor but also socially backward and belong to scheduled cast and scheduled tribes. Compared to urban areas the rural areas have a much lower level of income and consumption per head as well as much poorer access to education, health housing transport and other essential services. Keeping in view the problems of such down trodden rural populace, the HUDCO has evolved a rural development programme which supplements the effort already put in by the State Governments.

The efforts of the State Governments include provision of financial assistance by way of subsidy and/or loan to the landless labourers in rural areas for the constructions of houses with self-help on sites provided to them as a part of Minimum Needs Programme.

The Minimum Needs Programme(MNP) for the provision of rural house sites to landless agricultural labourers has been under implementation since 1971. under this programme house sites are provided to landless agriculture labourers and village artisans fisherman etc., free of cost. Further, 100 per
cent central grant assistance not exceeding Rs.500 per household is made available to State Governments to cover reasonable cost of acquisition of land wherever necessary and cost of development which includes cleaning and leveling of land and provision of paved streets and storm water drains.

The benefit of this programme can only reach a limited number of landless agricultural labourers due to constraints of funds. It is in this environment and taking note of the massive shortage of housing in rural areas that the HUDCO began to finance rural housing schemes in 1977-78.

The HUDCO started providing financial assistance up to 50 percent of the unit cost to landless agricultural labourers for whom sites had already been allotted free of cost by the State Governments. Its financial assistance for rural housing schemes is available to any agency nominated by a State Government such as the Housing Board, The Apex Co-operative Federation, and district/taluk/village board, provided the borrowing agency is competent under its constitution.

Nearly 75% percent of Indian population lives in rural areas which is spread over 5,70,000 villages. More than 14 millions rural people living in thousands of villages across the length and breadth of the country have been benefitted from the HUDCO’s financial assistance.

The HUDCO financed rural housing schemes have been implemented in 20 states, i.e., Andhra pradesh, Haryana, Jammu and kashmir, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Meghalaya, Orrisa, Punjab, Rajasthan,
Sikkim, Tamilnadu, tripura, Uttar Pradesh, and West Bengal. However, the bulk of the sanctions (over 84% of the total sanctions) has been consumed by the states of Andhra pradesh, Gujarat, Karnataka, Kerala, Tamilnadu and Uttar Pradesh. As the amount of subsidy and loan envisaged are highly inadequate due to continuous rise in the cost of construction the financing pattern of the HUDCO for rural housing schemes has been under going changes from time to time. This is to ensure that the houses built for economically weaker sections remain well with in their repaying capacity. Loan from the HUDCO is to be secured by the State Government guarantee for the full amount including interest thereon.

Implementation of Rural Housing strategies:

In every state HUDCO funds are provided to the beneficiaries through a government body only. Andhra Pradesh State Housing Corporation Limited(APSCHC) is the nodal agency nominated by the government of Andhra pradesh for implementing rural housing schemes in the State. House sites are distributed by the state government to the beneficiaries identified by the district collectors in consultation with non officials of the district under the social welfare programme. The houses are constructed by the beneficiaries under the technical super vision of the engineers of APSHC.

There are various models for taking up rural housing programmes in a State. Some of the possible sources of financial inputs are:
* State Government contribution in the form of subsidy/ or and loan.
* Assistance in the form of loan from the HUDCO and other financial institutions like Life Insurance Corporation (LIC), General Insurance Corporation (GIC), the nationalised banks and co-operative banks.
* Beneficiary contribution in cash, kind or labour.
* Contribution from non-government organizations.

Different states have adopted different models of financing pattern providing combination of one or more of this sources.

Housing Development Finance Corporation (HDFC):

The HDFC is a privately owned company for housing finance which has made remarkable progress since its inception in 1977. Its cumulative approvals as on 31-3-99 stood at Rs.17661.56 crores. So far the HDFC has financed 4.30 million units in nearly 1500 towns. It does not get Government guarantee for its debentures/bonds and has to raise its resources from the capital market. So it has however, been successful in raising 125 million dollars through the USAID with back-to-back arrangement entered with different banks and financial institutions at a fixed interest rate of 12.5% per annum on the counter part rupee funds in India to absorb the exchange rate risk.

The HDFC has mobilized funds mainly from the corporate sector. The recent government regulation prohibiting non-banking financial institutions from accepting deposits of less than twenty five months may dampen mobilization of house hold savings.
It has also co-promoted four companies namely:


2. The Housing Promotion and Finance Corporation limited.(With SBI capital markets).

3. Infrastructure Leasing and Financial Services limited.(With central bank of India and UTI).

4. Canfin Homes Limited (With Central Bank and Unit Trust of India)

Besides these four companies the HDFC has wholly owned a subsidiary called HDFC developer limited which is also involved in the Credit Rating Information Services limited.

Out of the total lending of HDFC 77 % of the gross loans were given directly to individual for home ownership. While the balance 23% of loans were routed through corporate institutions and other bodies, of which 45% of the beneficiaries were households with the family income below Rs.1000 per month. The HDFC has been able to help the low income groups of the organised sector like employees of Electricity Board and Road Transport Corporation in various parts of the country; Small cocoa and arecanut growers in karnataka and kerala plantation labourers in North East India, police constables in Maharashtra and Andhra pradesh, teachers and staff members of several universities and educational institutions.

Table III.11 reveals the housing finance extended by Housing Development and Finance Corporation during the last 9 years period.
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Table III.11 reveals the housing finance extended by Housing Development and Finance Corporation during the last 9 years period.
### Table III.11
HDFC-Sanction and Disbursement of Housing Loans
1990-91 to 1998-99
(Rs. In crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions (Cumulative)</th>
<th>Disbursements (Cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>2,903.13</td>
<td>2,246.65</td>
</tr>
<tr>
<td>1991-92</td>
<td>3,614.99</td>
<td>2,874.43</td>
</tr>
<tr>
<td>1992-93</td>
<td>4,474.13</td>
<td>3,594.32</td>
</tr>
<tr>
<td>1993-94</td>
<td>5,498.90</td>
<td>4,483.37</td>
</tr>
<tr>
<td>1994-95</td>
<td>6,993.45</td>
<td>5,695.05</td>
</tr>
<tr>
<td>1995-96</td>
<td>9,064.91</td>
<td>7,379.38</td>
</tr>
<tr>
<td>1996-97</td>
<td>11,586.61</td>
<td>9,479.38</td>
</tr>
<tr>
<td>1997-98</td>
<td>14,611.61</td>
<td>11,999.38</td>
</tr>
<tr>
<td>1998-99</td>
<td>17,661.56</td>
<td>13,968.15</td>
</tr>
</tbody>
</table>

**Source:** Annual Reports of HDFC.

## 5 Co-operative Housing Finance Societies:

The co-operative housing finance system has a two-tier structure. The State level Apex Co-operative Housing Finance Federation and Primary Societies. The State level Apex Co-operative Housing Federation provides financial assistance to primary co-operatives in their respective status and also provides them guidance and advice on various matters. LIC is the most important source of finance to these apex societies.

Primary Societies besides borrowing from the apex housing societies also borrow from district central and state co-operative banks mainly in the form of bridge finance. Primary Housing Societies also get financial assistance from the Central and State governments for the implementation of various social housing schemes. LIC and HUDCO also provide direct loan assistance to the primary societies. Other sources of the funds are, share capital and
contribution from members, acceptance of fixed deposits, loans from private sources in the form of temporary advances. Primary Societies are also permitted to raise resources through issue of bonds, debentures. But so far no society has availed of this source of funds.

98. State Housing Boards:

The State Housing Boards are the main agencies for translating the housing policies at the field level. Most of the schemes for housing development are being channeled and executed through these boards. Their proper functioning and re-defining of their roles in the role of new housing policy is necessary. The Housing Boards in the revised context are required to concentrate on housing for EWS. A perusal of the present provisions of the legislations governing Housing Boards show that their objectives are numerous and their area of functioning is very large. The housing boards have a big challenge and almost every activity connected with housing has been included in their functioning and objectives.

99. Housing Finance Companies:

Besides the commercial and co-operative banks, there are Housing Finance institutions (HFIS). These include institutions whether incorporated or not, which primarily transact business of providing finance for housing, directly or indirectly. All the companies involved in lending finance for the construction of houses are treated as Housing Finance Companies and given code number under the Industrial Classifications Code number 801-2.

After NHB came in to being, guidelines were issued to classify housing finance companies as distinct from other non-banking finance companies. Accordingly a finance company will now be classified as a housing finance company provided,
1. Where housing finance is the only principal object.
2. Where housing constitutes 51 percent or more of the companies asset pattern.

Currently there are 521 companies registered under industrial classification code 801-2; of this 96 companies by the end of June 99 have been classified as housing finance companies and the cases of other companies are at various stages of examinations.

The HFCs which is eligible to draw refinance from the NHB stands at 28 (excluding) the HUDCO as on March 1999. The top five include HDFC, LIC Housing Finance Ltd., Canfin Homes, SBI Home Finance, and Dewan Housing Finance. Table III.12 reveals the housing loan disbursements made by Housing Finance Companies recognised by the NHB.

### Table III.12
**Housing loan Disbursements by HFCs recognised by NHB**

(Rs. in Cores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (Cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>953.90</td>
</tr>
<tr>
<td>1991-92</td>
<td>1237.43</td>
</tr>
<tr>
<td>1992-93</td>
<td>2395.38</td>
</tr>
<tr>
<td>1993-94</td>
<td>2823.22</td>
</tr>
<tr>
<td>1994-95</td>
<td>3524.30</td>
</tr>
<tr>
<td>1995-96</td>
<td>4399.60</td>
</tr>
<tr>
<td>1996-97</td>
<td>4618.67</td>
</tr>
<tr>
<td>1997-98</td>
<td>5032.70</td>
</tr>
</tbody>
</table>

**Source:**

In the finance market there is a wide range of change in the interest rates, processing fees, administrative charges. The present rates are given in detail in the Table III.13.
### Table III.13

Comparative Statement of the details of Housing Schemes sanctioned by various HFIs

<table>
<thead>
<tr>
<th>Particulars</th>
<th>HDFC</th>
<th>LIC HFL</th>
<th>Canfin Homes</th>
<th>HUDCO</th>
<th>GIC Housing</th>
<th>SBI</th>
<th>Syndicate Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling (Rs.)</td>
<td>50 Lakhs</td>
<td>50 Lakhs</td>
<td>50 Lakhs</td>
<td>15 Lakhs</td>
<td>30 Lakhs</td>
<td>No limit</td>
<td>25 Lakhs</td>
</tr>
<tr>
<td>Loan Eligibility (Rs.)</td>
<td>EMI @ of 40% in gross monthly income</td>
<td>30 times of net monthly income</td>
<td>EMI @ of 50% in gross monthly income</td>
<td>27 times of gross monthly income</td>
<td>80% of the cost of construction</td>
<td>30 times of net monthly income</td>
<td>50 times of net monthly income</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>15</td>
<td>20</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Processing/Other fee (%)</td>
<td>1.8</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.3 to 1.8</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Duration (Years)</td>
<td>15</td>
<td>20</td>
<td>15</td>
<td>15 &amp; 20</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Reducing Balancing System</td>
<td>Yearly</td>
<td>Yearly</td>
<td>-</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Daily</td>
<td>Daily</td>
</tr>
<tr>
<td>Collateral Security</td>
<td>1 Guarantor</td>
<td>1 Guarantor and LIC policy</td>
<td>2 Guarantors</td>
<td>2 Guarantors</td>
<td>1 or 2 Guarantors</td>
<td>No</td>
<td>1 Guarantor</td>
</tr>
<tr>
<td>Pre-payment Charge (%)</td>
<td>2.0</td>
<td>1.0</td>
<td>Rs. 250 to 500</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Interest Rates (%)</td>
<td>Below Rs. 2 Lakhs</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>12.24</td>
</tr>
<tr>
<td></td>
<td>Rs.2,00,001-Rs.3,00,000</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td>Rs.3,00,001-Rs.5,00,000</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td>Rs.5,00,001-Rs.8,00,000</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td>Rs.8,00,000-Rs.10,00,000</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>13.5</td>
<td>14.0</td>
</tr>
<tr>
<td></td>
<td>Rs.10,00,001-Rs.15,00,000</td>
<td>14.5</td>
<td>14.5</td>
<td>14.5</td>
<td>14.5</td>
<td>14.5</td>
<td>15.0</td>
</tr>
<tr>
<td></td>
<td>Above Rs.15,00,000</td>
<td>14.5</td>
<td>16.0</td>
<td>14.5</td>
<td>-</td>
<td>15.0</td>
<td>14.28</td>
</tr>
</tbody>
</table>

In the case of LIC Housing Finance Limited, the rates are applicable for long term loans up to and inclusive of 15 years and for terms of 16 to 20 years, the rate of interest will be increased by 0.25 per cent for all the above loan slabs under all the above schemes. If the borrower does not possess LIC Policies, interest rates will be increased by 0.75 per cent.

Housing Finance Companies calculate EMI on annual reducing balance method. Under this method, the principal portion in the installments paid during one year will be reduced from the amount due at the end of the year and the interest is calculated on the remaining balance. So, the installment amount is fixed throughout the length of the loan period.

The Industrial Credit and Investment Corporation of India (ICICI) planned to launch its Home Loan Services in Mumbai from May, 1999. For the first time ICICI will be approaching customers at their door steps instead of customers visiting various housing finance companies to avail of a housing loan. The ICICI has already launched Home Loan Services in Pune and Nasik and it has met with a good response. After Mumbai, ICICI is likely to include other metros in its itinerary in a phased manner.

Customers research has revealed that for taking a housing loan, a customer has to visit housing finance companies' offices spread in the metropolis. This not only wastes a customer's time but also an arduous train journey. Hence ICICI through its marketing agencies and franchises, will go to customers' houses/offices to offer loans even on Sundays and other holidays.
Deficiencies in the functioning of HFIs:

The common deficiencies of housing finance institutions can briefly be summarized as follows:

* Cumbersome documentation and registration procedures.
* Deficiencies of operation.
* Ceiling on housing loans being insufficient to match the requirements.
* Margin money being arbitrarily defined without assessment of realities of situation.
* High servicing cost on interest.
* The conditionalities of loans being rigid stereo typed difficult and even beyond the comprehension of most of the borrowers.

14a. Provident/Pension funds:

The other major source of finance for housing is the provident fund and Pension fund systems. Out of the prescribed investment pattern for Provident fund and Pension funds 85% of the money is to invested in the Special Deposits Scheme of the Central Government and the remaining 15% in the various State Government securities and other negotiable securities. However, a small portion of the Provident Fund contribution is utilized for giving housing loans to the members. The loans availed by the members from Provident Fund constitute major portion of their initial contribution in any housing scheme.
The quantum of funds available from this source are immense and housing loans to employees are available with out much risk. Similarly Government employees' Group Insurance Scheme and different Group Insurance Schemes offer a good potential for housing finance for organised sector, as these funds are out side the LIC and also not a part of the government's own revenue. It may be mentioned that provident funds cannot strictly be considered as formal source of housing finance.

Government permits grant of non refundable advances by the Provident Fund Organization to the employees for a variety of purposes and grant of advances to construction and purchase of a house is one such purpose. It is estimated that Provident Fund and Pension Fund contribution to the housing sector during the Eighth Plan by way of loans to their members was Rs.3900 crores.

The poor are generally excluded from conventional financing mechanism due to high interest rates and restrictive loan terms. Further more, government schemes intended to provide housing for lower income groups have rarely reached the targeted population. Instead, the benefit of conventional solutions are absorbed by the upper and middle class because of the high housing and infrastructural standards which the poor cannot offer. Thus it is not surprising that the poor have no alternative but to rely on their own resources for the construction of shelters.
NATIONAL HOUSING BANK:

Besides the above ten sources of housing finance under formal sector, the most important source of indirect finance, the NHB which provides refinance to all the housing finance institutions finds itself very respectable place in the housing finance. Eversince its creation it brought about a phenomenal change in the entire housing finance structure of the country. Therefore, the subject of housing finance is incomplete without the NHB being discussed thoroughly.

Housing Sector-Need for special Institution:

The idea of forming an apex Institution for housing finance in India has been evolved over a period of time. Right from 1971 on the recommendations of the study group appointed by the Banking Commission and the working group on housing finance which was appointed by the Reserve Bank of India, felt that the housing problem was so acute that there was a need for a specialised system to cater to the needs of the housing sector.

The working Group recommended the establishment of a well-developed financing Institution in the country exclusively to serve the housing sector. The Working Group's proposal to create a specialised institution for housing finance at national level thus came to occupy the centre stage.

In order to promote the utilisation of public funds and to take up the task of promoting decentralised financial institutions which will serve all groups of people in the country. Based on the above recommendations a proposal to set up the National Housing Bank(N.H.B) was initiated by the Ministry of Urban Development.
Formation of N.H.B.:

The National Housing Bank was established in July, 1988 on the recommendations of the Rangarajan Group to function as an apex housing bank, on similar lines of The Industrial Development Bank of India(IDBI) and The National Bank for Agriculture and Rural Development(NABARD). The N.H.B. will remain a wholly owned subsidiary of the Reserve Bank of India.

Objectives:

N.H.B. has set for itself the following major objectives.

(1) To provide a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population.

(2) To establish a net-work of housing finance outlets to adequately serve different regions and different income groups;

(3) To promote savings especially for housing;

(4) To make housing more affordable;

(5) To augment the supply of land and building material for housing;

(6) To encourage public agencies to emerge primarily as facilitators and suppliers of serviced land;

(7) To upgrade the housing stock in the country;

(8) To encourage flow of credit and real resources to the small man first.

Resources of N.H.B.:

The paid-up capital of N.H.B. is Rs. 250 crores which is to be subscribed by N.H.B. as per the Act. It procured funds to the tune of 293 crores against Government guarantee at 13% p.a. by issuing bonds in five series. N,H,B, ’s borrowings from L.I.C. is 275 crores. It accumulated a sum of Rs. 72.13 crores in a special fund.
Strategies of N.H.B.:

N.H.B. has devised the following strategies for achieving its objectives:

1. N.H.B. will operate as multi-functional apex bank.

2. In the financial sector, the basic thrust of N.H.B. will be on developing healthy and self-sustaining housing finance system and integrating it with the general financial system.

3. N.H.B. will seek to promote more and more Housing finance companies in the public, private and joint sectors for tapping house-hold savings.

4. N.H.B. will simultaneously strengthen and support the existing institutions providing credit for housing, especially the co-operative institutions.

5. N.H.B. will discourage the prevailing hire-purchase system in public agencies.

6. N.H.B. will mobilise savings specially linked to housing while seeking a large proportion of existing house-hold savings like insurance and provident funds for housing.

7. N.H.B. will promote national level loan-linked and other savings instruments.

8. Size of the plot/dwelling unit will be an important parameter in N.H.B.’s lending norms to secure adequate allocation of financial and real resources to the small man.

9. N.H.B. will lay special emphasis on housing in rural areas and small and medium towns and on checking excessive congestion in larger cities.

10. N.H.B. will support commercial exploitation of cost saving techniques for building materials and construction components.
(11) N.H.B. will coordinate with the central and State Governments and other agencies in promoting necessary amendments to the existing laws and in the enactment of new laws.

(12) N.H.B. will encourage participation of new governmental organisations and social action groups in its various programmes, particularly those focussed on low-income group people.

**Lending norms:**

(1) Size of population: The objective of 'a house for every one' with scarce availability of buildable land, can only be achieved through every one agreeing to live in a smaller house. N.H.B. has thus arrived at the conclusion that the size of accommodation should be brought in as an important parameter in the lending norms for housing.

While an area measuring upto 40 sq.m. of built up accommodation in major urban areas has been consciously adopted by N.H.B., in view of the diverse socio-economic conditions across the country, it has been considered appropriate to provide for larger sized accommodation in rural and semi-urban areas. This pattern is in keeping with the occupational needs and social realities of Indian house-holds. (2) Affordability: The quantum of loan for housing will be divided on the capacity of the individual and the cost of the house to be acquired which depends on the size of the dwelling unit. The capacity is linked to the level of income of the borrower.
Regulatory powers:

N.H.B. has been empowered

(1) To regulate or prohibit the issue of any prospectus or advertisement soliciting deposits of money from the public.

(2) To collect information from such H.F.I.s with regard to deposits.

(3) To give direction to them regarding acceptance of deposits.

(4) To inspect books and accounts of any H.F.I.

(5) To collect credit and other information from H.F.I.s, the central and State Governments, local governments, R.B.I. etc., and publish such information in any form as it may deem fit.

N.H.B.'s Resource base:

(1) Entire paid-up capital is contributed by the R.B.I.

(2) It can raise resources by issuing bonds/debentures, by borrowings from R.B.I, Central Government approved institutions/organisations etc., and from external agencies.

(3) It can also borrow from L.I.C., U.T.I. and other housing guarantee programme of USAID and OECF of Japan.

(4) Schemes launched by N.H.B. from time to time to mobilise house-hold savings constitute a significant source they are,

(A) Home Loan Account Scheme:

The N.H.B. formulated a loan linked savings scheme entitled Home Loan Account Scheme (H.L.A. Scheme) in July, 1989, with the following objectives:
(a) to promote the habit of saving specifically for housing,
(b) to encourage saving in advance of the decision to acquire a house,
(c) to provide housing loans at cheaper rates, particularly to low income category,
(d) to augment the supply of land in specific locations based on preference indicated by the savers at the time of joining the scheme and,
(e) to secure preferential allotment of plots/houses to members of the scheme.

(B) Capital Gains Bonds Scheme (CGBS):


Features of the Scheme:

(1) These bonds have a maturity period of three years.
(2) They carry 9% interest per annum.
(3) They are not transferable.
(4) There is no pre-mature repayment.
(5) The bonds provide wealth tax exemption.

The Bank has mobilised Rs.155 crores under this scheme.

(C) Voluntary Deposit Scheme (VDS):

The Voluntary Deposits (Immunities and Exemptions) Act 1991, was formulated to canalise unaccounted money in the economy, to be used for the achievement of social objectives such as slum clearance and low cost housing for the rural poor.
The scheme was opened on October 1, 1991, and was closed on June 31, 1992. A total amount of Rs.152.10 crores was deposited under this scheme.

**Refinance schemes by National Housing Bank:**

(A) The NHB extends 100 per cent refinancing facility to the institutions like scheduled commercial banks, apex co-operative housing federations and housing finance companies for the loans granted by them to individuals and co-operatives.

The State Co-operative Land Development Banks (SLDBs) are eligible for assistance. In this case, NHB subscribes to the Special Rural Housing Debentures (SRHDs) to be floated in respect of lending through their own branches/Primary Land Development Banks (PLDBs).

Refinance is also made available to the extent of 100% of loans up to Rs.30,000 sanctioned for major repairs and upgradation since January 1st, 1989.

(B) **Land Development and Shelter Projects (LDSP):**

As per NHB’s guidelines, Commercial Banks and HFIs can provide finance for such projects to public agencies such as Housing Boards and Area Development Authorities (ADA), Co-operative Societies and Professional Developers. Preference will be given to projects for land development and housing in rural areas and small and medium towns. To consider this project for refinance, preference should be given to members of HLAS of NHB.
(C) Allottees of plots/dwelling units under LDSP refinanced by NHB:

The objective is to enable banks to give such housing loans under normal rates of interest as prescribed by the RBI, thereby facilitating timely adjustment of term loans extended for the relative LDSPs.

(D) Infrastructural Services:

NHB has announced a refinance scheme for Housing Infrastructure Development Projects executed by public agencies, co-operative housing societies, professional developers etc., for the development of certain areas of infrastructure services.

(E) Rural Housing Schemes (RHS):

NHB considers refinancing loans granted to public and private institutions for rental housing scheme provided the borrowing institution proposes the scheme. Funds are made available by a bank/HFC upto 100% of the cost of construction (excluding the land cost) or upto 75% of project cost whichever is less.

(F) Housing Co-operative Societies (HCS):

HCS, engaged in building flats/houses or providing infrastructure thereof for their members, can avail project finance through NHB. For this, apart from adhering to the conditions mentioned under LDSP, they are to comply with two more conditions. Firstly, the average size of the dwelling units shall not be
more than 60sq.m. and no dwelling unit shall have a built up accommodation of more than 120 sq.m. Secondly, all the members of the society shall be members of the HLA Scheme. Funds will be made available to the society by a bank/HFI for the project and in turn, NHB will provide refinance to these Banks/HFIs for the project.

(G) Professional Developers:

Professional Developers are eligible for project finance under the scheme. Normally projects with a construction of 20 dwelling units or more will be considered for financing. Preference will be given to a project on land allotted to a developer by a public agency and where infrastructure is available.

NHB will refinance banks/HFIs for financing professional developers. NHB’s refinance assistance will be up to 80% of the project cost.

(H) Housing Finance Companies (HFC):

As per the NHB guidelines issued earlier, promoters of HFIs were required to subscribe and maintain participation to the extent of not less than 30% of their paid-up capital. In addition, scheduled banks/public financial institutions/HFC approved by NHB/State Government should subscribe and maintain paid-up capital of 20%. The aggregate of the above should not be less than 51%.

HFCs are also required under the revised guidelines to disassociate themselves from construction companies. In pursuance of this, the HFC is
required to ensure that its name does not resemble the name of any construction company with which its promoters may be associated.

At the instance of NHB, the RBI has relaxed the condition of regional jurisdiction for opening of branches by a HFC. Consequently, HFCs are now permitted to open their offices anywhere in India in consultation with NHB.

The following is the list of housing finance companies approved by the National Housing Bank for the financial support under its Refinance scheme as on 31-3-99.

1. A.B. Homes Finance Ltd., Hyderabad.
2. BOB Housing Finance Ltd., Jaipur.
3. Can Fin Homes Ltd., Bangalore.
7. GLFL Housing Finance Ltd., Ahmedabad.
12. LIC Housing Finance Ltd., Bombay.
17. Saya Housing Finance Company Ltd., Ahmedabad.
### Table III.14
Refinance Disbursed by NHB to different Categories of Institutions

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>HFCs</th>
<th>SCBs</th>
<th>Co-operatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>115.47</td>
<td>7.98</td>
<td>8.25</td>
<td>131.70</td>
</tr>
<tr>
<td></td>
<td>(87.68)</td>
<td>(6.05)</td>
<td>(6.27)</td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>359.45</td>
<td>20.94</td>
<td>55.37</td>
<td>435.76</td>
</tr>
<tr>
<td></td>
<td>(82.49)</td>
<td>(4.81)</td>
<td>(12.70)</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>581.26</td>
<td>37.76</td>
<td>93.13</td>
<td>712.15</td>
</tr>
<tr>
<td></td>
<td>(81.62)</td>
<td>(5.50)</td>
<td>(13.08)</td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>394.20</td>
<td>32.38</td>
<td>59.07</td>
<td>485.65</td>
</tr>
<tr>
<td></td>
<td>(61.17)</td>
<td>(6.67)</td>
<td>(13.16)</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>244.81</td>
<td>19.19</td>
<td>58.88</td>
<td>322.88</td>
</tr>
<tr>
<td></td>
<td>(75.82)</td>
<td>(5.94)</td>
<td>(18.24)</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>275.55</td>
<td>3.72</td>
<td>38.56</td>
<td>317.83</td>
</tr>
<tr>
<td></td>
<td>(86.70)</td>
<td>(1.17)</td>
<td>(12.13)</td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>248.38</td>
<td>11.49</td>
<td>73.81</td>
<td>333.68</td>
</tr>
<tr>
<td></td>
<td>(74.44)</td>
<td>(3.44)</td>
<td>(22.12)</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>327.69</td>
<td>4.53</td>
<td>113.13</td>
<td>445.35</td>
</tr>
<tr>
<td></td>
<td>(73.58)</td>
<td>(4.00)</td>
<td>(22.42)</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>352.45</td>
<td>4.85</td>
<td>152.15</td>
<td>509.45</td>
</tr>
<tr>
<td></td>
<td>(69.18)</td>
<td>(0.95)</td>
<td>(25.87)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2899.26</td>
<td>142.84</td>
<td>662.35</td>
<td>3694.45</td>
</tr>
<tr>
<td></td>
<td>(78.48)</td>
<td>(4.02)</td>
<td>(17.50)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Figures in parenthesis are percentages.

**Source:**
1. Annual Reports of NHB.

It is evident from Table III.14 that the share of HFCs in the total refinancial assistance extended by NHB declined from 87.68% in 1989-90 to 69.18% in 1997-98, showing a declining trend. On the other side, the co-operative sector has gained considerably steady growth and it has reached to 25.87 per cent in 1997-98 from 6.27 per cent in 1989-90. The share of Scheduled Commercial Banks is also on decreasing trend.

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Table III.15
Outstanding Amounts Due from Different Categories of Institutions Under Refinance Scheme

(Rs. In crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>HFCs (Cum.)</th>
<th>SCBs (Cum.)</th>
<th>Co-operative Institutions (Cum.)</th>
<th>Total (Cum.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>115.36</td>
<td>7.94</td>
<td>8.26 (6.27)</td>
<td>131.56</td>
</tr>
<tr>
<td></td>
<td>(87.69)</td>
<td>(6.04)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>468.10</td>
<td>28.79</td>
<td>63.23 (11.28)</td>
<td>560.12</td>
</tr>
<tr>
<td></td>
<td>(83.57)</td>
<td>(5.15)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>951.75</td>
<td>64.39</td>
<td>145.06 (12.49)</td>
<td>1,161.20</td>
</tr>
<tr>
<td></td>
<td>(81.96)</td>
<td>(5.55)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>1283.57</td>
<td>91.98</td>
<td>195.52 (12.44)</td>
<td>1,571.07</td>
</tr>
<tr>
<td></td>
<td>(81.71)</td>
<td>(5.85)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>1436.90</td>
<td>104.70</td>
<td>230.94 (13.0)</td>
<td>1,772.54</td>
</tr>
<tr>
<td></td>
<td>(81.10)</td>
<td>(5.90)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>1603.66</td>
<td>82.10</td>
<td>242.69 (12.5)</td>
<td>1,928.54</td>
</tr>
<tr>
<td></td>
<td>(83.75)</td>
<td>(4.25)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>1719.33</td>
<td>65.50</td>
<td>302.97 (14.5)</td>
<td>2,087.80</td>
</tr>
<tr>
<td></td>
<td>(82.35)</td>
<td>(3.15)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>1893.37</td>
<td>47.78</td>
<td>397.53 (16.9)</td>
<td>2,338.68</td>
</tr>
<tr>
<td></td>
<td>(80.96)</td>
<td>(3.04)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(79.55)</td>
<td>(1.98)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Figires in parentheses are percentages.

Source: 1. Annual Reports of NHB.
Table III.15 shows that the recovery from the Housing Finance Companies is on increasing trend as the outstanding amount due from them is decreasing year after year. Commercial Banks also maintain the same trend. But outstanding amounts from Co-operative Institutions is increasing year after year and it reveals that the recovery from these institutions is not satisfactory.

**Direct Financing:**

The NHB has been providing financial assistance to the individual borrowers for new constructions/acquisitions or for repairs/upgradation of the dwelling units by way of refinance to primary lenders under its various refinance schemes in rural and urban areas. The scheme would provide direct finance to public agencies who can undertake integrated shelter projects for the target group of women at affordable cost in collaboration with NGOs and local building centres.

**Projects eligible for direct finance:**

1. The housing projects exclusively for women.
2. The integrated housing projects of Regd. Women societies/women workers association under the umbrella of NGOs.
3. The housing projects for the disadvantaged group of women workers engaged in scavenging, tea/coffee/rubber plantation, bidi making, weaving, cultivating lands etc., All the beneficiaries should belong to EWS(Economically Weaker Sections) or LIG(Lower Income Group) category having monthly income upto Rs.2650.
Agencies eligible for direct finance:

Public agencies and local bodies set up by Central/State Government and authorised by their charter to take up slum improvement and provide security for the same shall be eligible to avail of financial assistance under this scheme.

Co-ordination with banks:

The NHB has evolved the following arrangements to ensure effective co-ordination with commercial banks.

(a) each bank will designate one of its general managers to liaise with the NHB on housing finance.

(b) In each State the convenor of SLBC (State level Bankers Committee) will co-ordinate housing finance activities and liaise with the NHB.

(c) At the regional level, the Regional Manager of each bank will liaise with the NHB.

The RBI in consultation with the NHB, indicated to all scheduled commercial banks that licenses will be granted for opening specialised branches at certain centres exclusively to handle housing finance.

INFORMAL SECTOR:

In our country, the informal sector has played a significant role in extending financial assistance for housing especially to the poor and low income households. The informal sector has been in a position to expand its activities because of the inaccessibility of the formal sector to the poor and the low-income group people. The informal sector has been quite successful despite several disadvantages, because of the absence of cumbersome formalities.
Among informal sources the lion's share is accounted by the household's personal savings. The other informal sources are the own money of households adjusted by disposing off their other physical assets such as jewellery, land and agricultural property, and borrowings from relatives, friends and money lenders. The reference of provision of housing loans to employees, sale of houses on hire purchase basis is also worth mentioning under informal sector through it is not easy to judge the contribution made by this group to the housing sector due to non-availability of proper information.

Savings:

One of the available but generally regulated resources to the poor requiring the housing finance is their own savings. Surveys have shown that inspite of their very low income a strongly desired item is seen to be accessible and can be purchased on small installments.

Savings are normally considered to come from three main structural groups in the economy. Firstly the household sector secondly the corporate or business sector and thirdly the public sector. The major savings come from the household sector.

When total household savings are further broken down in to urban and rural sectors, an interesting variant on this pattern comes to light in a study conducted by the National Council of Applied Economic Research (NCAER) in New Delhi in India, as it was found that household savings in India were about 24 per cent of Gross Domestic Product. The rate of savings in India could be compared favourably with some developed nations.
The informal housing finance arrangements, no doubt, have certain advantages:

(i) **Adaptability:**

The finance can be arranged according to the repaying capacity of the house builder and also depending on the progress made in the construction of the house.

(ii) **Effective recovery of loans:**

Due to personal touch with the borrower, a close watch is possible over the repayment of installments.

(iii) **Timely Assistance:**

One need not wait for a long time to get the loan. Loans can be obtained as and when required on simple procedure and formalities. Inspite of these advantages, the general idea is that the present predominance of informal sector is a major constraint in achieving an accelerated growth in that sector. As a house is a ‘dream come true’ to many a people, they do not hesitate to explore all the possible avenues for funds at their disposal for the construction/purchase of a house. At the same time they would like to acquire house property in the early stages of their earning life, so that they could avoid rentals and save more for loan repayment. This task could better be undertaken by a formal agency than an informal one. The case for an expanded role of formal sector is strong on account of various factors.
A formal housing finance agency generally evokes a higher level of confidence among the investing public than an informal one.

It can make projections about funds inflow and outflow on firmer grounds and thus its calculations about the term ‘transformation’ could be relatively more sophisticated and sound.

As its loan terms are well published, the borrowers can also plan their investments with greater confidence.

The formal housing institutions exercise proper control to direct funds inflows to socially desirable housing investment.

Improve the coordination between the financing of house constructions with that of land infrastructural facilities’ development.

The formal housing finance agencies are also better placed than the informal ones to provide the needed guidance to the client’s in the matters of new construction technologies, the norms to be complied with under the building bye-laws etc.

**WORLD BANK AND ITS INVOLVEMENT IN HOUSING SECTOR:**

The World bank has a long history of involvement in the housing and urban sector in developing countries beginning with an 8 million loan in 1972 to provide finance for a sites and services project. Since then the bank has been supporting housing and urban development projects in over 60 countries and in recent years substaningly expanded the level of urban lending and changed the composition of its assistance.
The International Finance Corporation of the world bank group has been taking modest steps towards assisting the development of housing finance institution.

If the average cost of a house in rural areas is taken as Rs.20,000 per unit and for urban areas Rs.50,000 per unit, the total amount required for the construction to eradicate the houselessness shall be Rs.988000 millions for rural areas and Rs.308000 millions for urban areas totaling Rs.129600 millions. It is a colossal amount which is very difficult to be arranged. Besides money, there are lot of difficulties, most important of which is the arrangement of land at a reasonable price and good quality building material.

The problem is not solved simply by providing houses to households. The houses are to be provided with tap water, electricity and toilet facilities. They have to be provided with social, educational, health and recreational facilities which in further need colossal amount of funds. Money is also required to maintain the existing house stock and under take repairs. The problem therefore, is a complex of very severe magnitude and much effort has to be put in securing adequate and reasonable housing for all.