CHAPTER – 3

Housing Industry and Financial Companies
CHAPTER - 3
HOUSING INDUSTRY AND FINANCIAL COMPANIES

For any sector to be treated as an industry, the following requirements should be fulfilled: (i) It should involve manufacturing activities; and (ii) The manufacturing activities should be carried out in a factory. According to an estimate of NBO, over 65 percent of the cost of the house consists of the building materials and only 30 to 35 per cent of the cost of a house consists of the labour component. Building materials are manufactured in the industrial units, large, medium and small. In order to encourage standardization and innovations in the technology of house construction activity, it is necessary to introduce innovations in building methods and also provide appropriate tools and equipments which would not only improve the working conditions of labour, but would also expedite the pace of construction, and at the same time improve technological changes, in construction industry which as remained, by and large, very traditional. To achieve the objective it is essential to declare housing as an industry. This would give housing sector the access to loans from banks and other financial institutions. It can also avail concession now available to other industries. Housing sector is also responsible for providing employment to large-scale labour workforce including unskilled, semi-skilled and skilled workers. This is an additional factor that should justify the flow of benefits of an industry to this sector.

Housing Finance Companies

Thanks to economic liberalization and ensuing policy changes, the housing finance industry has undergone a paradigm shift over the last decade. Gone are the days, when taking a loan meant entering a labyrinth of documentation and dealing with condescending bank officials. Today, in the backdrop of intense competition, housing finance companies are falling over
each other to woo potential customers. Housing finance being one of the safest lending avenues has also contributed to the emergence of new players in the market.

The unique place that a house has in an individual’s life plus the high proportion of the customer's own money in the house provides considerable comfort for home loan companies. In the present times, people are increasingly taking to credit, because of rising annual incomes and the series of tax sops that have become an annual ritual in the Union Budget. With the constant rise in demand for residential and commercial complexes, the growth of the real estate sector in India has witnessed at an exponential rate over last five years.

Cut-throat competition among Indian housing finance companies has brought down the interest rates by a few notches. The vast difference in interest rates across-the-board has all but disappeared, and home loan companies are taking recourse to product innovation to stand out in the burgeoning home loan market. Today, apart from the resident Indians, even NRI's can apply for a home loan. An applicant applying for a loan can either opt for fixed or floating rates. The loan rates of companies today are in between 7.50% to 12 %, depending on the repayment years.

Real Estate Funds

India Real Estate Fund has recorded a sharp increase due to the high returns it defers as is apparent from the super-inflated real estate bubble in India. Attracted due to the high returns the Real Estate Venture Funds are coming in India with great zeal. The real state sector in the country is rising to unprecedented heights and is a potential funds investment prospect. The entry of real estate funds in the already over-heated realty market is bound to cause quite a stir.
Since April 2004, India Government has liberalized the laws controlling and regulating the foreign investments in India and real estate funds in the country. This has tremendously encouraged the flow of funds into the real estate sector in the country. Security and Exchange Board of India (SEBI) has also allowed Venture Fund Investment in the local real estate market in the country. Owing to this, the investment of Foreign Direct Investments (FDI) and other foreign liquidity funds have seen a consistent rise of 40 - 45% per year.

**Major Real State Funds**

A slew of real estate funds, promoted by Indian and foreign financial institutions, are scouring the real estate market for properties with assured returns to invest in. HDFC Property Fund, DHFL Venture Capital Fund, Kotak Mahindra Realty Fund, Kshitij Venture Capital Fund (A group venture of Pantaloons Retail India Ltd) and India Advantage Fund (ICICI) are some of the prominent real estate funds in India. Other major foreign players in the sector include Siachen Capital, New York, Tishman Speyer Properties - Rockefeller Centre - ICICI Bank, Maia, USA, Dawnay Day, UK, Ascendas Fund, Singapore, Warburg Pincus, Blackstone Group, Broadstreet, and Morgan Stanley Real Estate Fund.

**DHFL, HI-REF and Kshitij Venture Capital Fund** With the entry of real estate mutual funds, builders will be hard-pressed to develop quality projects and leeway for sub-standard construction practices will be considerably reduced. Real estate funds are expected to acquire real estate assets with quality blue chip tenants and focus on growing markets witnessing substantial urban development.

**DHFL** Venture Capital Fund, promoted by Dewan Housing, has roped in banks, financial institutions, high net worth individuals and corporate as potential investors. The fund has focused on developing properties rather than
invest in real estate. It has put more emphasis on secondary locations to add value.

HI-REF HDFC India Real Estate Fund (HI-REF), the first scheme HDFC Property Fund, will invest in three broad categories of companies projects: those in the planning stage, those in the development stage and those, which are complete. However HDFC is not keen on investing in shopping malls because it expects some shake-out in that space in the coming months.

Kshitij Venture Capital Fund On the contrary, Kshitij Venture Capital Fund, a group venture of Pantaloons Retail India Ltd., will be deploying funds exclusively in developing malls in tier II and III cities, primarily in western and southern India. The company is also launching a mall management service that will manage the upcoming plethora of malls as well as offer mall management services to other mall owners.

Home Loans

Home is where the heart is! Owning a home is a lifelong dream for most of the people. Not long ago, turning this dream into a reality was a daunting task for the common man with property rates going high all the time. But now, thanks to the proliferation of home loans and housing finance companies, one can aspire to own a roof over one's head. Not only home loans are easily available but with intense competition in the housing finance industry, companies are pulling out all the ways to lure the potential customers. Interest rates have drastically come down over the years and innovative home loan products have swamped the market.

However, it is always advisable not to go for home loans blindly. In a situation where there are several lucrative offers to be chosen from, the best is to go for the creditor who is a long trusted name in the business. Also, before applying for home loan anywhere, it is worthwhile to go through the minute of
the minutest detail of the company. If you are not good at business, you must consult some expert before taking any kind of loan from any party. As far as home loan is considered, make sure your EMI’s are well within your limit. Think and discuss hundred times before you opt for any plan so that your home remains ‘your sweet home’ and does not turn out to be an EMI nightmare.

**How to Choose a Home Loan**

There is no common formula to opt for a home loan. What may be good for you may not be good for someone else and what may not be good for you can prove to be an excellent plan for others. So, basically choosing the best loan plan means that you will have to explore that which home loan plan fits best to your needs in a particular situation.

**Choosing a Finance Company**

Once you have figured your requirements, your resources and your future plan, the next most crucial step would be choosing the housing finance company (HFC). It is very important to choose the financer with extreme care and proper contemplation. You must check out its past track record as you are planning to enter in to a long-term relationship with it. If you can, you must talk to few people who are availing this service already to know the execution of the terms.

**Real Estate Glossary**

When one sets out to conduct any sort of property transaction, one is confronted by an avalanche of technical jargons related to real estate and home loans. It is imperative that one does get acquainted with these technicalities so as not to be duped by unscrupulous elements. Once one is acquainted with these terms, it would become relatively easy to read between the lines and understand the real meaning behind these complex business phrases.
Information on Home Loans

Buying a home is dream for many people. Owing to the rising price of properties, it has almost become impossible for an average earning person to buy a home on a lump sum payment. Therefore the concept of home loan has come in trend. There are plethora of housing finance companies and equal number of banks that offer home loans these days.

Home Loan Process

Owning a home gives a feeling of stability in life. However, with the steep rising prices of property in India, buying a house at a go is not a very easy task. However, this process has been made considerably easy by the home loans being granted by the umpteen numbers of Housing Finance companies and nationalized and private banks in the country.

Types of Home Loans

The dream of buying one’s own home is not an impossible task in India-thanks to the burgeoning housing finance market in the country. There are umpteen numbers of banks and HFCs in the country which have come up with attractive home loan plans in the country.

Need for Home Loans

Few decades back, buying a home was not a very easy task as there were hardly any lenders available to loan the ever increasing astronomical lump sum of money. However, with time, the rising property prices and the burgeoning housing finance market in the country, made the phenomenon of the home loans easy and the dream of buying a home possible.
Information on Home Loans

Buying a home is dream for many people. Owing to the rising price of properties, it has almost become impossible for an average earning person to buy a home on a lump sum payment. Therefore the concept of home loan has come in trend. There are plethora of housing finance companies and equal number of banks that offer home loans these days. The task of selecting one company and one offer for home loan amidst the thousands available options have become a very complex task owing to the burgeoning housing finance market in the country. Apart from this, there are intricate business jargons and technicalities that make this task more difficult. Explore here the basics of home loan technicalities, so that when you apply for the home loan next time, you can understand the basics and help yourself remain away from the duping elements in the market.

Housing Loan Information

When To Apply For Home Loans

One can apply anytime after deciding to acquire or construct a property, even if the property has not been selected or the construction has not commenced. The loan amounts are sanctioned in principle to let buyers know what amounts they are eligible of. Actual disbursements start after satisfactory validation of all necessary documents and completion of specific procedures.

Eligibility Conditions For A Home Loan

While determining the loan eligibility of a customer, lending institutions primarily focus on the repayment capacity. The repayment capacity is determined by taking into consideration factors such as income, age, qualifications, number of dependants, spouse's income, assets, liabilities, stability and continuity of occupation and savings history.
Maximum Loan Amount Housing finance institutions generally finance upto 75%-85% of the asset value. Depending on the institution, the maximum loan amount may vary from Rs.1 lakh to Rs.1 crore.

Repayment Period Options

Repayment period options generally range from 5 to 15 years. A few HFC's offer a 20-year repayment period, albeit at a higher interest rate.

Payable Fees And Charges Home loans are usually accompanied by the following additional costs: a) Processing fee: It's a fee payable to the lender on applying for a loan. It is either a fixed amount not linked to the loan or may also be a percentage of the loan amount. b) Prepayment Penalties: When a loan is paid back before the end of the agreed duration a penalty is charged by some banks/companies, which is usually between 1% and 2% of the amount being pre paid. c) Commitment Fees: Some institutions levy a commitment fee in case the loan is not availed of within a stipulated period of time after it is processed and sanctioned. d) Miscellaneous costs: It is quite possible that some lenders may levy a documentation or consultant charges.

Security For The Loan In most cases, the property to be purchased itself becomes the security and is mortgaged to the lending institution till the entire loan is repaid. Some companies may also require additional security like the assignment of life insurance policies, pledge of shares, NSCs, units of mutual funds, bank deposits or other investments.

Documents Required At The Time Of Application Following are the documents that lenders require at the pre-approval stage:
For All:

- Proof of Age
- Copy of Bank A/C statements for the last 6 months
- Copy of latest credit card statement
- Passport size photograph

For Salaried Employees:

- Salary and TDS certificate
- Latest pay slip
- Letter from employer

For Self-Employed/Businessmen:

- Copy of audited financial statements for the last 2 years
- Copy of Registration Certificate of establishment under shops and Establishments Act/Factories Act

Tax Benefits One can avail of tax sops both on the principal as well as interest paid on home loans.

Insurance Of Property

Many HFCs insist on insurance of the purchased property against fire and other allied perils. Even in the absence of a mandatory clause, it is advisable to insure the property against potential contingencies.

Time Required For Loan Disbursement

The average time required for loan disbursement is 3-15 days subject to satisfactory and complete documentation and completion of all relevant procedures.
Risky Business: Are Teaser Rates for Home Loans Pushing Real Estate to the Edge?

At the Indian Banking Conclave (Bancon) in Mumbai on January 12, Reserve Bank of India (RBI) deputy governor Usha Thorat warned against what she considers risky mortgage lending practices. "In the area of housing loans, teaser rates are increasingly being offered, which is a cause for concern," she said. "I hope banks are ensuring that borrowers are well aware of the implications of such rates and the appraisal takes into account the repaying capacity of the borrowers when the rates become normal."

Teaser rates were introduced by banks last year to boost demand for housing finance in a slowing economy. The first off the block was the public sector State Bank of India (SBI) with its Easy Home Loan. Launched in January 2009, when home loans were on offer at interest rates between 8.5% and 11% depending on the amount and the tenor, SBI's rate was 8% for the first year and 8.5% for the next two years. After three years, the terms are highly confusing. According to SBI, the "interest rate after three years may be fixed or floating as per the borrower's choice at the time of sanction. If the floating rate option is chosen, then the rate will be 2.75% below SBAR. If fixed rate option is chosen, then the rate will be 1.25% below SBAR prevailing on the third anniversary date from the date of first disbursement, and shall have a reset frequency of five years from the third anniversary date of the loan. Fixed interest rate shall be subject to [a] force majeure clause."

"SBAR" refers to the State Bank Advance Rate or the Benchmark Prime Lending Rate. And what is the Prime Lending Rate? Beginning June 29, 2009, it was revised to 11.75% per annum; it depends on the RBI's rate and other factors. In other words, the borrowers' monthly payments or equated monthly installments (EMI) three years from now will depend on the SBAR at that time.
Little wonder borrowers are befuddled, regardless of whether they opt for fixed or adjustable rate mortgages.

"It is partially correct to state that loan terms are not fully explained to the borrowers," says Sudip Bandyopadhyay, group president of Spice Finance. "It is important to be transparent while providing loans. This does not happen in case of teaser loans." But even the banks have no clue about how much the EMI could be. It depends on the interest rate, and banks are obviously not going to talk about worst-case scenarios.

"While documentation necessarily has to be detailed, there is a strong case to be made for banks being compulsorily required to provide simple illustrations on how floating rates are pegged and what the precise implications are," says Jayesh Desai, national director (infrastructure, real estate and government services), Ernst & Young (E&Y). But it would be unfair to say that banks are taking customers for a ride, he adds.

Thorat's statement about repaying capacity and clarity on obligations drew an immediate response from SBI chairman O.P. Bhatt. "I don't know what the RBI means by teaser loans," he told morning newspaper DNA at the same Bancon a few minutes after Thorat spoke. "It is not right to refer to the 8% home loan scheme as a teaser ... there are no hidden costs in these loans or any add-backs."

On February 5, RBI deputy governor K.C. Chakrabarty added another dimension to the debate. Talking to journalists at a seminar on infrastructure financing in Mumbai, he said: "We have no concern [about] teaser rates." In a lighter vein, he quipped: "What we are telling banks is that you should tease everyone. Don't just tease new customers; also tease old customers by charging a uniform rate for both."
Five days later, on February 10, the RBI stepped in with a circular "to make credit pricing more transparent." Beginning April 1, housing finance can no longer hide behind a wall of banker-speak. A new Base Rate system will be introduced. According to the circular, "Since transparency in the pricing of lending products has been a key objective, banks are required to exhibit the information on their Base Rate at all branches and also on their websites. Changes in the Base Rate should also be conveyed to the general public from time to time through appropriate channels. Banks are required to provide information on the actual minimum and maximum lending rates charged to major categories of borrowers to the Reserve Bank on a quarterly basis. Apart from transparency, banks should ensure that interest rates charged to customers in the above arrangement are non-discriminatory in nature."

**High Interest Rate Regime**

The problem for banks is that the country is moving to a high interest rate regime. The RBI credit policy announced on January 29 did not raise interest rates; it only increased the cash reserve ratio (CRR) by 75 basis points. This squeezes liquidity out of the system and helps temper inflation. (See Will Rising Inflation Deflate India's Economic Recovery?) But interest rates are bound to go up; the only question is when. Teaser loans could then become uneconomical for banks. To add its earlier customers to this category will make things worse. On the other hand, if interest rates rise too much, EMIs will climb, squeezing borrowers further.

Bankers say a bubble in India is unlikely for another reason. In the U.S., loans were given based on the value of the asset (the house). In India, the primary yardstick is the capacity of the borrower to repay. Besides, banks in India have been traditionally conservative about lending to individuals.

Despite the insistence of the banks that they check on borrowers' ability to repay, one key issue is how much they are paying for the home in the first
place. At the height of the boom two years ago, a mid-market apartment in Mumbai had a price tag of $200,000. This tumbled to $100,000 (in some cases). Buyers who had $170,000 in bank loans suddenly found themselves with a lot of negative equity. For the banks, they would be making significant losses even if they were able to seize the property and sell it off.

Another issue most borrowers don't realize is that most loans have a Depreciation of Security clause. A buyer is expected to contribute 15% of the cost of the house or apartment -- $30,000 in the example given. If the price falls to $100,000, the bank will still finance only 85% of the current cost -- $85,000. The borrower will have to pay the shortfall ($85,000) to avoid being labelled a defaulter. (In loans where shares are pledged as collateral, this has happened very often. Banks ask borrowers to top up their securities when prices fall. If they fail to do so, they sell the shares.)

So why are banks offering teaser rates? The reason is they make money through lending, and today there are limited takers. Banks have too much money sloshing around in their coffers. According to RBI data, by November 20, 2009, personal loans were up a meager 0.7% for the year. Advances against fixed deposits were down 11.80%; on credit cards they were down 24.70%, and on consumer durables down 11.80%. The saving grace was education, where loans went up 31%, and housing, where loans increased by 7.30%. The increase in housing loans was essentially the effect of teaser rates, without which mortgage lending might have declined. Loans to the real estate sector were up 15.30%. This looks fine until compared with the 49% growth of the previous period.

In this environment, once SBI took the plunge, everybody followed suit. When SBI launched its Easy Home Loan, Deepak Parekh, chairman of Housing Development Finance Corporation (HDFC), the country's biggest mortgage lender, declared it a gimmick. A few months later, HDFC itself was
offering a similar product. But Parekh continues to insist the teaser loan is "playing with fire." In an interview with business daily Mint, he said: "It's not a very healthy way of lending. It can create problems in the future, particularly if the rates shoot up. Today what we are saying is, if the rate is 8% or 8.25% for the first two years, the rate will be 9% afterwards and so the gap is very small. Suppose interest rates in India shoot up in the next three years, then what will happen? These are all floating rate loans and fixed only for the first two years. So, 8% interest could become 12% or even more. Then, the gap will be too much and it's a problem for the individual homeowners.... Financial innovation doesn't take time; if one does it, everyone copies. It can be done in 24 hours. Now most banks have this product." More than 20 banks and housing finance companies in India have launched some variant of the teaser loan.

**Competing for Borrowers**

"These loan programs have proved to be extremely popular, and any large bank would be interested in getting on such a winning bandwagon," says Anuj Puri, chairman and country head of Jones Lang LaSalle Meghraj, a real estate services firm. "In the end, a successful business entity will not steer away from taking a leaf out of the competition's book." Adds Bandyopadhyay of Spice: "I guess competition forced HDFC to follow this route. They obviously did not want to lose customers."

"Banks as well as HDFC have always had variants of the teaser loan programs," says Desai of E&Y. "They always had floating loans, which were linked to prime lending rates, so you have had situations in the past, too, where interest rates start out low and then move up. Parekh's comment was probably linked to pricing loans initially below the cost of funds."

Business daily Business Standard agrees with Parekh's views about the risks of teaser rates. "Teaser rates are doubtful in themselves, but the experience of the recent global financial crisis makes them more so," the
newspaper says in an editorial. "The U.S. sub-prime crisis, where defaults by a large number of home mortgage owners led to the collapse of the housing bubble, which in turn led to the overall financial crisis, was essentially a matter of those who could not afford to service a loan of a particular order for its entire life being lent funds. And this was facilitated by the offer of teaser rates which were to be reset at not-too-late a date, a provision that was part of the fine print which many borrowers initially ignored. With antecedents of this nature, teaser rates should not have been allowed (in India) in the first place. It is not clear why the regulators should have allowed this to happen even while sounding warnings that it is not a good thing. The banks' response, particularly that of SBI, is that it was awash with liquidity at the particular period when the practice was initiated and the stratagem has served its purpose. But this still leaves open the issue of quality of assets which will not be known unless the higher reset rates kick in."

Following the RBI's warnings, some banks have changed course. Two major banks, Canara Bank and Union Bank, have decided to end their teaser loan programs. Axis Bank has withdrawn the teaser loan program it had introduced as recently as January 6. Even Bhatt of SBI seems to have had second thoughts. "We will review the special home loan scheme sometime in March and see what kind of credit offtake has taken place, what kind of liquidity we have, what is the view on lending to various sectors and where we think the cost of funds is heading," he told the Business Standard Banking Round Table in early February.

Bhatt's concern is primarily the SBI's bottom line, not the borrowers' capacity to repay. Still, the two are linked because the quality of the bank's assets depends on the latter. "The points of contention are the short-term impact of low margins of teaser loans on bank balance sheets and the long-term impact on the quality of the loan books the banks build," says Bundeep Singh Rangar, chairman of Indus View, an advisory firm for multinational companies looking
at business opportunities in India. "While the short-term pressure on margins is reflected in the debate between Bhatt and Parekh, the differences between SBI and the RBI stem from asset quality issues. The interest rates of such teaser loans automatically reset after the initial relief period. This resetting character of the interest rates is being compared to sub-prime mortgages in the U.S. The key difference, though, is that even these low rates are not being offered to unqualified buyers, only to people with predictable and documented incomes and repayment capacity." The consensus view is that there are dangers, but Indian banks have been much more careful. And the RBI should be able to head off the trend before banks get into serious problems.

**Bubble Trouble?**

Is a bubble building up in real estate prices? Opinions differ. "There is a recovery in certain pockets only," says Desai of E&Y. Agrees Rangar of IndusView: "The real estate industry is picking up, but slowly and unevenly." Bandyopadhyay of Spice, however, says that the prices of both commercial and residential properties have gone up significantly and they are close to their peaks. "The sharp increase in real estate prices during past six-eight months is definitely a cause of concern," he adds. "A calibrated approach needs to be taken by the regulator in consultation with the banks and the industry to slow down the pace, thereby ensuring more sustainable long-term growth."

The residential market is currently still largely end-user driven," says Puri of James Lang. "While there is a fresh complement of investors on the market as well, wholesale speculation such as we had seen in previous years is definitely not in evidence. It is speculators who create bubbles, not genuine investors." Adds Rangar of IndusView: "We don't believe there is any bubble in the Indian real estate sector."

Rating agency Fitch sees demand picking up but no dangers of overheating. "After a difficult period in early 2009, residential market demand
picked up in the second half of 2009, as reflected by the absorption of new projects that were launched at a 25% to 30% discount versus prices during the previous peak in the second half of 2008," says a January 2010 report. "Developers reacted to the fall in demand by reducing prices and lowering unit sizes, and the focus shifted from high-value housing to the more mid-income affordable segment. Any significant increase in property prices by developers, and a tightening monetary policy, could have an adverse impact on future demand. With some recent launches already indicating an increase in residential prices, there is a risk that volumes may moderate if prices continue to appreciate." The commercial segment, says Fitch, continues to remain under pressure.

The sizzle is evident elsewhere. Nearly 20 real estate companies have lined up initial public offers (IPOs) totaling more than $6 billion. Some have already gone through and done remarkably well. During the boom of 2007, there were nine real estate IPOs. Today, only one of them has shares that trade above their offer price. Even if the homeowner has been a winner, investors in real estate stocks and speculators in property have been clear losers.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI and SBI Group</td>
<td>21.9 (13.2)</td>
<td>38.0 (19.8)</td>
<td>19.4 (21.1)</td>
<td>31.4 (18.4)</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>17.9 (13.2)</td>
<td>39.0 (22.3)</td>
<td>12.1 (24.6)</td>
<td>30.0 (20.5)</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>21.6 (11.0)</td>
<td>68.9 (20.4)</td>
<td>38.1 (11.8)</td>
<td>53.3 (16.9)</td>
</tr>
<tr>
<td>Private Banks</td>
<td>33.6 (29.9)</td>
<td>106.2@ (31.8)</td>
<td>1.2 (15.5)</td>
<td>73.3 (28.8)</td>
</tr>
<tr>
<td>All Banks</td>
<td>20.5 (14.5)</td>
<td>44.7 (22.7)</td>
<td>11.6 (21.0)</td>
<td>34.0 (20.6)</td>
</tr>
</tbody>
</table>

Note: Figures in parenthesis provide growth of entire loan portfolio.
@: Excluding exceptional high growth in 2003-04, the average is 39.9 per cent.

Economists assign to the housing market a critical role in the conduct of monetary policy. According to Frederic Mishkin, "to achieve the dual goals of promoting price stability and maximum sustainable employment, monetary
policy makers must understand the role that housing plays in the monetary transmission mechanism if they are to appropriately set policy instruments."

Some observers claim that the Federal Reserve's excessively easy monetary policy in the first half of the current decade helped create a housing bubble, the inevitable collapse of which triggered the recent global financial crisis.

ROLE OF URBANISATION

In the Indian context, research on housing prices and its implications for monetary policy action is handicapped by a lack of reliable data. The NHB RESIDEX, an Index which tracks movement of prices in the residential housing segment, compiled by the National Housing Bank, is available only from 2007.

The lack of reliable data, however, cannot conceal the fact that housing prices in India, particularly in select cities, have increased multi-fold in recent years. Informal information reveals that cost of a 2BHK flat in a particular location in Mumbai zoomed from around Rs 9 lakh in 2000 to Rs 70 lakh by 2008. There has been a similar skyrocketing of prices across major cities in India.

What explains such a phenomenon? High economic growth on a sustained basis for the last two decades has played a significant role. Rising incomes of those who benefited from the growth process may have fuelled the demand for more and better housing.

More importantly, as suggested by one report, India's rapid economic growth has set the stage for a fundamental change and dislocated a sizeable population from the countryside to urban areas.
As per the latest Census, the population of the NCT of Delhi grew by 46.31 per cent between 1991 and 2001, compared with the all-India figure of 21.34 per cent.

In the context of housing, the expanding middle class centered in the cities is instrumental in creating a high demand for housing, as in the case of automobiles and other consumer durables.

The rise in housing prices is exacerbated by the heavy urban concentration of prime service sector jobs pertaining to banking, finance and IT-related activities. Expectations of an ascent in property prices may have contributed to a growing demand for investment in housing, creating additional pressure on housing prices.

**SPURT IN HOME LOANS**

The rapid expansion of housing loans could have played a critical role in driving up prices. As per RBI data, the housing loan portfolio of the commercial banks witnessed an average growth of 34.0 per cent during 1996-2009, compared with an average growth of 20.6 per cent in the total loan portfolio.

Average growth in housing loans during 1999-2007 was as high as 44.7 per cent, before it decelerated to 11.6 per cent in 2007-09.

The growth of housing loans is both a cause and an effect of rising housing prices. On the one hand, easy loan availability augments the demand for housing and fuels upward housing prices. On the other hand, escalating housing prices raise the value of the collateral and facilitate housing loan growth.
The following Table reveals that while the housing loan portfolio experienced rapid growth, there were significant differences in the rates of growth across various bank groups.

**BANK BEHAVIOUR**

What underlies the high disparity in the growth of housing loan segment vis-à-vis other segments in the loan portfolio of banks? Further, how did Indian private banks and foreign banks expand the housing loan portfolio so rapidly, compared with public sector banks?

The answers to these questions will provide useful insights for analysis of bank behaviour in India.

The Indian real property market has witnessed an unprecedented rise in the realty and land prices in the last ten years or so. In the present condition the best investment option most people would rely on is buying a home. Home is the safest investment because it is one of the few assets whose value appreciates over the years.

Buying a home is not only a dream that people cherish life long, but it can also be a tax saving option as tax deductions are available on the purchase of a house if you apply for housing loans in India. Following the boom in the real estate market, a healthy competition can be witnessed in the housing finance sector, as more and more banks and financial institutions are entering the house loan market. The market is flooded by various housing finance schemes offered by these banks and financial institutions and the ultimate beneficiaries are the consumers as they have got plenty of options to choose from according to their requirements.

The immediate impact of rising competition in the housing loan sector can be seen in the rates of interest charged by various banks. Most of the banks
and financial institutions are offering housing loans at competitive interest rates and innovative house loan products. The standard interest rate in the market today is 8 to 8.5% per annum for a five-year loan. However, the terms and conditions for housing loans differ from one bank to the other.

Housing loans in India are available for a number of reasons such as purchase, construction, expansion and renovation of house. So housing finance companies now offer individuals with various alternatives to choose from while taking a house loan. They offer loans for property investment like home purchase, home construction, home improvement, home extension, home equity and home conversion. Other housing loans offered by them are land purchase loan, stamp duty loan, balance transfer loan, refinance loan and others.

Since the last five years, the real estate sector in India is getting organized. And it is being supported by an organized housing finance sector and with the increase in transparency levels, people are getting confident with the financing vehicles offered in the housing finance sector. As most housing finance companies have reduced their interest rates, this is probably the best time to buy a housing loan.

Aditya Jaiswal, advisor of home loans for NRIs, is an associated editor with the site: http://www.guide2homeloan.com. The site is an online portal to provide home loan advice on home loans in India including types of home loans in India, home loan interest rates in India provided by home loan providers in India.

Concluding remarks

This chapter brings out information about home loan facilities provided by housing financial institutions.