CHAPTER-II

HOUSING FINANCE SYSTEM IN INDIA
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2.1 Housing Finance

Housing finance is a term which covers financing at all stages in the development of housing—purchase of land, construction and installation of on-site infrastructure. The project of house construction is quite distinctive from others. The price factor involved in house construction needs to be taken into account. The price should be paid mostly in cash at the time of its use. In other words, finance for a project of house construction is required at three stages viz., purchase of land, construction of house, and repayment of loan amount if borrowed funds are involved.

2.2 Definition of Housing Finance

Housing finance may be defined as the need to reconcile the three partially conflicting objectives of affordability of households, viability of 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”.1 In housing sector, finance serves the following vital purposes. Finance is need for:

a. Purchase and development of house sites, purchase of building materials and actual construction of house.
b. Meeting the annual charges consisting of the upkeep and maintenance including rehabilitation of Kutcha houses, taxes, interest on capital and

c. Covering risks involved in long term housing investment.

2.3 CHARACTERISTICS OF HOUSING FINANCE

It considers the age condition, price of the property, income and occupation of the borrower. Hence housing has some distinctive characteristics which are.

I) Housing Finance is a Long Term Investment

Housing involves a long term investment. The personal savings or contribution by the owner generally covers only a small proportion of the total cost of housing and the balance has to be necessarily mobilised by a long term loan. House is an immovable asset as in agriculture or industry, to repay loans fast. Repayment of loans invariably require longer period.

II) Mortgage oriented

Housing finance is 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. For the purpose of House construction the owner will (borrowed) mobilize funds from different sources. So most of the (family) household has to resort to debt. In this context Charles Abrams has observed that “a mortgage system is accepted as essential almost every where”.

III) Gap Between supply and demand

Another important characteristic associated with housing finance is a large gap between demand and supply of funds. 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”.

IV) 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. But psychological feeling of safety, security and happiness and physical comforts which own house gives can not be measured in terms of money. In other sectors like in agriculture, or in industry, interest forms only a small portion to total annual cost. In housing it is the largest recurring cost of factor. Hence, housing finance is much more sensitive to the level of interest rates than in agriculture and industrial finance.

2.4 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 line helm of affairs. As s result, there will be a symmetrical 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 has been suffering from 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, there is a huge gap between the demand and supply of dwelling units. It is estimated that Rs. 1,50,000 crore will be needed merely for wiping out the deficit at the end of the present millennium. So there is need for a conscious, co-coordinated and relentless exercise by individuals, financial institutions, state governments, the union Government and various agencies operating in the field of housing finance to eliminate the deficit.

2.5 Kinds of housing finance

In pursuance of National Housing Policy of Central Government, Reserve Bank of India (RBI) has been facilitating the flow of credit to the housing sector. During the last three years, the housing sector has emerged as one of the sectors attracting a large quantum of bank finance. The current focus of RBI's regulation is to ensure orderly growth of housing loan portfolio of banks. The commercial banks and other Housing Finance companies and co-operative banks have been giving the following two types of housing finance.

2.5.1 Direct housing finance

Direct Housing Finance refers to the finance provided to individuals or groups of individuals including co-operative societies. All types of Banks are free to evolve their own guidelines with the approval of their Boards on aspects such as security, margin, age of dwelling units, repayment schedule etc.

2.5.2 Indirect housing finance

Banks should ensure that their indirect housing finance is channeled by way of term loans to housing finance institutions, housing boards, other public housing agencies etc., primarily for augmenting the supply of plots/houses in a time bound manner and ensuring that public
agencies do not utilize the bank loans merely for acquisition of land. Similarly, serviced plots should be sold by these agencies to co-operative societies, professional developers and individuals with a stipulation that the houses should be constructed thereon within a reasonable time, not exceeding three years. For this purpose, the banks may take advantage of various guidelines issued by National Housing Bank (NHB) for augmenting the supply of serviced land and constructed units.

2.6 Origin and growth of housing finance system in India

Housing Finance system in India is an important subject. The Central Government formulates the plans and schemes and the State Governments are expected to implement them. The Indian financial system expanded rapidly and, at the same time, experienced reasonable stability since independence days. It should be noted that at the time of Independence, India's financial system was rather small although both savings and investment rates were around 10 percent and 11 per cent respectively to GDP. The rapid increases in population and migration of rural people to urban areas and expansion of industrial and commercial activities have created huge demand for housing in urban centers. The problem is actually felt in urban areas and the worst affected are the migrants from rural areas belonging to the low income groups. The urban and rural population growth in India is presented in Table 2.1

Table 2.1 shows that the population had increased sizably from 361 million in 1951 to 1027 million in 2001. The total population projections in the year 2011 will be 1164 million. The population growth in the country in the five decade period between 1951 and 2001 was 284 per cent. It is evident that the percentage in rural population is showing decreasing trend from 83 per cent in 1951 to 72 per cent in 2001. It is also evident that the percentage in urban population is showing increasing trend from 17 per cent 1951 to 28 per cent in 2001.
The increasing urban population naturally leads to more demand for housing units in the urban areas of the country.

After getting Independence the Government of India have been given a major priority to housing from the First Five Year Plan to till date. But in the last three to four decades there has been significant institutional development in the areas of housing finance in our country. In 1970 a national level public sector institution, Housing Urban Development Corporation (HUDCO), was established for 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 institution catering to individual loan requirements and there are moves to setup
more HDFC type institutions in the country. In the last few years there has been a large increase in the number of Housing finance institutions (HFIs) both in the public as well as in private sector. National Housing Bank has been set up by the Government of India with the primary objective of mobilising deposits required for the housing sector through local savings etc. Deliberations are at an advanced stage to promote a separate Company to take on the job of introducing mortgage insurance in India.

Provident fund resources are also made available to the housing sector at a reasonable cost. In addition to the housing development finance extended as part of governmental regulations on investment pattern, the institutions such as Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC), and commercial banks have established specialized housing finance subsidiaries to undertake direct household mortgage loan operations.

At 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. Now an attempt is made to further augment the institutional structure at state level by establishing specialised agencies for various purposes like Rural housing, slum upgradation, weaker section housing and police housing. Some of these have become effective organizations whereas the others exist only for name sake.

A number of state Housing Development Authorities are now with HUDCO's assistance moving into the area for cash loans for providing housing on a greater extent than before. The introduction of loan-linked deposit scheme by the HDFC can emerge as a significant programme at the institution 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 having financial 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 are being projected in recent years as a new concept in mobilising personal savings for housing. Another feature is that co-operatives provide medium term loans 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 over heads.

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 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, HFIs and Housing co-operatives which have emerged as significant institutions in the housing finance system. It may be noted that despite the recent growth in housing finance as organised activity, the informal sector continues to be an important segment. The informal sector, on the other hand, represents the contributions 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 jewels, land and agricultural property, and borrowings from friends and relatives etc. Housing is contributing to employment generation. So re-formation is essential in the housing finance system to make it competent to cater to the goals set in the National Housing Policy (NHP).
2.7 Housing and Government programmes

The Government of India was involved in housing programmes started long ago and it began with providing accommodation to the employees of Government, particularly in cities, in view of the acute shortage of housing in metropolises. At first, the Mumbai Presidency was the one which took the lead in 1921 by starting a project to reclaim land to construct 50,000 one room dwelling units and to organise the supply and distribution of building materials. Further, many regulations were brought out through a number of Acts for controlling rent, particularly in cities.

The constitution of India has not mentioned specifically the role of government in housing. So the planning Commission indicated from time to time the roles of the central and state governments in housing development. From the view point of attraction and vastness of the states, the central government has taken responsibility for financing the housing development programmes. In other words, the role of central government is confined to laying broad principles providing necessary advice and financial assistance in the form of loans and subsidies to the state government and monitoring the progress achieved. Whereas the state governments have been vested with full powers to formulate, sanction and execute the projects under various schemes of housing.

2.8 Housing policy and programmes through Five Year plans

Government had given importance of housing in the national economy after immediate Independence. The government has taken steps to formulate a national housing policy. For the development of housing by the government the successive five year plans have been formulated. A brief description of 1st five year plan to 11th plan is given below.

2.8.1 First Five Year Plan (1951-56)

A major priority to the housing was given in the First Five Year Plan, making a provision for the development of infrastructure for
carrying out massive housing programme in India. It was felt that the government could not limit its role to planning and regulation of housing development and, therefore, there was need of involving directly in huge construction programmes particularly in the case of low income groups. In other words, the government was asked to take up house building activities particularly for low and middle income groups of people, both in rural and urban areas. The immediate needs were to construct maximum number of houses to remove congestion and overcrowding in urban areas and also provide shelter to the rural poor. Thus, during the First Five Year Plan period, steps were taken to strengthen and expand the institutional infrastructure to promote housing activity.

The total investment was Rs. 1150 crore. (Rs. 250 crore in the public sector and Rs. 900 crore in the private sector) in the First Five Year Plan for housing which was about 34 per cent of the total investment in the economy. In 1952, the Government of India introduced integrated subsidised housing scheme for industrial workers and economically weaker sections of the community. The Government also introduced a scheme called ‘Low Income Housing Scheme’. Thus, it may be stated that during the First Five Year Plan period the government took the responsibility of providing housing for the people, of course to a limited extent.  

2.8.2 Second Five Year Plan (1956-61)

In the Second Five Year Plan, attention was directed towards the housing of the weaker sections, handloom weavers and disabled persons. Some schemes were also introduced for slum clearance and improvements, plantation labour housing, rural housing, land acquisition and slum development. The total investment on housing in the Second Five Year Plan was Rs.1300 crores (Rs. 300 crores in public sector and Rs. 1000 crores in private sector), which constituted about 19 percent of the total investment in the economy.  

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2.8.3 Third Five Year Plan (1961-66)

The public sector outlay on housing during the Third Five Year Plan was to the tune of Rs. 425 crores and the private sector investment was about Rs. 1,125 crores. Thus total investment in housing was Rs. 1,550 crores in the economy which was about 14.9 percent of the total investment. During the Third Five Year Plan period, all the schemes which had been in operation in the Second Five Year Plan period were continued. But special emphasis was given on land acquisition and development as this was considered basic to the success of all housing programmes.

2.8.4 Year Plans (1966-69)

Most of the housing schemes which had been introduced earlier were continued during the Annual plans between 1966 and 1969. The total expenditure in housing programmes during the period amounted to Rs. 250 crores in public sector and Rs. 900 crores in private sector.

2.8.5 Fourth Five Year Plan (1969-74)

With the implementation of various housing schemes, in the past five year plans, the government felt that the crux of the housing problem was the huge cost involved in housing. It was observed that the experience of housing so far was that its unit costs were high and that with the constraints of resources it was not possible for public operations to touch even the fringes of the problem. Therefore, emphasis should be on providing financial assistance to co-operatives and private effort and assuming legal powers for reconditioning of slums. It was also felt that the cheaper houses should be provided by making use of new techniques and materials.

A boost to rural housing came with the establishment of the Housing and Urban Development Corporation (HUDCO) during the fourth Five Year Plan period. The corporation is a techno-finance institution to cater to the needs of the weaker sections of the society.
During the Fourth Five Year Plan period the investment in housing was Rs. 2800 crore (Rs. 625 crore from public sector and Rs. 2175 crore from private sector). Thus, the investment in housing was 12.4 per cent of the total investment in the economy.¹

2.8.6 Fifth Five Year Plan (1974-79)

In fact housing is creating employment for the semi and un-skilled workers and improving the incomes of the poorer sections of the society leading to the feeling that direct public housing must be encouraged. Housing is an essential ingredient in the basic requirements of civilized living: as a means, besides adding to national income, housing is a strong motivator of savings and plays an important part in the generation of employment.

Objectives of the 5th plan as far as housing development is concerned are as follows.

1. Continuance of the existing schemes to provide subsidized houses to certain weaker sections of the community.
2. Intensification of research and development of cheap building materials.
3. Preservation and improvement of the existing housing stock.
4. Provision of house sites to 4 million landless labourers as a part of the minimum needs programme.
5. Extension of support to institutional agencies such as Housing and Urban Development Corporation and housing boards under the state governments to enable them to provide assistance to schemes for the benefit of low income and middle income groups.

The total public sector outlay on housing during the Fifth plan period (1974-1979) was Rs. 796 crores and the private sector investment was about Rs. 3640 crores. Thus, the total investment in housing sector was Rs. 4436 crores, which was about 9.36 per cent of the total investment in the economy.⁹
2.8.7 Sixth Five Year Plan (1980-85)

The Sixth Five Year Plan aimed at decreasing substantially the number of absolutely shelterless people and to provide conditions for others to improve their housing environment. The main objectives of the Sixth Plan with regard to housing development were as follows.

i. Provision of house sites and assistance for the construction of dwellings for rural landless labourers.

ii. In view of the severe constraints of public resources, the schemes are to be directed towards the economically weaker sections of the community and other policies to promote and encourage self-group housing are to be formed. It was also proposed to augment the resources of institutional agencies like HUDCO and State Housing Boards to enable them to provide infrastructure facilities as a means of encouraging housing in the private sector.

iii. Specific efforts to secure a reduction in costs in public housing schemes by reviewing standards and by using cheap and alternative building materials.

The main aim of Sixth Five Year Plan is to provide house sites to all the 7.7 million landless families in rural areas. It was also proposed to assist 3.6 million families regarding construction of housing units during 1980-85. Provision was made for Rs. 250 per family for development of plots, approach roads and masonry, tube wells for each cluster of 30 to 40 families and construction assistance of Rs.500 per family. It was assumed that labour inputs would be supplied by the beneficiaries. These provisions are applicable to total outlay of about Rs. 354 crore Rs. 170 crore for the provision of sites and Rs. 184 crore for construction assistance.

It was stated that the majority of additional housing in urban areas would have to be met from private sources. The public sector role was restricted to improvement of slums and direct provision of housing to some of the urban poor. It was proposed to do away with the strategy of
massive reallocation of slums in urban areas. The public sector expenditure on housing during the sixth plan period was to the tune of Rs. 1491 crores. The private sector investment amounted to Rs. 1800 crores. Thus, the investment in housing was 12.5 per cent of private sector investment housing to total investment in economy.10

2.8.8 Seventh Five Year Plan (1985-90)

This five year plan had now come to set a clear goal in the field of housing and launch major housing efforts so as to promote housing activity by a fiscal policy such as that every family would be provided with adequate shelter within a given (particular) time. It was stated that the public sector should not assume direct responsibility for house construction except in the case of weaker sections of the society. The emphasis was on the Government playing an active role through developing the necessary delivery system in the form of a housing finance market, making land available at right places and at reasonable prices.

The Seventh Five Year Plan had the following objectives.

i. Promotion of land acquisition.

ii. Provision of house sites to the balance of rural families identified so far and assistance for construction of dwellings for those rural families already provided with house sites.

iii. Cost of housing units under the social housing schemes should be such that they are within the paying capacity of the targeted groups, like economically weaker sections, low income group and middle income groups.

iv. Securing reduction in construction costs not only by adopting low cost housing techniques and standards but also modifications in building bye-laws, land use control, minimum plot requirements etc.

v. Harnessing science and technology for improving building technology for development of cheap and local building materials. and
vi. Providing stimulus and support for private housing, especially for the middle and lower income group so as to channelise increased savings to housing.

The total investment for housing in Seventh Five Year Plan amounted to Rs. 31,458 crore. Rs. 2458 crore from public sector and Rs. 29,000 crore from private sector, which constituted about 9 per cent of the private sector contribution to the total investment in the economy.

In this plan the government had also realized that the biggest bottleneck in the development of housing was the non-availability of long-term finance to individual house builders on any significant scale. To fill this gap, it was proposed to establish a specialized financial institution in the form of National Housing Bank on the lines of National Agriculture Bank for Rural Development (NABARD).

2.8.9 Eighth Five Year Plan (1992-97)

Through the National Housing Policy, which is a statement of the long term objective, the core strategy of the Eighth Five year plan was creating a good environment for housing activity accepting various constraints and providing direct assistance to the specially dis-advantaged groups including rural and urban poor households, SC/STs, physically handicapped widows and single women. The objective was intended to be achieved through a set of sub-tasks or instruments as specified below.

I. Removing of major legal constraints to increase supply of serviced land as well as rental housing by way of substantially amending the existing statutes like urban land (ceiling and regulation) Act, Land Acquisition Act, Transfer of Property Act and Rent control Act;

II. Role of private developers infringes area development of metropolitan region/large cities, while maintaining safeguards including environmental standards for the majority of present residents, not only in housing but also in trunk infrastructure needs to be explored;
III. Expand the provision of basic infrastructure facilities in rural and urban areas in order to improve the overall environment of habitat and enable appropriate conditions for the majority of the households to have access to housing.

IV. Provide stimulus and support for housing on an expanded scale through enhancing the flow of credit both by way of mobilisation of additional resources for housing by tapping capital markets and additional savings and by directed credit from public financial institutions.

V. Promote use of low cost building materials and cost effective technologies intended for both savings or use of scarce resources like brick, cement and steel and provision of affordable housing to poor segments of population;

VI. Establish links between formal and informal credit network including community level association and voluntary agencies operating in the housing sector;

VII. Promote self-help housing as well as shelter upgradation, which is important as creation of new housing stock, by providing better access to finance, land, materials and technology through appropriate delivery systems to the poorer segment of the rural population.

VIII. Provide financial and institutional support, through both formal and informal systems to environmental improvement and in-site upgradation programme in the slum areas and other low income congested pockets in urban areas.

IX. Establish an active management information system for housing and urban infrastructure accessible to both private and public development agencies with regard to the second objective of direct assistance to disadvantages.

During Eighth Five Year Plan the total outlay of public sector investments on housing (1992-97) amounted to Rs. 31500 crore and the private sector investments during the same period was at Rs. 66000 crore.
Thus the total investment in housing was Rs. 97500 crore which was about 12.7 percent of the total investment in the economy by private sector.12

2.8.10 Ninth Five Year Plan (1997-2002)

The priorities and strategies of Ninth Five Year Plan with regard to housing development are as follows.

I. While housing needs of all segments of the population will have to be met, the Ninth plan will focus special attention on households at the lower end of the housing market. The priority groups identified for such support are those such as the aged, People below poverty line, SC/STs', disabled, freed bonded labors, slum dwellers and women headed house holds.

II. Government as a facilitator creates an environment in which access to all the requisite inputs will be in time, in adequate quantum and in appropriate quality standards.

III. There will be provision for more direct intervention by the Government in the case of lower segments of the housing market and selected disadvantaged groups.

IV. A package of incentives and concession to attract private sectors would be introduced to shoulder the task of housing for the poor.

V. Apart from new construction, the ninth plan agenda will take-up the massive task of upgradation and renewal of old and rundown housing stock.

VI. To build sustainability into the housing of the urban poor as well as in rural housing, integrated development of settlement should be promoted on the principle of strengthening the linkage and interdependency between shelter and income upgradation.

During the Ninth Five Year Plan the public sector investment was Rs. 52000 crore and the private sector investment was Rs. 99000 crore. The total investment during the Ninth plan period was Rs. 151000 crores.13
2.8.11 Tenth Five Year Plan (2002-2007)

The main objectives of Tenth Five Year Plan are:

I. Focus of policy is on affordable urban housing with special emphasis on the urban poor.

II. Role of housing and provision of basic services to the urban poor has been integrated into the objectives of the Jawaharlal Nehru Urban Renewal Mission (JNNURM).

III. Special emphasis has been laid on schedule castes/tribes/backward classes/minorities, empowerment of women within the ambit of the urban poor.

IV. The policy focuses on symbiotic development of rural and urban areas in line with the objectives of the 74th Constitution Amendment Act.

During the Tenth Five Year Plan period the public sector investment in housing was Rs. 4,15,000 crore and private sector investment in housing was Rs. 3,11,300 crore. The total investment during Tenth Five Year Plan was Rs. 7,26,300 crore.

2.8.12 Eleventh Plan (2007-2012)

I. Accelerating the place of development of housing and infrastructure.

II. Facilitating upgrading of infrastructure of towns and cities and to make these comparable to the needs of the times.

III. Ensuring that all dwelling units have easy access to basic sanitation facilities and drinking water.

IV. Promoting larger flow of funds to meet the requirements of housing and infrastructure using innovative tools.

During the Eleventh plan period the public sector investment in housing was Rs.7,45,960 crore and private sector investment in housing was Rs.3,76,374 crore. The total investment during Eleventh Five Year Plan period Rs. 11,22,334 crore.
The critical problem of housing finance is that of capital mobilisation for construction purpose. Both private and public agencies are invested in construction of housing sector. Since the beginning of plan periods in India, the investment by private and public sector on housing is shown in Table 2.2.

Table 2.2 Percentage of Investment in Housing to Total Investment During Plan Periods

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total Investment in the economy (In Rs.)</th>
<th>Investment in Housing (In Rs.)</th>
<th>Percentage of investment in Housing to total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan (1951-56)</td>
<td>3360</td>
<td>1150</td>
<td>34.2</td>
</tr>
<tr>
<td>2nd Plan (1956-61)</td>
<td>6750</td>
<td>1300</td>
<td>19.2</td>
</tr>
<tr>
<td>3rd Plan (1961-66)</td>
<td>10400</td>
<td>1550</td>
<td>14.9</td>
</tr>
<tr>
<td>4th Plan (1969-74)</td>
<td>22635</td>
<td>2800</td>
<td>12.4</td>
</tr>
<tr>
<td>5th Plan (1974-79)</td>
<td>47581</td>
<td>4496</td>
<td>9.3</td>
</tr>
<tr>
<td>6th Plan (1980-85)</td>
<td>156000</td>
<td>19491</td>
<td>12.49</td>
</tr>
<tr>
<td>7th Plan (1985-90)</td>
<td>349148</td>
<td>28450</td>
<td>8.15</td>
</tr>
<tr>
<td>8th Plan (1992-97)</td>
<td>767296</td>
<td>97500</td>
<td>12.70</td>
</tr>
<tr>
<td>9th Plan (1997-02)</td>
<td>1212802</td>
<td>151000</td>
<td>12.45</td>
</tr>
<tr>
<td>10th Plan (2002-07)</td>
<td>1525639</td>
<td>726300</td>
<td>47.60</td>
</tr>
<tr>
<td>11th Plan (2007-2012)</td>
<td>3644000</td>
<td>1122334</td>
<td>30.70</td>
</tr>
</tbody>
</table>

Source: 1. India's Five year plans, Government of India, New Delhi.  
2. Prominent facts on Housing, National Building organisation, 1997m p.11.  
3. Planning commission of India.

Table 2.2 shows the total investment in the economy, the total investment in housing and the percentage of investment in housing to total investment in the economy during the plan periods. The total investment invested in the economy during the First Five Year Plan was 332.32 Rs, and during the Fifteenth Five Year Plan, it was 351854 Rs.
Rs. 3360 crore and this investment increased up to Rs 36,44,000 crore during the Eleventh Five Year Plan period. Similarly, the investment in housing also increased from Rs 1150 crore during the First Five Year Plan to Rs 1122334 crore during the Eleventh Five Year Plan period. But the percentage of investment in housing to total investment invested in the economy decreased from First Five Year Plan to Seventh Five Year Plan period except the Sixth Five Year Plan. The percentage was increased from Eighth Five Year Plan to Tenth and Eleventh Five Year Plan periods.

2.9.1 Investment in housing during plan Periods by public and private sectors

The investment in housing by both public and private sectors during plan periods in India is shown in Table 2.3.

Table: 2.3 Investments in Housing by Public and Private Sectors During Plan Periods in India

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Public sector Rs</th>
<th>Private sector Rs</th>
<th>Total Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Its Plan (1951-56)</td>
<td>250 (22)</td>
<td>900 (78)</td>
<td>1,150 (100)</td>
</tr>
<tr>
<td>2nd plan (1956-61)</td>
<td>300 (23)</td>
<td>100 (77)</td>
<td>1,300 (100)</td>
</tr>
<tr>
<td>3rd plan (1961-66)</td>
<td>425 (27)</td>
<td>1,125 (73)</td>
<td>1,550 (100)</td>
</tr>
<tr>
<td>4th plan (1969-74)</td>
<td>625 (22)</td>
<td>2,175 (78)</td>
<td>2,800 (100)</td>
</tr>
<tr>
<td>5th plan (1974-79)</td>
<td>796 (18)</td>
<td>3,640 (82)</td>
<td>4,436 (100)</td>
</tr>
<tr>
<td>6th plan (1980-85)</td>
<td>1,491 (18)</td>
<td>18,000 (72)</td>
<td>19,491 (100)</td>
</tr>
<tr>
<td>7th plan (1985-90)</td>
<td>2,458 (8)</td>
<td>27,000 (92)</td>
<td>31,458 (100)</td>
</tr>
<tr>
<td>8th plan (1992-97)</td>
<td>31,500 (32.31)</td>
<td>66,000 (67.69)</td>
<td>97,500 (100)</td>
</tr>
<tr>
<td>9th plan (1997-02)</td>
<td>52,000 (34.44)</td>
<td>99,000 (65.56)</td>
<td>151,000 (100)</td>
</tr>
<tr>
<td>10th plan (2000-07)</td>
<td>4,15,000 (57.13)</td>
<td>3,11,000 (42.87)</td>
<td>7,26,300 (100)</td>
</tr>
<tr>
<td>11th plan (2007-2012)</td>
<td>745,600 (66.47)</td>
<td>37,6874 (33.53)</td>
<td>112,2334 (100)</td>
</tr>
</tbody>
</table>

1. India’s Five year plan Manuals Government of India, New Delhi.

Note: Figures in Parentheses represent Percentages to total.
Table 2.3 reveals investment in housing by both public sector and private sector during plan periods. The investment in housing in the First Five Year Plan by public sector was Rs 250 crore and this investment was gradually increased to Rs 52,000 crore during Ninth Five Year Plan. During 10th Plan the public sector invested more amount i.e. Rs 4,15,000 crore in housing. The investment in housing in the First Five Year Plan by private sector was Rs 900 crore and this investment was gradually increased to Rs 99,000 crore during Ninth Five Year Plan. During Tenth Five Year Plan the private sector also invested more amount i.e. Rs 3,11,300 crore in housing.

Total investment in housing by both Public and Private sectors was Rs 1150 crore during First Five Year Plan. The investment gradually increased to Rs 4,436 crore in Fifth Five Year Plan period. The total investment during Sixth Five Year Plan was Rs 19,491 crore. Further, the investment was rapidly increased from seventh five year plan to eleventh five year plans. During all the plan periods the share of private sector investment in housing was more than that of public sector.

2.9.2 Public Sector Investment in Housing

The data relating to public sector investment in Housing vis-à-vis the public sector investment in the economy are presented in table 2.4.

Table 2.4 shows the percentage of public sector investment in housing to total public sector investment. The percentage of public sector investment to total investment during First Five Year Plan was 16 per cent and this percentage gradually decreased from the Second Five Year Plan period to the Seventh Five Plan periods. During the Eighth Five Year Plan and Tenth Five Year Plans the percentage was increased to 7.25 per cent and 26.06 per cent respectively.
Table: 2.4 Percentage of Public Sector Investment to Total Public Sector Investment During Plan Periods

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total Public sector investment (In Rs.)</th>
<th>Public sector investment in Housing (In Rs.)</th>
<th>Percentage of public Sector investment to total public sector investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan (1951-56)</td>
<td>1560</td>
<td>250</td>
<td>16.0</td>
</tr>
<tr>
<td>2nd plan (1956-61)</td>
<td>3650</td>
<td>300</td>
<td>8.2</td>
</tr>
<tr>
<td>3rd plan (1961-66)</td>
<td>6100</td>
<td>425</td>
<td>7.0</td>
</tr>
<tr>
<td>4th plan (1969-74)</td>
<td>13655</td>
<td>625</td>
<td>4.6</td>
</tr>
<tr>
<td>5th plan (1974-79)</td>
<td>31400</td>
<td>796</td>
<td>2.5</td>
</tr>
<tr>
<td>6th plan (1980-85)</td>
<td>97500</td>
<td>1491</td>
<td>1.5</td>
</tr>
<tr>
<td>7th plan (1986-90)</td>
<td>180000</td>
<td>2458</td>
<td>1.4</td>
</tr>
<tr>
<td>8th plan (1992-97)</td>
<td>434100</td>
<td>31500</td>
<td>7.25</td>
</tr>
<tr>
<td>9th plan (1997-02)</td>
<td>NA</td>
<td>52000</td>
<td>NA</td>
</tr>
<tr>
<td>10th plan (2002-07)</td>
<td>1592300</td>
<td>415000</td>
<td>26.06</td>
</tr>
</tbody>
</table>

Source: 1. India's Five Year Plan Manuals, Government of India, New Delhi.

2.9.3 Private Sector Investment in Housing

The Private sector has been showing keen Interest in the Housing activities for a long time. The table 2.5 clearly shows its investment in housing vis-a-vis the Economy.

The table 2.5 shows the private sector investment to total investment in the economy. The Private sector has invested more amounts on housing during different plan periods. The housing investment in the First Five Year Plan by private sector formed 50 percent of its investment in the economy. However, the percentage was decreased to 13.7 per cent during Seventh Five Year Plan. Further, the percentage was increased to 19.80 per cent during Eighth Five Year Plan. During Ninth and Tenth
Five Year Plans the private sector investment in housing increased rapidly i.e. Rs 99,000 crore and Rs. 3,11,300 crore respectively

Table 2.5 Private Sector Investment in the Economy and Housing During Plan Periods in India

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total private sector investment in the Economy (in Rs.)</th>
<th>Private sector investment in Housing (in Rs.)</th>
<th>Percentage of public sector investment in housing to total private sector investment in the economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Its Plan (1951-56)</td>
<td>1800</td>
<td>900</td>
<td>50.0</td>
</tr>
<tr>
<td>2nd plan (1956-61)</td>
<td>3100</td>
<td>1000</td>
<td>32.8</td>
</tr>
<tr>
<td>3rd plan (1961-66)</td>
<td>4300</td>
<td>1125</td>
<td>28.2</td>
</tr>
<tr>
<td>4th plan (1969-74)</td>
<td>8980</td>
<td>2175</td>
<td>24.2</td>
</tr>
<tr>
<td>5th plan (1974-79)</td>
<td>16161</td>
<td>3640</td>
<td>22.5</td>
</tr>
<tr>
<td>6th plan (1980-85)</td>
<td>74,710</td>
<td>18000</td>
<td>24.1</td>
</tr>
<tr>
<td>7th plan (1985-90)</td>
<td>208140</td>
<td>28515</td>
<td>13.7</td>
</tr>
<tr>
<td>8th plan (1992-97)</td>
<td>333190</td>
<td>66000</td>
<td>19.80</td>
</tr>
<tr>
<td>9th plan (1997-02)</td>
<td>-</td>
<td>99000</td>
<td>-</td>
</tr>
<tr>
<td>10th plan (2002-07)</td>
<td>-</td>
<td>311300</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: India’s Five year plan Manuals Govt. of India New Delhi.

2.10 National Housing Bank

The responsibility to provide housing finance largely rested with the Government of India. The setting-up of the National Housing Bank [NHB], a fully owned subsidiary of the Reserve Bank of India [RBI] in 1988 as the apex Institution marked the beginning of the emergence of housing finance as a fund-based financial service in the country. It has grown in volume and depth with the entry of a number of specialised financial institutions/companies in the public, private and joint sectors, although it is at an early stage of development.
2.10.1 Establishment of the National Housing Bank

The National Housing Bank was established in July 1988 on the recommendation of Dr. C. Rangarajan Committee. It can establish offices/branches/agencies at any place in and outside India with the RBI's prior approval, on similar lines of the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD). The NHB will remain a wholly owned subsidiary of the Reserve Bank of India (RBI).

Objectives

National Housing Bank has the following objectives.

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

II. To establish a net-work of housing finance outlets to adequately serve different regions especially for housing.

III. To promote savings especially for housing.

IV. To make housing more affordable.

V. To augment the supply of land and building material for housing.

VI. To encourage public agencies to merge primarily as facilitators and suppliers of serviced land.

VII. To upgrade the housing stock in the country.

VIII. To encourage flow of credit and real resources to the small man first by HFCs. The HFCs are the major beneficiaries of the refinance facility of the NHB followed by others.

2.11 National Housing Policy

Realizing that shelter is a basic human need and is an intrinsic part of the human settlements, keeping in view the importance given to housing development by the world; the Government of India has evolved a fresh National Housing policy in July 1988 for socio-economic development of the country.¹⁶
Objectives of the National Housing policy are as follows.

I. The main emphasis of this policy is providing shelter to SC/STs, rural landless and freed bonded labourers.

II. The upgradation of all Kutcha houses in urban areas in particular so as to improve the housing conditions of slum dwellers, squatter and the economically weaker sections is another feature of national housing policy.

The National Housing Policy has been designed to have the following:

a) To assist houseless people. To assisting people, in particular the houseless and the inadequately housed, to secure for themselves affordable shelter through access to land, materials, technology and finances.

b) To encourage investment in housing

c) To create an environment for achieving maximum housing efforts.

d) To improve the environment of human settlement by providing basic services.

e) To promote vernacular architecture and preserve the nations with heritage in the field of human settlements.

Thus the National Housing policy dwells at length on minimum housing norms, rural housing, informal sector housing and slums, legal environment, housing finance and the monitoring system. It also specified that certain disadvantaged categories like the physically and mentally handicapped and the aged have very special requirements for housing.

For rural housing concerned the policy aims.

I. Providing house sites to SC/STs, freed bonded and landless labourers on suitable loan cum subsidiary basis.

II. Providing potable water supply and promoting smokeless chulnas, built in latrines' and renewable sources of energy.
For the informal sector and slums, the housing strategy includes conferring tenural rights and reasonable rates on slum dwellers and squatters, promoting savings schemes for housing, stepping up environment improvement programme and associating slum dwellers in maintenance and improvement of their settlements. It was also proposed to open supply outlets for the sale of building materials at reasonable prices and promote low cost water supply and sanitation. The emphasis was all on removing obstacles in providing credit to women.

Further, the policy states that a specialized housing finance system would be developed to increase the flow of funds for the creation of new housing stock as well as for upgradation and expansion of the houses in rural, semi rural and urban areas.

The policy has also made mention of National Housing Bank, its objectives, features and its role as an apex housing finance institution.

The policy document further states that the role of public sector organization in housing – HUDCO would be strengthened. For the purpose of housing finance, co-operative societies, saving and loan associations, would also be promoted at local, state and zonal levels for mobilizing savings and advancing and recovering loans. The co-operative movement in housing would not only be strengthened but constraints coming in its way would be removed.

As far as revenue generation is concerned, the policy document states that the income tax and wealth tax would be rationalized to channelise savings into housing finance and promote investment in housing activities. Fiscal measures would also be initiated to discourage investment in luxury housing. To meet the increasing demand for house building material production, estates will be established wherever necessary for maintaining quality and speed in construction. The document has further underlined the need for increasing investment in the housing sector for achieving the objectives spelt out in the policy.
2.12 Rural Housing and National Housing Policy

For the development of rural areas and improvement of socio-economic conditions of the rural people has been among the major concerns of development planning. Recognising that rural housing is qualitatively different from urban housing, the National Housing Policy of 1992 made certain specific recommendations on the following aspects.17

I. Support to varying needs of shelter, including new construction, addition and upgradation.

II. Providing assistance by way of dissemination of appropriate technology and delivery system for promoting self-help housing.

III. Assuring land and tenure rights by enactment of enabling laws for conferment of homestead rights.

IV. Prevention of alienation of homesteads on tribal land.

V. Avoiding unnecessary displacement of the housing of rural settlements due to development projects and where unavoidable, ensuring proper rehabilitation of the households with full community involvement according to the national norms in this regard.

VI. Rehabilitation of households affected by natural calamities in terms of assistance for reconstruction and access to services within the national scheme of calamity relief.

VII. Preserving the customary and traditional rights of access to housing resources based on forest materials and common village resources.

VIII. Promoting the maximum use of indigenous building materials and construction techniques with due regard to geo-climatic variations in different regions.

IX. Co-ordinate provision of water supply, sanitation, roads and other basic infrastructure services to existing and new habitations besides employment opportunities, which will also help reduce the migration to urban areas.

X. Establishment of a suitable institutional structure, including strengthening of existing organisation at state, district and local level.
with responsibility for the implementation, supervision and monitoring of rural housing schemes and with full involvement of beneficiaries, voluntary agencies and village Panchayats.

XI. Giving special attention to the needs of the poorest segments of scheduled castes, scheduled tribes and other disadvantaged persons.

XII. The development of house sites and upgradation of rural housing is linked to activities under the Integrated Rural Development programme (IRDP), Nehru Rozgar Yojana and other programmes for the creation of rural assets and employment.

2.13 New housing policy for Affordable Shelter by 2010

Mr Tariq Hameed Karra, Jammu and Kashmir Minister for Finance, Housing and Urban Development, who lead a delegation at the fourth International Conference on intelligent, Green and Energy Efficient Building in Beijing, said the strategy to achieve this was by creating favorable environment for larger participation of private, private-public and Co-operative sectors in Housing Development. The action plan also included creation of a new legal and regulatory regime for housing, redefine role of Housing Board and Development Authorities, and improve access to market credit to innovate housing architecture and technology. The minister at the inaugural session of the Conference being jointly organized in Beijing by the Housing Ministry, Government of China and Construction Industry Development Council (CIDC), India said the task of developing the urban areas would never acquire its true meaning and significance if the concept of Green Buildings was not pursued significantly in modern housing infrastructure development.

2.14 Sources of Housing Finance

After getting independence, the Government of India played a significant role to develop housing with different sources. The sources of housing finance can be broadly categorized into three sectors, i.e.

1. Public sector
2. Private sector
3. Co-operative sector
1. Public Sector

Housing finance under this sector covers Central Government, State Government, State Housing Boards, public finance Institutions and Development Authorities. This sector emphasizes mainly social housing schemes beneficial to the poorer sectors. The contribution of this sector is very small.

2. Private Sector

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

3. 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-operatives which have been formed mainly for the economically weaker sections, low income and middle-income groups. They are being supported and assisted by the Government and the people themselves.

2.15 Another Classification of Source of Housing Finance

The Government of India was set up High Level group in the year 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 organizations.

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.

2.16 Formal Sector

The formal financial sector in most developing counties finances only a small share of housing investment. Mortgage credit from the formal sector was only 28 per cent of all housing investment in a sample of eleven developing countries, whereas 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 about 20 per cent of the Housing Finance comes from Formal sector.

By international standards, the formal housing finance in India forms a small portion of GDP. Notwithstanding 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.

2.17 Informal Sector

Till recently, informal sector was the major source for housing loans in India. In any developing economy, a significant portion of the financial transactions continue to take place outside the formal financial system and this phenomenon is more evident in the housing finance sector of the country. As per the estimates of NHB less than 30 per cent of the new housing units are financed by the formal housing system. The informal sector plays a prominent role in spite of high annual rate of interest it charges which ranges from 24 to 36 per cent per annum. This situation, therefore, demands the need for rapid development of a viable housing finance system in the country.
2.18 Leading Role of State Bank of India in Housing Finance

The State Bank of India has made remarkable progress in its operations over a period lasting more than five decades. It has tried its level best by liberally meeting the financial needs of different sectors of our economy. Over a period of more than 50 years of its existence, the SBI group has done a marvelous job in fulfilling its obligations. It is not only playing a pioneering role in the field of agricultural and industrial finance but it is actively working hard for the improvement of housing facility in the country by implementing various housing loan schemes which are suitable to the needs of different people.

The following housing schemes are initiated by State Bank of India.

Direct Finance to Individuals

Under this scheme, individuals of 18 years and above with steady source of income including persons engaged in agriculture and allied activities are eligible to receive loan facility.

Purpose

To purchase an existing old house or a flat or to construct a new house or to extend or to repair or renovate an existing house. Loans also will be given to purchase consumer durables.

Maximum Loan amount

The actual loan amount is determined on the basis of borrower's income, repayment capacity, age, assets and liabilities and cost of house etc., Maximum permissible loan amount is subject to:

a. Borrowers upto 45 years of age – 48 times of net monthly income for salaried people and 5 times of net annual income in case of others (upto a period generating EMI 57.5% of NMI)

b. Borrowers over 45 years of age – 48 times of net monthly income of salaried people and 4 times net annual income in case of others.
Security

Equitable or Registered Mortgage of Property may be taken as security. If it is not possible, tangible assets like insurance policies, shares, debentures, gold ornaments may also be taken as security but it left to the discretion of sanctioning authority.

Disbursement of Loan

Loan is to be given directly to the builders as per the progress of the work, after complete execution of documents and creation of valid mortgage.

Repayment of Loan

For borrowers upto 45 years of age – maximum period is 20 years. For borrowers over 45 years of age – the period is 15 years and for short-term housing loans – the period is 5 years.

Rate of Interest

Fixed/floating interest rates are in practice. The rate of interest depends upon the tenure of loan i.e. 01-03-2006 the floating rate of interest ranges from 8.5 to 9.25 per cent and fixed rate of interest ranges from 9.25 to 9.5 per cent.

Penal interest

Penal interest is charged @ 2 per cent on the entire loan out standing for the period of default.

SBI-Tribal plus

This is the special housing loan scheme for Hill/Tribal areas without mortgage of land. The scheme has been designed to exploit the full potential of housing loans in these areas. The normal housing loan schemes have not picked up among the tribes hailing from the hill states of North East and tribal areas in other circles due to the following reasons:
i. No cadastral survey has been done.
ii. No system of issuing land patta with patta number is in vogue.
iii. Transfer of land is restrictive
iv. Ownership land lies with the community or the Chief of the village.

Because of the above conditions, Banks are hindered from extending housing loans. This problem has been solved by making modifications and launching “Tribal plus”. The scheme will be applicable only to those areas which satisfy the above 4 conditions.

**Purpose of Loan**

Loan will be granted to individuals to purchase or construct a new house or to purchase an existing house or to repair or extension of existing house.

**Eligibility**

> Individuals of 18 years of age and above
> Permanent employees of central or state Government / public sector undertakings/reputed private sector units and have put in minimum of 5 years of service.
> Professional, self - employed, businessmen and agriculturists etc. With minimum experience of 5 years in their respective sphere of activity and who maintain satisfactorily conducted deposit accounts with the Bank with an average balance of Rs. 5000 for the last two years.

**Maximum Loan amount**

For employees 36 times of net monthly income. For professionals, businessmen, self-employed persons and for agriculturists two times average Net Annual Income subject to a maximum of Rs. 10 Lakhs.

**Rate of Interest**

As applicable for regular housing loans.
Repayment

For employees, total repayment period should not exceed 15 years or remaining period of service which ever is less. In respect of other maximum repayment period of 15 years before the borrower attains 65 years of age.

SBI-Maxgain

This is a variant of housing loan launched i.e. 01-04-2005 under which housing loan is sanctioned as an overdraft.

Eligibility

This facility is available for new housing loans of Rs. 5 Lakhs and above from applicants who maintain a satisfactory Savings Bank account or current account with an average balance of Rs. 10,000 with the Bank.

Other terms and conditions are the same as applicable to other normal housing loan schemes.

SBI-OPTIMA additional Home Loans

This housing loan scheme is to meet expenditure towards major repairs, renovation and additions to their residential house as also for the purchase of furniture and fixtures and consumable durables etc.

House loan borrowers with a satisfactory repayment record of 3 years and whose loan is against standard assets are eligible to receive the loan under the scheme. The scheme has been launched on 15th April 2006.
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