CHAPTER-III

Housing Financing System-An Overview

3.1. Introduction

Globally speaking, housing and related activities have evinced interest only in recent times. The increasing general interest in the housing sector and the housing policies received an additional stimulus by the publication of a government white paper on housing policy by the United States in 1970. Prior to this, housing was a much-neglected sector and was considered only as a private good. However, housing in recent times has not only been recognized as public good but has also been placed in the priority sector. The governments of various countries have adopted different policies and strategies time and again to provide shelter to the shelterless population. On the basis of the policies adopted and the schemes implemented the housing finance followed globally, it can be broadly classified into two systems—Market-driven model and State-market-driven model. It is in this context that this chapter aims at discussing comparatively the various housing policies and finance systems, in general, and India, in particular.

Comparative housing studies are being carried out since a long time. The first of its kind was in 1960s (Kuznets, Wendt, and Donnnison 1973). However, it received renewed interest in the 1990s due to increased international cooperation between countries and the possibility that there was a certain degree of policy harmonization in housing just as in other fields of policy. The basis of all housing policy has, however, been “housing according to their needs”, and that of “housing on the basis of effective demand”. The comparative housing study focuses on the differences and similarities in the functioning of the housing market in various countries.
The problem of housing is universal. The developed countries like other countries face housing problems in one form or the other. All nations regardless of their orientation tend towards free markets, and have adopted a variety of housing policies to overcome these problems. As rightly stated by Horseman and Quigley (1991), the production, distribution, consumption, financing and location of dwellings are controlled, regulated and subsidized in complex ways in these countries. In fact, compared to other economic commodities, housing is the most tightly regulated of all the consumer goods and hence the housing policies adopted in these countries are similar to certain extent but differ to a great extent. In this context that the housing policy/systems adopted by the developed/advanced countries can be grouped as: The State Sponsored development (in Western European Countries) and Market led development (Western Countries). The housing policies adopted in these countries have changed time and again in accordance with the need of the hour. The housing policy framework adopted by these countries can be traced to three different periods: (i) The Post-World War Period; (ii) Policy Development during the 1980s, and (iii) Housing Policy during the 1990s.

3.2. State Sponsored Development

The housing policy adopted by the Western European countries (Belgium, Netherlands, Sweden, Denmark, France, England and FRG) in the post war period was influenced by the immediate effects of the two world wars. The Post-War period was confronted by a magnanimous housing problem and during this period housing shortages resulting from war damage, dearth of new construction during the war, as well as large-scale migratory movements, contributed to major challenges to national the governments. The need of the hour was to increase the number of units built and the closing of the gap
between supply and demand. The government’s policy aimed at the mobilization of national institutions and resources to promote high levels of new construction. This period was also a witness to the shift of emphasis from quantity to quality, which was the outcome of widespread epidemics like cholera and typhoid. The Government began to adopt policies so that new construction conformed to higher standards with respect to both size and facilities. There were also moves to increase the quality of the existing stock through slum clearance and redevelopment and the renovations of the lower quality dwellings.

In the European housing context, both the world wars can be marked as turning points. The first world-war was accompanied by a two-pronged approach. First, when governments adopted regulatory frameworks aimed at rent levels and security of tenure of private rental housing. Second, when governments embarked upon large-scale programmes of subsidized housing. The Second World War caused the widespread destruction and cessation of new building for half a decade or more and the large-scale movements of population. All these contributed to a need to build quickly and in large numbers. The standard response of the government was the mass building of social housing that conformed to wider, welfare state developments. Further, the oil crisis brought about a greater change in the housing policy. Now the construction programme has ceased to aim at the general population and the emphasis is increasingly put on assisting the less well-off and a switch from supply subsidies to demand subsidies. The essence of the housing policies during the post world war period is one in which the government see its role as one of providing incentives for the owner-occupied sector, providing rented housing for those households unable to buy their own, assisting large families and demolition or improvement of poor quality housing and a switch from new construction to maintenance and housing improvement.
The housing policies of 1980s, which was influenced by the conservative government policies was a contrast to the policies adopted during the post-world war period. The housing policies implemented by the conservative governments during this period were somewhat at odds. In many countries new house building programmes were drawn up in response to the (international) crisis in the housing market and the subsequent decrease in the level of new construction. A number of tax reforms were introduced along with measures to cut back public expenditures; which resulted in a serious crisis in the owner-occupied sector. Specific changes were implemented in the housing policy during this period where there was a general withdrawal by governments from housing markets and a greater emphasis placed on deregulation. The policies of 1980s were detrimental, to a great extent, as it increased the housing costs, which had severe repercussions on the weaker sections of the society. This was due to the measures taken by the governments to make housing more responsive to the market forces. As a result of this, access to non-profit rented housing was substantially curtailed in most of the countries forcing many to look to the qualitatively poorer private rented sector. Apart from this, there was a sharp rise in the short-term bed-and-breakfast-accommodation and the number of homeless. There were also many related problems like the problems of owner-occupied sector, which stagnated for some time and later declined to a great extent.

The housing policies adopted in the 1990s were similar to the policies adopted earlier, except for a few developments. One of the major developments that took place during this period has been evolving a white paper on housing itself, which although appeared as a discussion document during 1989 but later came to be considered as a definitive policy proposal for the 1990s. The most important aim of the housing policy was to
permit the better functioning of the housing market. The government’s involvement in housing was justified in ensuring satisfactory quality of the housing offered, ensuring access to affordable housing of sufficient quality to the low-income groups, the need to ensure stability in the market and in the level of housing construction. The White Paper on Housing while enshrining the role of the government in housing made a distinction between 'planning aims and regulatory aims'. The principle behind housing planning was ensuring that adequate housing was, in the first instance, the responsibility of residents and of others involved in the market. The key concepts of the policy were, deregulation, decentralization, and self-reliance. Apart from these, they included promoting favourable residential and environmental conditions, promoting owner-occupation, promoting experimentation, and promoting innovation. Priorities were also laid down for the regulatory function of the government in providing better housing. In conclusion, the housing policies adopted by the Western European countries were influenced by the two world wars and later on, the policy not only laid emphasis on meeting the demand but also ensuring quality housing.

The housing finance system adopted in most of the Western European countries has been the direct outcome of the housing policy prevailing in these countries. The system has been viewed as a continuous process of adjustments of households and dwelling. This process operates according to the market forces whereby producers generate a supply of housing, and the consumers exert a demand for it. The government makes use of loans to intervene in the market mechanisms. The government loans are directly financed by the budget. However, in recent times, the government loans have considerably declined. The loans provided by the government for housing are normally extended for a period of 15 years and repayment commences after 17 years. In some of the European countries the loans from the government consisted of basic financing for
social rental sector, which was interest free and had to be repaid only after 50 years of operation. However, in many instances, the repayments have not taken place even after this period. The share of the basic finance was, however, limited to only 4 per cent. Apart from government loans, guarantees also contributed to the housing finance to a greater extent.

The government’s intervention in housing can be identified as Regulations, Subsidies and Direct Investment. Regulations of housing market take the form of rent control and constraints on the capital markets. Subsidies play an important role in the government intervention, This instrument is used to assist the consumers by fixing housing costs below cost price and it applies to both the supply side and the demand side. In the direct investment the governments can intervene in the housing market by investing in housing and then bringing it on to the market. The government in the European countries acts as a developer, it then takes the risk of building and selling the dwellings or rent out these units under public management. Different financial instruments such as the property subsidies, housing allowances, government loans, and government guarantees are made use of to increase the house building activities both in the rental sector and in the owner-occupied sector. However, the instruments used among these countries may vary to certain extent. Housing allowances and property subsidies are the more commonly used instruments in the government financing and guarantees are no longer prevalent. Although housing allowances for renters are found in all these countries, in a few countries, it is not in the direct form of individual subsidy, rather it is through a system of rent regulation. Although housing allowance for the owner-occupancy sector is prevailing in all countries, there are certain serious limitations for its applications.
The property subsidy is a very popular instrument in housing finance. These subsidies are available to both new construction and improvement of the existing housing stock. Subsidies also apply to the demand side and supply side of the housing market. On the supply side of housing, subsidies are directed towards the producers of housing, such as Developers and Housing Associations. The subsidies in this side can be granted in various forms, such as capital subsidies or tax deductions. The subsidies on the demand side can be used to influence direct housing consumption by bringing direct housing outlays down below cost. Thus, among the various instruments used to finance housing, subsidies are the most important.
The chart below clearly brings out the various means by which
the Government in these countries finance housing

Chart No.3: GOVERNMENT INTERVENTION
3.3. Market Led Development

The Western countries, which are mostly capitalistic, have been following a different policy for housing in contrast to the policies adopted by the Western European Countries. Housing provision in the Capitalist nations such as the United States, Canada, Australia, and Japan has been patterned according to a “free” market model. The housing in these countries have been considered as a commodity similar to an automobile and refrigerator, and the provision is expected to result from the interplay of demand and supply with a strong profit motive of the private investors. A fundamental assumption underlying this model is that the majority of the households who are unable to compete for the desirable housing stock will occupy units that is vacated and ‘filter down’ while the affluent move to new and better housing standards. The Government’s role in the model is minimal and restricted to actions intended to ensure smooth market functioning. The market system although considered to be free is governed by the government’s intervention in laying out and paving of streets, the supply of water, sewerage disposal, utility provisions, materials and building standards, zoning ordinances, health, fire and safety codes, regulation of labor as to wages, regulation of financial institutions, mortgage foreclosure laws, regulation of tenancy, including eviction, rent level, and even household composition (Marcuse 1990; Otnes 1988).

Housing, in the capitalist market is purely considered as an economic good/commodity and reducing costs clearly emerge as major criteria for policy formulations. From the supply point of view, the problem of housing supply concerns the degree to which the actual national housing stock matches the needs of the households. The government’s principle role in this type of a situation is to come to the aid of selected groups of the population and help those who cannot secure housing for themselves in the “open markets”. However, Government’s intervention in the market is often seen as an
exception and to be discontinued once the normal, market mechanisms are able to continue the tasks. Keeping this in mind the housing policies are designed in such a way so as to meet particular needs and solve particular problems, and they consist of building, lending, subsidy, rent controls or other measures. These measures are usually “exceptional interventions”, often which are temporary interventions, within an otherwise “normal” system (Donnision and Ungerson 1982). The policy as followed by the industrialized/ western countries is traced in three different periods. (i) The policy adopted in the 1970’s, (ii) The policy adopted in the 1980’s and (iii) The policy in the 1990s.

The housing policy followed in the western countries during the 1970s was influenced by many factors. The Great Depression was the most important decisive factor. This triggered a series of institutional reforms that became the cornerstone for evolving housing policies of many countries, including developing countries. The economic stagnation, which started in mid 1970s, caused major economic restructuring, which, in turn, prompted a series of changes in the housing system. Housing during this period began to play a less central economic role and it also became politically a less interested issue. These forces combined to set off another wave of institutional change, resulting in privatization of housing and less active participation of Government in housing. The Governments in these countries responded to the social unrest with suitable housing policies laying more stress on flexibility and efficiency rather than on redistribution. Funds were allocated by formula and had relatively few conditions attached to their use, provisions were made to utilize these funds to upgrade housing, through rehabilitation, new constructions, neighborhood redevelopment, self- help and so on. Although there was a general growth in the housing stock, the steady shortage of the housing stock as a result of the post-war baby boom and the growing in-migration was
increasing. This has brought about a polarization of housing options, a cessation of the growth of waiting lists for public housing, substantial homelessness among youth and a major problem of affordability by the poor tenants.

The 1980s brought about major changes in the housing policies. However, it continued to maintain the post war policy of promoting home-ownership by means of a home-deposit assistance scheme and mortgage interest rebates. Further, the state Governments supported the policy thrust with concessional home loans. Many countries established various housing funds to raise finance and channelise the same into the housing sector. The most notable policy development was the deregulatory measure introduced in the housing finance sector. Due to which, there was growing interest in extending the role of local government in housing. Efforts were made to induce the private institutions to make sufficient funds available for housing. Apart from this, adequate funds were mobilized by establishing new kinds of mortgages that were insured against default by the government, by developing a Secondary Mortgage Market, and by removing controls on mortgage lending rates. The government also provided mortgage credit directly wherever private sources of finance proved inadequate. The Government re-entered the market as a residual lender with its direct lending powers after realizing that the private sector could not alone provide enough funds for housing.

The period of 1990s was a time of great change in the housing sector. Numerous new initiatives were mounted for both the renters and the owners and these were made available to the low and moderate-income households. In order to help the renters, rent controls were introduced across the country. However, there was a substantial retrenchment, partly spurred by widely accepted need for the restraint of government expenditure and for a reduction in public sector borrowings. As a result, the principal
rental sector was completely redesigned to reduce public sector lending. While the commitment of the government to lower-income households remained by and large the same, the programs directed at middle-income renters and owners had been curtailed.

The Institutions and the Government basically back the housing finance system adopted in the western countries. The major suppliers in the field of housing finance: are; Insurance Companies, Chartered Banks, Loans and Mortgages Companies, Trusts, Credit Unions and the Non- Bank Financial Intermediaries. The institutional structure that exists in these countries is in response to the Great Depression. The institutional structure has various institutions or banks involved in financing housing, For instance, the United Federal Home Loan Bank (FHLB), the Commonwealth State Housing Agreements (CSHA), Canada Mortgage and Housing Corporation (CMHC) have been instrumental in providing finance for housing. As a result, Governments have reengineered themselves to facilitate the people who are unable to acquire a shelter in the open market.

The instruments adopted to finance housing in these countries are to a greater extent similar to the ones adopted by the European Countries, but different to a large extent. Subsidies, Housing Allowances and Mortgages are generally the instruments adopted in these countries. Among these, Subsidies play a major role in encouraging homeowners and in providing dwellings to the low-income families. In certain cases a dual subsidy system is in vogue, which consists of 'Direct subsidy' and 'indirect subsidy'. Direct subsidy is more of cash transfer to encourage home-ownership and indirect subsidies like tax exemptions, tax allowances, tax credits, tax rate relief etc., it is provided to facilitate the low-income households. Housing Allowances are intended to enhance improvement in the housing conditions. Housing allowance is also a form of cash payment. However, the mortgage market has developed a series of overlapping sub-
markets characterized by 'One of a kind deal'. Mortgages are made available from various financial co-operatives. The competition among the mortgage lenders has increased the flow of funds to the Mortgage Institutions. Further the Secondary Mortgage Market (SMM), which was first introduced by the United States of America, has prompted the evolution of such markets in other countries also. The need for a Secondary Mortgage Market is due to the fact that the existing single mortgage is not only fluid but also characterized by, short term, lower loan- cost ratios, and higher rate of interest. In some cases, a Quasi- Secondary Mortgage Market has emerged, where activities are confined primarily to non-owner-occupied housing and for commercial property purposes. However, there is no major breakthrough in developing a Secondary Mortgage Market as the interest terms are shortened to first 5 years and subsequently to 2 years and finally to 1 year. More recently, the liquidity of mortgages has been improved with the development of Mortgage-Backed-Securities (MBS).

3.4. State-Market Combined Model

This situation is a combination of roles of both Government and Market in housing sector, which prominently, co-exists in the developing countries. These countries being known for their agrarian structure, have given only marginal priority to the housing sector per se. The extraordinary characteristic features of the developing countries are not only the huge gap between the demand for and supply of housing benefits but also in the developing scales between the rural and the urban areas. The urban areas are growing at a faster rate. The public authorities are striving hard to devise a wide range of policy instruments to meet the needs of people for shelter and related services, and to allocate resources in ways that redistribute both the costs and benefits. Further, yet other distinctive feature of the housing in the developing world is the growing imbalance between the growth in the number of households, and the number of
housing units produced annually. Thus it is needless to further justify the co-existence of State and Market in the housing area.

There have been instances of formulating housing policies and implementation of housing programmes to make the facility accessible to all (Habitat 1996). The housing policy framework is influenced by both supply and demand factors. Fiscal policies have also played a critical role in determining the ability to mobilize resources for the growth and distribution of housing benefits to various income groups. The Government assistance is designed to meet the housing needs of the vulnerable sections and to reflect the welfare of these sections. This is necessarily intended to address the market insensitiveness towards these sections. Notwithstanding these concerns, there have been a number of disappointments with regard to the meeting of the housing requirements of the poorer sections. However, this should not be misconceived that the market has been able to meet the housing needs of those who can afford for the benefit. Unfortunately, market forces are more biased towards urban areas and white-collared persons and as a result of concentration rural areas have yet to experience the benefits of the market. Besides the existence of both Government and Market in the housing sector, Cooperatives (as non-profit organizations) and informal initiatives have been in the market in different forms. Each of these institutions justify their existence in response to the provisions in housing policies of these countries. These institutions have had their own financial base and the distributive actions of housing benefits for different segments of housing consumers.

Like any other parts of the world the Governments in these countries have focused their development initiatives on the vulnerable groups, of late. Though the belated realization for targeting the poor came in the late 80s partly in response to the
new economic policy reforms, Subsidies, Housing Allowances and other forms of Grants are continued to be in existence as the important instruments in fulfilling the commitments. Governments have also introduced a series of institutions for supplying of finances for housing activities, though their investible capital comes from the capital market. In fact, this source of revenue has compelled these institutions to restrict their problems of the underprivileged sections especially in the rural areas. It should not be misconstrued that the informal initiatives are confined to rural and other backward regions only. Rather urban areas have also seen the existence of these practices, mainly catering to the low-income groups.

Lending rigidities of the financial institutions have also prompted the prevalence of informal financing operations mainly in urban areas and to lend against the secured guarantees. But to take the institutional resources to the backward and rural areas, social compulsions have been imposed on the public owned institutions especially on the commercial banks though the outcome is not encouraging over the years. Further, to promote the housing activities and to achieve cost effectiveness in housing production and to supplement the Government action in fulfilling the housing commitments another set of institutions has been encouraged, which have of late come to be known as People’s Organization or Cooperatives. Cooperatives with different tiers (national-Regional -Local) have proved their existence though their contribution to the overall stock of housing is negligible. Importantly, these institutions over the years have been able to respond to the growing needs of housing of their member community. Quite parallel to the role of the state, market and the cooperative sector informal initiatives have also been in vogue in the housing sector rather on a substantial scale. In fact, these initiatives are thriving in response to the market failures and incompatible public actions in mitigating the housing practices. For instance, lower loan cost ratio. With this backdrop, the
following paragraphs provide an overview of the housing policies and financial practices in developing part of the world.

3.5. Housing Finance System in the Third World Countries

The policies followed in the third world countries have laid a firm foundation for the development of housing finance system. The housing finance system adopted by the third world countries is exclusive. A “three-segment model” has been adopted to finance housing. This model is a combination of the strategies as adopted in the Western and European countries model. The first segment is basically dominated by the public sector where the government finances housing, in general, to the needy and the Economically Weaker Sections (EWS), in particular. The institutional sources are the second source of housing finance, whose role is more or less restricted to urban areas covering the white collared persons. Finally, the informal sources consist of moneylenders, which cater to large sections of the population. The former two sources of housing finance form the formal sources and the latter forms the informal source. The formal housing sector both in the public and private do not produce more than one-fifth of the new housing stock and the remaining four-fifths has been produced informally with various degrees of illegality, ranging from the unlawful occupation of land to the pervasive neglect of building codes, infrastructure standards, and zoning regulations. The government frames its public housing policies in such a way so as to provide shelter to the shelterless economically poor. The government provides finance to housing through direct budgetary allocations. The government aims at providing housing finance on a financially viable basis with an intention to encourage home-ownership among the lower income households.

Institutional source of housing finance is the second tier of the housing finance in the developing countries. The institutional source constitutes of Building Societies,
Housing or Mortgage Banks, Savings and Loan Associations, as well as various other forms of housing finance institutions including Commercial banks. Housing finance from this category generally account for 5 per cent to 20 per cent of the housing in developing countries (Okpala 1994). But, for some countries, the institutional finance for housing accounts for less than 20 per cent of the total housing investment. Mention can be made of the Asia-Pacific region, which is a leader among the developing countries in the successful institutionalization of housing finance system. However, in most of the developing countries as many as 90 percent of the institutions are established funded by the government (from treasury funds, subventions and annual budgetary allocations) and therefore function as government agencies and are used as instruments of government policy. The institutions as government instruments often have inadequate resources to financing housing and are not able to be operationally flexible enough to benefit from the developments of the wider industry.

The deposit and lending rates of the institutions are tightly regulated and controlled by the government, which tend to make use of the interest rate mechanisms as a means of regulating the cost of credit, i.e., the loan interest rate. Some of the developing countries have made efforts to strengthen housing finance in other ways, although the system is often not strongly integrated into the over all national finance system. However, these institutions operate at the margin of the national financial market and are generally in competition and therefore, are at a disadvantage in mobilization of resources. The formal housing finance constitutes a very small proportion of current demands in developing countries. The existing institutions are therefore, serving a minority of households at a high cost and with limited results (Renaund, 1984). Under these circumstances the goal of a sustainable institutional housing finance system is still far from being attained,
The third source of housing finance is the informal/non-institutional finance. This source plays a major role in financing housing in the developing countries. The informal/non-institutional source encompasses a major source and constitutes borrowings from money-lenders friends and relatives, from credit unions etc. Also, family savings and loans from employers form a negligible quantum. A dominant portion of the housing finance is accounted by the informal non-institutional sources. It has been estimated that about 80 per cent of the housing finance in the developing countries is still through the non-institutional source (Okpala 1990). The size of the informal housing finance sector, although not known precisely has been widely acknowledged to be large, both in absolute terms and in relation to the formal financial channels. Due to this fact, a consensus is that the informal housing finance sector should be regarded as a positive and productive complement to the efforts in the formal sector. (Asian Development Bank 1983). The trend of high informal housing finance in developing countries is strong and tends to persist and has even increased in recent years.

The rise in the informal source has been due to insensitiveness of institutions coupled with lending rigidities. Also, the informal finance for housing exists due to the reason that it is more feasible, viable and convenient. This sub-sector of the housing finance is, therefore, increasingly acknowledged and recognized as a major source of housing finance. Appropriate government interventions although not necessarily directly related to finance, but rather to the creation of supportive environment to encourage informal sector, initiating effective policies with regard to land tenure, access to urban land, regulatory controls and other incentive mechanisms that leverage greater outputs from this sector makes the informal source for housing finance a viable source especially for the low income and the households belonging to the economically weaker sections.
The developing countries use the full range of subsidies for financing housing. Among the various instruments used are: subsidies, taxes, and fiscal incentives. The subsidies being different from taxes are the public outlets made to reduce the market rent or price of a dwelling. Subsidies may be Direct or Indirect. The direct subsidy is normally the difference between economic rent and market rent. Subsidies may also include the foregoing of tax revenues. The indirect subsidies include such items as housing finance below normal commercial rates and the provision of building materials at cost price. Taxes, on the other hand, are all those charges, rates, fees, and duties charged by the public sector for housing privileges. These increase the rent or cost of `encouragement` to housing which bring no loss of revenue or outlay of funds. Disincentives, on the other hand, are those restrictions, controls, and regulations, which tend to discourage development because they increase the cost of housing without increasing public revenues. Informal finance for housing practice is however, different from those used in the formal sector mainly comprises of face-to-face contact, verbal assurances, and in certain instances, pledging of crops, Labour and certain movable and immovable assets.

In conclusion, the segments reveal that there are different housing policies and financing systems prevailing in different countries. However, the policies implemented in all these countries aim at providing shelter to the maximum number of shelterless. It is also clear that the countries make use of different instruments for financing housing and the most common of these instruments among all the countries is the use of Subsidies. Apart from the role of the Government, the institutions, informal source of housing finance is an important source of housing finance more so in the third world countries.
3.6. Indian Housing Policies and the Finance System

India is one of the few countries to have positively responded to the growing concern of bringing about quality in living standards with improved health conditions, which also encompasses meeting the housing needs. The global initiatives like The International Year of shelter for the homeless (1987) and the Global Strategy for Shelter (2000) by the United Nations have made most of the governments to realize the importance of housing and to give priority in their development agenda. It was during the late 80’s India came out with a National Housing Policy (NHP), which marked the beginning of the housing development in India. Since then efforts have been made to provide shelter to all, in general, and to the vulnerable/Economically Weaker sections, in particular. The basic feature of the housing in India like in other developing countries is that housing has not received the attention it deserved from policy makers or planners. The investments made in the housing sector over the plan periods confirm that this sector has occupied a backseat in the economy. As a result of this, there exists housing shortage. However, the Government of India has taken initiatives to intervene in the housing sector in a sizeable scale in reducing this. In addition to this, attempts have also been made to organize the housing sector and as a result a large number of institutions have emerged in the financial sector with an objective to minimize the problem faced by various sections of the people. The housing problem in India is multidimensional. The problem as such is due to inadequate housing stock, bad quality of housing stock, and pavement dwelling, etc, crowded dwelling, squatter settlements, slum dwelling.

The Government, in order to meet the needs of housing, have evolved suitable strategies though adhoc in nature. Towards this direction, the first Draft Housing Policy was announced in 1987 and subsequently, full-fledged policies were formulated time and again. Before presenting a discussion on the latest housing policy it is important to throw
some light on the concerns for housing during the plan period. The policies adopted in the country can broadly be classified under three periods on the basis of the importance given to certain factors.

The period between 1950 and 1970 is known as immediate decades of Indian independence, marked with first three Five Year Plans and three annual plans (1951-1969). The immediate concern of the day was to bridge the gap in the supply and demand for housing, with public assistance in the form of subsidy and loans for the construction of houses. Efforts were made to link the housing policies with economic development and industrialization policies including the dispersal of industries. It further tried to integrate the Economically Weaker Sections (EWS) housing with the subsidized industrial housing schemes, which were in operation since the inception of First Five-Year Plan. In order to keep up with the commitment, various schemes were implemented. Of them the most important were the Social Housing Scheme, the Integrated Subsidized Industrial Housing Scheme and the Low Income Housing Scheme. Apart from this, Plantation labour Housing Scheme, Village Housing Scheme, and Acquisition and Development Scheme, Middle Income Group Housing Scheme were also introduced. The period was witness to specific housing schemes for the benefit of the Scheduled Castes, Scheduled Tribes, and the Backward Classes in rural areas, handloom weavers and displaced persons. During the period due consideration was given to the role of private sector in helping solve the problem of housing shortage and adding to the capital formation. It was during this period that efforts were made in for increasing housing stock by various agencies like the public, private, cooperatives and others.

The initial efforts during 1950-70 laid the firm foundation for further commitment. The efforts during the decades 1970-90 gave much importance not only to
the emergence of the various institutions to finance housing, but also gave universal support to the implementing various schemes which were already in practice to enhance the housing stock and improve the quality of housing. The Fourth, Fifth, Sixth, and the Seventh Five-Year Plans were implemented during this period. This period was also marked by provision of house sites and assistance for construction of dwelling for rural landless labourers including housing extension services, to assist in proper planning of layouts, sanitation, strengthening the existing schemes to provide subsidized houses, to frame policies to promote and encourage self-help housing, providing stimulus and support to private housing for the Middle Income Group (MIG) and the Low Income Groups (LIG), implementation of schemes for improving the living conditions in slum areas. A notable feature during this period was the establishment of a proper and diversified institutional structure for housing finance and construction to cater to the need of housing development. A techno- financing agency, namely, Housing and Urban Development Corporation (HUDCO) was established in 1970 in the public sector to cater to the needs of the housing finance. The establishment of HUDCO augmented the financial support to various State Governments, Housing Boards and Cooperative Housing Societies throughout the country. Subsequently the National Housing Bank (NHB), an apex level institution was also established during this period to fill the resource gap in housing finance and this aimed primarily at strengthening the housing finance system. Apart from these, the period also witnessed the emergence of Housing Development and Finance Corporation (HDFC) in the private sector and a range of subsidiaries like Housing Finance Companies (HFCs), to increase the flow of credit from financial institutions and banks to the housing sector.

The various other schemes implemented during this period were the schemes for the improvement of the environment in slum areas with an intention to provide basic
minimum health conditions, composite housing schemes to cater to all income groups, Rental housing schemes for State Government Employees, House-Sites-cum-construction assistance schemes for rural landless labourers, the social housing programme in urban and rural areas for landless labourers and artisans under the Minimum Needs Programme (MNP), (NHP 1987). The Urban Basic Services Scheme was introduced as a pilot scheme during the Seventh Five-Year Plan period with the assistance of the UNICEF. The scheme was implemented in 168 towns in 37 districts of the country. Based on the experience of the Urban Basic Service, a revised scheme ‘the Urban Basic Services for the Poor’ (UBSP) was launched during 1990-91 with the main aim of fostering community groups in slums for effectively participating in developmental activities and to co-ordinate the convergent provision of various social services and physical amenities in slums through the programmes of different specialist departments.

The housing policy pursued during the 90s was the most significant one, as various developments took place during this period. The period not only was a witness to the implementation of the National Housing Policy of 1994 but was more importantly influenced by the 1998 National Housing and Habitat Policy (NHHP). The ‘New Economic Policy’, which was also introduced during the same period heralded the policy of ‘Liberalization’, ‘Privatization’ and ‘Globalization’ (LPG). The main thrust during this period was on creating an enabling environment for housing activity by eliminating various constraints and providing direct assistance to the disadvantaged groups including widows and single women. The objectives of the housing policy adopted during this period was, to extend stimulus and support for private housing on an expanded scale through enhancing the flow of credit to the housing sector through the Housing Finance Institutions. Apart from this other measures like tax incentives, evolving a special assistance programme in the form of subsidy, differential rate of interest, delivery support
for disadvantaged groups, encouragement to the use of low cost building materials and cost effective technologies were given attention. The resource mobilization strategies of the private and public institutions have received a great deal of consideration during this period. Efforts were also made continuously for setting up of the Secondary Mortgage Market (SMM). The Ninth Plan implemented during this period was a witness to the introduction of the ‘Mortgage Backed Securities’ of the 1990s aimed at promoting easy access to finance for different housing activities, and to evolve an elastic and widespread resource mobilization strategy to tapped household savings both in the formal and informal sectors with the other transfers. Further, it was intended to introduce innovative saving and lending instruments to integrate the housing finance system into the capital market. Steps were also taken to enhance the access of the rural and urban poor to housing finance and an in-depth assessment of the role of the informal credit network and community based savings system for housing and to devise ways of establishing its link with the formal credit institutions.

Of all the commendations and strategies implemented so far in the country ‘The National Housing and Habitat Policy’ (NHHP) of 1998 is the most significant. The policy called for nothing less than a ‘Housing Revolution’ to arrest the problem of housing shortage. The policy is a declaration of war against human indignity and fulfillment of the constitutional directive. The policy laid great emphasis on the role of public and private housing finance companies to further enhance their importance in the housing activities. It redefined the role of these institutions to move away from the traditional approach to housing finance and devise schemes to lend at affordable rates to those who are in dire need of housing finance. The policy laid great stress on the resource mobilization strategies to be adopted, it also highlighted the various resource mobilization sources which inter-alia the resources from Provident Fund, Insurance
Fund, Mutual Fund along with developing innovative instruments to mobilize domestic savings in the country. The policy also envisaged schemes to attract investments from 'Non-Resident Indians' (NRIs) 'persons of Indian origin' and other Corporate Bodies to the housing sector. Apart from this, Foreign Direct Investment (FDI) in housing was also encouraged. Fiscal concessions were provided to mobilize resources at low cost for funding housing for weaker sections and to encourage different activities like affordable housing, rental housing for low income groups, energy efficient housing and disaster resistant construction. The greatest merit of the 1998 National Housing and Habitat Policy was the setting up of two funds to encourage housing activity to the maximum, viz, 'The National Shelter Fund' to meet the requirement of low cost funds for the housing needs of the poor and “The Risk Fund”, to underwrite or cover the risk in financing the rural and urban poor considered risky by the Housing Finance Institutions. The policy is thus aimed at fulfilling the promise of bringing about a “Housing Revolution”.

3.7. Housing Finance System in India

The housing finance system as adopted in India is a direct outcome of the various policies implemented over five and a half decades of development planning. Like in other developing Countries, the financing of housing in India is also a complex one. The Indian Housing Finance System exhibits a deplorable picture with the challenging task of financing the Low Income Groups (LIG) and the disadvantaged groups. Unfortunately, the system is characterized as urban biased. It is in this backdrop that the World Bank rightly observed that “India is an example of a yet undeveloped housing finance system operating in a centralized environment of close government control and relying on the capital markets rather than directly on the public for its resources”(World Bank 1994).
The major players in the housing finance in India can be broadly classified as: The Public Sector, The Private Sector and The Informal Sector

3.8. The Public Sector

The public initiative for housing in India comes from the Government both at the centre and the state. The public initiatives are introduced by the government through the budgetary provisions under the Five-year plans and the annual plans. The housing finance thus allocated under different plans is shared with the State Governments to implement various housing schemes. The State Governments in turn execute the funds along with their contribution /share.

Housing under the Indian Constitution, falls within the State list. As a result, the State governments play a primary role in formulating specific action plans and programmes suited to local the needs and conditions. The Union Government influences the development of housing and urban areas by designing policies. In addition the Central Government also introduces various social housing schemes from time to time. The Central Government determines its financial support for the States in its Five-Year-Plans, and the finance is transferred to the States in the form of “Block Funds”. While allocating the funds, factors such as population, needs of the state and some equalization measures to compensate the states are considered. Generally, one-third of the inter-governmental funds are the Central Government loans, and one-third form the matching’ grants. In this regard the role of the Finance Commission is predominant in administering the Block Grants. The central Government is also responsible for formulating of comprehensive Housing Policy and its effective implementation particularly in the areas of social housing schemes for the poor, weaker sections and low-income groups.
The Central Government established the HUDCO to facilitate the implementation of the housing policies and financing of housing. The HUDCO on behalf of the government undertakes the financing of the housing and urban development programme, development of land for satellite towns besides setting up of building material industries. In turn HUDCO will be provided equity support by the Central Government and guarantees the bonds issued by it. While the Central Government formulates the housing schemes, the State Governments are the actual implementing agencies. The state administrations have been vested with full powers to sanction and execute the projects. They are also free to utilize the Central financial assistance for any State Plan Scheme according to their own requirements and priorities. The State Governments in turn have formulated their own schemes for providing houses to the poor and those who are backward classes, besides extending loans to Government employees for construction of their own houses. The State governments have been providing funds for construction of rental houses for Government employees and loans to State Housing Boards and other agencies for constructing houses for different income groups. The State Government provides funds for housing in three different ways, viz, Direct Expenditure on construction of rental houses for government employees, Loans to State Housing Boards or similar agencies for constructing houses for different income groups and Advances to Government employees for construction of their own houses. The State Housing Boards play a predominant role in housing development at the State level. As Governmental agencies, these boards are instrumental in implementing the Government’s housing schemes for the Economically Weaker Sections (EWS), Low Income Groups (LIG) and Middle Income Groups (MIG). The Boards apart from building cheap houses for the weaker sections of the society, in some states are also entrusted with the execution of the Government’s Land Acquisition and Development schemes on behalf of local authorities or co-operative societies.
The investment in housing during the Five Year Plans as a result of the policies adopted has undergone a tremendous change both in the private and public sectors. The table shows that the percentage of investment in housing has declined during the plan period from 34.2 per cent in the First Year Plan to 17.45 per cent during the Ninth Five Year Plan period. Apart from this, the table reveals that investment in housing in the total plan outlay is not only less but has also declined in the recent plans. Much of the decline is attributed to the declining share of the public sector from 7.4 per cent in the First Five Year Plan to 4.42 per cent in the Ninth Five Year Plan. Similarly the share of investment by the Private Sector has also declined from 26.7 per cent to a 13.03 per cent during the Ninth Plan period. The average investment by the formal sector (both the public and private sector) has also declined to 34 per cent in the First Five-Year Plan to 17 percent in the Ninth Five Year plan.

Table: 3.1. Public and Private Sector Investment in Housing (in crores)

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Total Investment in the Economy</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
<th>Percentage to housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-55 I Plan</td>
<td>3,360</td>
<td>250 (7.44)</td>
<td>900 (26.78)</td>
<td>1,150</td>
<td>34.2</td>
</tr>
<tr>
<td>1956-61 II Plan</td>
<td>6,750</td>
<td>300 (4.44)</td>
<td>1,000 (14.81)</td>
<td>1,300</td>
<td>19.2</td>
</tr>
<tr>
<td>1961-66 III Plan</td>
<td>10,400</td>
<td>425 (4.08)</td>
<td>1,125 (10.81)</td>
<td>1,550</td>
<td>14.9</td>
</tr>
<tr>
<td>1969-73 IV Plan</td>
<td>22,635</td>
<td>625 (2.77)</td>
<td>2,175 (9.61)</td>
<td>2,800</td>
<td>12.4</td>
</tr>
<tr>
<td>1974-79 V Plan</td>
<td>47,561</td>
<td>796 (1.67)</td>
<td>3,640 (7.65)</td>
<td>4,436</td>
<td>9.3</td>
</tr>
<tr>
<td>1981-85 VI Plan</td>
<td>1,56,000</td>
<td>1,491 (0.95)</td>
<td>18,000 (11.53)</td>
<td>19,491</td>
<td>12.5</td>
</tr>
<tr>
<td>1986-91 VII Plan</td>
<td>3,49,148</td>
<td>2,458 (0.70)</td>
<td>29,000 (8.30)</td>
<td>31,458</td>
<td>9.0</td>
</tr>
<tr>
<td>1992-97 VIII Plan</td>
<td>7,98,000</td>
<td>7,750 (0.97)</td>
<td>69,746 (8.74)</td>
<td>77,496</td>
<td>9.71</td>
</tr>
<tr>
<td>1997-2002 IX Plan</td>
<td>8,59,200</td>
<td>38,000 (4.42)</td>
<td>1,12,000 (13.03)</td>
<td>1,50,000</td>
<td>17.45</td>
</tr>
</tbody>
</table>

Source: Prominent Facts of Housing in India, NBO & UN Regional Housing Center for ESCAP, 1990.

Notes: The figures in the parentheses show the public and the private sector investment to the total housing investment.
The Government of India has been presenting housing friendly budgets with an intention to resolve the problem of housing. From 1998, for the fourth consecutive year, the Union Budget provided certain tax incentives to the housing sector. Further, the Union Budget for the year 2002-03 was expected to usher in an era of accelerated growth for the housing sector since various measures has been introduced which address innumerable problems hitherto being faced on the demand as well as the supply side of the sector. While the extension of capital gains exemption provided under Section 54EC of the Income Tax Act, 1961 to bonds issued by the National Housing Bank would enhance the flow of funds for the sector, the increased target for Golden Jubilee Rural housing Finance Scheme and enhanced allocation under the Indira Awas Yojana were expected to redress the problem of rural housing shortage more effectively. Thus, it is expected that the Budget 2002-03 could lead to a healthy growth of the housing sector.

3.9. Institutional Finance for Housing

The Budgetary Allocations of the Government was also unable to meet the ever-increasing needs of the demand for housing. As a result many institutions have come to the forefront both in the public and private sector in financing housing. Currently, it has become mandatory on the part of a few public sector institutions to set aside a part of their investible funds exclusively for housing. The institutions playing a major role in financing housing can be broadly categorized as,

- The General Financial Institutions [GFIs, Insurance Companies (LIC and GIC) and Commercial Banks].
- The Specialized Financial Institutions (HUDCO, Cooperative Housing Societies).
- The Private Financial Institutions. (HDFC, and other subsidiaries of Commercial Banks like Canfin Homes, SBI Homes. And others).
3.10. General Financing Institutions

The General Finance Institutions are the institutions with large fund base raised from public catering to a wide spectrum of sectors, apart from catering to the housing sector. The major players in this category are: The Life Insurance Corporation (LIC) of India, The General Insurance Corporation of India (GIC), and The Commercial Banks.

3.11. Life Insurance Corporation of India

The Life Insurance Corporation of India (LIC) has been playing significant role in financing housing both directly and indirectly. Ever since its nationalization in 1956 the LIC is statutorily required to invest 25 per cent of the net accretion in Socially Oriented Schemes like Housing, Electrification, water supply, sewerage, construction of roads and industrial estates. LIC has introduced various schemes for providing assistance to housing. Besides, subscribing to the bonds/debentures floated by the HUDCO and State Housing Boards/Development Authorities, it grants direct finance to the State Governments for financing their Social Housing Schemes for different income groups with special thrust on Rural Housing Projects. It also grants special loans to the State Governments for reconstructing and repairing the houses damaged by natural calamities like flood, cyclone, earthquake etc. The LIC also provides financial assistance to the various Housing Boards in various states for constructing houses for the Economically Weaker Sections (EWS), Low Income Groups (LIG), and the Middle Income Groups (MIG). Apart from this it has also provided finance to the State Co-operative Housing Finance Societies (SCHFS). The LIC has played a vital role in granting a sizeable amount of financial assistance to the Apex Co-operative Housing Finance Societies (ACHFS) for financing low cost housing schemes meant for the Economically Weaker Sections. In addition to this, the LIC also provides finance to the general public for constructing houses of their own against the 'First Legal Mortgage' of immovable
properties to the maximum extent of 50 per cent of the value of the property. The other schemes introduced by LIC are the ‘Own your Home Scheme’ to help the policyholders to acquire houses for their occupation, and the “Own your Apartment” scheme. The public limited companies are also provided finance to enable its staff to construct houses for them and to the Housing Co-operative Societies (HCS) formed by the employees of the Universities and the Private Limited Companies. LIC has also undertaken the responsibility of construction of townships on commercial basis, mainly for its policyholders belonging to the MIG and LIG.

LIC has been although instrumental in introducing various schemes for the benefit of the weaker sections the overall investment in housing is not very encouraging. The contribution of LIC towards housing during the period 1982-83 to 1990-91 was in the range of 10 per cent to 15 per cent of their funds (RBI report 1978). The Report of the Working Group for Urban Housing for the Ninth Plan Period brought out that the growth had further declined. While the growth in the investible funds of LIC during 1992-93 was been around 20 per cent, the contribution to the housing sector had declined from 16 per cent to 13 per cent. The estimated growth of the investible funds in housing was to the extent of Rs 4,500 crores during the Ninth Plan Period, of which Rs.630 crores was allocated to the State Agencies, Rs.3, 285 crores to the various institutions and the remaining Rs.585 crores to individuals (NHB 1996). Further, the LIC promoted a Housing Finance Company as its subsidiary in June 1989, for the purpose of financing housing. The contribution of the LIC Housing Finance (LICHF) for the period 1995-96 to 2001-02 shows that there was an increase in the amount financed from Rs.1, 672.05 crores, in 1995-96 to Rs 6,169.85 in 2001-02. The projected figures for the period of 2002-03 has been estimated as 80,000 crores. (LICHF, Annual Report 2001-02). However, when compared with the total investible funds the percentage invested is very
The LICHF given the present conditions has been projected to play a major role in financing housing in the years to come.

3.12. General Insurance Corporation (GIC)

The GIC has been financing housing since a long period. It started financing house-building activities after it took over the management of the General Insurance Companies on May 13, 1971. The subsequent nationalization of GIC in January 1st 1973 further enhanced its responsibility. The GIC and its subsidiaries are required to invest 35 per cent of their annual accretions by way of loans to socially oriented sectors including housing for the economically weaker sections as per the guidelines issued by the Government of India. The GIC supports housing indirectly by way of subscribing to bonds/debentures floated by HUDCO and State Housing Boards/Development Authorities. Of recently GIC commenced a subsidiary Housing Finance Company called GIC GRIH Vita Ltd., in July 1990, to enable it to lend directly to the individuals. As per the observations of the Working Group for Urban Housing for the Ninth Plan period, the contribution of GIC towards housing in the last three years of the Eighth Five Year Plan was more than satisfactory and was expected to provide RS. 1,000 Crore during the ninth plan period, of which Rs. 400 crores will be allocated to the State Agencies, and the remaining Rs. 600 crores to various institutions. (NHB, 1996).

3.13. Provident Fund

Provident Fund has been one of the important sources of housing finance in the formal sector. The Provident Fund (PF) is basically a social security measure and hence, its essential purpose is to accord protection to the workers to meet their family responsibilities. Among the various purposes for which the Government permits grant of non-refundable advances by the Provident Fund Organization to the employees, grant of
advances for construction or purchase of a house is one such purpose. However, the role of the Provident Fund in providing assistance for housing is insignificant in relation to the size of annual net accretions to these funds. The grant for housing accounted for about 25 per cent of the total advances in year 1978 (RBI, report 1978). Efforts have been made to increase the role of Provident Fund in providing assistance for housing by suitably amending the rules of withdrawal. The Provident Fund continues to provide housing advances to the subscribers out of its annual net accretion to the controlled funds. The contribution of the Provident Fund was estimated at Rs.5, 000 crore during the Ninth Plan period (NHB report 1996).

3.14. Commercial Banks

The Commercial Banks, which are the largest mobilizer of the household savings in the country play a predominant role not only in the development of the agricultural and industrial sectors, but also in the development of housing. The commercial Banks came to be more responsive to the social needs of the community only after the introduction of social control over them in 1968. Prior to the nationalization of the commercial banks, the banks were reluctant to tie up their resources for long term lending for housing sector. Although, the commercial banks were indirectly assisting the financing of housing by subscribing to the bonds/debentures of the HUDCO and other Housing Boards, it was only in the wake of the Report of the Working Group on the Role of the Banking System in providing finance for housing schemes that banks came to directly finance housing. (R.C. Shah Working Group, RBI report, 1978). The RBI issued the first set of housing finance guidelines to the Scheduled Commercial Banks (SCB) with a view to involve them in providing housing finance for certain types of housing schemes for the benefit of weaker sections of the society. Further, the Twenty Point Programme of the Government of India in 1975 laid a firm foundation for the entry of the commercial banks into the housing sector.
The commercial banks provide finance to housing on the guidelines of the RBI. The commercial banks disburse their funds for housing both directly and indirectly. Indirectly, it finances housing by way of subscribing to the bonds/debentures of HUDCO, and other Housing Boards and directly by providing finance to individuals for the construction of their own houses. In 1982, the RBI allocated Rs.150 crores to housing, of which the commercial banks were advised to utilize Rs.65 crores for direct finance and the remaining Rs.85 crores for indirect financing. Apart from this, Rs.10 crores was to be provided to assist the victims of flood in Gujarat for reconstructing and repairing their dwelling. The allocation by the RBI to the housing sector has enhanced manifold. At the end of 1994-95 the total allocation for housing finance had reached to Rs. 723.78 crores. (NHB 1992). The commercial banks besides meeting the individual housing financial needs also, advance loans to the public and private sector undertakings, for taking up construction activities for their employees. The Scheduled Commercial Banks of recently have been providing housing finance in a big way.

RBI has been directing the commercial banks to earmark their deposits for lending to the housing sector from time to time. Initially, the commercial banks were directed to earmark 0.5 per cent of their incremental deposits for housing, which was subsequently increased to 1.5 per cent in 1991 and, to 3 per cent from 1999-2000 onwards. However, there are no restrictions for the commercial banks to exceed the earmarked minimum percentage to finance housing (RBI 1998-99).
<table>
<thead>
<tr>
<th>Year</th>
<th>SBI &amp; Associates</th>
<th>Nationalised Banks</th>
<th>Foreign Banks</th>
<th>Regional Rural Banks</th>
<th>Others Commercial Banks</th>
<th>Total Bank credit outstanding</th>
<th>Total outstanding housing loan</th>
<th>Age to Housing Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>162,721</td>
<td>830.39</td>
<td>(2.05)</td>
<td>414,146</td>
<td>2,229.31</td>
<td>(67.61)</td>
<td>4,694</td>
<td>74.29</td>
</tr>
<tr>
<td>1992</td>
<td>227,760</td>
<td>1,163.43</td>
<td>(28.85)</td>
<td>456,631</td>
<td>2,422.06</td>
<td>(62.55)</td>
<td>6,276</td>
<td>1,163.43</td>
</tr>
<tr>
<td>1993</td>
<td>265,075</td>
<td>2,990.22</td>
<td>(59.25)</td>
<td>466,752</td>
<td>2,902.22</td>
<td>(59.25)</td>
<td>6,643</td>
<td>3,146.43</td>
</tr>
<tr>
<td>1994</td>
<td>260,560</td>
<td>3,146.43</td>
<td>(58.41)</td>
<td>460,363</td>
<td>3,146.43</td>
<td>(58.41)</td>
<td>6,926</td>
<td>3,451.47</td>
</tr>
<tr>
<td>2000</td>
<td>671,146</td>
<td>5,297.28</td>
<td>(3.72)</td>
<td>12,376,708</td>
<td>5,297.28</td>
<td>(3.72)</td>
<td>25,297.28</td>
<td>5,297.28</td>
</tr>
</tbody>
</table>


Notes: the figures in the bracket shows percentage of area wise distribution of total housing credit
The above table reveals the outstanding credit by All Scheduled Commercial Banks (SCBs) to housing during the 1990s. Although the commercial banks have been playing a major role in advancing loans to housing, the overall performance of the different Scheduled Commercial Banks is far from satisfactory. The percentage of lending by the State Bank of India and its associates, which was around 25.18 per cent in 1991, towards the end of the decade, that is 2000, the lending had on an average increased to 31.27 per cent. However, the share of the Nationalized Banks had declined from 67.61 per cent in 1991 to an average of 51.11 per cent towards the end of the decade (2000). The advances of the Foreign Banks towards housing ranged to an average of 3.5 per cent over the decade. Whereas there has been an increase in the lending by the Regional Rural Banks (2.30 per cent) and other Commercial Banks (5.91 per cent) over the decade. There has been a tremendous increase in the lending by All Scheduled Commercial Banks towards housing during the 90s, from 2.65 per cent in the beginning of the decade to 4.03 per cent by the end of the decade. This was more so after the incremental deposit for housing was increased to 3.0 per cent from 1.5 per cent.

The Commercial Banks entrusted with the social responsibility of catering to the weaker sections of society, have established a wide network of branches both in rural and urban areas. The following table shows the area-wise distribution of the credit by the All Scheduled Commercial Banks during the 1990s. Though the advances for housing have increased over the decade from 2.65 per cent to 4.03 per cent, the advances are more directed towards the Metropolitan, urban and the semi-urban areas neglecting the rural areas. The advances to the rural areas have declined from 12.75 per cent in 1991 to 10.29 per cent in 2000. On the other hand the advances to the metropolitan areas during the same period has increased from 34.60 per cent to 37.20 per cent. Thus, All Scheduled Commercial Banks are more urban biased leaving the rural areas to look for other sources.

This conclusion is not correct.

65
Table No-3.3. Area-wise distribution of housing loan outstanding of all Scheduled Commercial Banks as on March 31

(AMT IN CRORES)

<table>
<thead>
<tr>
<th>Year</th>
<th>RURAL</th>
<th>SEMI-URBAN</th>
<th>URBAN</th>
<th>METROPOLITAN</th>
<th>Total outstanding Credit of Housing</th>
<th>Total Bank Credits outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of A/C</td>
<td>Amount</td>
<td>No. of A/C</td>
<td>Amount</td>
<td>No. of A/C</td>
<td>Amount</td>
</tr>
<tr>
<td>1991</td>
<td>131,152</td>
<td>420.71 (12.75)</td>
<td>159,648</td>
<td>646.79 (19.61)</td>
<td>207,735</td>
<td>1,089.45 (33.04)</td>
</tr>
<tr>
<td>1992</td>
<td>139,225</td>
<td>464.45 (11.51)</td>
<td>192,699</td>
<td>801.96 (19.90)</td>
<td>230,170</td>
<td>1,331.37 (33.01)</td>
</tr>
<tr>
<td>1993</td>
<td>148,991</td>
<td>538.19 (10.66)</td>
<td>194,982</td>
<td>964.21 (19.10)</td>
<td>248,406</td>
<td>1,619.55 (32.10)</td>
</tr>
<tr>
<td>1994</td>
<td>143,003</td>
<td>563.00 (10.45)</td>
<td>200,859</td>
<td>1,049.21 (19.48)</td>
<td>248,186</td>
<td>1,786.29 (33.16)</td>
</tr>
<tr>
<td>1995</td>
<td>134,598</td>
<td>646.22 (10.99)</td>
<td>214,805</td>
<td>1,358.01 (23.09)</td>
<td>244,268</td>
<td>1,764.81 (30.00)</td>
</tr>
<tr>
<td>1996</td>
<td>142,748</td>
<td>811.85 (11.42)</td>
<td>220,272</td>
<td>1,565.77 (22.01)</td>
<td>244,283</td>
<td>2,108.17 (29.64)</td>
</tr>
<tr>
<td>1997</td>
<td>177,242</td>
<td>956.59 (12.03)</td>
<td>282,156</td>
<td>1,725.23 (21.72)</td>
<td>317,951</td>
<td>2,547.41 (32.05)</td>
</tr>
<tr>
<td>1998</td>
<td>196,714</td>
<td>1,185.32 (12.31)</td>
<td>291,124</td>
<td>2,197.09 (22.82)</td>
<td>322,941</td>
<td>2,978.28 (30.92)</td>
</tr>
<tr>
<td>1999</td>
<td>195,260</td>
<td>1,360.39 (10.99)</td>
<td>327,134</td>
<td>2,870.05 (23.19)</td>
<td>419,187</td>
<td>4,020.97 (32.49)</td>
</tr>
<tr>
<td>2000</td>
<td>375,187</td>
<td>1,906.94 (10.29)</td>
<td>623,667</td>
<td>4,145.78 (23.38)</td>
<td>707,274</td>
<td>5,581.69 (30.13)</td>
</tr>
</tbody>
</table>


Notes; the figures in the bracket shows percentage of areas-wise distribution of total housing credit
3.15. Specialized Housing Finance Institutions

The General Housing Financial Institutions like the commercial banks are over-burdened with various social commitments and various regulations and therefore, are unable to meet the needs of housing finance. It is at this juncture that the need for the Specialized housing finance institutions has been felt. The predominant players in this category are the Housing and Urban Development Corporation (HUDCO), The National Housing Bank (NHB) in the public sector and the Housing Development and Finance Corporation (HDFC), in the private sector. These institutions cater exclusively to the needs of the housing sector. These institutions are established both in the public sector in the joint and in the private sector.

3.16. Housing and Urban Development Corporation (HUDCO)

The Housing and Urban Development Corporation is a fully owned Government company established in April 1970, as an Apex Techno-Financing organization with a view to provide loans and technical support to the State and city level agencies and other eligible organizations to promote various types of housing activities and infrastructure development. HUDCO, being a multi-dimensional and multi-functional organization, addresses the entire gamut of shelter issues in the country. It is entrusted with the implementation of the priority programmes of the Government, like the low cost sanitation, night shelter for footpath dwellers, shelter up-gradation under the Nehru Rozgar Yojana (NRY), Minimum Needs Programme (MNP), and rural housing programmes. It also implements the schemes of the Central Government and has also taken up major initiatives for the up-gradation of skills of artisans, small contractors and professionals. HUDCO, apart from financing social housing schemes has also extended assistance for providing basic community facilities and infrastructural services. Projects involving self-help by the beneficiaries are also promoted by encouraging site-and-
services schemes, core skeletal housing, shelter up-gradation etc. Besides this, HUDCO provides financial support to infrastructure schemes which include water supply, sanitation, drainage, road transport etc. HUDCO does not directly provide finance to the individuals but provides finance to housing and urban development schemes undertaken by the State Governments, Housing Boards, Slum Clearance/improvement Trusts, Municipal Corporations and Local bodies. It also extends loans to the Primary House Building Cooperative Societies for undertaking housing schemes or purchase of ready built houses/sites for its members and to the State Apex Cooperative Finance Societies. Since the operations of HUDCO involve the implementation of social low cost housing, the Government compensates for its losses on account of low interest rates charged for EWS (Economically Weaker Section) housing and also gives it subsidy to meet its administrative expenses.

HUDCO is entrusted with great responsibilities to mobilize resources from various sources to meet its requirements. The sources of funds are equity contributions from the Government and borrowings from the public through the issue of shelter/urban bonds, borrowings from institutions (GIC, LIC), and term loans from the Government. It also raises funds by floating various bonds such as Capital gains bonds, Urban Bonds, and has also raised funds from various banks for acceleration of programmes for scheduled castes and scheduled tribes and rural housing. The different Bonds subscribed by HUDCO are the main source of funds. While the share of the Urban Bonds is the largest (62 per cent) the loans from the Government, and various institutions like LIC, GIC Banking Sector has been very meager. However, equity plays a major role in the resource mobilization strategies of the HUDCO.

The resource allocation of HUDCO has an in-built thrust towards promoting housing developments for the poor/low income families. It targets at subsidizing and/or making housing for EWS and LIG financially viable. The target groups catered to by the HUDCO are the LIG
whose household income is Rs.1, 250 or less than that per month around 30 per cent of the total allocation has been provided to the households belonging to this category. At the same time 25 per cent of the funds have been allocated to the people whose income is Rs.2, 650 per month, the MIG households with monthly income of Rs4, 450 per month receive 25 percent and finally the people who belong to the HIG and with a monthly income of Rs.4, 450 and above receive 20 percent of the total allocations. (HUDCO, 1970-1990). The various schemes that have been implemented by HUDCO are:

3.17. Urban Housing

HUDCO provides loans to various urban bodies for the construction of houses and flats, and for the development of plots including sites and services, skeletal and core housing. Later, these flats/houses/plots are made available for the people on easy hire-purchase installments by the agencies concerned. So far, HUDCO has sanctioned over 4,300 projects, providing loans of over 2,500 crores, thus providing shelter to an estimated 2 million families. (Shelter for all.1990).

3.18. Rural Housing

In view of the increasing housing shortage in rural areas, HUDCO has been providing finance to the rural landless people for whom sites have been allotted by the State Government. Further, it provides subsidized housing assistance for the families affected by the natural calamities. These projects will house about 1.9 million families in thousands of villages spread over 17 states in the country.
3.19. Environmental Improvement of Slums

To improve the environment of the existing slums in the country, HUDCO provides loans to various agencies involved in these tasks. These loans are intended to help improve basic amenities such as approach roads, pathways, street lighting and drinking water in these slums.

3.20. Urban Development, Utilities and Social Infrastructure

HUDCO provides financial assistance to different state borrowing agencies in the country to improve urban services such as water supply, sewerage, roads, garbage disposal, and so on. It has sanctioned Rs.215 crores throughout the country for effecting such improvements.

3.21. Basic Sanitation and Scavenger Free Towns

To improve sanitation and to free scavengers from subhuman practice of carrying night soil in head loads, HUDCO extends assistance for low cost sanitation as a priority scheme. Since its inception it has sanctioned loans amounting to Rs.52 crores for this programme. The other schemes implemented by HUDCO are the promotion of the cooperatives, setting up of manufacturing units for the production of basic building materials, reinforce improved technology and funding for house-cum-work shed for the handloom-weaving sector.


(Rs. In crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>EWS</th>
<th>LIG</th>
<th>MIG</th>
<th>HIG/CG</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>6,982</td>
<td>9,753</td>
<td>5,210</td>
<td>150</td>
<td>22,095</td>
</tr>
<tr>
<td></td>
<td>(31.60)</td>
<td>(44.14)</td>
<td>(23.58)</td>
<td>(0.68)</td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>216,233</td>
<td>34,420</td>
<td>21,554</td>
<td>4,741</td>
<td>276,948</td>
</tr>
<tr>
<td></td>
<td>(78.08)</td>
<td>(12.43)</td>
<td>(7.74)</td>
<td>(1.71)</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>592,126</td>
<td>4,746</td>
<td>2,019</td>
<td>10,117</td>
<td>609,008</td>
</tr>
<tr>
<td></td>
<td>(97.22)</td>
<td>(0.78)</td>
<td>(0.33)</td>
<td>(1.67)</td>
<td></td>
</tr>
</tbody>
</table>

The above table reveals that the credit flow of HUDCO to the different categories over the decades increased from Rs22,095 crores to Rs.6,09,008 crores. The percentage of flow of credit to the Economically Weaker Sections of the Society increased from around 31.6 per cent in 1971-72 to around 97.2 per cent in 1991-92. On the contrary, the flow of credit to the MIG category has steadily decreased from around 23.5 per cent in 71-72 to 0.3 per cent in the year 1991-92. The table also shows that HUDCO being a government owned institution has been catering to a large extent to the public housing schemes of the government for the EWS. However, HUDCO continues to remain a profit earning organization which is serving the social cause by providing housing for about 6 million households, over 90 per cent of which is meant for households belonging to Economically Weaker Sections and Low Income Households in the country.

HUDCO during the Tenth Five Year plan has earmarked 55 per cent of its funds for EWS and the LIG with the differential interest rates, longer repayment, high loan component for lower cost units. It is noteworthy that HUDCO has sanctioned 12.46 million urban housing units up to the end of September 2001. Apart from this, under the additional 2 million housing programme, HUDCO has supported 33.82 lakhs units against a target of 30 lakhs units. HUDCO is also a large player in the retail lending for housing, and in the past two and half years it has sanctioned a total loan of Rs 2,331 crores benefiting 2,62,550 beneficiaries. HUDCO which has been in the forefront of the Government efforts to come to aid to disaster affected houses, and provided financial assistance for disaster rehabilitation housing to the tune of Rs 2,360 crores for construction of 4 million houses for the earthquake and cyclone and flood victims. (Tenth Five Year Plan, 2002-07).
3.22. National Housing Bank (NHB)

The National Housing Bank was established in 1987 with the prime objectives of promoting a sound healthy, viable and cost effective housing finance system to cater to all segments of the population and to establish a network of housing finance outlets to adequately serve different regions and make housing more affordable. It also aims at upgrading the housing stock in the country and augment the supply of land and building materials for housing. The NHB for the purpose of achieving its objective has adopted a multi-agency approach with focus on promoting an efficient and responsive housing finance system. The Bank is presently channelising housing finance credit through specialized branches of 28 recognized Housing Finance Companies (HFCs) along with existing network of banks and cooperatives.

The NHB mobilizes its resources from various sources. It raises its resources by issuing Bonds/Debentures, by borrowing from RBI, Central Government approved Institutions or organizations, and from external agencies. Besides this, the Bank can also borrow from RBI’s Term Operational fund. The other sources include borrowings from LIC, UTI, and from other sources. However, the Bank has also tried to mobilize funds by implementing various schemes from time and again. The Home Loan Account Scheme (HLAs), launched in July 1989, The NHB Capital Gains Bonds Scheme launched in July 1990, and the NHB Voluntary Deposit Scheme launched in October 1991 are some of the schemes launched to mobilize savings. Of the various schemes the most noteworthy is the Home Loan Account Scheme (HLAS) of the NHB. The scheme is a loan linked saving scheme for the households with an objective of promoting the habit of saving specifically for acquiring a house and to provide loans at cheaper rates particularly to the low-income groups. The scheme was launched initially in July 1989, through Scheduled Banks. Subsequently, the scheme has been extended to all eligible Housing Finance Companies and Apex Cooperative Housing Finance Societies. Under the Home Loan Account
(HLAs) Scheme of NHB, designated banks and recognized Housing Finance Companies, are authorized to collect savings from potential home-owners, to whichever income strata they may belong, in advance of their decision to acquire a house/flat. The minimum contribution to this scheme is Rs. 30 per month or I Re per day in multiple of Rs10. However, there is no ceiling on the amount that can be saved. The amount saved under this scheme earns an interest of 10 per cent per annum and the individual is eligible for a loan after a period of 5 years. He is eligible for a loan in multiples of his accumulated savings, including interest. The outstanding amount of HLAS held in the books of the designated banks and housing finance companies as on March 31, 2002 was Rs.159.88 crores. Out of which, an amount of Rs. 14.96 crores was utilized as automatic refinance. Of late, the scheme has, however, been shelved because of the various inherent loopholes. One of the most important drawbacks of the scheme was the minimum-waiting period, which was five years. Apart from this, the loan advanced for housing depended on his saving, which was normally very less to own a house. This brought about a loan and cost of construction gap, which led to the failure of the scheme.

3.23. Refinance Schemes

The Bank’s financial assistance is directed primarily towards the Housing Finance Companies, the Cooperative Sector Institutions that include Apex Cooperative Housing Finance Societies (ACHFS) and the Agriculture and Rural Development Banks (ARDBs). The total financial assistance disbursed by the Bank during the year 1997-98 was to the extent of Rs 532.98 crores. Of this, 78.21 per cent was provided to the Cooperative Sector Institutions, which included the ACHFS and the ARDBs, around 5.45 per cent to the Scheduled Banks and 0.5 per cent as direct finance to the public agencies and local bodies set up by the Central/State Governments. The various schemes that are funded by the NHB are as follows:
The Bank provides refinance to the Land Development and Shelter Project, in which refinance assistance is provided for acquisition of land, lying of infrastructure and construction of houses. Preference is given to the projects implemented in rural areas and small and medium towns. Special preference is given to the Home Loan Account holders. By June 30th 1996, NHB had approved 218 projects with a total project outlay of Rs. 679.13 crores and a loan component of Rs. 519.23 crores (NHB report 1996). The Bank also provides refinance to the Rental Housings Schemes of the various public and private institutions, which provide housing to its employees. Special preference is also given to the disadvantaged groups such as workingwomen, Police Housing, and plantation workers. The Bank provides refinance to Housing Cooperative societies engaged in building flats/houses or providing infrastructure for their members. Further, the Bank also provides refinance assistance to professional developers. Preference is given to the project on land allotted to a developer by a public agency and where infrastructure is available. The Slum Redevelopment Schemes are among the important schemes that have been refinanced by the Bank. It provides refinance to eligible institutions for slum development and low cost housing programmes executed by public agencies, local bodies and non-governmental organizations in conformity with the NHB's guidelines. It also extends financial assistance directly to public agencies undertaking the projects. The Bank recognizing the importance of providing housing to the women has introduced a scheme to offer financial assistance directly for integrated shelter projects of public agencies and local bodies for disadvantaged groups of women. The schemes cover the projects for the disadvantaged group of women workers engaged in scavenging, tea/coffee/rubber plantation, bidi-making, weaving, cultivation etc., and the integrated housing projects of registered women societies/women workers association under the umbrella of the NGO.
3.24. Housing Cooperatives

Housing cooperatives in India have been playing a major role in providing finance to housing needy, in general, and the weaker sections, in particular. The Government in order to provide sufficient funds for housing considered it necessary to use cooperative societies for the implementation of its housing policies and to encourage housing to a greater extent. At the Apex level the National Cooperative Housing Federation operates through 26 Apex Housing Federation in the States. There were nearly 90,000 Primary Cooperatives housing societies with 6.5 million individual members as on 31st March 2001.

The Housing Cooperative societies mobilize finances from various resources, like the share capital subscribed by their members, the primary societies, state governments, individuals, and loans from the Life Insurance Corporation, refinace from NHB, borrowings from Commercial Banks, Cooperative Banks, HUDCO and others. The Housing Cooperatives also issue debentures in times of need to meet additional requirements. The State Housing Finance Corporation has been the single largest source of finance to the Housing Cooperatives from which the credit percolates down to primary societies and to their members finally. The percentage of contribution towards the source of finance for the cooperatives from the State Housing Finance Corporation (SHFC) has been steadily increasing from around 56.2 per cent in 1983-84 to around 60.8 per cent during 1992-93. Although the CFA, LIC, HUDCO and other sources have been contributing to the resources of the Housing Cooperatives, the percentage of the contribution has been the least, with no signs of any increase. The percentage of financing from the Government was around 3.6 per cent during the period 1983-84, which further marginally decreased to 3 per cent during the period 1992-93. (NABARD, Statistics relating to Cooperative Movement in India, Part-II, Non-credit Societies, various years).
The Housing Cooperatives have been financing the construction of both owner-occupied houses and tenements. Of the total loans sanctioned during the period 1983-84 the percentage of lending to the construction of independent dwelling was around 3.3 per cent. During the same period the percentage of loans sanctioned for the construction of tenements was 3.7 per cent. The percentage of lending increased during 1992-93 in respect of both the construction of independent dwellings and tenements. Around 7 per cent of finance was provided for the construction of independent houses and 5.97 per cent for the construction of the tenements.

Although the cooperatives have been playing an important role in housing they have yet to reach the target of covering all the members. The total membership during 1983-84 was 25.9 lakhs and the number of members covered was to the extent of 7.04 lakhs, as a result there was a gap to the extent of around 31.4 lakhs. (NABARD Housing Cooperatives, Part-II various years)

The loan sanctioned by the ACHFS increased from 525.29 crores during 1997-98 to 705.33 crores in 1999-2000, registering an average growth of 17 per cent per annum. At the same time disbursement of loans also increased from 519.57 crores during 1997-98 to 700.86 crores during 1999-2000. This has enabled the construction of 61,308 dwelling units during the year 1999-2000. (NHB, 2000)

3.25. Housing Development Finance Corporation (HDFC)

Housing Development Finance Corporation is the premier private sector agency in the specialized field of housing finance in the country. Although its volume of investments in comparison to HUDCO in the public sector is not very high, HDFC can still claim credit that to date, as the only private sector agency with country wide operations and operational innovations in the provisions of housing finance. Industrial Credit and Investment Corporation of India (ICICI), International Finance Corporation (IFC) and the Aga Khan Fund for Economic
Development have also contributed in promoting it as a public Limited Company. In 1977, the Corporation was established with the prime objectives of enhancing the residential housing stock in the country through the provision of housing finance, and to promote house ownership. It also attempted to increase the flow of resources to the housing sector through integration of housing finance sector with overall domestic capital markets.

The HDFC raises funds from a variety of sources including long-term loans from financial institutions and banks, from domestic and international markets and through bonds and deposits. The Corporation also mobilizes resources by introducing attractive deposit schemes linked to assurance of housing loans or allotment of flats to such depositors. Besides, the corporation expects substantial participation in its activities by the International Finance Corporation and large Commercial Banks.

The paid up shares is one of the major source of funds to the HDFC. The percentage of paid up shares in 1989 was to the extent of 11.26. However there was a drastic decline in 1999 (0.95). The percentage share of the unsecured loans was the single largest source of funds to the Corporation, while the extent of unsecured loans in 1998 was 46.96 per cent, its share marginally increasing to 49.93 per cent in 1999. Next to the Unsecured Loans, the Secured Loans have also been contributing to a great extent to the funds of the Corporation. The resources mobilized by the Corporation are allocated as loans, fixed assets, investments, current assets, loans and advances. The Balance Sheet of the Corporation shows the disbursement of resources. The major portion of the funds is disbursed as loans. During the year 1999 65.20 per cent of the loans were disbursed followed by Investments (19.47)
HDFC is basically a private sector organization, is profit focused and hence, has been catering to a greater extent to those who have the repaying capacity especially the high-income groups. However, in order to provide finance for low-income groups on reasonable terms, the Corporation has created a Building Fund by transferring every year 10 per cent of its profit after tax. This fund is used for providing interest subsidy on housing loans extended to the low-income groups. The schemes financed by the HDFC cover a wide spectrum of objectives. The Corporation extends loans to individuals for buying or constructing a home, Apart from this, it also finances home improvement, which enables the beneficiaries to undertake internal and external repairs and other structural improvements. The home extension loans are extended for making additions to an existing house. Land purchase loans to acquire land and short-term bridging loans are made available for the interim period between the purchase of a new house and sale of the old house. The Corporation facilitates developers through its advanced processing facilities assisting individuals in house purchase decision, enhancing the saleability of a developer’s project and facilitates the flow of consistent finance to a developer through his buyers. The ‘Property Services Group’ of HDFC assists a developer in selling units to individuals or institutions. To enable the proper assistance, the Corporation has recently commenced two wholly-owned subsidiaries, The ‘HDFC Developers Limited’, carrying the business of real estate development and construction, and ‘HDFC Investments Limited,’ carrying the business of investments in stocks, shares, debentures and other securities. The following table shows the total amount of loans sanctioned and the cumulative investment in the housing sector.
TABLE 3.5. Extent of Finance by HDFC to the Housing Sector During the Decade 1988-1998.

(Rs. In crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Approvals Sanctioned</th>
<th>Loan disbursements</th>
<th>Cumulative Investment in housing sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>88-89</td>
<td>333.30</td>
<td>255.21</td>
<td>3,252.85</td>
</tr>
<tr>
<td>89-90</td>
<td>603.03</td>
<td>489.26</td>
<td>4,442.07</td>
</tr>
<tr>
<td>90-91</td>
<td>813.78</td>
<td>668.50</td>
<td>6,011.33</td>
</tr>
<tr>
<td>91-92</td>
<td>711.86</td>
<td>627.78</td>
<td>7,385.85</td>
</tr>
<tr>
<td>92-93</td>
<td>859.14</td>
<td>719.89</td>
<td>9,053.21</td>
</tr>
<tr>
<td>93-94</td>
<td>1,024.77</td>
<td>889.07</td>
<td>11,275.47</td>
</tr>
<tr>
<td>94-95</td>
<td>1,494.55</td>
<td>1,211.66</td>
<td>15,137.77</td>
</tr>
<tr>
<td>95-96</td>
<td>2,071.46</td>
<td>1,683.55</td>
<td>19,928.88</td>
</tr>
<tr>
<td>96-97</td>
<td>2,521.70</td>
<td>2,100.78</td>
<td>26,207.51</td>
</tr>
<tr>
<td>97-98</td>
<td>3,251.27</td>
<td>2,753.61</td>
<td>32,710.35</td>
</tr>
<tr>
<td>98-99</td>
<td>4,071.76</td>
<td>3,424.27</td>
<td>40,540.36</td>
</tr>
</tbody>
</table>

Source; HDFC, Annual reports, various issues.

3.26. Subsidiaries

The subsidiaries are dedicated specialized Housing Finance Institutions providing finance to housing exclusively. These institutions are outlets of the sponsor banks providing housing finance.

Table No. 3.6. Extent Of Loans to Housing by the Specialized Housing Finance Institutions.

(Rs. In crores)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CANFIN HOMES LTD.</th>
<th>VYSYA BANK LTD.</th>
<th>LIC HF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1,729.9</td>
<td>88.00</td>
<td>0</td>
</tr>
<tr>
<td>1991-92</td>
<td>2,549.1</td>
<td>108.14</td>
<td>0</td>
</tr>
<tr>
<td>1992-93</td>
<td>2,817.3</td>
<td>213.07</td>
<td>0</td>
</tr>
<tr>
<td>1993-94</td>
<td>3,260.2</td>
<td>508.10</td>
<td>0</td>
</tr>
<tr>
<td>1994-95</td>
<td>3,833.6</td>
<td>772.52</td>
<td>1,672.05</td>
</tr>
<tr>
<td>1995-96</td>
<td>4,526.2</td>
<td>1,226.50</td>
<td>2,133.63</td>
</tr>
<tr>
<td>1996-97</td>
<td>4,837.0</td>
<td>1,680.60</td>
<td>2,604.76</td>
</tr>
<tr>
<td>1997-98</td>
<td>5,384.3</td>
<td>2,064.80</td>
<td>3,077.40</td>
</tr>
<tr>
<td>1998-99</td>
<td>6,019.3</td>
<td>2,564.40</td>
<td>3,638.37</td>
</tr>
<tr>
<td>1999-2000</td>
<td>7,012.5</td>
<td>2,836.40</td>
<td>4,379.37</td>
</tr>
</tbody>
</table>

Source:- Various annual reports of Vcanfin homes, vysya Bank Ltd., and LICHF (1990-2000)
There are various institutions in the private sector other than the HDFC, which have been playing a major role in financing housing in India. Mention may made of Gujarat Rural Housing Finance Corporation Limited (GRUH), Hind Finance Industries and Investments Ltd., Canfin Homes Ltd, Housing Promotion and Finance Corporation Private Ltd., which has now been known as SBI Home Finance Ltd., PNB Housing Finance Ltd., and others. The table shows the extent of loans disbursed by some of the Specialized Housing Finance Institutions.

The following chart explains the various players financing housing in India

**Chart No.3.2. Sources of Housing Finance in India**

- **Formal/Institutional Sources**
  - Finance from Public Sector
  - Finance from Private Sector
  - Budgetary Allocation by the Government, Life Insurance Corporation, General Insurance Corporation, UTI and Commercial Banks
  - Special Housing Finance Companies, National Housing Bank, Housing and Urban Development Corporation
  - Housing and Development and Finance Corporation, Co-operative Housing Societies, etc

- **Informal/Non Institutional sources**
  - Money Lenders, Zamindars, Pawn Brokers, Chit Fund Own Savings, Friends and Relatives

80
3.27. Weakness of the Formal Finance System

There has been a spurt of financial institutional financing housing and a significant portion of the financial transactions still continue to take place outside the formal financial system and this is more evident in housing finance. A research study on the informal finance for urban housing status and prospects by NHB (Jan. 1992) substantiates the statement. The study reveals that the formal institutional sources provided 20-25 per cent of the total housing finance, the balance come from the informal/non-institutional sources. The formal system has failed to cater to the requirements of the underprivileged and the non-white collared sections of the society. The drawbacks of the formal finance are both institutional and Functional.

The formal finance system as constituted is not well equipped to mobilize resources for providing finance to housing. Apart from this, the credit allocation mechanism does not do justice to the weaker sections, in general, and the poorest among the poor, in particular. That is to say that the formal finance system has failed to cater to the low-income households. A small fraction of 10 per cent of the low-income households is covered by the specifically targeted schemes. (NHB 1992). In addition to this the middle-income group households are also deprived of the formal finance. That is to say that the white-collared syndrome has not been reversed.

The institutional deficiency is also reflected in the fact that they are more urban-biased. The large gamut of institutions is centrally located and caters mainly to the urban households. The estimated share of the allocation to the rural and urban during the ninth plan periods is 9,267.16 crores in the rural and 140,732.84 crores in the urban areas.

The functional drawbacks of the formal finance system are that a huge loan-cost ratio persists. Put together the formal system provides around 25 to 30 per cent of the housing
finance and the remaining from the informal sources. Apart from this the demand for margin money or seed money, which has got to be provided by the households themselves, also makes their dependence on informal finance inevitable. The procedural rigidities have inhibited the institutions from extending full credit to its borrowers. These procedural rigidities are determined by multiple factors such as income eligibilities, rates of interest, repayment period and provision for collateral. In addition to all these the absence of a stable mortgage market especially the absence of the Secondary or Multiple Mortgage system has aggravated the problem much more.

The worst part of the story is that all the institutions are depending upon, to a large extent, on the Capital Markets for their financial resources and none of these institutions has been systematically able to tap the potential sources of household savings fully towards housing. By relying on the capital markets for resources without tapping household savings, the housing finance system has in fact kept the common man outside the purview of the financial services for housing as they can neither fulfill the borrowing conditions nor afford the higher rates of interest (Mahadeva 1996). This has perhaps necessitated the emergence, existence, and dominance of the informal finance for housing. Thus, in the absence of a strong and liberalized formal finance mechanism, and a stable savings linked resource base the formal sector has been unable to cater to the needs of the people, in general, and the Economically Weaker Sections and Low Income Group, in particular. It is at this juncture that the informal source of housing finance has come to thrive which has simplified procedures, easy approachability, and easy accessibility, which is discussed in great detail in the subsequent chapters.