A. National Housing Policy and Institutional Framework:

In the context of overall improvements of human settlements and economic development. The Global Shelter Strategy (GSS) adopted by the United Nations in November 1988, called upon different Governments to achieve the goals of the strategy. Accordingly, the Government had earlier announced a Draft Housing Policy. In the light of the development in the national and international scene after the presentation of the Draft Policy, the Government has now restated the National Housing Policy.

The basic objectives of the National Housing Policy are:

a) to assist all people, and in particular the houseless, the inadequately housed and the vulnerable sections, to secure for themselves affordable shelter through access to developed land, building materials, finance and technology;

b) to create an enabling environment for housing activity by various sections by eliminating constraints and by developing an efficient and equitable system for the delivery of housing inputs;

c) to expand the provision of infrastructure facilities in rural and urban areas in order to improve the environment of human settlements, increase the access of poorer people to basic services and to increase the supply of developed land for housing;
d) to improve the housing situation of the poorest sections and vulnerable groups by direct initiative and financial support of the state;
e) to help mobilise resources and facilitate expansion of investment in housing and
f) to promote a more equitable distribution of land and houses in urban and rural areas.

INSTITUTIONAL FRAME WORK

A) FORMAL SECTOR

1) Commercial Banks
2) Co-operative Banks
3) Central & State Govt.
4) Insurance Corporations
5) Unit Trust of India
6) Provident Fund
7) Specialised Housing Finance Institutions

A. FORMAL SECTOR

1. Commercial Banks:

Commercial banks became more responsive to the social needs of the community only after the introduction of social control over them in 1968. They were mainly providing loans to their staff for construction of houses. Even after the introduction of social control, the commercial banks were reluctant to lend for housing due to various factors. It was only in 1976 the
Reserve Bank of India issued the first set of housing finance guidelines to scheduled commercial banks with a view to involving them in providing housing finance for certain types of housing schemes for the benefit of weaker sections of the society.

Commercial banks’s entry into the field of direct lending to individuals came in the wake of the Report of the Working Group on "Role of the Banking System in providing finance for housing schemes" (R.C.Shah Working Group, RBI 1978). There was reluctance to tie up bank’s short term resources for long term lending because there was no rational policy to induce them to lend for housing. Besides legal and other practical problems in realising the value of the security in the event of default, also deterred banks from lending for housing activities. This is not to say that banks had not at all assisted housing. Even before 1977 commercial banks had been subscribing to the bonds/debentures of HUDCO and Housing Boards.

2. Co-operative Banks:

The co-operative banking sector can be classified as consisting of State co-operative banks, District Central Co-operative banks and Primary Urban Co-operative Banks. While the co-operative banks have been financining housing schemes, the first comprehensive guidelines in respect of them (other than Urban Co-operative Banks) were issued by RBI in December 1984.
3. Central and State Governments:

Both Central and State Governments support the housebuilding efforts of people preponderantly, indirectly. The Central Government has introduced, from time to time various social housing schemes. The role of the Central Government vis-a-vis these schemes is confined to laying down broad principles providing necessary advice and rendering financial assistance in the form of loans and subsidies to the State Government/Union territories. The central government had set up HUDCO to finance and undertake housing and urban development programme, development of land for satellite towns besides setting up of building material industries. The Central Government provides equity support to HUDCO and guarantees the bonds issued by it. Apart from this, both central and state governments provide houses building advances to their employees.

4. Insurance Corporations/Companies:

The Life Insurance Corporation of India (LIC) as well as the General Insurance Corporation of India (GIC) support housing activity both directly and indirectly. LIC is statutorily required to invest 25 percent of the net accretion to its controlled funds in socially oriented schemes like housing, electrification, water supply, sewerage and construction of roads. Besides subscribing to bonds/debentures floated by HUDCO and State Housing Boards/Development Authorities, LIC grants loans to
State Governments for their rural housing programmes and to State Co-operative Housing Finance Societies on behalf of their federation, primary societies and to public sector companies for construction of staff quarters. LIC also grants loans directly to individuals. LIC has, in June 1989, promoted a housing finance company as its subsidiary for the purpose. During the period 1982-83 to 1990-91, the contribution of LIC to housing has been in the range of 10-15 percent of their funds.

5. Unit Trust of India:

UTI's support to housing is indirect by way of subscriptions to bonds/debentures of state level/national level agencies. Since recently, UTI has started participating in the equity of Housing Finance Companies.

6. Provident Funds:

There are three major Provident Fund Schemes that are in operation in the country. These are the General Provident Fund (GPF) Public Provident Fund (PPF) and the Employees Provident Fund (EPF). PPF is voluntary in nature. EPF is mandatory for both the employees and the employers the former has to contribute a minimum fixed percentage of their pay towards PF with a corresponding obligation on the part of the latter i.e. the employers. The difference between EPF and GPF lies in the fact that under the first, the organisations are permitted to retain the collec-
tions with themselves but deploy it in the manner prescribed in the Act. Amount collected from employees under GPF schemes is to be invested by the permits/grant of non-refundable advances by the Provident Fund Organisations to the employees for a variety of purposes. Grant of advance for construction or purchase of a house is one such purpose.

7. Specialised Housing Finance Institutions:

There are certain institutions which cater only to the needs of the housing sector. Such institutions are termed as specialised housing finance institutions (HFIs). These institutions can further be classified as housing finance companies, the Housing and Urban Development Corporation (HUDCO), a fully owned Central Government Limited Company, established in 1970, can be termed as a techno financing institution, even though certain housing finance companies have been in existence prior to the formation of HUDCO these were small and their operations were not to a significant level till recently (exception being HDFC).

HUDCO was established to accelerate the pace of housing construction in the country. The main objectives of HUDCO are to finance or undertake housing and urban development programmes throughout the country, setting up of new satellite towns and financing or setting up of building material industries. HUDCO extends financial assistance for housing and urban development schemes undertaken by state Governments, Housing Boards, Slums
clearance/Improvement Boards city development Authorities, Improvement Trusts. Municipal Corporations and other local bodies. HUDCO does not, however, lend directly to individuals.

TABLE 4.1

TOTAL FLOW OF FUNDS TO THE HOUSING SECTOR BY THE FORMAL SECTOR DURING THE YEAR 1990-91

(Rs.Crores)

<table>
<thead>
<tr>
<th>Financing System and Agencies</th>
<th>Total</th>
<th>To State</th>
<th>To Institutions</th>
<th>To Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central &amp; State</td>
<td>654.03</td>
<td>-</td>
<td>-</td>
<td>477.92</td>
</tr>
<tr>
<td>Provident Funds</td>
<td>477.92</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>B) HUDCO</td>
<td>735.00</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>C) Financial Institutions :</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NHB</td>
<td>560.43</td>
<td>-</td>
<td>560.43</td>
<td></td>
</tr>
<tr>
<td>Scheduled Commercial</td>
<td>390.00</td>
<td>248.43</td>
<td>108.42</td>
<td>33.15</td>
</tr>
<tr>
<td>Banks :</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>825.17</td>
<td>280.30</td>
<td>318.56</td>
<td></td>
</tr>
<tr>
<td>GIC</td>
<td>77.05</td>
<td>35.65</td>
<td>41.40</td>
<td></td>
</tr>
<tr>
<td>UTI</td>
<td>118.67</td>
<td>22.75</td>
<td>95.92</td>
<td></td>
</tr>
<tr>
<td>D) Specialised HFIs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-op. Societies</td>
<td>300.00</td>
<td></td>
<td>300.00</td>
<td></td>
</tr>
<tr>
<td>HFCs</td>
<td>986.38</td>
<td>187.41</td>
<td>798.97</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>774.54</td>
<td></td>
<td>1836.35</td>
<td>(Estimated)</td>
</tr>
</tbody>
</table>

B. INFORMAL SECTOR

In our country, the informal sector has played a significant role in extending financial assistance for housing
especially to the poor and low income householders. The informal sector has been in a position to expand its resources of the formal sector by the poor and low income group people. The informal sector has been quite successful despite several disadvantages because there are no cumbersome formalities to be completed to avail of assistance from them and sometimes even credit is made available without any collateral security. However, the rate of interest charged by the informal sector at times is almost double of what is being charged by the formal sector. Since the share of informal sector in housing finance is much more than that of the formal sector, it may not be advisable to replace it completely by the formal sector. The best that can happen is to integrate the informal sector with the formal sector.

B. Housing Policy - Future Directions:

The most important objectives of India's economic planning for housing are: reduction in economic and social inequalities, promotion of balanced regional development, and a socialist pattern of society with the public sector playing a dominant role in key sectors of the economy. Thus, in conformity with these plan objectives, the public sector was assigned a direct role in the provision of housing, especially of low income households. However since the mid-seventies, the philosophy has undergone substantial change with prevailing wisdom now suggesting that public agencies should supplement rather than replace
private sector activities in the shelter sector. Housing policy and programmes have been examined in depth by a variety of expert groups: Task Force Reports of the Planning Commission on urban development and management including housing, the report of the National Commission on Urbanisation, the report of the study team headed by Mr. J.B. D'Souza, the Reserve Bank of India's Working Group Report on Housing Finance, the report of the Working Group on Private Housing headed by Mr. M.K. Mukherji, and the report of the Working Group on Housing for the Seventh Plan constituted by the Planning Commission have provided valuable background material for the formulation of the National housing Policy Document (1988) and the setting up of the National Housing Bank. Indeed the intention of the Union Government was made known in advance through the Budget Proposals for 1987-88 which asserted this by stating that 'Housing is high on our list of priorities'. The International Year of Shelter for the Homeless seems to have acted as a catalyst to some of these decisions.

The realisation that the public sector cannot adequately play the role of builders of housing units but instead must act as promoters and facilitators will create an environment that permits private sector initiative in the housing sector which hopefully will successfully add to the national housing stock. Both National Housing Policy and the Seventh Plan have assigned a dominant role to the private sector. Also, the house-
hold and co-operative sectors are assumed to play a significant role. To quote the Seventh Plan: "The Government has to play an active role through developing a necessary delivery system in the form of a housing finance market and taking steps to make developed land available at the right places and at reasonable prices". The Seventh Plan also maintains that the legal framework should be adjusted to reduce the non-financial dis-incentives to housing investment such as rent control, costly building regulations, and restrictive land-management policies.

In the context of housing for the economically weaker groups (EWS), the National Housing Policy seeks 'to accord priority to promoting access to shelter for the houseless and the disadvantaged groups'. While many public sector institutions profess to favour housing programmes for disadvantaged groups, an assessment of these programmes would probably identify only marginal success. While the importance of legislative reforms has been duly recognised in various policy documents, in effect, existing laws have only been marginally modified.

It may be worthwhile to mention that the shift in the general approach to India's housing problem is reflected in the following:

1) The shift in programmes from slum clearance and relocation to environmental improvement schemes and later to sites and services;

2) The setting up of specialised institutions for provision of
housing finance in the early 1970s in the public sector and in the 80's encouragement to private sector institutions and involvement of commercial banks by setting specific targets; iii) The recognition of the importance of supply or availability of land led to experiments in Land Banking (DDA) and socialisation of land (Urban Land Ceiling Act); iv) A comprehensive view of the housing problems and the integration of housing projects with urban development and employment projects; and v) The involvement of Non-Government Organisations (NGOs).

In conclusion, it is appropriate to enumerate the four broad issues identified in the World Bank Staff Appraisal Report on India's HDFC, which characterise India's emerging housing policy: "a) increased efficiency and effectiveness of resource utilisation, including affordable design standards and low-cost technologies; (b) market-oriented pricing and improved cost recovery and resource mobilisation; (c) strengthening of public sector management in terms of planning, budgeting, and operations; and (d) a more rational allocation of responsibility between the public and private sectors".

C. Housing Finance - The Future Strategy:

With formal institutional finance for home purchase being in its infancy in India, the major objectives of a future strategy would seem to be the following:
1. To enhance the loan origination process for housing throughout the country.

2. To develop an institutional network that would facilitate this origination process.

3. To identify a potential resource base for the system as a whole.

4. To codify and simplify the legal system with respect to risk management of housing finance institutions (liquidity, interest rates and default risks in particular).

5. To rationalise and reorient the fiscal system to reallocate funds to the housing sector by providing incentives for household thrift as well as institutional growth.

6. To link formal networks with informal networks which are the major source of financial and economic activity for the rural and urban poor.

The current debate for policy formulation attempts to resolve the vexing question of how the loan origination process can be expanded in the short run with a combined strategy for institutional development and resource mobilisation in the long run. In this respect, recent developments in the sector include the following:

a) A major entry by the Life Insurance Corporation of India in direct household mortgage loan origination. Until 1988, the LIC's total direct loan originations for housing under its Own Your
Home Scheme were 37,730 loans amounting to Rs.1.6 billion. During 1988 alone, 4,525 loans were originated for a total of Rs.330 million and 16,737 loans were originated for a sum of Rs.1.1 billion during 1989. These are likely to establish a subsidiary company exclusively to undertake housing finance activities.

b) A major initiative by the National Housing Bank to include the commercial banking system in the direct loan origination process through its 55,000 branches throughout the country.

c) Major initiatives by the commercial banks to create housing finance subsidiaries either jointly with existing housing finance institutions or on their own.

d) entry of the General Insurance Corporation of India into home loan origination through a subsidiary company.

Supply Constraints :

While the loan origination process will be considerably strengthened by these recent developments, little attempt has been made, at present, to identify the long-term strategic issues posed by the supply constraints of housing in the years to come. These issues include the following:

a) While housing finance availability is critical to household effective demand for housing, how will housing supply responses cope with this additional demand?

b) Land parcelling and servicing is the critical constraint on urban housing development largely as a result of the Urban Land
Ceiling Act (which limits permissible land holdings in urban areas and freezes the remainder) as well as the inability of the judicial system to expedite cases involving land disputes.

C) The House Price to Household Income Ratio in India on average is 6.2, well above the average for developing countries of about 5.25, indicating that housing remains expensive in relation to income thus limiting the affordability of market-related housing finance.

d) The Housing Delivery System is characterised by relatively small "builders" rather than large-scale construction companies, limiting the benefits that might be derived from economies of scale, modular construction and industrialised techniques.

As a result of these constraints, the input costs of housing development (Especially land) are extraordinarily high. Housing for the poor can, therefore, be limited only to areas where land is either Government owned or acquired by Government for the purpose.

While private developers are the major suppliers of housing in most major urban centres, housing for the poor remains largely outside the formal private delivery system. Much remains to be done in designing and financing low income housing. A recent evaluation of sites and services projects by the World Bank concluded that, while the concept was a valid one, replicability remained elusive largely owing to erroneous judgements on appropriate affordability estimates.
This would seem to highlight the need to link low income housing or shelter projects much more closely to the perceived needs of the beneficiaries backed by their willingness to pay for the service stream of benefits over time. Links between formal financial institutions and informal local level networks would seem to be critical to future policy in this area.

The Indian experience is that the potential for these links can be extremely effective in understanding local problems and designing specific approaches for their solution. HDFC recently promoted the Gujarat Rural Housing Finance Corporation (GRUH) specifically to deal with some of these issues. GRUH finances the acquisition or upgrading of housing in rural areas and small towns with a population below 50,000.

GRUH reaches out to local level networks in order to administer and disseminate housing finance—e.g. dairy and cotton co-operatives, non-government organisations—and those networks in turn have positive incentives to utilise GRUH's financial services. GRUH is experimenting with new methods of credit appraisal, and training programmes are planned jointly with GRUH staff as well as local level organisations to help jointly administer operating systems more effectively. Resource mobilisation and efficient intermediation have become the key ingredients of an effective financial system. The rationale for specialised institutions lies precisely in the development of specialised human
resources, technological systems and managerial techniques to
deal with very specific forms of activity in the most efficient
(cost effective) manner possible.

India is now fortunate that these skills have been
gradually developed and are being embodied in the emerging hous­
ing finance system. Their future evolution, however, will require
a framework which will permit these institutions to fit into the
financial system at large.

The initial basic requirement for an emerging structure
would be access to a resource base. The narrower the base, the
fiercer the competition for available resources, which would
result in enhancing costs. It would seem, therefore, that Govern­
ment policy would need to define the savings base and the capital
market base for housing finance institutions carefully, keeping
in mind the critical role of the price of housing credit. An
institutional development strategy would demand that new institu­
tions transform themselves from mortgage banks in their initial
operations (wholesale borrowing and retail lending) to savings
institutions (retail borrowing and retail lending) as they estab­
lish themselves in their respective market segments.

A future system would need to ensure that it was de­
signed to be sufficiently robust to generate its own resources
from within the system as well as contribute to financial deepen­
ing and institutional diversification of the financial system at
large. It is this aspect—the sound structure of institutions
D. Some Strategic Speculations for the Future:

India has, over the past few years, experimented with greater liberalisation of economic policy. Fiscal reforms which began in 1986 were designed to place much greater reliance on both efficiency and modernization of Indian Industry. Deregulation, increased liberalization of trade, especially capital goods imports, rationalization of the tax system and a greater consistency in economic policy making became the centre piece of policy making. As a result, the performance of the Indian economy has been markedly better in the 7th Five year Plan than in any previous plan. Growth measured by GDP over the period will exceed 5% per annum with a 9% growth rate in 1988-89.

Buoyancy in the capital markets during the period demonstrated clearly the absorptive capacity of investors for very large capital issues. In the past few months (end 1989), Indian Companies have raised US $2.5 billion in the domestic capital market compared with US $1.8 billion in the whole of the previous year. Recognising the enormous potential of financial reforms which would give market forces much more importance, the Government of India has begun a series of reforms to improve the system's competitiveness.
With the new Government installed in the country, it is not as yet clear what strategy will be followed in financial policy. It is more than likely that financial discipline will be imposed and that financial institutions will have to rely increasingly on raising their own resources to meet their financial requirements. Whether this will be by way of competitive resource mobilisation or by redefining the directed credit system remains to be seen. Whatever the strategy, the future of housing finance hinges on one key element i.e., the extent to which housing finance is integrated into the financial system in both its retail and wholesale form and the place of specialised financial institutions within this system.

In the present system, the flow of credit is carefully controlled through a complex and multi-tiered system of borrowing terms, refinance rule and tax incentives, all of which determine where savers finally choose to place their savings. The Banking System is, perhaps, the main instrument of the directed credit system, financing both developmental institutions as well as "priority" sectors. As a result, low deposit rates as well as subsidised lending to the priority sector (with substantial loan write-offs) compensated to a certain extent by high lending rates to the commercial sector has created a largely unprofitable banking system with low loan recovery performance and consequent inefficiency. Financial savings have gradually shifted to the
relatively more market oriented non-bank finance sector and to the capital market. Housing finance institutions, HDFC in particular, are significant players in this market, though recent regulatory guidelines are likely to diminish this trend.

The major barrier to future growth is likely to be the process of deregulation which, if it occurs unsystematically, will usher in elements of "unfair" competition providing certain institutions with regulatory privileges which are not available to others. This would be especially ruinous to industry development if these regulatory privileges concern the availability and pricing of financial resources. A private-public partnership depends on clearly defined principles regarding the role and responsibilities of each partner and future policy would do well to provide these clearly and unequivocally.

In the long run, given the nature and size of resource mobilisation for housing finance, housing finance institutions will need to integrate themselves into the financial system and mobilize resources at market rates in competition with other financial institutions and commercial banks. This is inevitable if housing credit is to emerge as a major financial service. American families have, for example, borrowed US $2.2 trillion for their homes and since 1982 consumer credit has increased by US $280 billion while mortgage credit has increased by US $1.3 trillion demonstrating the enormous importance of housing finance
in the financial system. In the UK, nearly 50% of net cash assets of the private sector are held by Building Societies. Housing finance can, therefore only be studied in the context of financial sector strategy and cannot remain on the periphery of the system without being a major drain of budgetary resources of the government. The process of integration, however, will be a major policy initiative which needs to be thought through carefully and acted upon expeditiously.

A second major concern is the apparent trend in policy—especially by the National Housing Bank to use the commercial banking system as a central institutional element for the dissemination of housing finance. It constitutes yet another attempt at expanding the much overworked directed credit system to undertake additional responsibilities for which it possesses neither the inclination nor the resources. Housing finance is a retail activity with transaction costs that could be potentially high. Requiring the banks to offer the Home Loan Account to enhance their direct lending to individuals, to lend to public agencies and to finance land acquisition will simply add to a long series of activities the banks are expected to do which, in the normal course, they may not have undertaken, thus adding to their administrative burden. Policy is thus explicitly placing the cart before the horse: increasing the loan origination process without defining the resource base.
This policy is somewhat surprising as the HDFC key experience illustrates. HDFC's success has demonstrated that Housing Finance as a specialised financial activity is not only viable in India but potentially profitable which, on its own, has attracted a number of new entrants. A measure of financial dependence is the growth of specialised intermediaries that offer a range of financial services profitably which were not available before; this is precisely what has been created for housing without the prior creation of a regulatory framework or a refinance institution. As the institutional structure grows and develops, it attains a size that may require a loosening of the fabric of financial inter-connections to make room for the new activity. Indian Housing Finance has now reached this stage. Policy issues now concern the extent to which housing finance will be given room to grow, preferably in the context of financial evolution rather than as a privileged beneficiary of the directed credit system.

The presence of the National Housing Bank, however, also presents some strategic opportunities. The NHB represents, in some sense, the institutionalised instrument for policy actualisation in the housing sector. Housing policy has been broadly framed both in the Housing Policy document and in the conclusions of the Housing Ministers conference held in 1989. However, the bridge between housing policy and financial sector strategy has not as yet been built. If the National Housing Bank is indeed a
"Bank", it ought to observe the housing sector wearing financial sector spectacles and link the objectives of housing policy with the resource base that will need to emerge. In other words, the NHB must play the role of a financial institution rather than an Apex institution conduiting funds specifically for housing. Major financial policy changes will be required if housing finance is to emerge as a self-sustaining financial activity which has very little to do with housing per se. The quality of housing and urban development is only likely to reflect the financial resources devoted to it whether public or private. Defining the role of both public and private efforts by carefully identifying the comparative advantages of each and working through them to achieve commonly agreed objectives seems to be a crucial stage, at the present time, for policy planning.

E. Housing Policies and Programmes of the Government:

Implementation of housing finance policies requires efficient institutional arrangements. Further however well conceived the human settlement strategies and policies may be; their implementation will depend on both the amount and the nature of resources available. Many developing countries have established various types of housing finance institutions in the past but few have succeeded.

Even though there was a large number of agencies / institutions mostly in the unorganised sector, providing direct
finance to individuals for house construction there was not a well established housing finance system in as much it had not integrated with the main financial system of the country. The vacuum in the institutional finance for housing and other construction activities was felt due to inadequate flow of funds for such activities from existing institutions and absence of specialised credit institutions to provide funds for the purpose. The need for creating a specialised housing finance structure for the country had been emphasised by the Banking Commission as far back as 1971. On the contrary there were well structured and separate financial institutions to meet the needs of the agricultural industrial and the export sectors.

F. Lack of Priority in the Plan Programmes:

Housing has not received the due priority in our Five year Plan Programmes. No comprehensive national housing policies or programmes were formulated with the objective of overcoming housing shortage within a prescribed time limit. Each successive Plan provided funds to a limited extent mainly for giving assistance to the selected section of the community and providing accommodation to the employees of the Central and the State Governments. Till the Fifth Five-year Plan, the government policy on housing was not for overcoming housing shortage but merely assisting certain sections of the population for acquiring houses within the limitation of budgetary provision.
G. The Sixth Plan Programme - The Beginning:

The Government of India for the first time, under the Sixth Plan Programmes adopted as its objective, elimination of housing shortage within 20 years (2000 AD) and for the purpose suggested a sustained programme of investment and construction both by public and private sectors. For the Sixth Plan Period, the combined public and private sector outlay was expected to be about Rs.12,900/- crores (Rs.3,500 crores for rural housing and Rs.9,500 crores for urban housing). Such an outlay would yield about 13 million dwelling units in rural areas and 5.7 million units in urban areas.

It may be possible to reach the proposed target of 18.7 million dwelling units if there is an annual turnout of 3.74 million dwelling units. The Planning Commission depended upon the private sector to invest an amount of Rs.11,500 crores i.e. nearly eight times the expected public sector investment of Rs.1,302 crores for the elimination of housing shortage. The proposed construction programme would have helped to ease the housing situation only if dwelling units were constructed to satisfy the housing needs of all the households comprising different income groups viz. Economically Weaker Sections (EWS), Low Income Groups (LIG), Middle Income Groups (MIG) and Higher Income Groups (HIG) in urban areas and marginal farmers, landless labourers, small farmers, artisans, big farmers and other rural
higher income groups in rural areas. However, in the Mid-term Appraisal of the Sixth Five Year Plan, it had been admitted E.W.S. during 1980-85 was unlikely.

The Appraisal Report has not stated whether physical and financial targets in respect of all other schemes could be reached by the end of the Plan period. Even if it was assumed that the target of financial outlay of the public sector is achieved, it would not help to solve the problems of housing shortage in the country as the Sixth Plan has relied upon the private sector for investment and construction of housing units to reduce the housing shortage. To reach the target as envisaged in the Sixth Plan, the private sector should have made an annual investment of Rs.2,300/- crores and build 2.67 dwelling units during each year of the Plan period. The available housing statistics indicate that these targets have not been achieved. The main problem with regard to the private sector is that it has the constraint of resources and that it cannot built houses for the lower income groups and the weaker sections.

Housing sector development had in the meantime, during the course of the Sixth Plan, assumed considerable priority in the Planning Commission of India and four Task Forces consisting of eminent practitioners and academics in the field were established during this period to examine the issues and to give considered inputs for the purposes of framing the policy thrust for the Seventh Five Year Plan 1985-90. HDFC, in the meanwhile,
had demonstrated its ability to make housing finance a commercially viable activity and therefore a sector with considerable potential for a public and private sector partnership; the former providing the policy framework and the latter the operational entities. HDFC, thus, played its part in emphasising the critical role of Housing Finance for any policy strategy in urban and housing development and making a strong plea for policies which would strengthen institutional development in the sector.

The Government's role in the field of urban housing is perforce to be promotional. The major effort will have to come from the Private Sector. The Government's role included specifically the encouragement and support of housing finance institutions that promote the channelling of private resources into housing in a constructive way.

These two major policy statements were to have enormous implications for the future evolution of housing sector development during the course of the Seventh Plan period 1985-90. With respect to institutional strengthening, the Seventh Plan was also specific:

i) To establish a National Housing Bank which would support the development of a local network of housing finance institutions which would draw resources from households and would be refinanced by NHB acting as a conduit for institutional finance.

ii) To strengthen existing institutions in the public sector
such as the Housing and Urban Development Corporation which would be responsible for the major chunk of public investment in housing in the Central Plan.

iii) To support the expansion of HDFC and HDFC type institutions which would continue to cater to the clientele coming largely from fairly well-to-do sections of society.

H. National Housing Bank

1. The Background:

The idea of forming an apex housing finance institution in India has been evolved over a period of time right from 1971 with the recommendation of the study Group appointed by the Banking Commission. Later the Working Group on Housing Finance appointed by RBI, felt that the housing problem was so colossal that there was need for a specialised system to cater exclusively to the housing sector, to impart thrust which is needed for tackling the various financial legal and non-financial problems that are faced in financing housing.

The Group recommended the setting up of a well-developed housing finance system in the country. In order to oversee and co-ordinate the activities of such institutions, the group strongly advocated the idea of a national level apex housing finance institution. The proposal for creation of specialised housing finance institutions thus came to occupy the centre stage.
The Sub-group on Housing Finance for the Seventh Five Year Plan, observed that the flow of public resources through existing finance institutions was limited, and felt it imperative that the system be built through a multitude of institutions at the regional level that mobilises resources specifically for housing directly from households. In order to create such a system, the Sub-group recommended that a national level institution be established to undertake the task of promoting decentralised institutions which will gradually develop the delivery system for housing to all groups of people in the country.

Based on the above recommendations a proposal to set up a National housing Bank to help develop institutions at various levels which would be instrumental in financing housing activity was initiated by the Ministry of Urban Development. The proposal was considered by the committee of Secretaries and the Committee recommended that a high level group consisting, inter-alia of Deputy Governor of RBI as Chairman should be constituted. This led to the setting up of high level group under the Chairmanship of Dr. C.Rangarajan, then Deputy Governor, Reserve Bank of India. Besides examining the proposal for the setting up of a National Housing Bank, the Group was to look into the manner in which flow of resources to the housing sector could be augmented, to recommend the mode of creation of housing, finance institutions of the type of the Housing Development Finance Corporation (HDFC) and to suggest fiscal incentives considered necessary for encouraging
In its recommendations the Rangarajan Group suggested that a number of steps would have to be taken to tackle the housing problem in the country. The measures included development of land and housing system, modification of some of the existing laws, in order to encourage construction of houses. The Group also laid stress on development of technology for low cost housing. The Group further suggested that initiative be taken to create a network of specialised housing finance institutions which will mobilise additional savings and provide finance for house construction.

The Rangarajan Group Report explicitly envisaged two types of base level institutions:

1) Local level institutions to mobilise household savings and provide home loans; and
2) Regional HDFC type of institutions with a wider territorial jurisdiction to mobilise household savings and provide housing finance to middle and higher income groups.

2. Setting up of National Housing Bank (NHB):

Spurred by the United Nations declaration of 1987 as the International Year of Shelter, combined with the resolve of the Government of India to initiate processes which would reallocate resources to housing and urban development, a number of initiatives were taken, all to emerge in 1988, to create a policy...
framework for the sector. These could be listed as follows:

1. The formulation of a National Housing Policy Document.
2. The publication of the final report of the national Commission on Urbanisation.
3. The establishment of the National Housing Bank as a wholly owned subsidiary of the Reserve Bank of India.

Despite these initiatives, the future role of the public and private sectors, the constraints faced at present and an operational strategy for the future have not been tackled analytically for the sector as a whole. The National Housing Policy Document makes only two references to this issue, one in the preamble:

"There is obviously a need to recognise and rely on a multiplicity of factors including the Government in the production and improvement of housing on the scale required. Government will need to devise and implement coherent and well-set-out shelter strategies which will enable all the various actors to complement one another and to ensure most efficient utilisation of resources."

and the other in the objective statement:

"To create an enabling environment by eliminating constraints and developing an efficient and accessible system for the delivery of inputs to maximise housing efforts."

The document does not, however, illustrate how this
might be achieved. The creation of the National Housing Bank ostensibly to "be the principal agency to promote housing finance institutions and provide financial and other support to them" will be of great operational significance to the future growth and development of the emerging housing finance system as it evolves in the years ahead.

As a sequel to the above developments and in recognition of the need for developing a network of specialised housing finance institutions in the country, the National Housing Bank was established in July, 1988 under an Act of Parliament, viz., the National Housing Bank Act 1987, to function as an apex bank, on the lines of the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD). The Act envisages that NHB will remain a wholly owned subsidiary of the Reserve Bank of India. It started with a paidup capital of Rs.150 crores.

3. NHB's Mandate:

The Act enjoins upon NHB to operate on "business principles with due regard to public interest". NHB is the principal agency to promote housing finance institutions, at the regional and local levels, and to provide financial and other support to such institutions connected with housing and human settlements.

The Act, among other things, empowers NHB to:

1) issue directions and provide guidelines to housing finance institutions to ensure their promotion, management and growth on
sound lines;
ii) make loans and advances and render any other form of financial assistance to scheduled banks and housing finance institutions;
iii) formulate schemes for the purpose of mobilisation of resources and extension of credit for housing;
iv) formulate schemes for the weaker sections of the society, which may be subsidised by the Central or State Governments or others;
v) form, promote and manage subsidiaries for carrying out functions under the Act;
vi) organise training programmes, seminars, symposia, on housing finance etc.

4. National Housing Bank - Sources of Funds

a) Capital Bond of NHB:

Capital gains bond are issued for a 3 year term. The rate of interest is 9% payable half yearly or on discounted basis in the beginning itself. The bonds offer 100% tax exemption under sec.54E of Income Tax Act.

b) The Foreign Collaboration:

Recently the NHB of India has raised US $25 million loan from US AID. This fund will be advanced by NHB to housing finance companies. The US AID loan is for 30 years at the rate of 8.63% interest.
c) Overseas Economic Collaboration Fund (OECF) of Japan:

OECF has agreed to provide loans assistance of Yens 2.97 Billions (Rs.32.38 crores) for 1990-91 to support NHB indirect lending in India for housing.

d) Lastly as a subsidiary of the Reserve Bank, NHB can always rely on it for instant financial assistance from RBI.

5. Objectives of NHB:

NHB's main objective was to ensure the development of a viable and accessible institutional system for the provision of housing finance. NHB has set for itself the following objectives:

i) to promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the populations;

ii) to establish a network of housing finance outlets to adequately serve different regions and different income groups;

iii) to promote savings specifically for housing;

iv) to make housing more affordable;

v) to augment the supply of land and building materials for housing;

vi) to encourage public agencies to emerge, primarily as facilitators and suppliers of serviced land;

vii) to upgrade the housing stock in the country; and

viii) to encourage flow of credit and real resources to the small ones first.
In its initial year, the NHB has taken a number of steps to operationalise its objectives:

i) In November 1988, NHB announced the role that it envisages for the commercial banking system in housing finance. Commercial banks had hitherto allocated a certain quantum of funds each year, under guidelines issued by the Reserve Bank of India, for both direct as well as indirect lending for housing finance. The new guidelines indicated the terms and conditions on which banks could finance individuals, institutions, Housing Boards and private developers. The terms for individual households were comparative to those currently offered by HDFC.

ii) In March 1989, NHB announced detailed guidelines for a Home Loan Account Scheme that would be offered and operated by banks through their branch network. A household would be able to save under the scheme for a minimum period of five years at a rate on return of 10% per annum, after which the saver would be eligible for a housing loan of a multiple of the total savings subject to a ceiling of Rs.300,000, as well as some restrictions on the size of the unit to be financed. The scheme is to be a national scheme which would replace all other products, if any, offered by the banks.

iii) In April 1989, the NHB announced its refinance guidelines to existing housing finance institutions, aimed at refinancing these institutions, especially for loans made to lower income households and loans made for renovation or for upgrading of low cost
housing. Refinance is available up to Rs. 50,000 per household and
loans made for purchase of Rs. 30,000 per household for renovation
or upgrading of an existing unit. The rate of interest varies
from 10.5% to 13% per annum depending upon the size of the loan
with a slight difference of 1/2% for rural housing.

iv) In the June 1989, NHB also announced guidelines for accept-
ance of deposits by housing finance institutions. The major
feature of these guidelines is that housing finance institutions
cannot now accept deposits for a period of less than 24 months.

v) NHB has also issued guidelines for the promotion of Housing
Finance Institutions in private for joint participation which
would be applicable if these institutions expect financial sup-
port from NHB. The guidelines, inter alia, include paid-up capi-
tal requirements, gearing rations, acceptance of deposits rules,
and terms and conditions offered by these institutions for hous-
ing finance.

vi) In November 1989, NHB announced its intention to finance
Land Development and Shelter projects undertaken by public hous-
ing agencies such as State Housing Board and Area Development
Authorities. The policy emphasises, however, was on land develop-
ment where public agencies would "be reoriented to work more as
promoters and facilitators for housing activities rather than as
builders of housing units." Further, these public agencies would
be "well advised to give up the role of long term housing
finance, that is, providing plots/houses on a hire purchase basis. The financing role should be left to the banks and housing finance institutions".

vii) Finally, in January 1990, NHB announced its intention to provide finance to Co-operative Housing Societies as short term (3 years) project loans to assist societies with land parcelling and development matters relating to housing and co-ordinate with various agencies in the housing sector; and

viii) Subscribe to stocks, bond and securities of every other description.

I. Strategies Formulated by Government Under NHP:

The strategies formulated by the Government under the National Housing Policy to help people acquire within a reasonable time houses include the following:

1. Making available developed land at reasonable rates for housing.

2. Savings for Housing Scheme under HLA.

J. Home Loan Account (HLA):

The objective of this scheme is to encourage the people to save for housing.

The minimum contribution is Rs.30 per month. The contribution can be made also quarterly, half yearly, yearly instalment subject to a minimum of Rs.90, Rs.160, Rs.360 respectively.
The amount to be saved by one account holder, would have to bear some relationship to the cost of plot/house/flat proposed to be acquired.

The approximate accumulation of savings (including interest) on the basis of regular contribution for a period of 5 years.

The objectives, priorities and strategies for promoting sustained development of housing policy are to be stated separately as follows:

1. **Objectives:**
   1. To motivate and help all people and in particular the houseless and the inadequately housed to secure for themselves affordable shelter.
   2. To encourage investment in housing in order to achieve sustained growth of the nation's housing stock.
   3. To guarantee the protection of ownership rights.
   4. To make more land available for the poor and the common man for residential use.
   5. To assist the financial institutions which provide housing loans, in making more funds available for the purpose.
   6. To execute scientific research on low cost housing with low cost budget.
   7. To encourage co-operative housing group housing by suitable tax structure.
8. To encourage small scale industries to produce quality building materials.


10. To promote repair, renovation and upgradation of the existing housing stock.
11. To curb speculation and profiteering in land and to arrest spiralling rent and land values.

2. Priorities:

The policy seeks to accord priority to promoting access to shelter for the houseless and the disadvantaged groups such as:

A) The scheduled caste and scheduled tribes
B) Rural landless labourers, including artisans
C) Widows, single woman and women headed households

Rental housing will continue to play an important role, particularly for low-income and middle income people. Investment in housing for rental purpose will be stimulated by -

a) facilitating access in land, institutional finance and building materials.

b) fiscal incentives

c) modification of the rent control laws to subserve the objectives, priorities and strategies.

The government must encourage the big industries to build colonies for their employees. This makes lot of economic sense to them, rather than losing the same to income tax.
As the government has permitted investment upto 51% from foreign companies in the equity investment of companies and enterprises. But this facility is not extended to housing companies.

Therefore for the purpose of deploying more funds in housing companies, such investment should not be banned from housing companies.