INTRODUCTION

Housing is one of the basic needs of an individual in terms of safety, security, self-esteem, social status, satisfaction and achievement. As a human being, an individual needs his own space and privacy, which can be provided by the ownership of a house. The home is the basic unit of society. Home provides a platform to the family and the family is the most important social institution, which leaves its imprint on an individual for whole life. The life of a human being can not be imagined without safe, secure and comfortable shelter. The need for shelter is one of the fundamental requirements, which needs to be attended at priority.

Housing assumes multifaceted significance in terms of degree of economic well being and human development as well as socio-cultural progression and political stability. Besides being a basic necessity, housing plays a positive role in the economic development of the country and social development of its people. Housing construction is a labour-intensive activity, capable of absorbing large number of unskilled labour. Further, housing is linked to a variety of other industries, most of which are also labour intensive. Because of its linkages with the various other sectors of the economy, housing gives rise to domestic industrial growth. The linkages also provide a demand basis for industries that never would have been identified as possible opportunities. Promotion of well-being of the people is the central concern and purpose of all development efforts. Investments in housing are investments in the development of human resources, the benefits of which occur not only to groups and individuals but also to the nation as a whole. Thus, investments in housing should be conceived as the main framework for social and economic development.
A rapid rise in population results in higher demand of dwelling units for residential purpose. This is coupled due to scarcity of developed land and increased rural to urban migration in search of employment opportunities. Which has resulted in severe pressure on urban infrastructure in recent years. The consequences have been overcrowding and unhealthy living environment, shortage of basic amenities and finally social and economical deprivation. The problem of space, privacy, security and sanitation leads to social, economic and environmental degradation which is detrimental for society. As per the latest census 2011, India’s population is over 121 million which is second highest after China with an unfavorable Land-man ratio. That’s why housing become one of the major problems for the government of India as well as the society.

1.1 HOUSING DEVELOPMENT IN INDIA

As India is a developing country it has to maintain a crucial balance between the basic needs of people and the rapidly expanding population, urbanization and industrialization. As per the Indian constitution directive principles, the Government have to cater the basic housing needs in the country. In 1975, state ministers conference was held in this prospective and recommended the following suggestions:

- A national urbanization policy should be framed to achieve a balanced urban and regional growth in the country.
- A national housing policy should be adopted and for this purpose, a national housing commission should be set up.
- A rural housing corporation should be set up for implementing the rural housing programme along with rural development through institutional and other finances.
State Governments should quantify funds out of their annual plan allocation for housing for the members of the scheduled castes and scheduled tribes.

The Central Government should enact legislation on vacant urban property expeditiously, so that urban and urbanisable lands are made available to the Government for improving housing conditions for the urban poor as well.

Building costs of houses should be reduced by improved technology; there should be the use of local materials and reduction of overheads of public housing agencies.

An appropriate proportion of the institutional finances available with states, should be allocated for house building by stepping up the existing investments; and

The scheme of allotment of house-sites to rural workers should be transferred back to the central sector to effectively implement it.

Having considered upon the suggestions of State Ministers, the Government of India took the following steps for improvement in housing conditions in India:

The Government established the National Building Organization (NBO) in 1954 for research into building techniques and into new methods of house construction; the National Building Organization was required to sponsor research work on various aspects of building construction, improvement of utilization of building materials and on the sociological and economic aspects of housing.

The government has created Housing and Urban Development Corporation (HUDCO) in 1970 to provide loan finance for the housing and urban development programmes in the country with a
primary emphasis on the promotion of housing for the persons belonging to low income groups (LIG) and economically weaker sections (EWS).

❖ The Government installed the National Building Construction Corporation (NBCC) in 1960 with the specific objective of developing quality consciousness and reducing the costs of construction; and

❖ Finally, the Indian Government has established the National Housing Bank (NHB) in 1987 for providing the loans for construction and adopted the National Housing Policy (NHP) in March 1987.

The role of Central Government in social housing scheme is confined to the laying of broad based guidelines, providing necessary advice and rendering financial assistance in the form of loans and subsidies to the State Governments. State Government looks after the housing schemes launched by the Central Government and also launches additional housing schemes as per its regional requirements.

1.2 HOUSING IN FIVE YEAR PLANS

First Five Year Plan (1951-1956)

The First Five Year Plan recognized the problem of housing being faced by people in the country. It was felt that state should help in abridging the gap in availability and demand for housing and extend assistance in the form of subsidy and loan for construction of houses. The Plan aimed at enhancing the housing stock over the next few years. The plan policy further suggested reducing the cost of construction of houses especially with regard to material and labour by encouraging economical
architectural and structural designs. Research in the field of building material and techniques was given due consideration. The main emphasis of research was on optimum utilization of indigenous inputs for manufacturing of building materials.

The First Plan gave the consideration to the role of private sector in solving the problem of housing shortage and adding to the capital formation through increase in housing boards to guarantee the loans to private builders, financing the construction of buildings by funds from insurance companies and making provisions for supply of building material at reasonable rates.

For the systematic development of housing and also to ensure effective town and country planning, necessary provisions of Town and Country Planning Act, were modified and adopted by States from time to time. The dimensions and problems of housing were viewed in the overall environment of human settlement in rural and urban areas. Hence attempt was made to provide necessary institutional infrastructure. During the first plan period, two social housing schemes viz. Integrated Subsidised Industrial Housing Scheme and Low Income Group Housing Scheme were launched.

**Second Five Year Plan (1956-1961)**

During the Second Five Year Plan, schemes for subsidized industrial housing for low income group were further strengthened. New schemes like Labour Housing Scheme, Village Housing Scheme, Land Acquisition and Development Scheme, Middle Income Group Housing Scheme in addition to the schemes for slum clearance and slum improvement were introduced. Specific housing schemes for the benefit
of Scheduled Castes, Scheduled Tribes and Backward Classes in rural area, handloom weavers and displaced persons etc. were introduced. Housing programmes for the employees and workers of various State Government/Central Government Departments were undertaken on a large scale.

During the plan period, Government modified its policy of granting direct loans to LIG category for building houses. It started giving assistance to the State Governments and local authorities for developing sites and plots for sale to beneficiaries belonging to LIG category. Public financial institutions got associated with the housing programmes of the Government for Second Five Year Plan period. The Life Insurance Corporation of India, for example, started providing funds for house building to Lower Income Group and Middle Income Group of people and also to State Government for undertaking rental housing schemes for their low paid employees.

**Third Five Year Plan (1961-1966)**

Based on a review of the progress in increasing housing stock vis-à-vis steps taken during the first two five year plans, the following general considerations were suggested in regard to the directions in which housing programmes should be developed for the Third and subsequent Five Year Plans.

i) Housing policies should be linked with economic development and industrialization policies including the dispersal of industries.
ii) Efforts being put in for increasing housing stock by various agencies i.e. public, private or co-operative should be effectively coordinated.

iii) Efforts should be made to create conditions in which the entire programme of housing construction both public and private should be so oriented that it serves especially the requirement of LIG category in the community.

While the aforesaid parameters the Third Five Year Plan, also laid emphasis on land acquisition and development and also on effective control on urban land through various measures considered necessary for successful implementation and achievement of plan objectives. The schemes implemented during the earlier plans were continued during the Third Plan period.

**Fourth Five Year Plan (1969–1974)**

The Fourth Five Year Plan laid greater emphasis on low cost housing scheme in view of a) high cost of constriction of dwelling units b) insufficient contribution by private and cooperative sectors to meet the growing need of houses by the poor people c) deteriorating conditions in the old slums and also the creation of new slums in metro cities.

In view of the above, the Plan proposed that Government policies should encourage, through proper planning and land policy, adequate supply of houses of growing cities. Emphasis was laid on controlling the rise in land prices, providing financial assistance for cooperative and private efforts, providing cheaper houses to the people through research programmes on cost saving and so on. The public sector institutions were
to play a pivotal role in evolving new techniques for saving in the cost of construction material.

In the Fourth Five Year Plan document, it was felt that the dimensions and problems of housing need are to be viewed in the overall environment of human settlement – rural as well as urban. Along with housing, basic amenities should also be provided. Private building process should be stimulated and encouragement should be given to cooperative efforts, special housing schemes in favors of SCs and other disadvantaged groups and integrating these into village lay-outs along with the general housing programmes.

A scheme for improvement of the environment in slum areas in order to provide the basic minimum health conditions was introduced during 1972-73. Accordingly, provisions were made for giving financial assistance to the states to provide or improve basic health conditions. About 3 million slum dwellers were expected to benefit under the scheme.

During this plan period a special public agency namely Housing and Urban Development Corporation (HUDCO) was set up in 1970, to fund housing activities. It augmented the financial support to various housing boards and cooperative housing societies throughout the country.

Fifth Five Year Plan (1974-1979)

The Fifth Five Year Plan document observed that a proper strategy for housing sector will have to be correlated with the formulated land policy. Given the resource constraints and acute shortage of housing, the Plan proposed:
Provision of house site to 4million landless labourers.

Intensification of research in low cost housing techniques.

Manufacturing of low cost building materials.

Preservation and improvement of existing housing stock.

Enhancing financial assistance to state housing boards and local authorities to provide help to Middle and Low Income Groups for construction of houses.

Scheme for improving the living conditions in slum area.

During the Fifth Plan period, Minimum Needs Programme and Twenty-point Programme were introduced, hereunder certain schemes were aimed at improving the housing situation, besides creation of minimum health conditions in slum area. Accordingly, steps were initiated to provide house sites to landless labourers and weaker sections in rural areas as well as to improve environmental conditions in urban slums.

**Sixth Five Year Plan (1980-1985)**

The focus of the Sixth Five Year Plan was to use the public sector resources in such a way that these yield optimum results and provide maximum possible houses to absolutely shelterless people. In regard to others, the objective was to provide conditions to improve their housing environment. Housing related objectives of Sixth Five Year Plan were:

- Provision of house sites and assistance for construction of dwellings for rural landless labourers including housing extension services to assist in proper planning of layouts, sanitation etc.
To design public housing schemes to benefit maximum number of people in view of severe financial constraints of public agencies.

To Frame policies to promote and encourage Self Help Group Housing.

To strengthen the financial resources of public agencies for providing infrastructure facilities as a means for encouraging housing in private sector.

To promote research in building technology and the development of cheap and local building materials.

Keeping in view the above objectives, the Plan proposed special emphasis on housing activities in small, medium and intermediate towns, low cost housing techniques, modifications in existing building bye-laws, land use controls etc. so as to reduce the cost of shelter, avoidance of direct subsidy in urban housing and greater stimulus and support to private housing in Middle and Lower Income Groups.

In Sixth Plan period the overall social housing scheme was recategorised mostly on the basic of income criteria of the target groups in the following manner:

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Household Income range</th>
</tr>
</thead>
<tbody>
<tr>
<td>EWS</td>
<td>Up to Rs. 350 per month</td>
</tr>
<tr>
<td>LIG</td>
<td>Rs. 351 to Rs. 600 month</td>
</tr>
<tr>
<td>MIG</td>
<td>Rs. 601 to Rs. 1500 per month</td>
</tr>
<tr>
<td>HIG</td>
<td>Rs. 1501 and above</td>
</tr>
</tbody>
</table>
Other schemes started during this period were Rental Housing Scheme for State Government employees and Housing Sites cum Construction Assistance Scheme for rural landless labourers.

The scheme for environmental improvement of urban slum introduced in Fifth Plan was incorporated under the Minimum Needs Programme. Under this programme, 10 million slum population were to be covered by 1985 as against 6.8 million covered by 1980.

**Seventh Five Year Plan (1985-1990)**

At the beginning of the Seventh Five Year Plan, housing shortage in the country was quite severe. Besides this the increase in population during the plan period generated an additional requirement of housing units. Thus, the Plan document underlined the increase in the magnitude of backlog in housing shortage. It was felt that the Government should promote housing activity to facilitate availability of adequate financial infrastructure.

In order to meet the above objective, the Plan called for establishment of proper and diversified institutional finance to cater to the need of housing development. The strengthening of existing institutions like HUDCO and creation of new institutions like housing cooperatives, building societies and an apex housing finance institution was considered necessary.

This apex housing finance institution should be able to draw funds from the capital market as well as from the financial institution. It was further proposed that commercial banks should be permitted to participate on a larger scale than hither-to in the housing finance activities.
Against the above background, the Seventh Plan had set the following objectives:

- Promotion and encouragement of Self Help Group Housing.
- Provision to identify rural families of house sites and assistance for construction of dwellings for those families already provided with house sites.
- Cost of housing units under social housing scheme to be kept within the paying capacity of the target group.
- Providing stimulus and support to private housing for MIG and LIG sections.
- Securing reduction in construction cost by adopting low cost housing techniques and standards as also through modifications in building by-laws, land use control and minimum plot requirement etc.
- Harnessing science and technology in efforts for improving building technology and development of cheap and local building material.

To achieve these objectives, it was considered necessary to strengthen the role of public sector and also to develop the secondary mortgage market in housing.

The proposal to set up an apex level institution i.e. National Housing Bank, of fill the resource gap in housing finance, a provision of Rs. 50 crore as seed capital was made in this Plan. The role of National Housing Bank was to seek funds from the capital market besides
exploring the possibility of obtaining contributions to equity capital from some of the financial institutions in order to meet the larger need of housing sector. The Plan document envisaged that mobilization of resources for housing sector would have to come in a large measure at the local level from households particularly from those seeking to build houses. The plan observed that the housing finance structure should be based on an expanding number of local institutions in the towns and cities across the country which should draw resources from the households and would be refinanced by NHB which would act as a conduit for institutional finance.

The Plan further proposed to increase the equity of HUDCO from Rs. 75 crore to Rs. 135 crore to strengthen its activities for providing subsidies for houses to EWS and LIG sections. The Plan document further emphasized that HUDCO should play an important role in conjunction with State Governments for providing finance to weaker sections for use building activities. It was proposed that housing authorities and housing boards should concentrate on land acquisition and development in urban areas and provision of house sites in rural areas instead of going in for direct construction of houses. So as to achieve the Plan objectives, it was proposed to continue the various housing schemes initiated earlier under Minimum Needs Programme, Rural Housing, Urban Development and Slum Clearance.

Thrust of the Seventh Five Year Plan with regard to housing was thus Social Housing Programme in urban areas and rural housing programme for landless labourers and artisans under Minimum Needs
Programme. Role of institutional finance and promotion of building material technology was also given due priority.

During the Seventh Plan a total of 2.3 lac dwelling units have been completed under cooperative ventures with a total investment of Rs. 1087 crore. It has further been estimated that under various programmes in Public Sector, during Seventh Plan, about 10 lac houses have been constructed/upgraded each year.

**Eighth Five Year Plan (1992-1997)**

The Eighth Plan (1992-97), for the first time, recognized the role and importance of the urban sector for the national economy. The new Housing and Habitat Policy aimed at ensuring “shelter for all” and better quality of life to all citizens by using the unused potential in public, private and household sectors. The key objective of the policy was on creating strong public–private partnership for tackling the housing problems. Under the new policy, the Government proposed to offer fiscal concessions, carry out legal and regulatory reforms and create an enabling environment for the development of the housing sector. The policy emphasized the role of the private sector, as the other partner, to be encouraged to take up the land assembly, housing construction and investment in infrastructure facilities. Ever since the added emphasis was given to private initiative in housing development, there has been a rapid growth in private investment in housing with the emergence of real estate developers mainly in metropolitan centers and other fast growing townships.
The Eighth Plan outlay for urban housing was Rs.3,581.67 crore in the State Sector and Rs.1,341.35 crore in the Central Sector. The expenditure under the Central Sector was 96 per cent and in the State sector, 112 per cent. However, there was significant inter-state variation in the funds utilization rate. In terms of the total activities and investment requirement in the housing sector, the Plan outlay was modest. The Eighth Plan target was 7.80 million new housing stocks, including 6.29 million units in Economically Weaker Sections (EWS) and Low Income Group (LIG) categories.

**Ninth Five Year Plan (1997-2002)**

The Planning Commission suggested modification of the Housing policy to incorporate affordable housing program for the BPL category. Considerable efforts were made during Ninth Five Year Plan to enlarge the resource base and initiate innovative institutional mechanisms to augment housing delivery in urban areas. Focused efforts were also initiated to cover the poor and vulnerable groups of society to enable them to access basic shelter related services. Fiscal concessions coupled with legislative measures were also initiated to encourage increased investments in housing by individuals and corporate. The Ninth Five Year Plan devised separate Special Action Plans for the development of urban and rural housing.

**Special Action Plan – Urban Housing**

- Government has set a goal to provide housing for all and towards this end it proposes to facilitate the construction of twenty lac additional housing units annually.
The target of additional dwelling units has been broadly bifurcated as 13 lac units for rural areas and 7 lac units for urban areas.

Based on the average cost of EWS and LIG housing units of Rs. 35000 and Rs. 1 lac respectively the investment requirement for 7 lac new units would be of the order of around Rs. 4000 crore.

The extend of funding from institutional finance is proposed to be 70 per cent and the balance 30 per cent is proposed to be met partly as subsidy from Central/State Governments and partly as beneficiary contribution in cash, kind and labour.

Investment expected from the institutional financing bodies was of the order of Rs. 2800 crore.

A package of incentives and concessions was provided to attract the private sector.

Special Action Plan for Rural Housing

The National Housing and Habitat Policy 1998 aims at providing ‘Housing for All’.

20 Lac additional housing units proposed to be constructed annually, of which 13 lac dwelling units would be in rural areas. These were in addition to 12 lac units constructed per year. Therefore, a total of 25 lac rural houses would be constructed annually.

Tenth Five Year Plan (2002-2007)

The National Common Minimum Program (NCMP) has stated that housing for weaker sections in rural areas will be extended on a large scale. The Tenth Plan, therefore, had suggested provision of free housing
only to the landless SC/ST families and shift to a credit-cum subsidy scheme for the other BPL families. The repeal of the Urban Land (Ceiling and Regulation) Act, 1976 has been a significant step towards reform in the urban land market. Following the repeal of the central legislation, a number of State Governments have also repealed the state-level law.

Under the Tenth Plan (2002-2007), the Government initiated institutional mechanisms to augment the housing delivery in urban areas. Also, fiscal concessions coupled with legislative measures have been initiated to encourage increased investments in housing. Under the 10th Five Year Plan, the focus is on the state governments to bring in the required institutional reforms and introduce legislative measures to enhance housing delivery by private sector.

The Government has also laid emphasis on the 2 Million Housing Programme and managed to achieve the physical targets under the scheme. Against accumulative target of 35,00,000 units a total of 36,20,858 dwelling units were built during the period 1998-99 to 2007-08. Also, financial assistance for construction of 4,43,369 units under the Valmiki Ambedkar Awas Yojna (VAMBAY) scheme was sanctioned. Further, in 2005 the Bharat Nirman, Program, an ambitious venture which aimed at improving the rural infrastructure, was launched.

Last but not the least the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched with a goal to create financially sustainable inclusive cities. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is the largest initiative, introduced by the Government of India in 2005-06, to address the problems of
infrastructure projects relating to water supply including sanitation, sewerage, solid waste management, road management, urban transport, redevelopment of old city areas, slum improvement, rehabilitation, environmental improvement and basic services such as community toilets and housing at affordable prices for Economically Weaker Sections and Low Income Group of the society. This is a flagship programme of the Central Government in concert with the State Governments and urban local bodies. It supports 63 cities across the country in terms of perspective plans called City Development Plans for specifying infrastructural gaps relating to water, sanitation, sewerage, drainage and roads on the one hand and deficiencies in housing and basic services on the other. There is a provision of Rs.18,000 crore of additional central assistance for the up-gradation of urban slums with EWS and LIG housing, tenurial security and basic civic infrastructure and services. Under JNNURM, Government has sanctioned projects for construction of 1.2 million houses. The Government of India had also announced National Urban Housing and Habitat Policy (NUHHP) in 2007. This policy seeks to promote sustainable development of habitat in the country with a view of ensuring equitable supply of land, shelter and services at affordable prices to all sections of the society. The core focus of the policy is provision of "Affordable Housing for All" with special emphasis on vulnerable sections of society such as SC/ST, backward classes, minorities and urban poor.

Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) was also introduced which aims at providing housing loans with interest subsidy to the urban poor who have a plot but insufficient funds for constructing a "pucca" house for themselves. The Scheme gives them an
interest subsidy of 5 percent per annum for loans up to Rs. 1 lac for EWS and LIG. Under this Scheme, interest subsidy of Rs. 1100 crore is expected to leverage institutional finance. National Housing Bank and HUDCO are the two central nodal agencies for implementation of the Scheme.

**Eleventh Five Year Plan (2007-2012)**

In order to improve for improved housing stock through urban renewal, in situ slum improvement, and development of new housing stock in existing cities as well as new townships. Furthermore, the Bharat Nirman Program has also recognized and accorded due priority to the need to end shelterlessness. The program has set a target to construct 60 lac houses. The housing component under the Program is being implemented in parallel with Indira Awas Yojana scheme. For the Eleventh Plan, the focus is on targeting the poorest of the poor while targeting the remaining housing shortage with other interventions. The quality of life in urban areas, As per the recommendation of the Working Group on Housing for the 11th Plan, the total shortage of dwelling units at the beginning of 11th Plan i.e. 2007 is 24.71 million, as detailed under.

**TABLE No. 1.1**

**HOUSING SHORTAGE IN INDIA**

<table>
<thead>
<tr>
<th>Category</th>
<th>Housing shortage</th>
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</thead>
<tbody>
<tr>
<td>Economically Weaker Section (EWS)</td>
<td>21.78</td>
</tr>
<tr>
<td>Low Income Group (LIG)</td>
<td>2.89</td>
</tr>
<tr>
<td>Middle Income Group (MIG)</td>
<td>0.04</td>
</tr>
<tr>
<td>High Income Group (HIG)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24.71</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Housing & Urban Poverty Alleviation*
The National Urban Housing and Habitat Policy-2007 was adopted which aims at providing housing and other basic infrastructure to Economically Weaker Sections/Low Income Groups and other sections of society at affordable rates. The Government has continued the Interest Subsidy Scheme for Housing the Urban Poor (ISHUP). Under this Scheme, the loan repayment period would be 15-20 years. Loan will be available for construction/purchase of new houses. Under the Scheme, preference (subject to beneficiaries being from EWS/LIG segments) will be given to Scheduled Caste, Scheduled Tribe, Minorities, Person with disabilities and women beneficiaries in accordance with their proportion in the total population of city/urban agglomerate as per the 2001 census. Beneficiary borrowers may choose fixed or floating rates (the consequences clearly explained to the borrowers by implementing agencies viz. commercial banks and HFCs). An additional interest of 1 per cent p.a. (maximum) will be permitted to be charged by banks/HFCs if fixed rate loans are extended which will be subject to reset after a minimum period of 5 years. Mortgage of the dwelling unit will be accepted as primary security. There would be no collateral security/third party guarantee for loan upto and inclusive of Rs. 1 lac excluding group guarantee. No levy of prepayment charges would be permitted.

As per the estimates of the Technical Group set up by the Ministry of Housing and Urban Poverty Alleviation to assess the extent of housing shortage, 99% of the urban housing shortage of 24.71 million units at the beginning of the 11th Plan period pertains to the EWS/LIG sections. Further, it is expected that 7.27 million housing units will be constructed during the Plan period. The Technical Group has estimated that the total
funds required to meet the urban housing shortage during the 11th Plan period is around Rs.3.61 lac crore as indicated in the table no. 1.2.

**TABLE No. 1.2**

**THE SUMMARY OF INVESTMENT REQUIRED FOR THE 11th PLAN PERIOD**

(Rs. in Crore)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Investment requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Housing Shortage at the beginning of 11th Five Year Plan</td>
<td>147195.0</td>
</tr>
<tr>
<td>New additions to the housing stock during the 11th Plan period including the additional housing shortage during the Plan period</td>
<td>214123.1</td>
</tr>
<tr>
<td><strong>Total Urban Housing requirement for the 11th Five Year Plan</strong></td>
<td><strong>361318.1</strong></td>
</tr>
</tbody>
</table>

*Source: Planning Commission, GOI*

### 1.3 HOUSING FINANCE SYSTEM IN INDIA

The real estate sector is also the second largest employment generator in the country. The government's support to housing had traditionally been centralized and directed through the State Housing Boards and Development Authorities. In 1970, the state set up the Housing and Urban Development Corporation (HUDCO) to finance housing and urban infrastructure activities.

In 1988, the National Housing Bank (NHB) was established as a 100% subsidiary of the Reserve Bank of India, (the central bank of the country), to promote housing finance through a refinance mechanism to bank, housing finance banks (HFBs) and other institutions and also to
function as the supervisory and regulatory body for housing finance firms.

Although commercial banks were the largest mobiliser of savings in the country, traditionally banks were rather reluctant to lend for housing as they preferred financing working capital needs of industry. Several banks had set up housing finance subsidiaries which functioned as independent units with little support or interest from their parent bank.

Towards the end of the 1990s, against the backdrop of lower interest rates, industrial slowdown, sluggish credit off-take and ample liquidity, and financial deregulation, commercial banks shifted their focus from the wholesale segment to retail portfolios. The lower interest rate regime, rising disposable incomes, stable property prices and fiscal incentives made housing finance attractive business. Further, housing finance traditionally has been characterized by low nonperforming assets (NPAs) and given the vast demand for housing loans, almost all the major commercial banks plunged into the business of housing finance.

In order to facilitate augmented flow of resources to the housing sector, the Reserve Bank of India, during the year 1999-2000, extended permission to the commercial banks for granting term loans to housing intermediary agencies against the direct loans sanctioned/proposed to be sanctioned (including advances to NRIs) by the latter, irrespective of the size of the loan per borrower extended by these intermediaries, thus, removing the earlier ceiling of Rs. 5 lac and Rs. 10 lac in rural/semi-urban and urban/metropolitan areas respectively. Besides, the same (excluding NRI advances) is now to be treated as achievement of commercial banks under their housing finance allocation for the year. The
Reserve Bank of India also stipulated that henceforth direct housing loans upto Rs. 10 lac by banks for construction of houses by individuals in urban / metropolitan areas as well as subscription to NHB/HUDCO bonds would be eligible for inclusion under priority sector. All these coupled with the earlier year’s policy pronouncement of earmarking 3% of the incremental deposits of commercial banks for housing, resulted in a considerable spurt in bank's lending for housing. Besides, the low-risk nature of housing finance business and lack of alternative avenues for deployment of funds have also induced the banking sector to take a keen interest in the sector in the recent times.

1.4 INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE IN INDIA

Here are different types of Housing Finance Companies (HFCs) in existence in the country. All the HFCs come under the National Housing Board (NHB) which is a 100% subsidiary of Reserve Bank of India. The institutional framework for housing Finance in India can be presented with the help of following chart:

**INSTITUTIONAL FRAMEWORK OF HFCs IN INDIA**

<table>
<thead>
<tr>
<th>1. Banking Sector</th>
<th>2. Corporate Sector</th>
<th>3. ACHFs (LIC, HFC, HUDCO, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled State Urban Commercial Banks Co-operative Banks Co-operative Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank and Associates Nationalized Banks Indian Private Sector Banks Foreign Banks</td>
<td></td>
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</tbody>
</table>
A brief review of given HFCs and their contribution in the housing Finance sector of India can be discussed as under:

I. BANKING SECTOR

Before 1990’s, there was no significant share of banks in the housing finance sector of India. Due to the industrial recession in the last decade there has been a dearth of alternative avenues for the deployment of funds by the financial institutions. It created the interest of banking sector in housing loans. The policies of GOI also contributed to enhance their interest in housing loans. The table No. 1.4, depicts the performance of commercial banks in India from the year 2000 to 2010.

State Co-operative Banks are performing a commendable task in providing the credit to housing sector in order to strengthen the co-operative credit structure of the country. National Housing Bank (NHB) is providing refinance assistance to the State Co-operative Banks in respect of housing loans given by them either directly or through the District Cooperative Banks/Primary Agriculture Credit Societies.

Although the role of Urban Co-operative Banks did not remain significant in providing housing finance in their area of functioning but these institutions are also eligible to avail refinance assistance from NHB.
**TABLE No. 1.4**

**PERFORMANCE OF COMMERCIAL BANKS IN INDIA**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Commercial Banks</td>
<td>297</td>
<td>301</td>
<td>298</td>
<td>294</td>
<td>291</td>
<td>288</td>
<td>222</td>
<td>183</td>
<td>175</td>
<td>170</td>
<td>169</td>
</tr>
<tr>
<td>No. of Offices of Scheduled</td>
<td>65412</td>
<td>65919</td>
<td>66190</td>
<td>66535</td>
<td>67188</td>
<td>68355</td>
<td>69471</td>
<td>71839</td>
<td>76050</td>
<td>80547</td>
<td>85393</td>
</tr>
<tr>
<td>Population per office (in thousands)</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>14.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Deposits of Scheduled Commercial Banks in India (Rs. Crore)</td>
<td>851593@</td>
<td>989141#</td>
<td>1131187#</td>
<td>1311761#</td>
<td>1542284&amp;</td>
<td>1732858&amp;</td>
<td>2109049</td>
<td>2611933</td>
<td>3196939</td>
<td>3834110</td>
<td>4492826</td>
</tr>
<tr>
<td>Credit of Scheduled Commercial Banks in India (Rs. Crore)</td>
<td>454069</td>
<td>529272</td>
<td>609053</td>
<td>746432</td>
<td>865594</td>
<td>1124300</td>
<td>1507077</td>
<td>1931189</td>
<td>2361914</td>
<td>2775549</td>
<td>3244788</td>
</tr>
<tr>
<td>Deposits of Scheduled Commercial Banks as percentage of National Income (at current prices)</td>
<td>1302</td>
<td>1501</td>
<td>60.7</td>
<td>65.3</td>
<td>68.5</td>
<td>68.5</td>
<td>73.8</td>
<td>79.1</td>
<td>84.4</td>
<td>88.1</td>
<td>86.6</td>
</tr>
<tr>
<td>Credit Deposit Ratio</td>
<td>53.3</td>
<td>53.5</td>
<td>53.8</td>
<td>56.9</td>
<td>56.1</td>
<td>64.9</td>
<td>71.5</td>
<td>73.9</td>
<td>73.9</td>
<td>72.4</td>
<td>72.2</td>
</tr>
<tr>
<td>Investment Deposit Ratio</td>
<td>36.6</td>
<td>37.1</td>
<td>38.7</td>
<td>41.3</td>
<td>43.8</td>
<td>41.6</td>
<td>35.5</td>
<td>30.3</td>
<td>30.4</td>
<td>30.4</td>
<td>36.2</td>
</tr>
<tr>
<td>Cash Deposit Ratio</td>
<td>9.8</td>
<td>8.4</td>
<td>7.1</td>
<td>6.3</td>
<td>5.6</td>
<td>6.9</td>
<td>6.6</td>
<td>7.5</td>
<td>8.6</td>
<td>6.7</td>
<td>7.7</td>
</tr>
</tbody>
</table>

@ Includes Resurgent India Bonds (RIB) (Rs. 17,945 crore)

# Includes Resurgent India Bonds (RIB) (Rs. 17,945 crore) and also India Millennium Deposits (IMD) Rs. 25,662 Crore

& Includes India Millennium Deposits (IMD) (Rs. 25,662 Crore)

* Provisional

^ Excludes Administrative Offices

See Notes on Tables.
II. CORPORATE SECTOR

There are a number of corporate agencies catering the needs of housing finance in India. The notable among them are Housing and Urban Development Corporation (HUDCO), Life Insurance Housing Finance Corporation (LIHFC), National Housing Bank (NHB), State Housing Board (SHB) etc.

HUDCO was established in 1970, under the Ministry of Works and Housing, as an apex organization mainly to provide finance for housing and urban development programmes in the country with a primary emphasis on the promotion of housing for the people which belong to economically weaker section of the society. The main sources of funds of HUDCO are equity contribution by GOI, Borrowings from LIC and floating of debentures.

LIC Housing Finance Ltd. was incorporated on 19th June 1989. The main object of the company is to provide long-term finance for purchase or construction of houses for the people of India. The company has 67 area and unit offices and 6 regional offices, which makes it the housing finance institution with the widest marketing network in the country.

The different State Housing Boards play an important role to enhance the housing development programmes in its area. For the construction of houses the major sources of finance for the State Housing Boards are (i) Loan from L.I.C., HUDCO etc (ii) State Government Housing Plan Funds, and (iii) Open market borrowings. The State
Housing Boards at present are entrusted with the execution of projects under the following schemes-

(A) Low cost housing for the economically weaker section.
(B) Lower-Income Group Housing Scheme.
(C) Middle-Income Group Housing Scheme.
(D) Self-Finance Housing Scheme for Higher and Middle Income Group.
(E) Land Acquisition and Development Scheme.

Besides the above mentioned Housing Bodies, a number of other corporate sector housing finance institutions are working in their own way to minimize the housing problems in the country.

(III) APEX CO-OPERATIVE HOUSING FEDERATIONS (ACHFs)

The Apex Co-operative Housing Federations is the group of dedicated financial institutions (other than HFCs), which is responsible for providing considerable amount of credit to the housing sector in the country. This category of specialized housing finance institutions provides housing loans mainly through the Primary Co-operative societies, which are affiliated to them, some of the ACHFs have also started providing housing loans directly to the individuals and professional builders. At present there are over 90000 housing co-operative societies at the grass root level with a membership of approximately 62 lac people all around the country. These housing co-operatives are all members of the National Co-operative Housing Federation of India (NCHF).
In the earlier years, the ACHFs used to depend mainly on the Life Insurance Corporation of India for financial assistance. This trend however, reversed in the past few years when HUDCO has become the largest source of resources to ACHFs, which has been providing steadily increasing flow of funds for the housing sector. In the recent years, the financial assistance from the banking sector has also assumed importance being next to the HUDCO in terms of quantum of loans. Besides, these ACHFs also seek financial assistance from NHB, State Governments, public deposits and debentures etc.

1.5 CONCEPT OF HOUSING LOAN

In general, housing is a lifetime dream for an individual and every person has a desire to fulfill this dream at the earliest. Housing loan is a facility provided by Housing finance banks and Banks to those who are not in a position to arrange ready cash from their own resources to construct or purchase their own house.

Having decided to get a housing loan, one has to choose the suitable housing finance company first. The present housing loan market is so conductive that a person can apply for a housing loan to any of the housing finance institution at any time after taking a decision to acquire or construct a property, even if he has not selected the property or started construction. Most of the Housing finance banks have their guidance cells, which help the prospective customers of housing loan in selection of property and completing all the legal formalities of acquiring the property or construction of house according to their requirements. The main features of a Housing loan can be discussed as under:
1. QUANTUM OF LOAN

Most of the HFBs offer 75% to 90% amount of loan, of the cost of property including the cost of land. In the present competitive housing loan market a housing loan customer can avail this loan without any difficulty. Besides, in some cases HFBs include stamp duty and registration charges too in the total quantum of loan.

Repayment capacity is also another important factor for deciding quantum of loan. In practice HFBs sanction the amount of housing loan on the basis of annual salary of the borrower. In case of business class, on the basis of annual P & L accounts and balance sheets, repayment capacity is decided.

2. TERM OF REPAYMENT

Generally the term of repayment for a housing loan, offered by different HFBs ranges from 5 to 25 years. Repayment term does not extend beyond the retirement age of borrower if he is employed or a maximum 65 years.

3. INTEREST ON HOUSING LOAN

The interest rates on housing loan vary with the term of repayment. Generally the interest rates have a positive co-relation with the term of payment, means more interest rate is charged with the exceeding term of repayment.

The borrower of housing loan has the choice of going for a fixed rate of interest or an adjustable or floating rate of interest. Fixed rate of interest remain same in all the term of repayment, while the floating rate of interest is linked to the ‘Retail Prime lending Rate of housing finance
company. In case of floating rate of interest, the interest rate on housing loan is revised regularly on quarterly, half yearly or yearly basis from the date of first disbursement, if there is a change in the prime-lending rate of concerned HFBs.

4. PROCESSING AND ADMINISTRATIVE FEES:

Many a times the borrower of housing loan has to pay some amount as processing and administrative fees of housing loan. It ranges from 1% to 3% depending upon the policy of Housing Finance Institution.

5. EQUATED MONTHLY INSTALMENT (EMI)

The housing loan is recovered in stipulated period of time by installments agreed upon between the housing finance banks and the borrower. The loan installments are so calculated and fixed that the entire principal amount together with interest accrued is recovered in the stipulated period of time and the loan installment so fixed is called as equated monthly installment (EMI). At the time of calculating the EMI, there are two methods of calculation of interest in general practice, either it is amortized annually or on monthly basis. In annual amortization the customer of housing loan remains in loss while in monthly amortization the customer gets some benefit because of reducing the principal amount every month.

6. REPAYMENT OF HOUSING LOAN

The repayment of housing loan begins from the month following the month of final disbursement. In case of pending final disbursement borrowers pays the interest on the portion of the loan disbursed. Pre-EMI
interest is payable every month from the date of first loan installment disbursed till the date of commencement of EMI.

7. DOCUMENTATION FOR HOUSING LOAN

For getting a housing loan the borrower has to fulfill the terms and conditions and Legal formalities of paper work of concerned housing finance bank. Most of the HFBs provide printed sheet of documents required. The required documents for housing loan remain more or less the same for different HFBs. The guidance cell of company helps the prospective housing loan borrower to arrange the required documents in a systematic manner.

At the time of submitting application for housing loan, if the borrower is employed then his latest salary slip along-with the guarantor and his income certificate are the basic documents that applicant has to attach along-with his application. The self-employed applicant has to submit his profit and loss account and audited balance sheet of last three financial years as proof of his income.

Besides, the borrower has to submit all the legal documents regarding the purchased or constructed property against which he wants to avail the housing loan, to the HFBs. It contains plan approval of the proposed property, copy of agreement of sale, allotment letter issued by the builders, copy of approved drawing of proposed construction, cost estimate from architect etc.

8. SECURITY FOR HOUSING LOAN

Normally, the first mortgage of the property is the security for the housing loan. Some housing finance banks insist on interim security, if
the property is under construction. Collateral or interim security could be life insurance policies, the surrender value of which is at least equal to the loan amount, or guarantees from sound and solvent guarantors, pledge of shares or other investments etc. The borrower gets the housing loan up to the level of security provided. Generally the HFBs deposits the original documents of the property and securities.

DIFFERENT TYPES OF HOUSING LOANS

There are various types of housing loan available in the housing finance market for the prospective customers. These may be presented with the help of following chart:

(A) DIRECT HOUSING LOANS

Direct housing loans are of following four types:
1. HOME CONSTRUCTION/PURCHASE LOAN

Generally housing loan is availed for the purpose of purchasing or constructing a dwelling unit. It helps the people in arranging the finance for home construction or to buy it from builders or from M.D.A. or Avas Vikas Parishad. Various Banks and financial institutions provide such loans.

2. LAND PURCHASE LOAN

Generally Housing finance banks do not prefer to sanction a land purchase loan separately. Although they remain willing sanction the land purchase loan along-with the home construction loan. HFBs disburse the amount of such loan in installments. In metropolitan cities, now HFBs are giving also the land purchase loan separately.

3. HOME EXTENSION LOAN

If a person wants to extend the construction or to do some external or internal repair work of his house, he can avail the facility of home extension loan offered by a number of HFBs and Commercial Banks.

4. HOME CONVERSION LOAN

If a person is not satisfied with his present house or wants to shift in a comparatively better house, home conversion loan enables him to transfer his current loan into the new revised housing loan. Thus, it provides additional finance for the incremental cost of new house and supports the borrower to move to his new house without pre-payment of his existing housing loan.
(B) INDIRECT HOUSING LOANS

A brief description of indirect housing loans is given below:

1. STAMP DUTY LOAN

Stamp duty loan is the extension of amount of housing loan up to the stamp duty amount payable on the purchase of a house. The financial institutions along with house purchase loan sanction this particular type of loan.

2. BRIDGE LOAN

Bridge loan is considered as a short term housing loan for the period till a person sell off his old property. In other words, if a person is interested in purchasing a new house and wants to sell out his present dwelling but is unable to find buyer immediately, in such a case he can take a bridge loan to get the desired house up to period of sale of his present house. Repayment of bridge loan is generally made in lump sum.

3. REFINANCE LOAN

It is not a popular kind of housing loans. In refinance loan, HFC provides a loan to a newly built or purchased house owner to repay his earlier debt which he took for the purpose of acquiring a particular home from his friends or private financers comparatively at a higher rate. A refinance loan, therefore works out cheaper.

4. BALANCE TRANSFER LOAN

A balance transfer loan is really useful when interest rates fall to a reasonable extent and a present home loan borrower is still repaying interest on home loan at a higher rate of interest. In such case, a number
of HFBs offer to repay his existing loan and give him a new loan at the current lower rate of interest. One might have to bear a pre-payment penalty on his old loan, but the saving due to the lower interest rate of new loan covers it.

Thus, in present time a person has various types of options in respect of housing finance and he is free to choose the best suitable option to match with his requirements.

1.6 JUSTIFICATION OF THE STUDY

Housing is one of the basic needs of human beings. A large amount is required to construct or purchase a house, which is very difficult to arrange for a middle class person. If he thinks so, a major part of his life passes to collect a huge amount for this purpose. Till few years earlier it was a great achievement of his Life to construct a home for his family. He had to borrow money from friends, relatives and moneylenders in addition to spend his all the savings. But in the present time a number of banks and financial institutions are there which provide loans for this purpose. But it was observed that a large number of people, particularly residing in rural areas depend on their personal saving and acquaintances to arrange the required amount for this purpose. There may be three reasons behind this phenomenon. First, a large number of formalities are to be completed to get a housing loan. Second, many practical problems are to be faced by customer in acquiring housing loans. Third, financial institutions face a number of legal and practical problems while providing housing loans due to which they keep themselves restricted in providing such loans to the persons having regular income. But during the last
decade a number of financial institutions have come forward to provide housing loans and have been working enthusiastically in this direction.

In such circumstances it become necessary to conduct a study on the subject so that a number of formalities, related to housing loans, may be reduced and also the problems faced by customers and financial institutions may be solved to the possible extent.

Keeping in view the above facts, the topic entitled “A Comparative Study of Home Loan Financing by Selected Banks (A Case Study of Meerut District)” was taken for the purpose of research study. It is believed that the suggestions provided on the basis of conclusion drawn from this research study will prove helpful in reducing the formalities and in solving the problems, which are being faced by customers and financial institutions in the present conditions.

1.7 OBJECTIVES OF THE STUDY

The main objectives of the study are given below:

1. To study the role of various schemes of home loan by selected banks.
2. To examine the incentives of home loan in rural and urban areas by selected banks.
3. To study the frequency of home loan by persons of different age groups (21-30 yrs, 31-40 yrs, 41-50 yrs.)
4. To study the attitude of the operational staff of banks towards the persons taking home loan.
5. To examine the degree of complexity faced by the people in taking home loan.
6. To find out which bank of the four has financed more home loans in previous 10 years (1996 onwards).

7. To find out the reasons why people prefer to take home loan from a nationalized bank / private banks.

1.8 LIMITATIONS OF THE STUDY

The present study has been completed under certain limitations, which are related to time, literature, availability of official records, non-cooperation of official and interviewees etc. All these limitations have been described under separate heads as below:

1. LIMITATIONS REGARDING SAMPLE SIZE

The first major limitation of the study is the sample size, which is distributed among rural, sub-urban and urban areas of the district and the beneficiaries may have different opinion about the housing loans provided by different financial institutions.

2. INDIFFERENT ATTITUDE OF OFFICIALS

Generally, the officials hesitated in giving time for interview or in providing data and information regarding housing loans, which they have sanctioned or disbursed. Whenever the researcher asked them regarding the persons to whom they sanctioned housing loans or about the amount of housing loans given to them, they were found escaping from giving any answer saying that this was the confidential matter. After giving them assurance that the data and information, which will be given by them, will be used only for our research study, they half-heartedly, became ready to give the required information.
3. TIME CONSTRAINT

The researcher have got only the specified time to complete this research work in which he tried to cover as many aspects as possible related to the present study. He could have made the study more analytical if there was more time with him.

4. NON-COVERAGE OF CERTAIN ASPECTS

Because of bindings of synopsis and time and financial limitations of researcher so many aspects regarding housing loan finance such as Corporate housing finance, Role of Private builders in enhancing housing loan market, Refinancing of housing loan sector etc. remained untouched, which require separate research study.

5. UNRESPONSIVE ATTITUDE OF BENEFICIARIES

During the survey it was observed that most of the beneficiaries did not show any interest in giving the answers of the questions asked from them. They were found suspicious about such enquiry. But when the researcher told them that he was conducting the survey only for his research study, some of them co-operated him whole-heartedly, but in general the beneficiaries could not give the answers in a satisfactory manner.

6. DIFFERENCE IN VIEWS OF BENEFICIARIES

It was also observed that there was a great difference in the views of beneficiaries. The interviewees related to upper class were of different opinion from the interviewees related to upper-middle class or middle class interviewees. Likewise, the interviewees residing in urban areas of
the district, have different opinion from the views of interviewees of suburban areas or village areas.

Thus a number of limitations like indifferent attitude of officials, time constraint an unresponsive attitude of beneficiaries, difference in views of beneficiaries etc. left their adverse effects on the present research study under which this work has been completed. But the researcher tried his best to bring the true picture on the surface even after facing all these constraints.