CHAPTER - VI

HOUSING FINANCE:
AN APPRAISAL
6. HOUSING FINANCE: AN APPRAISAL

Housing is an integral measure of a country development and the way a society houses its people is an important determinant of its development and progress. Housing has traditionally been one of the most important assets for households in every country of the world. But at present time any common man can not imagine to buy a home without housing finance. The conditions of housing finance are of different nature in every country. The role of housing finance is increasing in our country but there is not such structure and system of housing finance so that common men can get finance from banks and HFIs. The facility of housing finance is far from rural areas. So in this situation there is need of study of housing finance structure and system in international perspective. So that we can find out same qualities of housing finance structure and housing finance system of above mentioned countries and can implement them in our housing finance system. By doing so we can represent a appropriate housing finance system and programme for India.

To facilitate the study we will take the comparative study of Singapore, China & U.K. with India one by one. This chapter deals with the appraisal of housing finance in two sections. In first section we will compare the housing finance system of countries with India one by one and in second section we will compare the factors a housing finance like rate of interest, loan tenure, documents type of mortgage etc. of banks and HFIs of Singapore, China, U.K. and India.

INDIA - SINGAPORE

Singapore was founded as a British trading colony in 1819. Singapore subsequently become one of the world's most prosperous
countries with strong international trading links with per capita GDP equal to leading nations on western Europe.

Singapore has a highly developed and successful free-market economy. Real GDP growth averaged 7% between 2004 and 2007, but dropped to 3% in 2008 as a result of the global financial crisis.

If we talk about the structure of housing finance in Singapore, there is necessary to understand the system of housing. There are two types of houses. Which are public housing (HDB flats) and private houses. About 84% people live in HDB flats.

The housing finance sector is very strong & effective. There are mainly two types of financing systems in Singapore, which are as follows:

(1) The HDB public finance sector.

(2) The commercial finance sector

Before 2003 HDB had been providing both concessionary and market rate loans. But HDB since stopped market rate loans. HDB flat buyers who would have previously applied for HDB market rate loans, would now have to apply for a housing loan from banks and financial institutions that are licensed by the monetary authority of Singapore (MAS).

HDB flat owners can enjoy the subsidized mortgage rates if they are eligible for the subsidised loans. The HDB can grant a subsidised loan to first time homebuyers and also to second time homebuyers who upgrade to another HDB flats. Who do not qualify for the subsidised loan will, however, have to secure their financing from banks and financial institutions.

Housing Development Board plays a major role in the demand and supply sides of the housing market and housing finance. But from 1990 onwards, the government has taken steps to encourage the
development of private housing and the share of private housing has increased rapidly.

If we compare the housing finance system with India I can say that there is not such effective provision of public housing in India. The proportion of public housing is very limited. Government of India provides public housing to the poor persons which are not enough in quality and quantity. Middle and Higher income group do not like public housing due to low quality in India.

The housing finance system is very easy. If we want to know about existing policies of housing finance I have to call or just a SMS to bank or HFIs. Responsible person will contact you. In India there are number of formalities which take a long duration to disburse loan. The housing finance is approved at a time, other formalities are performed in future DBS, United Overseas Bank, HSBC, Hung Leong Singapore finance are the major mortgage provider banks in Singapore. In India there are long number of banks and HFIS but it is very hard task to get loan easily.

Another notable quality of Singaporean housing finance system is the use of central provident fund in financing home. As present anyone can use it for repayment of EMI of loan but in that condition when there is problem of cash money for borrower the usage of CPF in housing finance has reduced the liquid money of borrower. To resolve this problem, the Government reduced the usage of the CPF for servicing housing mortgages. The usage of CPF in housing finance may be implemented in India. The use of CPF savings to pay for he initial deposit was limited to 10% of a property’s price in 2002. As present the use of CPF to finance home has become very popular. Normally the pattern of housing finance from banks is as follows. cash (20%) + [CPF Savings + Housing Loan (80%)] = Purchase Price
100% but CPF can be used for as well down payment which as EMI in special condition but in India down payment which is normally 10-20% has to pay by borrower.

In Singapore, any person who fullfil all the formalities of bank, there is no delay to grant housing loan. But in India it is a painful Process to get a housing loan from banks especially public sector bank.

There is a public resale housing market, which is an active secondhand housing market. The resale market for public housing has matured since its first establishment in March 1971 to allow public home owners to sell there heavily subsidised public housing units in the secondary market at market prices after first fulfilling a minimum residence period as well as other regulations.

In 2002, the volume of annual transactions in the public housing resale market had reached 5% of the existing public housing stock.

If we compare above situation with India we get that there is not housing resale market in such organised manner. In Singapore the price of resale house is determined but in India the price of resale house is not fixed but depend on the capacity to bargain.
In this reference, India is very poor in compare to Singapore.

INDIA - CHINA

China is the country with the largest population in the world and second is India. Both are facing housing problem but the housing finance structure and system are different from each other. India has more open policy than China because China is a socialistic country. When we compare about whole scenario of the housing finance system we see that the infrastructure of housing finance system is India is too much critical because there are various types of institutions which disburse housing finance such as nationalized Bank, Private Banks, HFls, Co-operative Banks Regional Rural Banks, etc. But when we see towards China we find that there are a few no. of stat owned banks like Bank of China, china construction Bank, I.C.BC, etc. and rest of the banks belongs to private sector.

Land is China has been nationalised and owned by the state since the formation of People’s Republic of China in 1949. After the open door policy in late 1970s and the beginning of 1980s where the privately owned residential units formed the basis for the private
residential units formed the basis for the private residential property market. Chinese housing policies underwent a series of changes in the 1990's. But since 1998 according to the policy, the practice of providing houses by SOEs (State Owned Enterprises) is stopped and government began to encourage its people to buy their own houses. Since the land is nationalised house purchasers could hold legal rights to occupy the building for a specific period and could transfer it. PBC issues the guidelines to others banks in the country on granting housing loans. The new polices speeded up the privatization of residential housing and led the full scale development of primary mortgage market. By the end of 2005, the majority of the residential units were traded at market prices and the subsidised segment accounted for less than 10% of private housing markets. While in India after the implementation of Globalisation and Liberalisation policy banks and HFIs are encouraged for the disbursement of housing finance liberly by Govt.

There is no monopoly in Indian housing finance market both the public & private sector banks and HFIs are competing with each other to capture the maximum part of housing finance market.

The growth is Housing finance activities in recent years reflect the buoyant state of the housing finance market in the world. The multiplier effect of investment in Housing has grown over the fast years as the proportion of outstanding housing loans as percentage of GDP increased from 4.6 percent in 2000 to 7.00 percent by 2005. While in India this percentage was 3.1% in 2000 to 7.25% by 2005.

With the help of following graph we can analyse the Growth of housing finance sector in both countries according to their GDP.
INVESTMENT IN HOUSING AS PERCENTAGE OF GDP

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.1</td>
<td>4.74</td>
<td>7.25</td>
</tr>
<tr>
<td>China</td>
<td>4.6</td>
<td>5.6</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Sources: - Data complied from CEIC India Goldman Sachs research estimates, NHB annual report 2005 & www.economywatch.com.

YEAR TO YEAR GROWTH OF REAL ESTATE LOANS AND INVESTMENTS IN CHINA

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of real estate loans</td>
<td>39%</td>
<td>117%</td>
<td>35%</td>
<td>42%</td>
<td>37%</td>
<td>23%</td>
</tr>
<tr>
<td>Growth of real estate investment</td>
<td>14%</td>
<td>19%</td>
<td>27%</td>
<td>24%</td>
<td>30%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Report of financial market department. PBC-2005

"If we discuss about Growth of real state loans in China that was 39% in 1999, 117% in 2000, 35% in 2001, 42% in 2002, 37% in 2003 and 23% in 2004."
HOME LOAN DISBURSEMENT (IN RS. CRORES)

<table>
<thead>
<tr>
<th>Year</th>
<th>HFC's</th>
<th>Banks</th>
<th>Total</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>12637.85</td>
<td>9787.24</td>
<td>22425.09</td>
<td>-</td>
</tr>
<tr>
<td>2002-2003</td>
<td>17832.17</td>
<td>33840.53</td>
<td>51672.7</td>
<td>130.42%</td>
</tr>
</tbody>
</table>

Source: National Housing Bank

While Indian Housing Finance industry has grown very rapidly. Total Home loans disbursements by bank and HFI's has risen.

From 22425.09 crores in 2000-2001 to 51,127 crores in 2002-2003 witnessing a phenomenal growth of 130.42% during these periods. - N.H.B.

According to above study we can say that India & China are improving their housing finance sector for this they are trying to make a new infrastructure so that they could provide houses to all.

INDIA- UNITED KINGDOM

United Kingdom is one of the strongest economy in western countries and it has also Vth rank in world. The G.D.P. of the U.K. economy grew by around 3% in the proceeding fiscal year (2006). It is characterized by a fee-market involving a low taxation and regulation on the part of the administration.

Despite a strong economy U.K. has also the problem of housing. Govt. is trying to provide housing to all by leaps & bounds. The office of Deputy Prime minister (ODPM) has responsibility for determining housing in England & supervising the housing programme.

Most social housing in England is provided by local housing authorities that are responsible for preparing local housing strategies. The finance for authorities housing capital programmes comes partly from local authorities, own authorities, own resources and partly from central govt. In resent years around £1 Billion (about 40%) of
housing capital expenditure by local authorities that had been financed by their own resources. Thus Govt. contribution to housing of £370 million in 2004-2005.

While in India the problem of housing is very drastic and it is a challenge to provide housing for all for Govt. National Housing Bank Formulates the housing policies. Besides it state Govt. have also their own policies for providing houses but it is like drop in ocean due to too much population.

In U.K. there are various types of Housing like social housing, rental housing, pvt. housing etc. And when we see Indian context we find that the some procedure has applied for housing in India. In this study after analysing the Housing Finance structure and Housing finance system we find that there is much difference between the India & U.K. The system of housing finance of U.K. is more developed than of India. We see that in U.K. to get housing finance is easier than India. The rate of interest of housing mortgage is less than Indian rate of interest. The procedure of loan is also easier from India. Market of U.K. mortgage is a top most innovative and competitive market in the world. It differs in comparison to the India in the ground that there is no intervention in the market by the state or state funded entities. While in India the Govt. has full control over the activities of market by its Central Bank named RBI.

A feature of U.K. home ownership is the relatively high proportion of homes purchase with a mortgage about 75% of house purchases are financed in this way. While in India this percentage is very low because our housing finance policies have not such qualities so that every one can get home loan from banks. There are so many number of formalities for the loan which is not possible to fulfil by all.
U.K. HOUSING MARKET

<table>
<thead>
<tr>
<th>Year</th>
<th>New Housing Starts</th>
<th>Average Mortgage Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>137.1</td>
<td>15.1%</td>
</tr>
<tr>
<td>1991</td>
<td>136.7</td>
<td>12.5%</td>
</tr>
<tr>
<td>1992</td>
<td>120.2</td>
<td>10.3%</td>
</tr>
<tr>
<td>1993</td>
<td>140.2</td>
<td>8%</td>
</tr>
<tr>
<td>1994</td>
<td>158.2</td>
<td>7.7%</td>
</tr>
<tr>
<td>1995</td>
<td>134.3</td>
<td>7.8%</td>
</tr>
<tr>
<td>1996</td>
<td>144.3</td>
<td>6.7%</td>
</tr>
<tr>
<td>1997</td>
<td>161.6</td>
<td>7.2%</td>
</tr>
<tr>
<td>1998</td>
<td>155.0</td>
<td>7.7%</td>
</tr>
<tr>
<td>1999</td>
<td>155.3</td>
<td>6.4%</td>
</tr>
<tr>
<td>2000</td>
<td>160.7</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

Source: www.marketoracle.com

New Housing Starts: Number of new houses currently under construction

Above table shows the tendency of average mortgage rates and number of new housing starts. If we analyse the table we get that average mortgage rates are decreasing order except few years.

If we correlates the average mortgage rates with number of housing starts we find that as no. of new housing starts are increasing with the decreasing of average mortgage rates.

According to a report there are more than 250 lenders in the U.K. to disburse the home mortgage. The home mortgage of U.K. is difficult to understand because there are various types of mortgage e.g. fixed rate mortgage, capped rate mortgage, flexible mortgage, tracker etc. While only two types of housing loan in India which are fixed rate & floating rate. There are more options to select the home loan in U.K. but understanding borrower should be well otherwise buyers made mistakes.
The Govt. also offers helps through house renovation grants to owners of private home owners who have low income and unable to afford necessary repairs and improvements. Since 1990 it has granted 100% support for disabled to repairs and improvements. In Oct. 2003 the grant system was modified to target help to people lower income to encourage home owners.

But there is no such provision in India for repair of houses. The finance from the banks and HFIs is the only option and poor people can not afford burden of home loan.

**PROPORTION OF MORTGAGES FIXED OR VARIABLE-BY NO. STOCK- 2003**

![Pie Chart]

Source: CACL. with in the stock of fixed-rate mortgages the majority have rates fixed for between 2 & 3 years.

Above Chart shows the proportion of mortgage in 2003. The variable mortgage is maximum of 35% then fixed mortgage which is 25% and capped mortgage is minimum at 2%

But in India in absence of such data, comparison is not easy but there is only two type of loan-fixed & floating so it depends on the present situation of rates. If there is low interest rate it will be best to choose fixed otherwise floating.
HOUSE MORTGAGE (RATIO OF OUTSTANDING HOME LOANS) AS PERCENTAGE OF GDP

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.4</td>
<td>4.0</td>
<td>7.25</td>
</tr>
<tr>
<td>U.K.</td>
<td>57.0</td>
<td>72.0</td>
<td>57.0</td>
</tr>
</tbody>
</table>


If we compare the house mortgage as % of GDP we find that India is lower compared to United Kingdom. The percentage of India has been in increasing order but in case of U.K. it has been fluctuating. There is need to encourage the disbursement of home loans in India.
CROSS COUNTRY COMPARISON ON FACTORS OF HOUSING LOAN MORTGAGE

<table>
<thead>
<tr>
<th>Country</th>
<th>Mortgage Type</th>
<th>Rate of Interest* (%)</th>
<th>Loan to Value ratio</th>
<th>Maximum Tenure (Year)</th>
<th>Minimum Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Fixed</td>
<td>12.75</td>
<td>Normally 80% but more in special condition</td>
<td>20 but 25 in special case</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Floating</td>
<td>10.75</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>Fixed</td>
<td>4.00</td>
<td>80-90%</td>
<td>30-35 years</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Floating</td>
<td>3.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Fixed</td>
<td>5%-7%</td>
<td>80%</td>
<td>30 years</td>
<td>20%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Fixed</td>
<td>5.09</td>
<td>75-90%</td>
<td>30 years</td>
<td>10%-25%</td>
</tr>
<tr>
<td></td>
<td>Variable</td>
<td>4.27</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rate of interest may vary according to Bank, plan & tenure. Average interest rates are taken as in 2008.

According to above table we will study in Order of factors taken in study which are as follows-

MORTGAGE TYPE :-

Among India, Singapore, China and U.K, China has only fixed rate while U.K. has various type of mortgage like fixed, variable flexi, tracker etc. and Both India and Singapore have fixed and floating mortgage rate.

RATE OF INTEREST*:-

If we will compromise the rate of interest on house mortgage we find that there is a big difference among India and other countries. Rate of interest is more than double in compare of ROI of Singapore, China & U.K.
If we compare that interest rate of loan from 2003, there is remarkable change in India as 7.75% in 2003 to 12.75 in 2008, 3.70% in 2003 to 3.25 in 2008 of Singapore; ROI of China was 5.04% in 2003 and 6% in 2008 and nominal change in U.K. that was 6.9% in 2003 and 5.09 in 2008.

If we talk about Indian reference we can understand the fluctuation of ROI in India by following graphs-

Source: Web sites of different Banks.

* Interest Rates may vary as per govt. guidelines.
At present due to recession the ROI is at its lowest level in all over world. To boost up the housing finance sector most of countries are reducing their rate of interest so that people can be encouraged to finance the home. In Singapore the ROI is about 2.5-4%, U.K and China have reduced their ROI also. In India various banks and HFIs are launching special schemes to increase their share in housing finance industry. To reduce ROI, RBI has reduced cash reserve ratio three times during last 6 months. By doing it, liquidly will increase and recession can be controlled.

**LOAN TO VALUE - (LTV):**

LTV is the important factor in housing finance. Without it the discussion will remain incomplete because it is the amount which is financed by the bank or HFIs in respect of value of borrower's property. In most of the countries it is 80% of the property's value of customer. The percentage of LTV is normally 80% in India & China, 80-90% in Singapore and 75-90% in U.K. for the help of borrower bank must be increase the ratio of LTV but without appropriate survey of the borrower, it can be cause of the incensement in Non Performing Assets (NPA)

**TENURE OF LOAN :**

Tenure is also a notable point in discussion of housing finance because every customer wants the loan tenure according to his requirement. The customer who has enough money to invest and such customer, who do not want to give more interest on home loan, both want the loan for short period like 3-5 years. And a customer who has less money he will want a long tenure so that he can bear the burden of EMI. It is not necessary that only poor or persons belongs to LIG will want long tenure but the person who wants to save money for
needs of future, also wants a long tenure according to table it is clear that tenure of loan is 20 years in India, 30-35 year in Singapore, 30 year in China and U.K.

So it can be said that there is need for a long tenure of loan in India. Although ICICI has launched a scheme for a long tenure but normally banks sanction loan for 20 year only.

AN APPROPRIATE HOUSING FINANCE POLICY (MODEL POLICY) FOR INDIA:-

After the entire analysis of housing finance in international perspective. We find some qualities in housing finance structure of Singapore, China and U.K. These qualities can be incorporated in India's housing finance system. After implementing it, Indian housing finance system will be able to provide housing for all which is the dream of India in 21st Century. The appropriate housing finance system and programme are as follows-

➢ The structure of housing finance must be formulated in such direction so that banks and HFLs have interest to finance in rural and semi-urban areas also.

➢ The rate of interest should be reduced so that people belong to EWS & LIG can borrow for their home from banks. I think ROI should be about 5-7%. Below that rate inflation may increase.

➢ The tenure of loan should be increase till 30-35 year like Singapore's housing finance model. So that common people can take home loan from banks easily.

➢ To improve the credit delivery mechanism and thus reducing the time lag between loan sanction and its disbursement.

➢ Processing fee should be abolished for poor persons and belong to LIG.
► Provide personalised services to customers.
► There should be machinery to offer suitable guarantee and insurance to cover the risks involved in providing housing finance.
► Condition should be created to develop a secondary mortgage market with mortgage insurance facilities and legal certification on the rights of mortgages in case of default by mortgagors.
► The repayment of home loan can be tied up with provident fund if borrower has not cash for repayment of loan. We can follow the Singapore housing finance model.
► The details of property must be computerised so that verification of property can be possible easily. And in this condition Banks will not ignore or hesitate to finance in rural and semi-urban areas.
► Special schemes should be provided for people of EWS & LIG with the lowest rate of interest and the less of banks must be adjusted by the govt.

After analyzing whole study of housing finance of India in international perspective. We can conclude easily because at this stage, looking in to the experience of some countries which are successful in this field, is quite rewarding are useful because they hold valuable lessons especially for India which does not have a suitable mechanism for financing housing construction in India. Housing finance sector is in young stage and expected to mature to adopt qualities of housing finance sector of other countries like Singapore, China and U.K. Which are taken in our study.

I hope that with the help of above appropriate housing finance system, everyone will able to take home finance easily from banks and HFI's in India.