Chapter – 1

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1.1 Home

Home is the most important human need, next only to food, clothing and shelter. Home is an important facet of economic development; it is a basic need of a human being. It is a place where everyone can relax after returning home from day’s tiring work. It is a place where everyone can give time to his/her family and spend beautiful moments with family members. It is a fundamental demand for living and one of the keys to peace and happiness. Every creature yearns for a home. The first and the best training ground for human beings’ development of their varied facilities is home. It constitutes a very significant part of the social and physical environment where the individuals grow and mature as good citizens. It also plays an important role in creating employment, maintaining health, social stability and preserving decent human life.

Definition of Home

“Home is the social unit formed by a family living together.”

– Merrian Webster Dictionary

“Home is the place where your parents live and where you grow up.”

– Macmillan Dictionary

Home fulfills many requirements. Home provides aesthetic satisfaction, emotional satisfaction, mental health, physical health, comfort and safety. It provides shelter from the dangers of fire and vagaries of weather, it creates conditions promoting good health such as pure water and disposal of all kinds of waste, it provides adequate space of privacy, it creates/provides congenial surroundings in which a person can work and relax.

Housing is a highly complex product. It is a bulky, durable and permanent product. It has fixed location, being used only in the place where it is built. Once built, it
tends to remain in existence for many years. The houses range from single – family houses to many other types. But housing is more than a complex product. It is both an economic and social process. It plays a tremendous role in the economy. Housing has highly significant social implications because it provides the shelter for our basic unit – the family. Almost every person is affected in his day-to-day living by the kind of house in which he lives.\(^1\)

In popular imagination a house is a building with a kitchen, a bathroom, bedroom and a lounge. It will be built sturdily enough to withstand natural elements, and it will have an address on the register of the post-office. Some of the housing in India’s largest cities fit this sort of description. But many city dwellers do not live in such places. Some of the poorest are housed in space on a pavement, near to their low-paid work. Others will have a roof, walls and a door, set in a wasteland along river banks, close to railway lines, or in any place where there is a patch of land available.\(^2\)

We have a many sided view of housing. It is a shelter, it is related to capital markets, it is within state roles, it has connection to urbanization in development as a whole, and it is somewhat tied to structural condition in the economy. It can be viewed as consumption but to see it as production yields insights into its structural and gender inequalities and its productivity in society.

After discussing what a ‘home’ is and what is ‘housing’ let us now discuss ‘housing’ in a historical perspective.

### 1.2 History of Housing

Historically speaking, it was found while going through the relevant literature that one of the oldest houses remains in St. Augustine (USA) which was said to have been built in 1564, but it was probably built in 1763.\(^3\) The first housing colonies were not established until the early 1600’s – Jamestown in 1607 and Plymouth in 1620. The colonists coming to America arrived in different parts of what was then known as the North America Continent. The colonies were established in 1600-1820. The houses were

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not painted until 1734. Windows, few as there were, were small in the early homes and were placed more in accordance with the need for lighting on the inside than for symmetrical balance on the outside. Windows were of the casement type. Most of them open, but a number were stationary. Houses, usually, were rectangular in shape. Ceilings were low. In the one-room cottage, the room, of course, served as kitchen, dining room, living room and bedroom.

During the seventeenth and eighteenth centuries, the emphasis in America had been on colonizing new land and after 1776, on establishing the independence of a new country. Pioneering and colonizing new land were major activities throughout the nineteenth century and this period also marked the beginning of our present day culture and manner of life. In other European countries, too, such housing initiated in the late 16\textsuperscript{th} or early 17\textsuperscript{th} century.

1.3 History of Loan

Before discussing history of loan, let us understand what is exactly meant by the term ‘loan’.

Loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan the borrower initially receives an amount of money, called the principal amount, from the lender and is obligated to pay back on repay an equal amount of money to the lender at a later time. The amount of money is paid back in regular installments or partial repayments, on an annual basis, each installment being of the same amount.

There is no certainty about how the loans started, but one can easily assume that ever since the concept of ownership came into existence, people have been practicing lending and borrowing. Various forms of lending were found to be existing in ancient Greek and Roman times and even the Bible mentioned monetary loan. However, the modern history of loan started much later. In the history of loans the “Indentured loan” was one of the earliest forms of lending which was practised in the Middle Ages till the

\footnotesize{\textsuperscript{4} Beyer, Glenn H. op. cit. p. 8.}  
\footnotesize{\textsuperscript{5} Morrison, H. op. cit. p. 35.}  
\footnotesize{\textsuperscript{6} Beyer, Glenn H. op. cit. p. 23.}
19th century by the land owners and rich people who allowed poor people in need of money to borrow in exchange of indentured servitude. The borrowers had to work for several years to clear their debt. They had no rights and were considered by many rich people as ‘Slave labour’.7

1.3.1 Banking Loan

Even when indentured servitude practice as described above was prevailing, the legitimate banks started functioning in this area. However, money lenders played an important part in the history of loans and both the English word “Bank” and “Bankrupt” have the origin in the Italian money lenders.

1.3.2 Mortgage loan

An alternative to depository institution lenders are mortgage banks. The mortgage bank system dates back to the late 1700s and has been extensively used in continental Europe (particularly in Germany and Scandinavia).8 In such systems, specialized institutions (mortgage banks) originate and service portfolios of mortgage loans that were funded by securities they issue. The securities (mortgage, or covered, bonds) are general obligations of the mortgage bank and are typically purchased by institutions with long-term sources of funds (for example, pension funds and insurance companies). Mortgage banks offer both residential and commercial mortgages. A major feature of mortgage banking systems is the predominance of long-term, fixed-rate mortgages that are match-funded with corporate debt. The bonds are considered very high quality as a result of conservative underwriting, strong regulation, priority rights of investors in the event of bankruptcy, and transparent operations. Mortgage banks are transparent, efficient producers of mortgage assets.

1.3.3 Modern Banking Loan

Since the days of Middle Ages history of loan has progressed significantly as compared to those days, the interest rates have become more controlled. Loan terms and

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7 A Brief History on Banking Loan. www.investorvillage.com
8 A History of Mortgage Loan. www.contentmart.com
conditions are much fairer and there is almost no exploitation of the borrowers. By providing loans, the modern banks have done great service to the world economy. Also, these banks are regulated by government agencies in various countries.\footnote{Information on Modern Banking Loan. www.indiahousing.com}

1.3.4 Modern Banking in India

Banking in India originated in the first decade of 18\textsuperscript{th} century. The oldest bank in existence in India is the State Bank of India, which originated from the "The Bank of Bengal" in Calcutta in June 1806. The three presidency banks merged in 1925 to form the Imperial Bank of India, which, after India's independence, became the State Bank of India. For many years the Presidency banks acted as quasi-central banks, as did their successors. The Reserve Bank of India formally took on the responsibility of regulating the Indian banking sector from 1935. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers.

By the 1960s, the Indian banking industry became an important tool to facilitate the development of the Indian economy. The Government of India nationalized 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of six more commercial banks followed in 1980. The reason stated for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the GOI controlled around 91\% of the banking business of India.

After 1990s, the policy of liberalisation geared up the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, viz. government banks, private banks and foreign banks. All this led to the retail boom in India. People demanded not just more from their banks but also received more.

At present, banking in India is generally fairly mature in terms of supply, product range and reach, although reaching in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous
body, with minimum pressure from the government. With the growth in the Indian economy expected to be strong for quite some time-especially in its service sector- the demand for banking services, especially retail banking, mortgages and investment services is expected to be strong.

The Reserve Bank of India regulated all the Commercial Banks, Specialized Banks, Institutional Banks and Non Banking Financial Institutions. The modern banking structure in India is as follows:

**Figure 1.1 Modern Banking Structure in India**
1.4 Principles of Good Lending

There are a few general principles of good lending which every banker follows when appraising an advance proposal.

1. Safety

Safety first is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe, i.e. the money will definitely come back. If, for example, the borrower invests the money in unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy.

2. Liquidity

It is not enough to assume that the money will come back, it is also necessary that it must come on demand or in accordance with the terms of repayment agreed upon. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by the borrower for short-term requirements and is not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way. The source of repayment must also be definite.

3. Purpose

The purpose should be productive so that the money not only remains safe but also provides a definite source of repayment. The purpose should also be short termed so that it ensures liquidity. Banks discourage advances for holding stocks or for speculative activities. There are obvious risks involved therein apart from the anti-social nature of such transactions. The banker must closely scrutinize the propose for which the money is required, and ensure as far as he can, that the money borrowed for a particular purpose is applied by the borrower accordingly. Purpose behind borrowing money has assumed a special significant in the present day concept of banking.

4. Profitability

Equally important is the principle of ‘profitability’ in bank advances. Like other commercial institutions, banks must make profits. First, they have to pay interest on the
deposits received by them. They have to make provision for depreciation of their fixed assets, and also for any possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; or else, it will not be possible to carry anything to the reserve or pay dividend to the shareholders. It is after considering all these factors that a bank decides upon its lending rate.

5. **Security**

   It has been the practice of banks not to lend as far as possible except against security. Security is considered as insurance or an air-bag in a car in case of an emergency. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstances which may affect the safety and liquidity of the advance.\(^{10}\)

### 1.5 Housing Finance / Home Loan

   In my study, I have used the terms ‘home loan’ and ‘housing finance’ interchangeably. Housing Finance plays a vital role as an engine of equitable economic growth through the reduction of poverty and prevents slum proliferation in economy. The demand for housing has increased rapidly day by day. Therefore, to meet with the growing housing demand is the aim of the government. To achieve this aim it is required to provide the finance for housing to the people. The liberalization of the financial sector of the economy has also become possible by the housing finance.

   Home Loan is the funds buyer has to borrow usually from a bank or other financial institutions to purchase a property, generally secured, by a registered mortgage to the bank over the property being purchased. A mortgage loan is a debt owed on a home, the mortgage rate is the interest rate charged to the home owner for the use of the loan.

   Housing finance or Home loan is a broad topic, the concept of which may vary across continents, regions and countries, particularly in terms of the areas it covers. For

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example, what is understood by the term “housing finance” in a developed country may be very different from what is understood by the term in a developing country.

The International Union for Housing Finance, as a multinational networking organization, has no official position on what the best definition of housing finance is. However, the selection of quotes below is offered as a snapshot of what housing finance as a topic covers:

“Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country’s legal environment or culture, economic makeup, regulatory environment, or political system.”

– Loic Chiquier and Michael Lea

In addition, the concept of housing finance and housing finance systems has been evolving over time. Looking at definitions from the mid-1980s, the housing finance was defined primarily in terms of residential mortgage finance:

“The purpose of a housing finance system is to provide the funds which homebuyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain.”

– Mark Boleat

In more recent years, a number of much wider definitions have appeared:

“Put simply, housing finance is what allows for the production and consumption of housing. It refers to the money we use to build and maintain the nation’s housing stock. But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments.”

– Peter King

“There is recognition of other relevant forms of housing finance [apart from residential mortgage finance] such as developer finance, rental finance, or microfinance applied to housing. Developer finance is often in the form of unregulated advance payments by buyers, and developers sometimes provide
long-term finance to buyers through installments sales when mortgages markets are not accessible. Microfinance for housing is typically used for home improvement or progressive housing purposes. Loans are typically granted without pledging properties. Although the overall impact of microfinance in housing remains limited, this activity can represent an important source of funding for those in the informal sector.”

– Loic Chiquier and Michael Lea

Housing Finance is linked with the provision of infrastructure and utilities because it has a clear relationship with the volume of new stock which will be built. As mentioned earlier, housing finance plays an intermediary role between production-consumption economy and housing system. Through change in polices in the capital market can be expanded so that a part of the resources flow into housing. Thus, housing finance is an important link in the potential for transforming the creation of housing and social urban investment into strips of property and benefit for the people including low income groups. How the flow of resource helps the wider range of income groups will depend upon the terms and conditions built into the design of housing credit. Generally, housing requires longer term finance than the one in industry.\textsuperscript{11}

1.6 Global Trends in Housing and Housing Finance Markets

Housing has traditionally been one of the most important assets for households in Asia. The cities of Indus Valley Civilisation, Harappa and Mohenjo-Daro, are the exemplary in this context. Now, let us have a look at the evolution and trends in housing and housing finance markets in selected countries.

China

Land in this country has been nationalized and owned by the State since the formation of People’s Republic of China in 1949. State Owned Enterprises (SOE) in turn provided housing to their employees as part of compensation. After the open door policy in late 1970s and the beginning of 1980s where the privately owned residential units

\textsuperscript{11} www.iuhf.org
(community houses) formed the basis for the private residential property market, Chinese housing policies underwent a series of changes in the 1990s. But the most interesting one happened in 1998. According to the policy, the practice of providing houses by SOE is stopped and the government began to encourage workers to buy their own homes. Since the land is nationalized, home purchasers could hold legal rights to occupy the building for a specific period (typically the tenure for residential property is 70 years; commercial building 30-50 years; and industrial property, 20 years) and could transfer the title to another party. People’s Bank of China issued the guidelines to other banks in the country on granting housing loans. The new policies speeded up the privatization of residential housing and led to the full-scale development of the primary mortgage market. By the end of 2005, the majority of the residential units were traded at market prices, and the subsidized segment accounted for less than 10% of the private housing market.

**Hong Kong**

Hong Kong is considered as one of the most developed mortgage markets in Asia. Housing constitutes an important component of household assets and mortgage loans account for 25-30% (approximately) of the bank loans. The government has played a significant role in the housing market from the very beginning. On the supply side, it runs a large public housing (which includes low-cost housing and public rental units) that takes care of almost half of the country’s population. Apart from this the land ownership and land restrictions by the government often restrict the adjustment of housing supply to changing demands. On the demand side, the government affects the availability of housing finance by setting limits on bank’s exposure to mortgage loans and maximum loan-to-value (LTV) ratios. Hong Kong Mortgage Corporation was established by the government in 1999 to promote mortgage loan securitization and to provide mortgage insurance program for the high LTV loans. As there is no government run-housing loan bank in Hong Kong, commercial banks are the predominant source of housing finance.

**Indonesia**

The law of the land in Indonesia regarding the ownership of land can be classified as follows. Ownership rights, the right to build, the right to exploit and the right to use. From the beginning of 1970s housing development policy of the government has focused
on providing low-cost housing for low-income householders and this is done by imposing compulsory “1:3:6” rule for developers. Accordingly, for every high cost house, developers must build minimum three middle-class houses and six simple or very simple houses. Through this rule, the government provided subsidized loans for low-cost housing through state owned mortgage banks. In terms of sales value medium and high cost houses, which represent just 10% of the housing units, have dominated the market in terms of sales value. Many domestic banks and one foreign bank have been actively involved in housing finance for high-end houses.

Korea

Prior to 1991, Korea’s housing and housing finance system used to be heavily regulated. But by post 1991, due to the interest rate liberalization and financial deregulation this sector witnessed major changes. Accordingly, price controls on new apartments were abolished and market based-housing finance emerged and later by 1996 commercial banks were allowed to provide long-term mortgages. In the year 1997, Korea Housing Bank, which used to be the major player, subsidized by the State, was privatized. After a decade of rapid growth, housing banks and commercial banks have become the major source of mortgage loans for medium and high-cost houses. For low-income home buyers, National Housing Fund (NHF) still remains the primary funding source.

Singapore

Singapore’s home-ownership is segmented into private and public housing markets. It is interesting to note that public housing in Singapore can be purchased by upper-or middle income groups and hence it is not at par with the low-cost housing in other countries. The public housing sector is dominant and it accounts for 84% of the total households and this is being done under the Housing Development Board, which 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. With reference to housing finance there exist two systems. One is through the HDB and the other one is private mortgage system. Under the HDB system, for the first time
homebuyers, the HDB grants subsidized loans or second time homebuyers who upgrade to another HDB flat. A majority of households use Central Provident Fund Scheme, a mandatory social security saving plan, to finance their home purchases.

**Thailand**

Thailand’s real estate sector developed well during 1980s, a period when the Thai economy performed remarkably well. In 1986, the government issued guidelines to encourage commercial banks to participate more actively in mortgage lending. Currently, commercial banks and the Government Housing Bank (GHB) are the two dominant mortgage lenders with a combined share of 80–90%. The GHB is the leading mortgage financial institution with a market share of 39% of all residential mortgages and 48% of new mortgage originations in 2005.

**US**

In the US Fannie Mae and Fressie Mae are the principal GSEs that are instrumental in the high percentage of the home ownership (above 70%). These two enterprises enjoy implicit government guarantee and consequently raise long term funds globally at low interest rates. Consequently, the interest rate on home mortgage loans has become relatively cheaper and affordable for middle and low income groups. Fixed rate mortgages are offered even for 30 year period, and there is the facility of refinancing the mortgages for the home owners. These two organizations are instrumental in the securitization and development of the secondary markets for home loans. They have helped the US citizens to overcome the barriers of inadequate wealth and low credit quality in their effort to possess a home. The long term fixed rate mortgages provide hedge against interest rate risk for the home loan borrowers, besides facilitating finance for consumption purpose.  

**Europe**

Europe, known for strong and traditional banking, has a very advance mortgages market as well. However, the foreclosure practices are not uniform. In Italy, for instance

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foreclosure will fructify in 120 months, whereas it takes just six months in Sweden and nine months in Netherland. Securization in Europe is capital intensive costly due to unfavorable treatment prescribed by EU directive for mortgage based securities. The varying legal and fiscal complexities do not encourage large scale securization.\textsuperscript{13}

\textbf{India}

In India, the government provisions account for a very small portion of housing activities (i.e.) less than 5\% of total housing each year. Thus, the private sector seems to be dominant. However, the public polices often ignored the private sector and so it supply cannot match housing demands.

India is considered as the birthplace of the number zero. Home to roughly 1.2 billion people, India is the second most populous country after China and is expected to overtake it by 2030. About one in every sixth person breathing on earth lives in India, and the growth rate of the population is still high.

The following table 1.1 gives the information about the share of home mortgage in GDP of different countries:

\begin{table}[h]
\centering
\begin{tabular}{|l|c|}
\hline
\textbf{Country} & \textbf{Home Mortgage Percentage of GDP} \\
\hline
India & 5\%  \\
Korea & 14\%  \\
Thailand & 18\%  \\
Malaysia & 23\%  \\
Taiwan & 37\%  \\
Hong Kong & 60\%  \\
Germany & 52\%  \\
Singapore & 68\%  \\
USA & 86\%  \\
UK & 72\%  \\
Demark & 90\%  \\
\hline
\end{tabular}
\caption{Home Mortgage as a Percentage of GDP}
\end{table}

\textbf{Source:} www.economywatch.com

It could be seen from the above table that in spite of the merits highlighted in the preceding paragraphs, in house mortgage, as a percentage of GDP, India stands the lowest. Amongst the Asian countries, Hong Kong is the topper, followed by Taiwan, Malaysia, Thailand and Korea.

**Figure 1.2 Worldwide Progress of Housing Finance**

<table>
<thead>
<tr>
<th>Phase - I</th>
<th>Phase - II</th>
<th>Phase - III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to late 1990's</td>
<td>1998-2003</td>
<td>2003 onwards</td>
</tr>
<tr>
<td>• Specialized lenders, Housing finance companies</td>
<td>• Aggressive Entry for banks-HFCs loose market share</td>
<td>• Oligopolistic market share</td>
</tr>
<tr>
<td>• Bank/Insurance companies sponsored HFCs</td>
<td>• Irrational competition</td>
<td>• Top 3 key players have over 80% of incremental market share</td>
</tr>
<tr>
<td>• Builder promoted HFCs</td>
<td>• Rapid disbursement</td>
<td>• More rational market</td>
</tr>
<tr>
<td>• Company promoted HFCs</td>
<td>• Credit quantity issues</td>
<td>• Sustained mortgage growth at 25%</td>
</tr>
</tbody>
</table>

### 1.7 Housing in India

As per CSO estimate almost 5% of GDP is contributed by the housing sector in next few years. It is expected to rise to 6%, 16% of Indian workforce is engaged in the construction sector, more over the construction sector has also been responsible for the development of over 250 ancillary industries such as cement, steel, paints, bricks, etc. The construction industry ranks 3rd among the 14 major sectors in the terms of direct, indirect and in dual effects in all sectors of the Indian economy. A unit increase in expenditure in real estate sector can generate of five-fold increase in income.

The figure given below depicts the relationship between the housing system and the entire economy.
The production-consumption economy is represented on the left hand side. And the informal sectors are interlinked in various ways. Here, the intermediary roles of capital market and government are crucial. Governments can provide housing sites and slum upgrading. By direct provision, structurally, the capital market can be instituted. Also, housing can be used to enlarge the flow of savings and Investments and some of the increased flow may be deployed into housing. The reforms necessary for these are mortgage credit and, inducement to save and the creation of National Housing Bank to activate the private sector and social housing supplies.

The right hand side of the figure shows the housing system which is linked to the intermediaries to the production of consumption intermediaries; Housing is stratified on the basis of income group accessibility i.e. payment space for the poorest in some cities to luxury home ownership for high income groups. Here we see the housing system as a
whole. The most urgent problem as especially in large cities is to reduce chronic demand supply gaps. This can be achieved by establishing good intermediaries and by diverting a part of the saving investment flow into housing in general and low income housing in particular.

1.8 Housing Finance in India

The Housing finance sector in India has no doubt, experienced unprecedented change in its structure from its formulation stage. Indian Housing Finance has far moved from the stage of being a solely government undertaking provided service during the 1970’s to a very competitive sector with more than 45 housing finance entities providing housing loans worth ‘7,81,000 million to home buyers across India.

The housing finance revolution in India can be divided into five distinct phases:

Table 1.2 Phases of Indian Housing Finance

<table>
<thead>
<tr>
<th>Phase</th>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
<td>Before 1970</td>
<td>Government Domination</td>
</tr>
<tr>
<td>Phase II</td>
<td>1970 – 1980</td>
<td>HUDCO and HDFC establishes</td>
</tr>
<tr>
<td>Phase III</td>
<td>1980 – 1990</td>
<td>Establishment of NHB</td>
</tr>
<tr>
<td>Phase IV</td>
<td>1990 – 2000</td>
<td>Liberalization of Interest Rate</td>
</tr>
<tr>
<td>Phase V</td>
<td>2000 to present</td>
<td>High Growth</td>
</tr>
</tbody>
</table>

Source: Chandrasekar V, 2010.

The first phase began before 1970 when the sole provider of any house building support was the government of India through its various social schemes for public housing. The government implemented these schemes through state housing boards which were responsible for allocating serviced land and houses to individuals based on the principles of social equity.

The second phase starts with the establishment of the public housing company, Housing and Urban Development Corporation (HUDCO). HUDCO was created to assist and promote housing and urban development programs with government agency.
HUDCO still plays an important role in implementing government initiatives such as the Valmiki Ambedkar Awas Yojna which was launched by Government of India in 2001-02 to provide shelter or upgrade the existing shelter for the people living below poverty line in the urban slums. Another important private player, Housing Development Finance Company (HDFC) was established in 1977. HDFC pioneered in individual lending, based on market principles. HDFC today is one of the largest home loan providers of the country and its success displayed that financing homes can be a very profitable business.

The third phase covers the decade of 1980s, which is marked by the establishment of the country’s housing finance regulator - National Housing Bank in 1987. The era also involved the government in directing various agencies like insurance companies, commercial banks (Under priority lending requirements which allowed banks to allocate 1.5% of their incremental deposits to housing under RBI guidelines.), provident funds and mutual funds to invest part of their increment sources on housing. Two Insurance companies, LIC and GIC, started supporting the sector both directly through their newly established housing finance companies and indirectly by investing a proportion their net accretions in socially oriented schemes.

The fourth phase is the era after liberalization and is characterized by dramatic changes in pricing of loans. Before 1994, the pricing of home loans were regulated by the NHB based on a differential rates charged according to the size of the loan. This policy was amended in 1994 and providers were free to charge market rates for the loans above ` 25,000. The fourth phase saw a dominance of fixed interest rates, but variable rate offers started emerging at the end of the decade.

The fifth Phase of rapid growth in the sector started after the millennium. Home loan disbursements rapidly grew during the first few years of this phase. The lower interest rate regime, rising disposable incomes, stable property prices and fiscal incentives made housing finance an attractive business. Home loan disbursements grew to ` 7,68,191.90 million in 2005 from ` 1,47,012 million in 2001. The year 2003 witnessed an annual growth rate of 76% in loan disbursements.14

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14 Chandrasekar, V. (2010). Housing Finance and Housing – A view from India and Beyond, Indu Centre for Real Estate and Infrastructure.
- **Impact of Sub-Prime Mortgage Crisis on Housing Sector in India**

Global financial crisis was the result of subprime mortgage crisis which surfaced years ago in the United State of America. During the boom years, brokers attracted by the big commissions, encouraged buyers with poor credit worthiness to accept housing mortgages with little or no down payment and without checks. Over a long period of time, the banks created easy credit conditions through low interest rates and large inflow of foreign funds. Banks lent money on the assumption that housing prices would continue to rise. Also, the real estate bubble encouraged the demand for houses as financial assets. Banks and financial institution later repackaged these debts called CDOs or Collateralized Debt Obligations. In this way the risk was passed on multifold through derivatives trade. This also led to failure of Lehman Brothers and other giant financial corporates. The crisis that emerged in the US spread to other various advanced economies quickly and at a later stage spread to developing economies through various channels – financial, trade and confidence – despite their relatively sound macroeconomic fundamentals and policy frameworks. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s.

1. **Impact on the Real Estate Sector**
   a. Increase in prices of inputs due to inflation affecting all areas of economy like cement, steel, etc.
   b. Increase in home loan interest rate resulted into additional EMI burden on the borrowers.
   c. Reduction in salaries and lay off results into reduced demand for real estate.
   d. Demand-Supply imbalance
   e. Reduction in commercial rents
   f. Slowdown in infrastructure projects
   g. Difficulties to raise funds.

2. **Price Reduction**
   a. Overall price cuts of 10 to 12 percent.
   b. In Bangalore, DLF group reduced prices by 25 percent.
c. In Thane, Lodha group cut prices by 30 percent.
d. In Mumbai (Lower Parel), Orbit group cut prices by 20 percent.

3. There were serious implications for banking sector as well. The sub-prime has meant that the Indian banks have to follow stricter norms while disbursing loans to the peoples. These stricter norms could prove to be counter cyclical. People asked to provide collateral will be denied a loan.¹⁵

1.9 Housing Finance and Creation of Property

The diagram shows the flow of saving from two classes of people—the rich and the poor. If, the rate of interest is lower, then the flow of savings can be diverted to housing which lead to acquisition of wealth. For poor families a house may be the only mean acquired while for the term of housing loan is longer and for rich it may be items in the asset portfolio. As the right-hand side of the figure shows the net wealth for the poor and young households who borrow heavily will be negative as they pay installments their assets will increase. Thus, housing acts as a limited equalizer.

Figure 1.4 Housing Finance and Creation of Property

¹⁵ Vora, Yogin (2010). Impact of Recession on Real Estate in India. www.managementfunda.com
1.10 Drivers of Demand in Housing

The housing demand is a product of three different variables. First and foremost is the primary need that is driven by increasing population. Secondly, economic growth and consequent urban migration have caused changes in preferences towards more nuclear families, causing a perceptible lowering of the household size. Finally, increasing affordability has driven households to invest in larger houses.

**Increasing population:**- Population growth has a direct bearing on the requirement for housing units and, through this, on Floor Space Area (FSA) requirements.

**Urbanisation:**- Urbanisation has twin impact on housing demand. On the one hand, it reduces the area per household, and on the other, there is an increasing need for more nuclear families, leading to the formation of more number of households.

**Nuclearisation:**- Nuclearisation refers to the formation of nuclear families from joint families. Nuclearisation, like urbanisation, also has twin impact. It reduces the area per household, but increases overall household formation, thereby increasing the demand for housing units.

**Affordability:**- There has been a steady movement of households into higher income categories. The movement is more pronounced in the high-income categories.16

1.11 Housing Scenario

Housing is state subject but the union government is responsible for the formulation of policies with the regard to programme and approaches for effective implementation of the social housing scheme, particularly those pertaining to the weaker section of the society.

At the end of the 10th plan the housing shortage is estimated to be 24.7 million.

---

### Table 1.3 Housing Shortages in India (1961–2001)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>11.6</td>
<td>11.6</td>
<td>16.3</td>
<td>14.7</td>
<td>14.1</td>
</tr>
<tr>
<td>Urban</td>
<td>3.6</td>
<td>3.0</td>
<td>7.0</td>
<td>8.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Total</td>
<td>15.2</td>
<td>14.6</td>
<td>23.3</td>
<td>22.9</td>
<td>24.7</td>
</tr>
</tbody>
</table>


The data on housing shortage, i.e. the gap between numbers of houses demanded and the number of houses supplied for census year 1961-2001 are given above.

As the figures given in the table indicate the housing shortage has increased from 15.2 million in 1961 to 24.7 million in 2001, indicating a rise of 62.5% in 40 years.

The New National Housing and Habitat Policy (NHHP) was formulated in 1998. Main aim of this policy was creation of surplus in housing stock, either on rental or ownership basis, ensuring that housing, along with the supporting services, empowering the Panchayat Raj Institutions and village cooperatives to mobilize credit for adding to the housing stock, etc.

National Urban Housing and Habitat Policy (NUHHP) was also formulated in 2005 and the ultimate goal of this policy was to ensure sustainable and inclusive development of human settlements including “Shelter For All” and a better quality of life to all citizens, using potential of all the stakeholders.

#### 1.12 Structure of Housing Finance

Home is a dream of a person that shows the quality of efforts, sacrifices luxurious and above all gathering funds little by little to afford individual’s dream. Home is one of the things that everyone wants own. All the public, private, foreign, co-operative banks and financial institutions provide home loans to the people who want to purchase a home through home loan. The figure 1.5 given below shows the structure of housing finance in India.
Figure 1.5  Structure of Housing Finance in India

- **Group**: Financial Institutions
- **Sub-Group**:
  - Development Financial Institutions
  - Non-Banking Finance Companies
  - Scheduled Commercial Banks
  - Co-operative Banks
  - Agriculture and Rural Development Bank
  - Apex Co-operative Housing Societies
- **Channel**:
  - NHB
  - NABARD
  - Housing Finance Companies
  - Other NBFCs
  - Private Sector Banks
  - Public Sector Banks
  - Scheduled Urban Co-operative Banks
  - District Co-operative Banks
  - Scheduled State Co-operative Banks
  - Primary Land Development Banks
  - Housing Societies

The diagram illustrates the structure of housing finance in India, showing the different financial institutions and channels involved in the process.
1.13 Housing Finance in National Perspective

Housing sector plays an important role in the economic development of the country. Housing finance is the single target force that drives the residential real estate in India. Today the decision to buy a certain property largely depends on the amount of home loan one is comfortably able to repay over a specific period of time. The general pattern of flow of housing funds in India is shown in the figure below:

**Figure 1.6 Flow of Housing Fund in India**

The entire economy is divided into two dichotomous sectors, i.e., the formal sector and the informal sector. In the formal sector one finds government as well as private institutions. The Government institution included Life Insurance Corporation and General Insurance Corporation, which channelize their housing related finance to...
HUDCO which in turn diverts it to public housing programmes. In the private sector the HDFC is the link between the general capital market and homeownership of HIG and MIG. The flow of funds into the housing sector is much less compared to its demand. Also, the government programmes form less than 5% of the total annual of housing allocation. Thus, the private sector seems to be dominant in India.

The HDFC mobilizes savings from the banks and other financial institutions but not from the household directly, the reason being that it would be very costly to collect saving directly from the household through a network of local offices. The cost of advertising also would be heavy. In other words, the HDFC is more like a wholesaler. It depends upon the bank for tapping the savings. The HDFC funds come from public floats of capital and certificate of deposits in banks. It is found that on an average a borrower repays about 25% of his income in installments. In some cases loans are also provided to their employers who develop the scheme for the employees. Since, the HDFC depends upon the free market funds, it has to function according to commercial criterion. For this management must be of a high quality and the risk involved should be a minimum. Therefore, the loans are given upon proof of income, a high value of collateral security, personal guarantee and conservative pre-payment conditions. The social purpose is to enlarge capital markets so that a vital range of income groups is served through a growing proportion to housing.

1.13.1 Growth in Housing Finance Disbursements

With the growth and profitability in housing finance evident, commercial banks gave more impetus to this sector, aggressively increasing their market share. Banks overtook housing finance companies in the market capturing 72% of the market in 2006 from a previous share of 27% at the beginning of this phase in 2001.
The latter part of this phase witnessed a slowdown in the rate of growth in home loan disbursements. High lending rates, coupled with high property prices, led to a slowdown in housing loan demand. The growth rate reduced to 5.46% in 2006 slowing drastically from the rates of 41.5% in the previous year. The recession in 2008 and the consequent correction in house prices are expected to reduce the size of disbursements in 2009 by 1%.

1.13.2 Government Policy for Housing Finance in India

The Government of India has attached quite a high prominence to housing activity and has set up a specialized financial institution to look after the financing of housing.

Reserve Bank of India has issued a master circular with regard to housing finance in which all the earlier guidelines have been consolidated. The topic has been dealt with in accordance with the said circular. Now the Banks have been mandated to achieve the prescribed target of housing finance which is as follows:

For the financial year 2000-2001 and onwards, each bank would be required to compute its share of housing finance allocation at 3% of its incremental deposits as on the last reporting Friday of March 2000 from the corresponding period of the previous

financial year and for each succeeding year on the same basis. This is the housing finance allocation and there is no objection to the Banks exceeding this level, having regard to their resources position. Thus, while a minimum allocation for each bank has been prescribed, banks are free to fix their own higher allocation limits which may be set by their respective authorities.

The housing finance allocation could be achieved by direct lending to users, indirect lending through intermediaries or by way of investments in bonds of National Housing Bank / HUDCO or a combination thereof.

All housing loans up to ` 20 lakhs per dwelling in rural / semi-urban / urban / metropolitan areas come under the category of priority sector loans, loans up to ` 1 lakh for repairs in rural / semi urban, urban area and upto ` 2 lakhs in urban / metropolitan areas for repairs to damaged houses belonging to individuals also fall within the priority sector criteria. Further, assistance to any governmental agency for construction of houses or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ` 5 lakhs per housing unit and assistance to a non-governmental agency approved by the National Housing Bank for refinance for reconstruction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of ` 5 lakhs per unit, shall also be eligible for inclusion under priority sector category as indirect finance. Investments made up to 31.3.2005 by banks in bonds issued by National Housing Bank / HUDCO exclusively for financing of housing would also be reckoned for inclusion in priority sector advances till 31.3.2006. Loans granted by banks in rural areas under the special Rural Housing Scheme of NHB will also be considered as a part of priority sector advances subject to the limits specified above i.e. up to ` 15 lakhs for acquiring / construction of a new house and up to ` 1 lakh for repairs / upgradation of an existing house. The important guidelines relating to housing finance in force as per the latest master circular are as follows:

(1) **Direct Housing Finance**

Direct housing finance refers to the finance provided to individuals or groups of individuals including co-operative societies. Under this category are included the following types of bank finance:
I. Bank finance extended to a person who already owns a house in town/ village where he resides, or for buying / constructing a second house in the same or other town / village for the purpose of self-occupation.

II. Bank finance extended for the purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.

III. Bank finance extended to a person who proposes to buy an old house where he is presently residing as a tenant.

IV. Bank finance granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

V. Supplementary finance-
   a) Banks may consider requests for additional finance within the overall ceiling for carrying out alterations / additions / repairs to the house / flat already financed by them.
   b) In the case of individuals who might have raised funds for construction / acquisition of accommodation from other sources and need supplementary finance, banks may extend such finance after obtaining pari passu or second mortgage charge over the property mortgaged in favour of other lenders and / or against such other security, as they may deem appropriate.

- **Terms and Conditions for Sanction of Housing Finance**
  The Banks are free to evolve their own schemes for housing finance with the approval of the Boards on aspects such as security, margin, age of dwelling units, repayment schedule, etc. Some of the banks have repayment periods up to 25 years. Most of the Banks have repayment periods up to 20 years, and with this in mind, people prefer to avail the housing loans at an early age. There are balloon repayment schemes where the repayments increase with the advancing age. Housing provides the security for a family and coupled with the tax breaks, it affords an inbuilt mechanism for old age security. As for margins, all the banks finance up to 85-90% of the cost of the property to
be purchased. In case of second hand properties, the margin is higher at 25-30%, depending upon the age. Generally, the property purchased is retained as the security by the banks with an equitable mortgage by deposit of title deeds.

(2) **Indirect Housing Finance**

(a) **General**

The Banks should ensure that their indirect housing finance is channeled by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc. primarily for augmenting the supply of serviced land for the constructed units. It should also be ensured that the supply of plots / houses is time bound and public agencies do not utilize the bank loan merely for acquisition of land. Similarly, serviced plots should be sold by these agencies to co-operative societies, professional developers and individuals with stipulation that the houses should be constructed thereon within a reasonable time, not exceeding 3 years. For this purpose, banks may take advantage of various guidelines issued by NHB for augmenting the supply of serviced land and constructed units.

(b) **Lending to Housing Finance Institutions**

Banks may grant term loans to housing finance institutions taking into account (long term) debt equity ratio, record, recovery performance, and other relevant factors. As per the guidelines issued by the National Housing Bank, housing finance companies could borrow by way of deposits, issue of debentures / bonds, loans and advances from bank or from financial institutions (including any loans obtained from NHB) up to 16 times their net owned funds (i.e. paid up capital and free reserves less accumulated balance of loss, deferred revenue expenditure and intangible assets). All housing finance companies registered with NHB are eligible to apply for refinance from NHB and will be eligible subject to the refinance policy.

(3) **Lending to Housing Boards and Other Agencies**

Banks may extend term loans to state level housing boards and other public agencies. However, in order to develop a healthy housing finance system, while doing so, the banks must not only keep in view the past performance of these agencies in the matter
of recovery from the beneficiaries but they should also stipulate that the Boards will ensure prompt and regular recovery of loan installments from the beneficiaries.

(4) Financing of Land Acquisition

In view of the need to increase the availability of land and house sites for increasing the housing stock in the country, banks may extend finance to public agencies for acquisition and development of land, provided it is a part of the complete project including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. Such credit may be extended by way of term loans. The project should be completed as early as possible and, in any case, within three years, so as to ensure quick re-cycling of bank funds for optimum results. If the project covers construction of houses, credit extended therefore in respect of individual beneficiaries should be on the same terms and conditions as stipulated for direct finance.

(5) Terms and Conditions for lending to Housing Intermediary Agencies

a) In order to enhance the flow of resources to housing sector, term loans may be granted by banks to housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by the latter, irrespective of the size of the loan per borrower extended by these agencies and such term loans would be reckoned for the purpose of achievement of their housing finance allocation.

b) Banks can grant term loans to housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by them to Non-Resident Indians also. However, the banks should ensure that housing finance intermediary agencies being financed by them are authorized by RBI to grant housing loans to NRI as all housing finance intermediaries are not authorized by RBI to provide housing finance to NRI. Further, such finance granted by banks to housing finance intermediary agencies against the letters on-lending to NRI will not be treated as housing finance for the purpose of scheme of yearly allocation of housing finance applicable to banks.
c) Banks have freedom to charge interest rates to housing intermediary agencies without reference to Prime Lending Rate (PLR).

(6) **Term loans to Private Builders**

In view of the important role played by professional builders as providers of construction services in the housing field, especially where land is acquired to be developed by State Housing Boards and other public agencies, commercial banks may extend credit to private builders on commercial terms by way of loans linked to each specific project. The period of credit for loans extended by banks to private builders may be decided by banks themselves based on their commercial judgment subject to usual security and after obtaining such security as banks may deem appropriate. Such credit may be extended to builders of repute, employing professionally qualified personnel. It should be ensured, through close monitoring that no part of such funds is used for any speculation in land. Care should also be taken to see that prices charged from the ultimate beneficiaries do not include any speculative element, that is, prices should be based only on the documented price of land, the actual cost of construction, and a reasonable profit margin.

The earlier instructions with regard to the quantum of loan, margin by the builders, period of loan, terms of repayment, etc. now stand deleted. The banks by specifying credit discipline can stipulate their own conditions on a case basis now depending on their experience with the builder.

(7) **Clarifications about Direct Housing Finance**

Bank finance extended to a person who already owns a house in the town / village where he resides, for buying / constructing a second house in the same or other / village for the purpose of self-occupancy may be considered as direct housing finance. Bank finance extended for purchase of house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarter or because he has been provided accommodation by his employer, may be treated as direct housing finance.

Bank finance extended to a person who proposes to buy an old house wherein he is presently residing as a tenant may be classified as direct housing finance, provided such existing house is not more than 5 years old.
In case of projects where the projects are on commercial lines in which the agency promoting the project either for the benefit of weaker sections of the society or otherwise, a part of the project cost is met by the Government through subsidies made available and/or contributions to the capital of the institutions. The bank finance should be restricted to an amount arrived at after reducing from the total project cost of amount of subsidy/capital contribution receivable from the Government and any other resources proposed to be made available by the Government. The banks should also ensure commercial viability and that the repayment of the loan is made out of business income of the borrowing corporation/firm/individuals. Such loans should not become repayable out of budgetary allocations of the State Governments.  

1.14 Housing and Urban Development Corporation

Housing and Urban Development Corporation Limited established on April 25, 1970 is an organization fully owned by the Government of India. As shown in fig. 1.6, the government institution channelized their housing finance to HUDCO, as a financial-technical institution to bring resourcing power to housing boards and development agencies under the jurisdiction of the state government with limited resources at its disposal HUDCO’s performance, had been impressive. The project finance by HUDCO provided homes to three millions families in India in year 1986. Also, most of the allocation went to the LIG. Moreover LIG had lower interest loan and longer repayment period as compared to HIG. This meant subsidies in favour of LIG. The housing board, slums improvement agencies and other government developments institution had been largely dependent upon HUDCO. As mentioned earlier a large part of funds was provided to HUDCO by LIC and GIC. Apart from this, the central government allocates equity capital to HUDCO through five years plan provisions. From 1987 onwards, the central government has enabled HUDCO to have a greater excess to market funds.

HUDCO receives applications to support projects from the housing boards and development agencies which are under the jurisdiction of the state governments. These projects are assessed for their technical and financial feasibility. Then, loan agreements

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are signed and HUDCO monitors the performance of the project. The distribution of funds amongst the states is formula based. In recent years HUDCO has widened its activities like searching for cheaper building technology, running training courses in housing administration with relevance to lower income housing.

**Objectives of HUDCO**

- To extend long term finance for construction of residential complexes or to undertake housing and urban development programs in the country.
- To finance or undertake building of new or satellite town, either wholly or partly.
- To subscribe the debentures and bonds to be issued by the State Housing (and or Urban Development) Boards, Improvement Trusts, Development Authorities, etc., specifically for the purpose of financing housing and urban development programs.
- To fund or take on the setting up of industrial enterprises of building material.
- To manage the money received from the Government of India and other sources as grants or otherwise, for the purpose of financing or undertaking housing and urban development programs in the country.
- To promote, establish, assist, collaborate and provide consultancy services for the projects of designing and planning of works related to Housing and Urban Development programs in India and abroad.

HUDCO has played a stellar role in the implementation of National Housing Policy. It has been entrusted with the implementation of the priority programmes of the Ministry like Low Cost Sanitation, Slum Upgradation, Staff Housing, Night Shelter for Footpath Dwellers, Shelter upgradation under Nehru Rozgar Yojana, Rural housing under Minimum Needs Programme. Although the commercial banks and the housing finance companies are doing brisk business in the dwelling housing finance sector, the housing needs of the poor and low income groups have remained unaddressed. In such a scenario, HUDCO's role has become even more significant.

In spite of its commercial orientation, HUDCO has adopted a policy of preferential allocation of resources to the socially disadvantaged. It continues to emphasize on sectors which are more socially relevant rather than only on commercially
viable and profitable sectors. HUDCO's social orientation is evident from the fact that about 92 percent of the 150.93 lakhs houses financed by HUDCO are for the benefit of Economically Weaker Sections (EWS) and Low Income categories. Apart from the Corporate Office at Delhi, HUDCO functions under a zonal office, a research & training institute, 20 regional offices, 34 retail finance units and 9 development offices. HUDCO has been conferred award for being No. 1 institution in Construction of Dwelling Units for Poor Sections, by “Business Sphere” Magazine.

1.15 The National Housing Bank

During the 7th five year plan, non availability of long-term finance to individual households was realised. It was on a significant scale, a major limitation affecting the progress of housing sector in India. Thus, on the basis of recommendations of a high level group under the national housing policy 1988, NHB as the apex level institution for housing finance was set up. The NHB is wholly owned by the RBI which has contributed the entire paid-up capital. It has a Board of Directors which looks after the general superintendents’ directions and managements of the NHB.

The NHB has been established to achieve the following objectives:-

- To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelize them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage the public agencies to emerge as facilitators and suppliers of serviced land for housing.
1.15.1 Functions of NHB

1. Regulation

According to NHB Act, 1987, NHB is expected to regulate the housing finance system of the country to its advantage and to prevent any housing finance institutions being conducted in such a manner which may be against the interest of depositors or of the housing finance institutions. For this purpose, NHB has been given power to determine the policy and to give directions to the housing finance institutions and their auditors.

2. Financing

The financing of housing sector by the NHB is done by extending refinance to different primary lenders in respect of

i. Eligible housing loans extended by them to individual beneficiaries.

ii. For project loans extended by them to various implementing agencies.

iii. Leading directly in case of projects undertaken by the public housing agencies for construction of houses and development of housing related infrastructure

iv. Guaranteeing the repayment of principal amount and payment of interest on bonds issued by the housing finance company.

v. Acting as special purpose vehicle for securitizing the housing loan receivables.

3. Promotion

The NHB also contributes to improve or strengthen credit delivery network for housing finance in the country.

As a part of this role NHB has framed a scheme for guaranteeing the bonds to be issued by the housing finance company. NHB has designed and conducted various training programmes considering the need for trained personals in this sector. NHB has been financing the following housing schemes at all India level:-

(a) Indira Awas Yojna

(b) Golden Jubilee Rural Housing Finance Scheme
(c) Bharat Nirman
(d) Productive Housing in Rural Areas (PHIRA)
(e) 1% Interest subvention scheme

4. Urban Housing
   (a) Refinance of construction finance for affordable housing
   (b) Interest subsidy scheme
   (c) 1% Interest subvention scheme

The new products recently introduced by NHB are
   (a) Residential Mortgage backed securities
   (b) Reverse Mortgage loan
   (c) Reverse Mortgage loan enabled Annuity

1.15.2 Trend of Refinance and Direct Finance by NHB.

Table 1.4 is given below provides data on refinance and direct finance released by NHB during 1998-2009.

**Table 1.4 Trend of Refinance and Direct Finance by NHB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Refinance</th>
<th>Refinance and Direct Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>758</td>
<td>---</td>
</tr>
<tr>
<td>1999-2000</td>
<td>842</td>
<td>892.18</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,008</td>
<td>1,077.64</td>
</tr>
<tr>
<td>2001-02</td>
<td>1,025</td>
<td>1,136.05</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,710</td>
<td>2,782.78</td>
</tr>
<tr>
<td>2003-04</td>
<td>3,253</td>
<td>3,297.38</td>
</tr>
<tr>
<td>2004-05</td>
<td>7,500</td>
<td>7,527.20</td>
</tr>
<tr>
<td>2005-06</td>
<td>5,632</td>
<td>5,996.95</td>
</tr>
<tr>
<td>2006-07</td>
<td>5,500</td>
<td>5,671.60</td>
</tr>
<tr>
<td>2007-08</td>
<td>8,587</td>
<td>NA</td>
</tr>
<tr>
<td>2008-09</td>
<td>10,854</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: Trend & Progress Reports of NHB (1998 to 2009)*
It is seen that the amount of refinance was ₹758 crores in 1998-99 which went up to ₹10,854 crores in 2008-09 i.e. it increased by 14.32 times in 11 years. Also the trend is increasing up to 2004-05 but during 2005-06 and 2006-07 the amount of refinance had decreased. During 2004-05 the amount of refinance had increased by almost 23 times.

The trend in the total amount disbursed, i.e. refinance plus direct finance also exhibit a similar trend because the amount of direct finance is very small compared to amount of refinance during all the years.

Table 1.5 shows data on proportion of housing loans provided to the rural, semi urban, urban and metropolitan areas in all over India between 2005 and 2009.

<table>
<thead>
<tr>
<th>Area</th>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td></td>
<td>10.3</td>
<td>10</td>
<td>12.2</td>
<td>11.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td></td>
<td>15.2</td>
<td>13.1</td>
<td>17</td>
<td>13.0</td>
<td>14.1</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
<td>27.2</td>
<td>25.2</td>
<td>23.9</td>
<td>26.3</td>
<td>26.7</td>
</tr>
<tr>
<td>Metropolitan</td>
<td></td>
<td>47.3</td>
<td>51.7</td>
<td>46.8</td>
<td>49.6</td>
<td>52.0</td>
</tr>
<tr>
<td>All India</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


The relevant data show that there has been an increase of nearly 5% in the percentage of housing loans given to metropolitan areas i.e. from 47.3% to 52% at the same time there has been slight decline in the proportion of housing loans given to rural, semi urban and urban areas. The table also indicates that about half of the total housing loans are disbursed in the metropolitan cities and the remaining 50% are distributed among the remaining areas.

The Table 1.6 gives the total number of housing loan account and credit limits at all India level for RBI, Nationalised Banks, Foreign Banks, RRB, Private Sectors Banks and all Scheduled Commercial Banks during the period 2005 to 2009.
Table 1.6 Total Housing Loan Account and Sanctioned Limits in India

<table>
<thead>
<tr>
<th>Banks</th>
<th>A/C – S/Limit</th>
<th>Year</th>
<th>Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>SBI</td>
<td>A/C</td>
<td>11,55,994</td>
<td>13,20,428</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>40,77,427</td>
<td>52,62,673</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>A/C</td>
<td>16,10,173</td>
<td>20,27,079</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>53,07,887</td>
<td>81,52,723</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>A/C</td>
<td>1,00,543</td>
<td>1,24,447</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>9,85,858</td>
<td>18,19,087</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>A/C</td>
<td>2,22,200</td>
<td>2,46,808</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>2,85,372</td>
<td>3,23,269</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>A/C</td>
<td>5,77,600</td>
<td>8,02,669</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>38,46,819</td>
<td>53,65,773</td>
</tr>
<tr>
<td>All Schedule Commercial Banks</td>
<td>A/C</td>
<td>36,66,450</td>
<td>45,21,531</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>1,45,03,364</td>
<td>2,09,23,524</td>
</tr>
</tbody>
</table>

A/C: Number of Accounts
S/Limit: Sanctioned Limit

Figure 1.8 Growth rates of Total Housing Loan Accounts and Sanctioned Limits in India
On examination of these data, it is found that in the case of housing loan accounts the SBI, Nationalised Banks, Foreign Banks and all Scheduled Commercial Banks had registered increase of 50 to 58% whereas the Regional Rural Banks had growth rate of about 32%, while the private sector banks achieved increase of 65.7%. Thus, the private sector banks have been able to achieve the maximum growth in the number of housing loan accounts.

Analysing the data on total Sanction Limits it is found that the foreign bank had registered the highest growth (169.4%), while for other types of banks the increase was between 124% to 139%. In this case also regional rural banks could achieve only 62% growth.

Housing Loan Disbursement by various institutions viz. commercial banks, housing finance companies and the Apex co-operative Housing Federation during the financial years 2001 up to financial year 2008 are given here.

Table 1.7 Housing Loan Disbursements by various Institutional Agencies

<table>
<thead>
<tr>
<th>Agencies</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
<td>(` in crores)</td>
</tr>
<tr>
<td>CBs</td>
<td>5,553.11(29.13%)</td>
<td>8,566.41(35.91%)</td>
<td>23,553.70(56.04%)</td>
<td>32,816.39(60.43%)</td>
<td>50,398.00(65.60%)</td>
<td>58,623.00(65.68%)</td>
<td>69,859.00(63.19%)</td>
<td>78,242.00#(62.62%)</td>
</tr>
<tr>
<td>HFCs</td>
<td>12,637.85(66.32%)</td>
<td>14,614.44(61.25%)</td>
<td>17,832.01(42.43%)</td>
<td>20,862.23(38.42%)</td>
<td>26,000.00(33.85%)</td>
<td>30,109.00(33.74%)</td>
<td>40,141.00(36.31%)</td>
<td>46,164.00(36.94%)</td>
</tr>
<tr>
<td>ACHFs*</td>
<td>867.72(0.55%)</td>
<td>677.58(0.24%)</td>
<td>641.48(0.153%)</td>
<td>623.08(0.15%)</td>
<td>421.15(0.55%)</td>
<td>520.00(0.58%)</td>
<td>550.00@(0.50%)</td>
<td>550.00@(0.44%)</td>
</tr>
<tr>
<td>Total</td>
<td>19,058.68(100%)</td>
<td>23,858.43(100%)</td>
<td>42,026.86(100%)</td>
<td>54,301.70(100%)</td>
<td>76,819.15(100%)</td>
<td>89,252.00(100%)</td>
<td>1,10,550.00(100%)</td>
<td>1,24,956.00(100%)</td>
</tr>
<tr>
<td>Growth</td>
<td>-</td>
<td>25.18%</td>
<td>76.15%</td>
<td>29.21%</td>
<td>41.47%</td>
<td>16.18%</td>
<td>23.86%</td>
<td>13.03%</td>
</tr>
</tbody>
</table>

**Source:** Report on Trend & Housing in India for 2001-2006, NHB, New Delhi

*Apex Co-operative Housing Federation (ACFHs), the third largest institution agency in formal sector housing finance in India. Their relative share, however, is very small and is declining also.

@ Exact figures of co-operative housing disbursements are not available from the RBI/NABARD/NHB sources. Thus, `550 Crores is taken as an estimate for last three years. However, its presence or absence is not likely to have any significant impact in the overall scenario.

# Estimated at 12% above FY 2007 figures. (Exact comparable figures that are not available)
According to the data provided in this table, the total housing loan disbursement by all these agencies had increased by 6.56 times between 2001 and 2008 and the comparable figures for commercial banks, HFC and Co-operative Housing Federation are 14.09, 3.65 and 0.63 respectively. Thus, the commercial banks have been highly successful in housing loan disbursement as compared to the other two types of agencies. This conclusion is also strengthened if the data on contributions of these three types of agencies over this time period are examined. The contribution of the commercial banks has increased from 29.13% to 62.62% but that of HFC’s has declined from 66.32% to 36.94% and that of AHCF has declined from 4.55% to 0.44%.

Table 1.8 given below provides the data on public investment, private investment and total investment for housing during various plan periods, i.e. from the first plan to latest five year plans, i.e. 11th five year plan. As can be seen from this table total investment for housing was `1,150 crore in the 1st plan which increased to `8,80,878 crore in the 11th plan. This shows that the total investment in housing has increased by 766 times during this period. If the data on private investment are examined, it is found that it has increased 415 times i.e. from `900 crore in the first plan to `3,73,560 crores during 11th plan. Similarly, the figures for public investment for housing shows that its level was `250 crores during 1st plan and it was raised to `5,07,318 crores in the 11th plan, indicating that it has increased by 2029 times.
Table 1.8 Investment for Housing during the Various Plan Period

<table>
<thead>
<tr>
<th>Five Year Plan</th>
<th>Public Investment</th>
<th>Percentage</th>
<th>Private Investment</th>
<th>Percentage</th>
<th>Total Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>250</td>
<td>21.74</td>
<td>900</td>
<td>78.26</td>
<td>1,150</td>
<td>100</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>300</td>
<td>23.08</td>
<td>1,000</td>
<td>46.92</td>
<td>1,300</td>
<td>100</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>425</td>
<td>27.42</td>
<td>1,125</td>
<td>72.58</td>
<td>1,550</td>
<td>100</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>625</td>
<td>22.32</td>
<td>2,175</td>
<td>77.68</td>
<td>2,800</td>
<td>100</td>
</tr>
<tr>
<td>Fifth Plan (1974-78)</td>
<td>796</td>
<td>17.94</td>
<td>3,640</td>
<td>82.06</td>
<td>4,436</td>
<td>100</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>1,491</td>
<td>7.65</td>
<td>18,000</td>
<td>92.35</td>
<td>19,491</td>
<td>100</td>
</tr>
<tr>
<td>Seventh Plan (1992-97)</td>
<td>2,458</td>
<td>32.31</td>
<td>29,000</td>
<td>67.69</td>
<td>31,458</td>
<td>100</td>
</tr>
<tr>
<td>Eighth Plan (1992-97)</td>
<td>31,500</td>
<td>34.44</td>
<td>66,000</td>
<td>65.56</td>
<td>97,500</td>
<td>100</td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>52,000</td>
<td>57.14</td>
<td>99,000</td>
<td>42.86</td>
<td>1,51,000</td>
<td>100</td>
</tr>
<tr>
<td>Tenth Plan (2002-07)</td>
<td>4,15,000*</td>
<td>57.14</td>
<td>3,11,300*</td>
<td>42.40</td>
<td>7,26,300</td>
<td>100</td>
</tr>
<tr>
<td>Eleventh Plan (2007-12)</td>
<td>5,07,318.1@</td>
<td>57.60</td>
<td>3,73,560#</td>
<td>42.40</td>
<td>8,80,878.1</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: 1. Report on Trend and Progress of Housing in India, 2003, NHB, New Delhi., p.79
3. Report of the 22nd Standing Committee on Rural Development 2005-06, Ministry of Rural Development,
   @ From XI Plan Document on Urban Housing, p.43, investment for Urban Housing is ` 3,61,318.1 Cr. Rural housing investment is ` 1,46,000 Cr. As per Source (3) p.17 Thus, total is ` 5,07,318.1 Cr. Estimated as 1.2 times as that of the X Plan i.e. 1.2 times ` 3, 11,300.0
Thus, there was a tremendous increase in the total investment for housing during the five year plan periods and the rise in public investment was almost 5 times that of private investment in housing. Also, from the first plan up to the ninth plan the proportion of private investment for housing was more than 66%, the highest percentage being 92 during 6th and 7th plan. However, during the last two plans, i.e. during 10th and 11th plans, proportion of public investment has been around 57% which implies that during last 10 years, public investment for housing has become more dominant.

1.16 Brief Profile of Gujarat

Gujarat is a state in western India. It has an area of 75686 sq.mt (196077 km.) with a coastline of 1600 km. most of which lays on the Kathiawar Peninsula and a population of 6,03,83,628 as per the 2011 census data. Major cities in Gujarat include Ahmedabad, Surat, Vadodara, Rajkot, Jamnagar and Bhavnagar. In year 2010, Forbes list of world’s fastest growing cities included Ahmedabad at number 3. Surat is also one of the fastest growing cities in India. Major resources produced by the state include cotton, groundnut, dates, and sugarcane and petrochemical products. The state is rich in calcite, gypsum, manganese, lignite, limestone, bauxite, agate, feldspar and quartz sand and successful mining of these minerals is done in their specific areas. Gujarat established itself as a leader in various industrial sectors including textiles, engineering, chemicals, petrochemicals, drugs and pharmaceuticals, dairy, cement and ceramics and gems and jewellery. Gujarat produces about 98% of India’s required amount of Soda Ash and gives the country about 78% of its national requirement of salt. Surat is a hub of the global diamond trade. In 2003, 92% of the world’s diamonds were cut and polished in Surat. Another big industry is ceramic industry around Morbi and Himmatnagar.

Gujarat ranks first nationwide in gas based thermal electricity generation and second nationwide in nuclear electricity generation.18

As per RBI report, in year 2006-07, 26% out of total bank finance in India was in Gujarat.19 Housing sector plays an important role in Gujarat. Due to urbanization,

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18 www.wikipedia.com
migration, industrial economic growth, job opportunities in Gujarat so the population growth is very high and the demand for housing increased rapidly. Following table shows total housing loan account and sanctioned limits in Gujarat.

**Table 1.9 Total Housing Loan Accounts and Sanctioned Limits in Gujarat**

<table>
<thead>
<tr>
<th>Banks</th>
<th>A/C – S/Limit</th>
<th>Year</th>
<th>Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>SBI</td>
<td>A/C</td>
<td>57,884</td>
<td>2,21,061</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>1,91,436</td>
<td>2,97,535</td>
</tr>
<tr>
<td>Nationalised banks</td>
<td>A/C</td>
<td>82,288</td>
<td>2,66,664</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>1,88,715</td>
<td>2,84,773</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>A/C</td>
<td>4,562</td>
<td>2,840</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>32,695</td>
<td>22,572</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>A/C</td>
<td>2,442</td>
<td>3,042</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>3,761</td>
<td>5,286</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>A/C</td>
<td>14,902</td>
<td>19,770</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>73,889</td>
<td>1,15,266</td>
</tr>
<tr>
<td>All Schedule Commercial Banks</td>
<td>A/C</td>
<td>1,62,078</td>
<td>2,13,172</td>
</tr>
<tr>
<td></td>
<td>S/Limit</td>
<td>4,90,497</td>
<td>7,60,829</td>
</tr>
</tbody>
</table>

*Source: Trend and Progress Reports of RBI (2005 – 2010)*

*S/Limit: Sanctioned Limit*
Figure 1.9 Growth Rates of Total Housing Loan Accounts and Sanctioned Limits in Gujarat

Examining the relevant data for Gujarat State, it is found that the rate of growth in total number of accounts varied between 28.1% for SBI to 37.3% for all scheduled commercial banks with two exceptions, viz., foreign banks which registered 50% decline and private sector banks which registered 72.1% growth.

As far as Sanctioned Limits are concerned, the growth rate varied between 53.6% for regional rural banks and 64.1% for all scheduled commercial banks. Here also the foreign banks showed 69.4% decline and on the other hand the private sector banks achieved 80.5% increase.

Thus, it seems that foreign banks have not been very successful in Gujarat State whereas the private sector banks achieved the highest growth.