CHAPTER –III

HOUSING FINANCE SYSTEM IN INDIA
3.1. Introduction:

The previous chapter attempted to review the literature regarding housing, housing finance, risks and operational risks. The present chapter proposes to study the importance of housing in India and the housing finance system adopted in India. The present chapter has 3 parts, Part-A sketches the housing profile, the demand for and supply of housing and the shortages of dwelling units in India. Part-B focusses on the housing fiancé system adopted globally in general and India in particular, and Part-C discusses the role of Scheduled Banks in Housing Finance in India.

PART-A

3.2 Housing Profile in India:

Housing is one of the basic necessities of mankind, it not only promotes the socio-biological interaction, but also house-hold based economic activities. The UN Conference on Environment and Development, 1992 had stated that ‘Access to safe and healthy shelter is essential to a person’s physical, psychological, social and economic wellbeing and should be a fundamental part of National and International action’. The contribution of housing to India’s GDP was 10 per cent during the financial year 2011 which is far below when compared to other countries like China with 20 per cent, USA with 81 per cent and UK with 88 per cent. Housing sector has both forward and backward linkages, it is estimated that about 600 industries are linked to housing activities directly or indirectly and has been considered as a priority sector and in this contexts housing occupies an important place in development of the country.

Housing in India received a boost with the proclamation of “The Global Strategy for Shelter- for the year 2000” by the United Nations. India came out with its first National Housing Policy (NHP) in
1998, which marked the beginning of the rapid housing development in India. The basic feature of housing in India like in any other developing countries is that it did not receive much attention it deserved from policy makers or planners in the past. As a result of this, there still exists a backlog of housing shortage. The problem of housing in India is no different from the one that is seen in the third world countries, the problem is both qualitative and quantitative in nature. In the quantitative dimension the problem represents the lag in the supply of dwelling units in relation to its demand for the various income groups in both rural and urban areas.

3.3. National housing policy (NHP) in India:

Housing policy plays an important role in the development of housing in India. Government of India’s policy enshrined as in the five year plans, envisages for, the increase in the housing stock, provision of the housing sites to the rural site-less families, assistance for house construction for those who own a site and developing low-cost technology to suit the paying capacity of the targeted groups. However, a full-fledged National Housing Policy was formulated only during the seventh plan period. The Government of India designed its first NHP in the year 1988. This policy focused more on motivating the houseless population to acquire their own houses, to encourage investment in this sector and finally, to eliminate the constraints in maximizing the housing efforts.

The housing policy during the 1990’s was the most significant one. The period not only was a witness to implementation of two National Housing Policies of 1994 and 1998 National Housing and Habitat Policy (NHHP) but was also a witness to the effect of the New Economic Policy (NEP) which heralded the policy of “Liberalization, Privatization and Globalization (LPG). The main thrust during this period was on creating an enabling environment for housing activity by eliminating various constraints and providing direct assistance to the disadvantaged groups.
3.4 Demand V/S Supply of Housing:

Housing plays dual role as a physical goods and component of wealth in household’s decision. The Real Estate sector in India is at upward trend, the Indian housing did not get much attention till recently because lack of institutional financial support. The home built on either own savings, or borrowings from friends and relatives or by means of informal finance. However, the scenario has undergone a change with sectorial growth, expectations of higher quality and integration with the global economy.

Demand for housing in India has increased considerably. However, the supply could not keep the pace with demand which is leading to rise in residential capital values especially in urban areas. There is a stupendous growth in housing industry in the past one decade for the following reasons.

i) increase in population,  
II) Migration of population towards cities  
III) Increase in job opportunities in service sectors.  
IV) Increase in income level  
V) Increase in nuclear families and  
VI) Government initiatives and easily availability of institutional finance.

The growth of the Indian residential real estate has been divided into 4 phases.

Phase I- 2001-2005: Initial growth phase, with take-off and price picking up,  
Phase II-2006 -2008: High growth phase, with high demand and price more than double.
Phase III-2009-2010: Substantial slowdown in demand due to dented affordability and economic environment.

Phase IV-2011-2014: Consolidation phase, with demand, supply and prices gradually moving up in line with improvement in economic environment. (CRISIL research).

Graph 3.1: Housing shortage in India

(CRISIL Research March 2010).

The above diagram depicts that there is a housing shortage in urban area, whereas due to Government initiatives by providing assistance to rural area to homeless, under various schemes and enabling slum development in urban areas under Jawaharlal Nehru National Urban Renewal Mission (JNNURM). In urban area due to increase in nuclear family and migration from rural to urban area the shortage will continue. The housing shortage estimated at 19.3 million units at the end of 2008 as against 15.1 million units at the end of 2005. The housing shortage in the urban area
by the end of 2014 will be about 21.7 million units. On the other hand in rural area the housing shortage will come down due to migration and conversion of Kutch houses into Pacca houses. The Government of India under various schemes providing assistances to the people who are below poverty line by introduction by various schemes like Indira Awaas Yogana, Rajiv Gandhi Awaas Yogana and Two million housing programme are expected to reduce the housing shortage in rural areas. In this backdrop, the shortage of rural housing will come down to 53.8 million units by 2013 and 2014 from 59.4 million units as at the end of 2008.

The establishment of Housing and Urban Development Corporation (HUDCO) in 1970, in the public sector National Housing Bank (NHB) in 1988 reinforced the housing development in the country. The establishment of the Housing Development and Finance Corporation (HDFC) in 1977, in the private sector opened the venues for the private sector participation, in addition to this implementation of National Housing Policies, various Social Housing Schemes, creation of conducive fiscal and other environment and the increasing thrust laid on housing finance by the banking sector have given impetus to housing sector development in the country.

Table:3.1. Housing Stock during the period 1991-2012

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Pucca</th>
<th>Semi-Pucca</th>
<th>Kutch</th>
<th>TOTAL</th>
<th>Housing Shortage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>29.80</td>
<td>06.20</td>
<td>03.20</td>
<td>39.20</td>
<td>8.23</td>
</tr>
<tr>
<td>2001</td>
<td>46.55</td>
<td>6.83</td>
<td>3.42</td>
<td>56.80</td>
<td>6.93</td>
</tr>
<tr>
<td>2012</td>
<td>53.49</td>
<td>10.05</td>
<td>2.56</td>
<td>66.10</td>
<td>8.91</td>
</tr>
</tbody>
</table>

Source: Annual Report- Ministry of Housing finance &urban poverty alleviation Govt. of India.
The basic feature of the housing in India like in other developing countries is that housing has not received the attention it deserves from policy makers or planners. As a result of this, there exists a backlog of housing shortage, and, the investments made in the housing sector over the plan periods confirm that the sector has occupied a backseat in the economy. However of late, the Government of India has taken initiatives to intervene in the housing sector. In addition to this a large number of institutions have emerged in the financial sector with an objective to minimize the problem faced by the housing sector. The housing problem in India is multidimensional; it includes various problematic issues such as increase in the population, inadequate housing stock, poor quality of housing stock, urbanization and slums, housing shortage, shortage of house finance institutions, lack of basic amenities, the problem of squatters and pavement dwellers, among many others.

PART-B

3.5 Housing Finance –An Overview:

Housing is not only a basic necessity of mankind; it also represents the wealth of an individual. Housing stock in a country represents the wealth of the country; formal housing finance system enables improved functioning of the housing market. In any economy housing finance plays an important role in improving the housing conditions and good market for investment in real estate in a country. A good housing finance system channelizes resources in supporting housing demand, allowing households to purchase and construction of housing and facilities. The well-developed housing finance system stimulates allocation of resources between housing and other goods during the life cycle of the mankind.

The formal housing finance institutions play a key role in improving housing market and economic development. Financing for housing was not mandatory for the financial institutions till 20th century
in USA. The majority of US homes were self-financed, out of their own savings accumulated or from informal sources. However, during this time the demand for housing was limited as the population was small. During 1920, the urban population of the world was only around 15 percent out of 250 Million. (World Bank report 2009).

The World Bank has estimated that, the urban population growth between 2000 and 2030 will exceed 2 billion that is more than 8 times than the total urban population at the beginning of 20th Century. In 1950 there was only one city in USA i.e. New York, with a population of 10 Million it is estimated that by 2015, there will be 21 cities like New York and 17 out of 21 will be in developing countries by 2030 (world bank report 2009). Asia alone will have 2.7 billion people in cities. This increasing demographic trend means demand for housing should be met through improved housing finance system only. An effective housing finance system provides large number of external benefits to the economy, such as,

a. Improvement in overall living conditions for the families who access home and improve their housing quarters.

b. Improvement in urban infrastructure like schools, transportations, sanitation, roads etc.

c. Within the country, the housing finance enhances economic and social mobility both in Metros and Regional markets.

d. Improvement in labour market, mobility, diversity and accessibility.

e. Motivation towards household savings.

f. Increase in consumer spending and investment, financed by house owners borrowing against the value of their homes.

g. Good finance system provides more capital for entrepreneurs.
3.6 The Housing Finance System Adopted Globally:

Globally speaking housing and related activities have evinced an interest only in recent times. The increasing general interest in the housing sector and the housing policies received an additional stimulus by the publication of a government white paper on housing policy by the United States in 1970. Prior to this, housing was a much-neglected sector and was considered only as a private good. However, housing in recent times has not only being recognized as public good but has also been placed in the priority sector. The governments of various countries have adopted different policies and strategies time and again to provide shelter to the shelter-less.

On the basis of the policies adopted and the schemes implemented, the housing finance systems followed globally can be broadly classified into two systems.

1. The “Advanced/Developed countries model” and
2. The “Developing countries model”.

It is in this context that this chapter aims to comparatively discusses in detail the various housing finance systems followed globally in general and India in particular.

3.7. Developed/advanced countries:

The problem of housing is universal. The developed countries like other countries face housing problems in one form or the other. All nations regardless of their orientation tend towards free markets or central planning, and have adopted a variety of housing policies to overcome these problems. The production, distribution, consumption, financing and location of dwellings are controlled, regulated and subsidized in complex ways in these countries. In fact, compared to other
economic commodities, housing is the most tightly regulated of all the consumer goods. (Horseman and Quigley, 1991). The housing policies adopted in these countries are similar to certain extent but differ to a great extent. In this context that the housing policy/systems adopted by the developed/advanced countries can be grouped as:

- The European Countries’ Model/Government Model
- The Western Countries’ Model/Institutional/Market Oriented Model

The housing policies adopted in these countries have changed time and again in accordance to the need of the hour. The housing policy framework adopted by these countries can be traced to three different periods:

- The Post-World War Period
- Policy Development during the 1980’s period, and
- Housing Policies after 1990’s.

### 3.8 The European Countries Model/Government Model:

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

In the European housing context both the world wars have marked as turning points. The first world war was accompanied by a two-pronged approach. Firstly, when governments adopted regulatory frameworks aimed at rent levels and security of tenure of private rental housing and Secondly, when government embarked upon large-scale programs of subsidized housing. The Second World War caused the widespread destruction and cessation of new building for half a decade or more and the large-scale movements of population. All these contributed to a need to build quickly and in, large numbers. The standard response of the government was the mass building of social housing that conformed to wider, welfare state developments. Further, the oil crisis brought about a greater change in the housing policy. Now the construction program ceased to be aimed at the general population, and the emphasis was increasingly put on assisting the less well off and a switch from supply subsidies to demand subsidies. The essence of the housing policies during the post world war period was one in which the government saw its role as one of providing incentives for the owner-occupied sector, providing rented housing for those households unable to buy their own, assisting large families and the demolition or improvement of poor quality housing and a switch from new construction to maintenance and housing improvement.

The housing policies of 1980’s, which was influenced by the conservative government policies was a contrast to the policies adopted during the post-world war period. The housing policies implemented by the conservative governments during this period were somewhat at odds. In many
countries new house building programs were drawn up in response to the (international) crisis in the housing market and the subsequent decrease in the level of new construction. A number of tax reforms were introduced along with measures to cut back public expenditures; which resulted in a serious crisis in the owner-occupied sector. Specific changes were implemented in the housing policy during this period where there was a general withdrawal by governments from housing markets and a greater emphasis placed on deregulation. The policies of 1980’s were detrimental to a great extent, as it increased the housing costs, which had severe repercussions on the weaker sections of the society. This was due to the measures taken by the government to make housing more responsive to market forces. As a result of this, access to the non-profit rented housing was substantially curtailed in most of the countries forcing many to look to the qualitatively poorer private rented sector, Apart from this, there was a sharp rise in the short-term bed-and-breakfast-accommodation and the number of homeless. There were also many related problems like the problems of owner-occupied sector, which stagnated for some time and later declined to a great extent.

The housing policies adopted in the 1990’s were similar to the policies adopted earlier, except for a few developments. One of the major developments that took place during this period is the “Nota Volkshuisvesting Inde Jaren Negentig” a white paper on housing which although appeared as a discussion document during 1989 later came to be considered as a definitive policy proposal for the 1990’s. The most important aim of this housing policy was to permit the better functioning of the housing market. The government’s involvement in housing was justified in ensuring satisfactory quality of the housing offered, ensuring access to affordable housing of sufficient quality to the low-income groups, the need to ensure stability in the market and in the level of housing construction. ‘The White Paper on Housing’ while enshrining the role of the government in housing made a distinction between ‘planning aims and regulatory aims’. The principle behind housing planning was ensuring that adequate housing was, in the first instance the responsibility of residents and of others involved in the market. The key concepts of the policy are Deregulation, decentralization,
and self-reliance. Apart from these promoting favorable residential and environmental conditions, promoting owner-occupation, promoting experimentation, and promoting innovation. Priorities were also laid down for the regulatory function of the government in providing better housing.

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

3.9 The Western Countries Model/Institutional Model:

The institutions and Government basically back the housing finance system adopted in the western countries. The major players in the field of housing finance in these countries are: The Life Insurance Corporation, Chartered Banks, Loans and Mortgages Companies, Trust Companies, Credit Unions and the Non- Bank Financial Intermediaries. The institutional structure that exists in these countries has its origins in major federal initiatives of the Great Depression. The institutional
structure has various institutions or banks involved in financing housing. For instance, the United Federal Home Loan Bank (FHLBs) in the United States of America, the Commonwealth State Housing Agreements (CSHAs in Australia have been instrumental in providing finance for housing in these countries. Likewise, the Canada Mortgages and Housing Corporation (CMHC) provide financial assistance to housing in a big way in Canada. Institutions are therefore the most important suppliers of the housing finance in the western countries and the government intervenes only to facilitate that section of the people who are unable to acquire a shelter in the open market. Apart from this the government also frames the policies and implements them.

The instruments adopted to finance housing in the western/industrial countries are to a certain extent similar to the ones adopted by the European Countries, but different to large extent. Subsidies, Housing Allowances and Mortgages are generally the instruments adopted in these countries. Among these Subsidies play a major role in encouraging homeowners, and in providing dwellings to the low-income families. In some countries a dual subsidy system was adopted which consisted of ‘Direct subsidy’ and ‘Indirect subsidy’. Direct subsidy was in general a cash transfer to encourage home-ownership and indirect subsidies like tax exemptions, tax allowances, tax credits, tax rate relief etc., were provided to facilitate the low-income households. Housing Allowances prevalent in most of the countries are used to enhance the improvement in the housing conditions. Housing allowances like the Direct Subsidy is also a form of cash payments apart from these mortgages have also been used as the main instrument in the finance housing in the western countries. The mortgage market is really a series of overlapping sub-markets characterized by ‘One of a kind deal’. Mortgages are available from the various financial co-operatives providing housing finance. The competition among the mortgage lenders in the capital market increases the flow of funds to the Mortgage Institutions. The Secondary Mortgage Market (SMM), which was first introduced by the United States of America, has been predominant in many countries.
The need for a Secondary Mortgage Market was due to the fact that the existing single mortgage was not only illiquid but was also characterized by, short term, low percentage of purchase prices, not amortized and actually carried a high interest ratio. In some countries (Australia) a Quasi-Secondary Mortgage Market emerged, where activities were confined primarily to non-owner-occupied housing and commercial property. However, the aim to develop a Secondary Mortgage Market did not succeed as the interest terms of mortgages shortened to first 5 years and subsequently to 2 years and then to 1 year. More recently, the liquidity of mortgages has been improved with the development of Mortgage-Backed-Securities (MBS). The Western/Industrialized countries thus use various instruments to finance housing; of these the Subsidies and the Mortgages are the most widely used instruments.

3.10. The Developing Countries /Third World Countries Model:

Housing for various reasons has been considered a residual factor in most of the third world countries. This is because of the fact that, investments in agriculture and industry are given prime priority so as to make the economy economically sound, and only a marginal priority has been accorded to housing. The extraordinary characteristic of the developing countries is the rate at which the cities are growing. The cities are growing at such a great speed that it has been compressed into decades the urbanization process that has taken centuries in developed countries. The public authorities are striving hard to devise a wide range of policy instruments to meet the needs of people for shelter and urban services, and to allocate resources in ways that redistribute both the costs and benefits of urban growth. A distinctive feature of the housing in the third world countries is the growing imbalance between the growth in the number of households, and the number of units produced annually.
3.11. The Policy Framework for Housing in the Developing /Third World Countries:

The developing countries in the past three decades have formulated and implemented housing policies and programs so as to make housing accessible to all. The policy framework is influenced by not only supply and demand factors but also by foreign trade and other commercial policies. Apart from this, Fiscal policies play a critical role in determining the ability to mobilize resources for the growth and distribution of houses. The Government assistance has been designed so as to meet the welfare aspects and to offset market imperfections, which are too difficult to be attacked directly. However, the experience of most cities in developing countries suggests that existing approaches give insufficient weight to fostering institutions with a specialized knowledge of local conditions.

Public housing policies play an important role in the developing countries, in improving the housing conditions for the poor families. The public authorities aim at improving the overall housing development by making use of self-help and formal methods of construction in varying proportions. The public policy aims at providing public houses well located in relation to job opportunities. For instance, in Singapore and Hong Kong, public housing is well located in relation to industry. The “Flatted factories” for small-scale industry workers been built in the middle of labor-intensive industries have attracted the employment of more secondary family workers. Apart from this, the Governments in these countries play a dual role with regarding housing finance. The firstly, to encourage financial innovations for the provisions of housing finance to households on a financially viable basis, and secondly, to develop specific programs for the lower income households who could still contemplate some form of home-ownership with a major focus on urban infrastructure and services. The public housing policies designed to stimulate private housing
investments have been very few. A noticeable feature of the developing countries is that the small
and poor countries have yet to formulate their own urban housing policies. Finally the general
opinion is that the government’s policy of self-reliance in housing as in other sectors has been only
imaginative. This is because of the fact that there is the lack of capital and trained manpower
among other factors. Under such circumstances in most capital starved countries the responsibility
of the private sector in meeting the housing needs has been the immense.

The policies followed in the third world countries have laid a firm foundation for the
housing finance. The housing finance system adopted by the third world countries is exclusive. A
“three-tier-model” has been adopted to finance housing. This model appears to be a combination of
the Western and European countries model. The first tier is basically dominated by the public sector
where the government finances housing in general to the needy and the Economically Weaker
Sections (EWS) in particular. The institutional sources are the second source of housing finance,
whose role to a great extent is limited due to various constraints confronting it. And finally, the
informal sources which cater to large sections of the population. The former two sources of housing
finance form the formal sources and the latter forms the informal source. The formal housing sector
both in the public and private do not produce more than one-fifth of the new housing stock and the
remaining four-fifths has been produced informally with various degrees of illegality, ranging from
the unlawful occupation of land to the pervasive neglect of building codes, infrastructure standards,
and zoning regulations. The government frames its public housing policies in such a way so as to
provide shelter to the shelter less economically poor. The government provides finance to housing
through direct budgetary allocations. The government aims at providing housing finance on a
financially viable basis with an intention to encourage home-ownership among the lower income
households.
Institutional source of housing finance is the second tier of the housing finance in the developing countries. The institutional source constitutes of Building Societies, Housing or Mortgage Banks, Savings and loan Associations, as well as various other forms of housing finance institutions. Housing finance from this category generally account for 5 percent to 20 percent of the housing in developing countries (Okpala, 1994). But for some countries the institutional finance for housing accounts for less than 20 percent of the total housing investment. Mention must be made of the Asia-Pacific region, which is a leader among the developing countries in the successful institutionalization of housing finance development. However, in most of the developing countries as many as 90 percent of the institutions are established funded by the government (from treasury funds, subventions and annual budgetary allocations), and therefore function as government institutions and are used as instruments of government policy. The institutions as government instruments often has inadequate resources to financing housing, and are not able to be operationally flexible enough to benefit from the developments of the wider industry. The deposit and lending rates of the institutions are tightly regulated and controlled by government, which tends to make use of the interest rate mechanisms as a means of regulating the cost of credit that is the loan interest rate. Some of the developing countries have made efforts to strengthen housing finance in other ways, although the system is often not strongly integrated into the over all national finance system. However these institutions operate at the margin of the national financial market and are generally un-competitive and therefore are at a disadvantage in mobilization of savings. The formal housing finance constitutes a very small proportion of current demands in developing countries. The existing institutions are therefore, serving a minority of households at a high cost and with limited results (Renaund, 1984). Under these circumstances the goal of a sustainable institutional housing finance system is still far from being attained in the developing countries.
The third tier/source of housing finance is the informal/non-institutional finance. This source plays a major role in financing the housing in the developing countries. The informal/non-institutional source encompasses a major source and constitutes assistance from friends and relatives, family savings, loans from employers or from credit unions. A dominant portion of the housing finance is accounted by the informal non-institutional sources. It has been estimated that about 80 per cent of housing finance in the developing countries is still through the non-institutional source (Okpala, 1990). The size of the informal housing finance sector, although not known precisely has been widely acknowledged to be large, both in absolute terms and in relation to the formal financial channels. Due to this fact, a consensus was that the informal housing finance sector should be regarded as a positive and productive complement to the efforts in the formal sector. (Asian Development Bank, 1983). The trend of high informal housing finance in developing countries is strong and tends to persist and has even increased in recent years. The rise in the informal source has been due to the adverse macro-economic situation, which has caused extraordinarily high and rising mortgage interest rates in the formal housing finance institutions. The informal finance for housing exists due to the reason that it is more feasible, viable and convenient. This sub-sector of the housing finance is therefore increasingly acknowledged and recognized as a major source of housing finance. Appropriate government interventions although not necessarily directly related to finance, but rather to the creation of supportive environment to encourage informal sector, initiating effective policies with regard to land tenure, access to urban land, regulatory controls and other incentive mechanisms that leverage greater outputs from this sector makes the informal source for housing finance a viable source especially for the low income and the households belonging to the informal sector.

The developing countries use the full range of subsidies for financing housing. Among the various instruments used by the developing countries, subsidies, taxes, incentives and disincentives
are very important. The subsidies are different from taxes, and the subsidies are public outlets made to reduce the market rent or price of a dwelling. Subsidies may be Direct or Indirect subsidies. The direct subsidy is normally the difference between economic rent and market rent. Subsidies may include the foregoing of tax revenues. The indirect subsidies includes such items as housing finance below normal commercial rates and the provision of building materials at cost price. Taxes on the other hand, are all those charges, rates, fees, and duties charged by the public sector for housing privileges. These increase the rent or cost of `encouragement’ to housing which bring no loss of revenue or outlay of funds. Disincentives, on the other hand, are those restrictions, controls, and regulations, which tend to discourage development because they increase the cost of housing without increasing public revenues. The instruments used in the informal finance for housing is however, different from those used in the formal sector. The instruments used in the informal finance mainly comprises of face-to-face contact, verbal assurances, and in certain instances, pledging of crops, labour and certain movable and immovable assets.

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

The housing finance system adopted in India is a direct outcome of the various policies implemented. Like in other developing countries the financing of housing in India is also a complex issue. The Housing Finance System exhibits a deplorable picture with the challenging task of financing the weaker section and the disadvantaged groups, which the existing Housing Financial System is not capable of. In this backdrop, the World Bank has rightly observed that “India is an example of a yet undeveloped housing finance system operating in a centralized environment of close government control and relying on the capital markets rather than directly on the public for its resources” (W.B. paper No. 658). The Housing Finance System adopted in India is a Three-Tier Model, which includes the Budgetary Allocation by the Government of India, The Institutional Finance and the Non-Institutional Financial Sources.

Like USA and other developed countries, in India too, traditionally people build their houses out of their savings and borrowings from friends and relatives. Only after the proclamation of various housing policies the formal institutions started financing for housing. Financing for housing from the organized sectors accounted less than 30% of the total housing finance in the country, in result of which the contribution to the GDP is in proportion to 10%, as compared to Asian Countries like China (20%), Singapore (32%) and developed economies like US 81% and UK (88%) (Emkay research, HDFC), (Jan 2012). There is a remarkable improvement in GDP ratio in India compared to Asian countries, it was about 400 basis points improvement between 2005 to 2011 (it was in 2005 only 6% compared to 10% in 2011), this is because institutionalization of housing finance.
The reasons for stupendous growth in housing finance system in India, in recent times is due to.

(a) The increase in individual income,

(b) Urbanization including emergence of Tier I and Tier II cities in the country and evolution of nuclear family,

(c) Easily available housing finance,

(d) Tax incentive under Income Tax by Government (under Section 80 I).

It is estimated that the expected GDP/housing ratio will be 13% by end of financial year 2015 (Enkay).
3.13 The Major Sources in the Housing Finance in India

The major players housing finance in India can be broadly be classified as:

- Public Sector /Budgetary Allocations,
- Institutional sources and
- Informal sector/non-institutional sources.

The following chart shows the various sources of housing finance in India.

**Chart-3.1 –Housing Finance system**
3.14. Budgetary Allocation for Housing:

Housing under the Indian Constitution falls within the State list, as a result the government of the States and the Union Territories play a primary role in formulating specific action plans and programs suited to local needs and conditions. The federal and Inter-governmental nature of India influences the development of housing and urban policies. The Central Government introduces various social housing schemes and formulates the housing policies from time to time, that is to say the role of the Central Government vis-à-vis these schemes is confined to laying down broad principles, providing necessary advice and rendering financial assistance in the form of loans and subsidies to the State Governments/Union Territories. The Central Government determines its financial support for the States in its five-year-plans, and the finance is transferred to the States in the form of “Block Funds”. While allocating the funds there is a consideration to factors such as the population, needs of the state and some equalizations to compensate the states. Generally one-third of the inter-governmental funds are in the Central Government loans, and one-third from `matching’ requirements. The role of the finance commission is predominant in administering the Block Grants. Further, the central funding to the states comes on an adhoc basis from Central Ministries to initiate projects. The World Bank funding is brought within the inter-governmental framework, with the Central Government in turn lending to the states. In the case of World Bank funding the Central Government reduces its Block Allocation to the States by about 30 per cent. The central Government is also responsible for formulating of comprehensive Housing Policy and its effective implementation particularly in the areas of social housing schemes for the poor, weaker sections and low-income groups. The following table clearly indicates the budgetary allocation of the government through five year plan as a major contributor for housing.
Table 3.2: Investment in housing during various five year plan period (in crores)

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Total Investment in the Economy</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-55 I Plan</td>
<td>3,360</td>
<td>250</td>
<td>900</td>
<td>1150</td>
</tr>
<tr>
<td>1961-66 II Plan</td>
<td>10,400</td>
<td>425</td>
<td>1125</td>
<td>1550</td>
</tr>
<tr>
<td>1974-79 V Plan</td>
<td>47,561</td>
<td>796</td>
<td>3640</td>
<td>4436</td>
</tr>
<tr>
<td>1981-85 VI Plan</td>
<td>1,56,000</td>
<td>1491</td>
<td>18000</td>
<td>19491</td>
</tr>
<tr>
<td>1992-97 VIII Plan</td>
<td>7,98,000</td>
<td>7750</td>
<td>69746</td>
<td>77496</td>
</tr>
<tr>
<td>1997-2002 IX Plan</td>
<td>8,59,200</td>
<td>38000</td>
<td>112000</td>
<td>151000</td>
</tr>
<tr>
<td>2007-2012 XI Plan</td>
<td>36,44,718</td>
<td>507318</td>
<td>373560</td>
<td>880878</td>
</tr>
</tbody>
</table>

Source: Prominent Facts of Housing in India, NBO & UN Regional Housing Center for ESCAP, 1990, xi plan documents 2007-2012.

The total investment in housing during the various Five Year Plans has been discussed in the table above. The Total investment in housing during the first plan was around Rs. 1,150 crores which increased to Rs 1, 51,000 crores at the end of the Sixth Five Year Plan. However, by the end of the Eleventh Five Year Plan period the total allocation to housing from both the public and the private sector is around Rs. 8, 80,878 crores.

While the Central Government formulates the housing schemes, the State Governments are the actual implementing agencies. The State Governments and the Union Territory Administrations have been vested with full powers to formulate, sanction and execute the projects. They are also free to utilize the Central financial assistance for any State Plan Scheme according to their own requirements and priorities. The State Governments in turn have formulated their own schemes for
providing houses to the poor and those belonging to backward classes, besides, extending loans to Government employees for construction of their own houses. The State governments have been providing funds for construction of rental houses for Government employees and loans to State Housing Boards and other agencies for constructing houses for different income groups. The State Government provides funds for housing in three different ways viz,

1) Direct Expenditure on construction of rental houses for government Employees,

2) Loans to State Housing Boards or other agencies for constructing housing for different income groups and

3) Advances to Government employees for construction of their own houses.

The State Housing Boards play a predominant role in financing housing at the State level. As Governmental agencies these boards are instrumental in implementing the Government’s housing schemes for the EWS, LIG and the MIG. The Boards apart from building cheap houses for the weaker sections of the society, in some states are also entrusted with the execution of the Government’s Land Acquisition and Development schemes on behalf of local authorities or co-operative societies. However, the main objective of the Housing Boards was to sanction long-term loans to Housing Co-operatives or individuals for construction of houses on their own plots.

3.15. Housing and Urban Development Corporation (HUDCO):

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

The following table explains the financial assistance provided by the hudco for EWS and LIG for period 2007-2011/12
### Table: Financing for housing by HUDCO -2007-2011/12 (Amt. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No of scheme Sanctioned</th>
<th>Amount sanctioned</th>
<th>Amount Released</th>
<th>No of dwelling units</th>
<th>% of EWS and LIG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>306</td>
<td>13501</td>
<td>3754</td>
<td>98868</td>
<td>84.40</td>
</tr>
<tr>
<td>2008/09</td>
<td>192</td>
<td>14754</td>
<td>4020</td>
<td>114009</td>
<td>84.91</td>
</tr>
<tr>
<td>2009/10</td>
<td>145</td>
<td>16624</td>
<td>3098</td>
<td>297407</td>
<td>77.02</td>
</tr>
<tr>
<td>2010/11</td>
<td>134</td>
<td>19762</td>
<td>5105</td>
<td>295732</td>
<td>93.43</td>
</tr>
<tr>
<td>2011/12</td>
<td>130</td>
<td>20511</td>
<td>6905</td>
<td>422524</td>
<td>96.37</td>
</tr>
</tbody>
</table>

Source: 42 ND ANNUAL REPORT OF HUDCO 2011-2012

### 3.16. National Housing Bank (NHB):

The National Housing Bank was established in 1987 with the prime objectives of promoting a sound healthy, viable and cost effective housing finance system to cater to all segments of the population and to establish a network of housing finance outlets to adequately serve different regions and make housing more affordable. It also aims at upgrading the housing stock in the country and augments the supply of land and building materials for housing. The NHB for the purpose of achieving its objective has adopted a multi-agency approach with focus on promoting an efficient and responsive housing finance system. The Bank is presently channelizing housing finance credit through specialized branches of 21 recognized Housing Finance Companies (HFCs) along with existing network of banks and cooperatives.
The NHB mobilizes its resources from various sources. It raises its resources by Bonds/Debentures, by borrowing from RBI, Central Government approved Institutions or organizations, and from external agencies. Besides this, the Bank can also borrow from RBI’s Term Operational fund. The other sources include borrowings from LIC, UTI, and from the Housing guarantee program of USAID and OCEF of Japan. However, the Bank has also tried to mobilize funds by implementing various schemes from time and again. The Home Loan Account Scheme (HLAs), launched in July 1989, The NHB 9% Capital Gains Bonds Scheme in July 1990, and the NHB Voluntary Deposit Scheme launched in October 1991 are some of the schemes launched to mobilize savings. Of the various schemes the most noteworthy is the Home Loan Account Scheme (HLAS) of the NHB. The scheme is a loan linked saving scheme for the households with an objective of promoting the habit of saving specifically for acquiring a house and to provide loans at cheaper rates particularly to the low-income groups. The scheme was launched initially in July 1989, through Scheduled Banks. Subsequently, the scheme has been extended to all eligible Housing Finance Companies and Apex Cooperative Housing Finance Societies. Under the Home Loan Account Scheme of NHB, designated banks and recognized Housing Finance Companies, are authorized to collect savings from potential home-owners, to whichever income strata they may belong, in advance of their decision to acquire a house/flat. The minimum contribution to this scheme is Rs. 30 per month or 1 Re per day, however there is ceiling on the amount that can be saved. The amount saved under this scheme earns an interest of 10 per cent per annum and the individual is eligible for a loan after a period of 5 years. He is eligible for a loan in multiples of this accumulated savings, including interest depending on the amount of loan he requires.

3.16.1. Refinance Schemes of the NHB:

The Bank’s financial assistance is directed primarily towards the Housing Finance Companies, the Cooperative Sector Institutions that include Apex Cooperative Housing Finance Societies (ACHFS)
and the Agriculture and Rural Development Banks (ARDBs). The total financial assistance disbursed by the Bank during the year 1997-98 was to the extent of Rs532.98 crores. Of this, 78.21 per cent has been provided to the Cooperative Sector Institutions, which include the ACHFS and the ARDBS, around 5.45 per cent to Scheduled Banks and 0.5 percent as direct finance to the public agencies and local bodies set up by the Central/State Governments the various schemes that are funded by the NHB are:

Table.3.4. NHB Refinance Disbursements to various institutions for last two year
(Amt. in Crore)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2010-2011</th>
<th>2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Companies</td>
<td>3308.67</td>
<td>5302.13</td>
</tr>
<tr>
<td>Scheduled Commercial</td>
<td>8112.00</td>
<td>8851.42</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>134.12</td>
<td>143.04</td>
</tr>
<tr>
<td>Cooperative Sector</td>
<td>168.00</td>
<td>93.32</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11722.79</td>
<td>14389.91</td>
</tr>
</tbody>
</table>

Source: NHB, Report on Trend and Progress of Housing in India, 2012

The Bank provides refinance to the Land Development and Shelter Project, in which refinance assistance is provided for acquisition of land, lying of infrastructure and construction of houses. Preference will be given to the projects implemented in rural areas and small and medium towns. Special preference will be given to the Home Loan Account holders. By June 30th 1996 NHB had approved 218 projects with a total project outlay of Rs. 679.13 crore and a loan component of Rs. 519.23 crores (NHB report 1996). The Bank also provides refinance to the Rental Housings Schemes of the various public and private institutions, which provide housing to its employees. Special preference will be given to the disadvantaged groups such as workingwomen, Public Housing, and plantation workers. The refinance provided is to the extent of 100 per cent of the cost of construction or 75 per cent of the project cost whichever is lesser. The Bank will provide
refinance to Housing Cooperative societies engaged in building flats/houses or providing infrastructure for their members. Further the Bank also provides refinance assistance to professional developers. Preference will be given to the project on land allotted to a developer by a public agency and where trunk/peripheral infrastructure is available. The Slum Redevelopment Schemes are among the important schemes that have been refinanced by the Bank. It provides refinance to eligible institutions for slum development and low cost housing programs executed by public agencies, local bodies and non-governmental organizations in conformity with the NHB’s guidelines. It also extends financial assistance directly to public agencies undertaking the projects. The Bank recognizing the importance of providing housing to the women has introduced a scheme to offer financial assistance directly for integrated shelter projects of public agencies and local bodies for disadvantaged groups of women. The schemes covers the projects for the disadvantage group of women workers engaged in scavenging, tea/coffee/rubber plantation, bidi-making, weaving, cultivation etc., and the integrated housing projects of registered women societies/women workers association under the umbrella of the NGO.

3.17. Institutional Source of Housing Finance in India:

The role of institutions in financing housing has been strengthened by the conference of Housing Ministers (Srinagar, 1987), which resolved that the financial need for housing cannot be met solely by the government’s Budgetary Support and therefore, it recommended the increased level of contribution by institutions in financing housing. As a result many institutions have come to the forefront both in the public and private sector in financing housing. The institutions playing a major role in financing housing can be broadly categorized as,

- The General Finance Institutions and
- The Specialized House Finance Institutions.
3.18. General housing Finance Institutions:

The General Finance Institutions are the institutions catering to a wide spectrum of sectors, apart from catering to the housing sector. The major players in this category are:

The Life Insurance Corporation (LIC) of India,

The General Insurance Corporation of India (GIC),

Unit Trust of India (UTI), Provident Fund (PF),

The Housing Co-operatives

The Scheduled Commercial Banks.

3.19. The Life Insurance Corporation of India (LIC)

The Life Insurance Corporation of India (LIC) has been playing significant role in financing housing. It provides the single largest source of funds for house construction. The LIC has been financing housing both directly and indirectly. It has been responsible in achieving certain social objectives, which has been enhanced after its nationalization in 1956. The LIC is statutorily required to invest 25 per cent of the net accretion in Socially Oriented Schemes like Housing, Electrification, water supply, sewerage, construction of roads and industrial estates. The LIC has introduced various schemes for providing assistance to housing. Besides, subscribing to the bonds/debentures floated by the HUDCO and State Housing Boards/Development Authorities, it grants direct finance to State Governments for financing their Social Housing Schemes for different income groups with special thrust on Rural Housing Projects, it also grants special loans to State Governments for reconstructing and repairing the houses damaged by natural calamities like flood, cyclone, earthquake etc. The LIC also provides financial assistance to the various Housing Boards in various states for constructing houses for the The Life Insurance Corporation of India (LIC)
The Life Insurance Corporation of India (LIC) has been playing a significant role in financing housing. It provides the single largest source of funds for house construction. The LIC has been financing housing both directly and indirectly. It has been responsible in achieving certain social objectives, which has been enhanced after its nationalization in 1956. The LIC is statutorily required to invest 25 per cent of the net accretion in Socially Oriented Schemes like Housing, Electrification, water supply, sewerage, construction of roads and industrial estates. The LIC has introduced various schemes for providing assistance to housing. Besides, subscribing to the bonds/debentures floated by the HUDCO and State Housing Economically Weaker Sections (EWS), Low Income Groups (LIG), and the Middle Income Groups (MIG), apart from this it has also provided finance to the State Co-operative Housing Finance Societies (SCHFS). The LIC has played a vital role in granting a sizeable amount of financial assistance to the Apex Co-operative Housing Finance Societies (ACHFS) in Andhra Pradesh and Karnataka for financing low cost housing schemes meant for the Scheduled Castes and Scheduled Tribes. The LIC has refinanced to ACHFS around Rs. 3620.26 crores in 2008-09, like-wise, the LIC has refinanced around Rs.3707.83 crores 2010-11. In addition to this the LIC also provides finance to the general public to construct houses of their own against the `First Legal Mortgage’ of immovable properties to the maximum extent of 50 per cent of the value of the property. The other schemes introduced by LIC were the ‘Own your Home Scheme’ to help the policyholders to acquire houses for their occupation, and the “Own your Apartment” scheme. The public limited companies were also provided finance to enable its staff to construct houses for them and to the Housing Co-operative Societies (HCS) formed by the employees of the Universities and the Private Limited Companies. LIC has also undertaken the responsibility of construction of townships on commercial basis, mainly for its policyholders belonging to the MIG and LIG.

LIC has been instrumental in introducing various schemes to benefit the weaker sections. However, the overall investment in housing is not very encouraging. The contribution of LIC towards housing during the period 1982-83 to 1990-91 was in the range of 10 per cent to 15 percent of their funds. The report of the Working Group for Urban Housing for the Ninth Plan Period further identifies that the growth has further declined. While the growth in the investible funds of LIC during 1992-93 has been around 20 per cent, the contribution to the housing sector has declined from 16 per cent to 13 per cent, The estimated growth of the investible funds in housing is to the extent of Rs4, 500 crores during the ninth plan period of which Rs.630
crores to allocated to the State Agencies, Rs.3, 285 crores to various institutions and the remaining Rs.585 crores to individuals (NHB, 1996). Of recently the LIC has promoted a Housing Finance Company as its subsidiary in June 1989, for the purpose of financing housing. The contribution of the LIC Housing Finance (LICHF) for the period 1995 to 2000 shows that there is an increase in the amount financed from Rs.1, 672.05 crores, in 1995 to Rs4, 379.37 crores in 2000. AS on 31.3.2012 the total housing loan sanctions by LICHF Rs. 1, 02,069.33 crores and disbursed Rs.92, 074.86 crores. However, when compared with the total investible funds the percentage invested is of a negligible. The LICHF given the present conditions has been projected to play a major role in financing housing in the years to come. During

3.20. General Insurance Corporation (GIC):

The GIC has been financing housing since a long period. It started financing house-building activities after it took over the management of General Insurance Companies on May 13, 1971. The subsequent nationalization of GIC in January 1, 1973 further enhanced its responsibility. The GIC and its subsidiaries are required to invest 35 per cent of their annual accretions by way of loans to socially oriented sectors including housing for economically weaker sections as per the guidelines issued by the Government of India. The GIC supports housing indirectly by way of subscribing to bonds/debentures floated by HUDCO and State Housing Boards/Development Authorities. Of recently GIC has commenced a subsidiary Housing Finance Company called GIC GRIH Vita Ltd., in July 1990, to enable it to lend directly to individuals. As per the observations of the Working Group for the Urban Housing for the ninth plan period the contribution of GIC towards housing in the last three years of the Eight Five Year Plan is more than satisfactory and is expected to provide Rs. 1000 Crore during the ninth plan period, of which Rs. 400 crores will be allocated to the State Agencies, and the remaining Rs. 600 crores to various institutions. (NHB, 1996).
3.21. Provident Fund:

Provident Fund has been one of the important sources of housing finance in the formal sector. The Provident Fund (PF) is basically a social security measure and hence its essential purpose is to accord protection to the workers to meet their family responsibilities. Among the various purposes for which the Government permits grant of non-refundable advances by the Provident Fund Organization to the employees, grant of advances for construction or purchase of a house is one such purpose. However, the role of the Provident Fund in providing assistance for housing is insignificant in relation to the size of annual net accretions to these funds. The grant for housing accounted for about 25 per cent of the total advances in year 1988 (RBI, report 1978). The advances by the Provident Fund to housing are however very negligible. The contribution of GIC to the housing sector was 0.35 per cent in 1971-72, and 0.89 percent in 1975-76. However the overall investment in housing to the total advances is relatively low. During the period 1971-72 out of the total advances of 1.25 only 0.35 was advanced to housing. Likewise, during the period 1975-76 of the total advances of 2.86 only 0.89 per cent was advanced to the housing. Efforts have been made to increase the role of Provident Fund in providing assistance for housing by suitably amending the rules of withdrawal. The Provident Fund continues to provide housing advances to the subscribers out of its annual net accretion to the controlled funds. The contribution of the Provident Fund is estimated at Rs. 5000 crore during the ninth plan period (NHB report, 1996).

3.22. Housing Development Finance Corporation (HDFC):

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

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

The paid up shares is one of the major source of funds to the HDFC. The percentage of paid up shares in 1989 was to the extent of 11.26, However there was a drastic decline in 1999(0.95) The percentage share of the Unsecured loans has been the single largest source of funds to the Corporation, while the extent of unsecured loans in 1998 was 46.96 percent, its share marginally increased to 49.93 per cent in 1999. Next to the Unsecured Loans the Secured Loans have also been contributing to a great extent to the funds of the Corporation. The resources mobilized by the Corporation will be allocated as loans, fixed assets, investments, current assets, loans and advances. The Balance Sheet of the Corporation shows the disbursement of the resources. The major portion of the funds is disbursed as loans. During the year 1999 65.20 per cent of loans were disbursed followed by Investments (19.47)

HDFC is basically a private sector organization is profit focused and hence has been catering to a greater extent to those who have the repaying capacity especially the high-income groups. However, in order to provide finance for low-income groups on reasonable terms, the Corporation
would create a Building Fund by transferring every year 10 per cent of its profit after tax. This fund would be used for providing interest subsidy on housing loans extended to the low-income groups. The schemes financed by the HDFC cover a wide spectrum of objectives. The Corporation extends loans to individuals for buying or constructing a home. Apart from this it also finances home improvement, which enables beneficiaries to undertake internal and external repairs and other structural improvements. The home extension loans are extended for making additions to an existing house. Land purchase loans to acquire land and short-term bridging loans are made available for the interim period between the purchase of a new house and sale of the old house. The Corporation facilitates developers through its advanced processing facilities assisting individuals in house purchase decision, enhancing the salability of a developer’s project and facilitates the flow of consistent finance to a developer through his buyers. The ‘Property Services Group’ of HDFC assists a developer in selling units to individuals or institutions. To enable the proper assistance, the Corporation has recently commenced two wholly-owned subsidiaries, The ‘HDFC Developers Limited’ carrying on business of real estate development and construction, and ‘HDFC Investments Limited’ carrying on business of Investments in Stocks, shares, debentures and other securities.

There are various institutions in the private sector other than the HDFC, which have been playing a major role in financing housing in India. Mention may made of Gujarat Rural Housing Finance Corporation Limited (GRUH), Hind Finance Industries and Investments Ltd., CANFIN Homes Ltd, Housing Promotion and Finance Corporation Private Ltd., which has now been known as SBI Home Finance Ltd., PNB Housing Finance Ltd., and others.

3.23. Housing Co-operatives:

Housing cooperatives in India have been playing a major role in providing finance to housing. The Government in order to provide sufficient funds for housing considered it necessary to use
cooperative societies for implementation of its housing policies and to encourage housing to a
greater extent. The first cooperative housing society was set up in 1909 in Mysore State (now
Karnataka) and was known as the `Bangalore Building Cooperative Society’, which was followed
by Bombay State (now Maharastra), which formed a non-official body in 1913 known as the
`Bombay Cooperative Housing Association’. Today the housing cooperative has emerged as an
important credit delivery channel in the rural as well as urban areas. Cooperatives have been
acknowledged as the best suited organizational set up for achieving the important social objective of
providing shelter to poor and needy people at reasonable cost. The role of the cooperatives in the
housing sector is becoming increasingly important under the ongoing economic reforms. Before the
establishment of the National Housing Bank in 1988, there were two main types of financial
institutions in the cooperative sector, VIZ, the Cooperative Housing Finance Societies and the
Cooperative Banks. The Cooperative Housing has two-tier levels; the primary societies usually
cater at the grass root level and apex societies at the State level. While the primary housing
cooperative through their vast network are in a position to deliver sizeable amount of credit for
constructing new houses and improving old housing stock. The Apex Cooperative Housing
Societies function at the states and union territories level. The extent of credit from these
cooperatives was around 72.8 percent of housing needs. Likewise the total membership was 41.54
lakhs and the number of members covered was 13.05 lakhs. However, a huge credit gap to the
extent of around 68.5 per cent existed unattended.

The Housing Cooperative societies mobilize resources from various sources, like the share capital
subscribed by their members, the primary societies, state governments, individuals, loans from the
Life Insurance Corporation, refinance from NHB, borrowings from Commercial Banks,
Cooperative Banks, HUDCO and others. The Housing Cooperatives also issue debentures in times
of need.
The following table discusses the cumulative lending of the Apex Cooperative Housing Federation to housing. The total amount of the loan disbursed in 2005-06 was to the tune of Rs. 520 crores which has increased to a whooping Rs. 11,104.26 crores in 2010-11.

Table: 3.5. Lending of Apex co-operative housing Federation (cumulative) Amt. in crores

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Loan Sanctioned</th>
<th>Loan disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>529.80</td>
<td>520.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>10603.65</td>
<td>10125.22</td>
</tr>
<tr>
<td>2007-08</td>
<td>10958.87</td>
<td>10440.57</td>
</tr>
<tr>
<td>2008-09</td>
<td>11185.36</td>
<td>10709.36</td>
</tr>
<tr>
<td>2009-10</td>
<td>11396.63</td>
<td>10908.80</td>
</tr>
<tr>
<td>2010-11</td>
<td>11610.85</td>
<td>11104.26</td>
</tr>
</tbody>
</table>

Source: NHB Report on trend and progress of housing in INDIA 2011

3.24. Informal Source of Funds:

Apart from the Formal sources of finance, there exists another source, which is contributing to a great extent to the financing of housing in India. According to estimates the informal sources have been contributing nearly 60 to 65 percent to housing finance. In the absence of a strong and liberalized formal finance mechanism, and a stable savings linked resource base the formal sector has been unable to cater to the needs of the people in general and the Economically Weaker Sections and Low Income Group in particular. It is at this juncture that the informal source of housing finance has come to thrive which has simplified procedures, easy approachability, and easy accessibility. The informal sources include the savings, bank deposits, disposal of immovable and movable assets, external sources such as relatives, friends and indigenous credit markets, chit funds and others. Thus the failure of the Formal Housing Finance System has paved the way for the existence and thriving of the Informal source of housing finance.
PART –C

3.16. The Role of Commercial Banks:

The Commercial Banks in India which are the largest mobilizer of the household savings in the country play a predominant role not only, in the development of the agricultural and industrial sectors, but also in the development of housing. The commercial Banks came to be more responsive to the social needs of the community only after the introduction of the social control over them in 1968. Previously, the commercial banks were reluctant to tie up their short-term resources for long term lending because there was no rational policy to induce them to lend for housing. Although, the commercial banks were indirectly assisting the financing of housing by subscribing to the bonds/debentures of the HUDCO and other Housing Boards, it was only in the wake of the Report of the Working Group on the Role of Banking System in providing finance for housing schemes that banks came to directly finance housing. (R.C. Shah Working Group, RBI report, 1978). The RBI issued the first set of housing finance guidelines to the Scheduled Commercial Banks (SCB) with a view to involve them in providing housing finance for certain types of housing schemes for the benefit of weaker sections of the society. Further, the Twenty-Point Programme of Government of India in 1975 laid a firm foundation for the entry of the commercial banks into the housing sector. All these factors are responsible for the commercial banks to enter the housing sector in a big way.

The RBI has directed the banks to earmark funds for the purpose of housing exclusively at 0.50 percent of their incremental deposit of the previous financial year this has continued between 1976 to 1989-90. From the financial of 1990-91 all scheduled commercial banks were advised by RBI to earmark their incremental deposit of previous year at 1.50 per cent and again there was revision up to 3.00 percent during 1999-2000. However, the banks are now liberalized to finance without any restrictions housing.
The commercial banks provide finance to housing on the guidelines of the RBI. The commercial banks disburse their funds for housing both directly and indirectly. Indirectly, it finances housing by way of subscribing to the bonds/debentures of HUDCO, and other Housing Boards and directly by providing finance to individuals for construction of their own houses. In 1982 the RBI, allocated Rs.150 crores to housing. Of the Rs.150 crores the commercial banks were advised to utilize Rs.65 crores for the direct finance and the remaining Rs. 85 crores for indirect financing. Apart from this, Rs. 10 crores was to be provided to assist the victims of flood in Gujarat for reconstructing and repairing their dwelling.

3.17. Priority Sector Lending:

The commercial banks have considered advancing to housing as a ‘priority sector lending’. However, prior to 1969 housing loans were considered as personal loans and therefore, much importance was not given to housing finance. The National Credit Council meeting held during July 1968 emphasized that the commercial banks should increase their lending to the priority sector which includes agriculture, SSI, and other segments such as small businesses, retail trade, small road and water transport operators, professional and self-employed persons, housing, education loans, micro credit, software, among others.

The commercial banks have been directed by RBI time and again to adopt various yardsticks to finance housing under the umbrella of priority sector. Like-wise,

- Direct housing loans to individuals by banks up to Rs.25 lakhs for construction of houses in urban and metropolitan areas will be eligible for inclusion under Priority Sector.
- Banks with the approval of their Boards are eligible to extend direct housing loans to the extent of Rs.25 lakhs in the rural and semi-urban areas, which has been considered as part of Priority Sector advances.
Loans granted for repairs by the banks to the extent of Rs.1 lakh in rural areas and Rs.2 lakh in semi urban areas and urban areas, additions and alterations to housing by the individual borrowers, have also been reckoned as priority Sector advances.

Assistance granted to any governmental agency for the purpose of construction of houses not exceeding Rs.5 lakh per unit and all advances for slum clearance and rehabilitation of slum dwellers would be classified as priority sector advances and advances for the weaker sections.

The following table indicates that the advances towards housing loan under priority sector have occupied major portion of priority sector basket. During 2007 out of the total priority sector lending around of 32.49 per cent of total Bank loan Outstanding, the share of housing was 25.58 per cent. However, there was a decline in the priority sector lending to housing in 2011 to 12.08 per cent as per the directions of the RBI to concentrate and divert the excess funds towards the other priority sectors.

**Table: 3.6. Housing Finance visa-a visa other priority sector advances**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Bank loan Outstanding</td>
<td>1947099</td>
<td>2417096</td>
<td>2847713</td>
<td>3345160</td>
<td>4075647</td>
</tr>
<tr>
<td>Total priority sector Advance</td>
<td>632647 (32.49)</td>
<td>1079954 (44.68)</td>
<td>1318611 (46.30)</td>
<td>1647673 (49.25)</td>
<td>1909131 (46.84)</td>
</tr>
<tr>
<td>Agriculture &amp; Allied Activities</td>
<td>120180</td>
<td>275343</td>
<td>25.49</td>
<td>338566</td>
<td>25.69</td>
</tr>
<tr>
<td>Micro &amp; Small Enterprises</td>
<td>116908</td>
<td>204892</td>
<td>18.97</td>
<td>259998</td>
<td>19.72</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-</td>
<td>-</td>
<td>132698</td>
<td>12.28</td>
<td>168997</td>
</tr>
<tr>
<td>Services</td>
<td>-</td>
<td>72194</td>
<td>6.68</td>
<td>91000</td>
<td>6.90</td>
</tr>
<tr>
<td>Housing</td>
<td>161832</td>
<td>180715</td>
<td>16.73</td>
<td>197110</td>
<td>14.65</td>
</tr>
<tr>
<td>Micro-Credit</td>
<td>-</td>
<td>13337</td>
<td>1.23</td>
<td>16579</td>
<td>1.25</td>
</tr>
<tr>
<td>Education Loans</td>
<td>-</td>
<td>10492</td>
<td>1.84</td>
<td>37681</td>
<td>2.11</td>
</tr>
<tr>
<td>State-sponsored Orgs. for SC/ST</td>
<td>-</td>
<td>1701</td>
<td>0.15</td>
<td>2451</td>
<td>0.18</td>
</tr>
<tr>
<td>Weaker Sections</td>
<td>-</td>
<td>106714</td>
<td>9.88</td>
<td>139422</td>
<td>19.57</td>
</tr>
<tr>
<td>Export Credit</td>
<td>-</td>
<td>32333</td>
<td>2.33</td>
<td>7339</td>
<td>1.07</td>
</tr>
<tr>
<td>Others</td>
<td>123727</td>
<td>47185</td>
<td>4.57</td>
<td>49585</td>
<td>3.73</td>
</tr>
</tbody>
</table>

*Due to non-availability data as on March 2010 figures are as on April 2010
Source: RBI Statistical Table Relating to Banks in India 2007-2011
Although the commercial banks have been playing a major role in advancing loans to housing, the overall performance of the different Scheduled Commercial Banks is far from satisfactory. The percentage of lending by the commercial banks was around 4.71 per cent in 2001, has increased to 11.75 percent during 2007. However, there is decline in financing for housing by the banks drastically from 2007 onwards after the subprime crisis of USA.to 2007, which has further declined to 8.48 per cent during 2011.

The following table gives a picture of the housing finance provided by the Scheduled Commercial Banks.

**Table: 3.7 : Extent of Housing Finance by Schedule Commercial Banks from FY2001-2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Bank Credit Outstanding</th>
<th>Credit outstanding to Housing Finance</th>
<th>Percentage of Housing Finance to total Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>538433</td>
<td>25412</td>
<td>4.71</td>
</tr>
<tr>
<td>2002</td>
<td>655993</td>
<td>32825</td>
<td>5.00</td>
</tr>
<tr>
<td>2003</td>
<td>855968</td>
<td>49066</td>
<td>6.49</td>
</tr>
<tr>
<td>2004</td>
<td>880312</td>
<td>85346</td>
<td>9.69</td>
</tr>
<tr>
<td>2005</td>
<td>1152467</td>
<td>126797</td>
<td>11.00</td>
</tr>
<tr>
<td>2006</td>
<td>1513842</td>
<td>182167</td>
<td>12.03</td>
</tr>
<tr>
<td>2007</td>
<td>1947099</td>
<td>228923</td>
<td>11.75</td>
</tr>
<tr>
<td>2008</td>
<td>2417006</td>
<td>248434</td>
<td>10.27</td>
</tr>
<tr>
<td>2009</td>
<td>2847713</td>
<td>284750</td>
<td>9.99</td>
</tr>
<tr>
<td>2010</td>
<td>3345169</td>
<td>306306</td>
<td>9.15</td>
</tr>
<tr>
<td>2011</td>
<td>4075647</td>
<td>345931</td>
<td>8.48</td>
</tr>
</tbody>
</table>

*Source: Basic Statistical Returns of Schedule Commercial Banks in India RBI 2001-2011.*

The Commercial Banks entrusted with the social responsibility of catering to the weaker sections of society, has established a wide network of branches both in rural and urban areas. The area-wise distribution of the credit by the commercial banks gives an insight into the extent of funds provided by them to different areas.
The following table discusses the area-wise allocation of the advances by the SCBs during the period 2001-2011. The SCBS during this period have been catering more to the metropolitan areas, and to certain extent, to the urban areas than the rural and the semi-urban areas. The advances to the Metropolitan areas has increased from 39.14 percent in 2001 to 48.71 per cent in 2011, however, the advances to the urban areas have gradually declined from 29.22 per cent in 2001 to 27.81 per cent in 2011. Like-wise, the lending to the semi-urban areas has also declined from 21.66 percent to 16.01 per cent, and 9.96 per cent to 7.45 percent in the rural areas during the same period.

**Table 3.8: Area-Wise Allocation of Credit by All Scheduled Commercial banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural (Cr.)</th>
<th>Semi-Urban (Cr.)</th>
<th>Urban (Cr.)</th>
<th>Metropolitan (Cr.)</th>
<th>Total Credit outstanding (Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2533 (9.96)</td>
<td>5506 (21.66)</td>
<td>7425 (29.22)</td>
<td>9946 (39.14)</td>
<td>25410</td>
</tr>
<tr>
<td>2002</td>
<td>3159 (9.62)</td>
<td>6894 (20.39)</td>
<td>9790 (29.82)</td>
<td>13181 (40.15)</td>
<td>32824</td>
</tr>
<tr>
<td>2003</td>
<td>5386 (10.97)</td>
<td>9570 (19.50)</td>
<td>14164 (28.86)</td>
<td>19045 (40.64)</td>
<td>49065</td>
</tr>
<tr>
<td>2004</td>
<td>7712 (9.03)</td>
<td>13711 (16.05)</td>
<td>23073 (27.03)</td>
<td>40850 (47.56)</td>
<td>85346</td>
</tr>
<tr>
<td>2005</td>
<td>13024 (10.27)</td>
<td>19284 (15.20)</td>
<td>34506 (27.21)</td>
<td>59981 (47.30)</td>
<td>128795</td>
</tr>
<tr>
<td>2006</td>
<td>18213 (9.99)</td>
<td>23928 (13.13)</td>
<td>45829 (25.15)</td>
<td>94195 (51.70)</td>
<td>182165</td>
</tr>
<tr>
<td>2007</td>
<td>20023 (8.74)</td>
<td>28364 (12.38)</td>
<td>55855 (24.24)</td>
<td>124677 (54.46)</td>
<td>228922</td>
</tr>
<tr>
<td>2008</td>
<td>27502 (11.07)</td>
<td>32335 (13.01)</td>
<td>65456 (26.34)</td>
<td>123138 (49.50)</td>
<td>248434</td>
</tr>
<tr>
<td>2009</td>
<td>20288 (7.12)</td>
<td>40276 (14.14)</td>
<td>76048 (26.70)</td>
<td>148137 (52.02)</td>
<td>284749</td>
</tr>
<tr>
<td>2010</td>
<td>25098 (8.19)</td>
<td>48466 (15.82)</td>
<td>84064 (27.44)</td>
<td>148677 (48.53)</td>
<td>306305</td>
</tr>
<tr>
<td>2011</td>
<td>25777 (7.45)</td>
<td>55407 (16.01)</td>
<td>96220 (27.81)</td>
<td>168526 (48.71)</td>
<td>345930</td>
</tr>
</tbody>
</table>

*Source:* Basic Statistical Returns of Schedule Commercial Banks in India, RBI, 2001-2011
3.18. Conclusion:

To conclude, the findings of this chapter discusses the need for housing as a basic necessity of mankind, and that every country has been giving utmost importance to provide housing to their citizens. The countries are adopting different finance systems to cater to the largest number of the population. While most of the European countries have adopted the Government Allocation Model to finance housing, the Western and the more industrialized countries have adopted the institutional method. However, the developing countries have adopted the three-tier model where in the housing finance comes by way of the Government’s Budgetary Allocation, the Institutional sources both in the public and the private sector and finally the Informal or the non-institutional sources. So far the SCBs which are the largest mobilisers of deposits have been playing an important role in financing housing in India, especially after the nationalization of the banks and fixing a social responsibility by the RBI and the Government.