CHAPTER-1
HOUSING FINANCE IN INDIA

I- INTRODUCTION:

Housing or shelter is the basic need of human being. This is accepted by the civilized society. Housing is an enigma to the developing countries; it is simultaneously the hardest problem to solve. Housing has commonly acquired a product dimension which essentially professes the existing housing stock and ways and means by the agencies to provide more housing. Man is always fascinated by the acquisition of a house. But the greed to acquire a house for economic reason or to accrue wealth out of a house has given a new dimension to housing.

1) Concept of Housing:

The word ‘housing’ can be used as a noun or as a verb. When used as a noun, housing describes a commodity or product. The verb to ‘house’ describes the process or activity of housing. Whereas shelter is place or house whereas person lives.

The concept of housing connotes a dwelling place owned and controlled, constructed by the occupants themselves or by any other but enjoyed for the time being. The main ingredients of concept of housing are:

i. A residential house;
ii. Constructed by the occupants or by any other and
iii. Having minimum living facilities.

Housing is not just a question of house. But, a world of community and cosmos for building and nurturing. Thus, for maintaining social, cultural, economic and political systems which permit human beings not just to survive, but hopefully to proper\textsuperscript{1}.

In the hierarchy of basic human needs, shelter occupies third place only after food and clothing. According to Maslow’s need hierarchy theory, after the satisfaction of one want; another want will arise for human being. This implies that an individual
after satisfaction of food and clothing needs thinks of the house or good accommodation.

2) Importance of Housing:

Housing being one of the basic needs and an indicator of the quality of life that a citizen enjoys, it also helps in creating conditions conducive to the achievement of crucial goals in matters pertaining to education, health, sanitation and the living standards of the people. In several developing nations including India, house is a work place. As such better housing facilities would mean improved productivity.

Housing activity involving the productive investment, promotes economic activities and thereby substantial employment opportunities. Adequate shelter implies more than a roof over one’s head, which includes adequate privacy, adequate security, space, adequate ventilation, lightening, adequate basic infrastructure and location with regard to work and basic facilities at reasonable cost.

Shelter provision triggers additional investment and employment in building materials, production, transport and marketing. According to International Institute for Environment and Development (IIED), London, “habitat must mean social, economic and political security must include safe, healthy and affordable shelter, a neighborhood providing health care, child care, education, piped water, sanitation, transport and access to adequate livelihood”.

India has also been experiencing a spectacular growth in its urban population and in the number and size of its Cities. India’s urban population which was mere 26 million at the beginning of the century had by the year 1991 reached the figure of 84, 63, 02,688. By the year 2001 A.D the population of India was 101,24,00,000 and by the year 2011 the population of India reached to its peak of 121,00,00,000. It is expected that the urban population will reach the figure of 141, 00,00,000 by the year 2021.
Housing creates self employment opportunities in countries with substantial under utilized labor, material and financial resources. Housing can make use of such resources at low cost. It is recognized as a profitable investment proposal, since the net asset value increases year after year.

Lavish, luxurious homes are planned by a few people for they have excessive funds which they otherwise cannot utilize. For instance, the accumulated tax evaded income (i.e black money) goes into the investment in the house construction, whatever maybe the source of funds. Many feel pride, peace, contentment and physical as well as economic security by possessing the house. The significance of housing from commercial point of view is one of the important sources of earning for those who have got utilizable excessive funds. By constructing house for rental purpose, people earn constant incomes for generations together. People may go for housing together by transferring unproductive savings in the form of gold and other property. The low income yield on the investment is largely compensated by the rise in the net value of the properties.5

II- HOUSING IN INDIA

Housing apart from serving the basic aim of providing shelter, plays an important role in achieving some of the socio-economic objectives of the nation. The National Planning Commission observed that “in fulfilling the basic needs of the population, housing ranks next only to food and clothing importance”. Minimum standard of housing is essential for healthy and civilized existence.

The National importance of housing could be analyzed in terms of:
1. Contribution to GDP.
2. Capital Formation.

1) Contribution to GDP:

Housing increases the quantum of national income also. The GDP contribution of housing at factor cost increased from Rs.1357 crores in 1970-71 to Rs.3, 562 in 1980-81 at current prices.
2) Capital Formation:

House property is a fixed capital which means an investment in the long term assets of the Nation. As such increase in housing facilities means an increase in capital formation.

Share of housing in capital formation increased from Rs.962 crore at current prices in 1970-71 to Rs.2509 crores in 1977-78 and to Rs.3034 crores in 1978-79. It accounted for 13.4%, 14.4% and 12.8% of gross domestic capital formation in these years. The share of household property in the total wealth of household is comparatively higher for lower income group and it is considered as lower for higher income group.

3) Generation of Employment:

Housing industry is labor intensive. An investment of Rs.1 crore in housing was estimated to generate 923 man years of direct employment. In developing countries, un-employment is a chronic problem. Housing is one of the important industries which creates an employment opportunities on a larger scale. The number of workers in the building construction increased from 1.26 million in 1970-71 to 2.00 millions in 1980-81.

Policies treat housing as welfare drain to limited public resources. But, by adopting market-oriented strategies, developing countries can transform a sector that dampens economic growth. The World Bank recognizes that policies to promote free markets lead to healthy housing sector, which in turn help to drive economic growth.

The role of housing in poverty eradication programme is potentially significant because of the range of benefits and such investment can support number of benefits.

4) Growth of Population after Independence in India:

The growth of population during the last six decades can be observed from the following table:
Table 1.1
Population and its Growth after Independence in India
(Population in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Decade</th>
<th>Growth</th>
<th>Percentage of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>36,10,88,090</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1961</td>
<td>43,92,34,771</td>
<td>1951-61</td>
<td>7,81,46,681</td>
<td>21.6 %</td>
</tr>
<tr>
<td>1971</td>
<td>54,81,59,652</td>
<td>1961-71</td>
<td>10,89,24,881</td>
<td>24.8 %</td>
</tr>
<tr>
<td>1981</td>
<td>68,51,84,692</td>
<td>1971-81</td>
<td>13,70,25,040</td>
<td>25.0 %</td>
</tr>
<tr>
<td>1991</td>
<td>84,63,02,688</td>
<td>1981-91</td>
<td>16,11,17,996</td>
<td>23.0 %</td>
</tr>
<tr>
<td>2001</td>
<td>1,01,24,00,000</td>
<td>1991-01</td>
<td>16,60,97,312</td>
<td>19.6 %</td>
</tr>
<tr>
<td>2011</td>
<td>121, 00,00,000</td>
<td>2001-11</td>
<td>19,76,00,000</td>
<td>19.51 %</td>
</tr>
</tbody>
</table>


Decennial growth rates for fifties, sixties, seventies, eighties, and nineties of the twentieth century turn out to be 21.6%, 24.8%, 25.0%, 23.5%, and 19.6% respectively. The growth rate from the year 2001 to 2011 is 19.51%. The Country as a whole has crossed the peak. The percentage during the nineties is hopefully lower than that during the fifties when government launched development through planning. It is important to note that during fifties, sixties, seventies & eighties there is increase in growth of population.

During nineties there is decrease in growth of population and it is so small that one can hope to see negative number next time. For poor people, struggle for shelter and housing comprises the most fundamental elements of their daily survival strategy. Secure, safe housing plus supporting infrastructure provides a wide range of benefits for low income households. Many community driven programmes to build and improve housing have helped low income group to work together and to develop constructive relationship with local authorities or other service providers.  

8.
5) Availability of Houses in India:

National Building Organization (NBO) had estimated that the shortage of about 21 million housing units in the country of which 16 million are in rural areas and 5 million are in urban areas. The number of total useable housing units was about 94 million. About 39.6% of urban household are living in single room and about 3.5 % in ‘Katcha’ houses. 36.1% people do not have toilet facilities, 57% are without electricity and 66 % manage without water supply facilities.

It is estimated that nearly 40-50 million of urban population are currently residing in slums. By 2011 A.D, this urban slum population had reached between 125 to 140 million. The slums are creating formidable problem.

In India, shelter related sector continue to get a low priority for development investment, especially in the rural areas. The population of the Country contributes tenants housing and the other socio-economic and physical infrastructural demand. The population of India in 1981, 1991 was stood at 68,51,84,692 and 84,63,02,688 million and it stood at 1,01,24,00,000 million in 2001 A.D and reached its peak of 121, 00,00,000 million by 2011.

6) Shortage of Housing in India:

The following table shows household, useable housing stock and housing shortages/gap in 2001 and 2011.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Particulars</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>1</td>
<td>Households</td>
<td>113.5</td>
<td>47.1</td>
</tr>
<tr>
<td>2</td>
<td>Useable Housing</td>
<td>92.9</td>
<td>36.7</td>
</tr>
<tr>
<td></td>
<td>(89.9)</td>
<td>(77.9)</td>
<td>(80.7)</td>
</tr>
<tr>
<td>3</td>
<td>Housing Shortage</td>
<td>20.6</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td>(18.1)</td>
<td>(22.1)</td>
<td>(19.3)</td>
</tr>
</tbody>
</table>

A rapid rise in population results in higher demand of dwelling units for residential purposes. This coupled with the growth in household formation and increased rural-urban migration resulting in non-availability of opportunities in rural areas, which resulted in severe pressure on urban infrastructure in recent years. The consequence has been overcrowding and unhealthy living environment, shortages of basic amenities and finally social and economic deprivation. All major urban areas in our country are gradually being occupied by houses.

The Tenth Five Year Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the Tenth Plan Period are estimated at 22.44 million dwelling units. With the continuance of the 2 Million Housing Programme, it is estimated that the investment requirement from public sector institutions would be around Rs.4,15,000 crores. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage.

III- PROBLEMS OF HOUSING IN INDIA

Housing activity generates local employment and local income. Since house construction is highly decentralized production activity, it has the advantage of creating dispersal of employment. In Country like India with regional disparities in income and employment, it is quite desirable that investments in both public and private are channeled to housing. House construction activity can take place at any time except during monsoon season. Hence, it is possible through careful planning to provide alternate employment to agricultural laborers during off-season. Despite all these benefits accrue to housing sector, it is not free from problems and they are as under. The problem of housing in under-developed Countries is more severe than in developed Countries, which are under:

i. The rate of growth of population is fast and high.
ii. Large part of population is below the poverty-line and
iii. The quality of building material is inferior.
India being an under developed country has the following problems relation to housing:

i. Number of slum areas is greater than the well planned colonies.
ii. Water supply is in shortage in rural as well as urban areas.
iii. There is a general shortage of power and interruptions in power supply are very common.
iv. Material used for construction are of inferior quality and do not have built in resistance against fire and water.
v. Many of the houses are built with locally available material like grass, mud etc.
vi. Cost of construction is constantly rising in the Country.
vii. There are no significant attempts to manufacture prefabricated components parts of housing.
viii. Research & Development (R&D) in the field of housing is poor.

On account of the above problems, housing facilities are not increasing at the required pace. Private imitative is also not found as a measure that is expected. Since, it is a facility available only to rich sections of the population.

Since last 45 years of planned development, the backlog of housing shortage in India has risen to three folds. It was estimated that in Kolkata alone 6 to 7 lakhs people sleep on the pavements and in Mumbai an estimated 1,50,000 make the sky as their roof.

Every one understands that street sleeping permits no family life, no privacy, no relief from heat, no escape from cold or rain and no decent means for disposing of human waste. To mitigate all these problems, adequate provision of housing facilities is a minimum need.

In many Cities of the developing Countries, about 20 to 40% of the people are squatter with no legal title. According to Paul Streeten and Burki, “over 150 million people in urban areas of the poorest countries have less than satisfactory shelter”.

According to “Indian National Planning Commission, about 373 million people did not have sufficient income even for the bare minimum food”. A large
percentage of the population above the poverty line also cannot afford to acquire houses as they can hardly have savings.

Unrealistic housing standard and the feeling that slum clearance should be an essential and immediate step in housing programmes resulted in serious problems in many countries including India. Many governments have insisted on maintaining high standards, which raises the cost of housing and prohibit self help construction by low income house holds, prohibitive building codes, costly land acquisition procedures and other barriers prevent the poor from building permanent houses with legal title.

A World Bank study reveals that “until 1970s, developing Countries concentrated on the provision of heavily subsidized housing”. They laid down high building standards and zooming regulations to try to improve the quality and to demolish slums and squatter elements. Consequently, they realized that the housing standard should be more realistically decided with relevance to the socio economic conditions of the vast sections of the population and that slums are indispensable for sometimes and hence the policy should be to improve these slums, which are serviceable and amenable to improvement. Charles Abraham said that “wholesale slum clearance and building of costly housing must be abandoned and that some fresh thinking must be brought to bear on the shelter problem”\(^{10}\).

It has been observed that slums are National problem; a person who suffers from any disease in slum area is a national liability. According to 1981 census, the estimated slum population in India was about 30 million, accounting to nearly 1/5 of total urban population of the Country\(^{11}\).

Housing shortage has grown faster in the rural areas when compared to urban area. Quantitative shortage, the poor conditions of a large part of the existing housing stock and over crowding in houses and tenements are the important dimensions of the problem.
The average number of people per house is comparatively very high in India and this number has been on the increase reflecting the in-adequacy of accommodation. The over crowding family members in small dwelling unit is a mother of concern from the demographic and social point of view. The type of material used for the walls and roofs also given some indications of the quality of the housing stock. According to 1971 census, the walls of the 12% of rural houses in India have made of grass leaves, reeds or bamboos.

About 58% of the rural houses have walls made of mud, unburnt bricks or wood and only 30% of the houses are built with brunt bricks. The material used for 50% of the rural houses is grass leaves, thatch seeds, bamboo, mud, unburnt bricks or wood. One half of rural houses have roofing with tiles, slates, A.C sheets, bricks, lime-stone, R.C.C etc. In urban areas, about 80% of the houses have durable material, 72% have walls of such material as burnt bricks, G.I sheets, other material, sheets, stone, cement, concrete etc. 5% of the urban houses have walls made of grass leaves, reeds or bamboo and about 22% have walls made of mud, unburnt brick or wood.

1) Rural Housing Problems:

The present state of shelter and quality of the human environment in rural areas is an extension of the problems of:

i. High population growth.

ii. Increased rural impoverishment and unemployment.

iii. The differential priorities accorded to industrial and urban growth.

iv. Low levels of access to social services and linkages such as education, health and communication.

v. Marginalization of women and underprivileged classes.

vi. An alarming deterioration in the quality of the physical environment.

vii. The decreasing access of the poor to building materials especially in terms of monetization of traditional sources such as wood, thatch and bricks.

viii. The breaking down of traditional system of building and skills, owing to the impact of development programmes, rural impoverishment, the introduction of
modern building materials, commercial marketing systems and government housing programmes.

ix. More pressing concerns and priorities than shelter for the rural poor in terms of availability of food and income generation, indebtedness, land tenure and other socio-economic problems.

x. Insecure land tenure and a lack of ability to invest in houses.

xi. Increasing deterioration in the quality of houses and a lack of access to finance technology and organization to cope with this.

xii. Increasing displacement of the landless and others in search of work and hence shelter.

xiii. A wide dispersal of settlements, which makes centralized government programmes difficult and often uneconomical to implement.

xiv. A lack of adequate technology, building skills and trained people to help improve the quality of the local built environment with minimum external intervention\textsuperscript{13}.

Drinking water and toilet facilities are quite unsatisfactory for a large number of households in both urban and rural areas creating unhygienic environment. According to National Sample Survey (NSS), 1981 only 22\% of the slum households in the cities enjoy the facilities of underground drainage. Only less than 4\% of the slum house hold in the cities with a population of 1 to 3 lakhs had the benefit of underground drainage as against about 45\% in cities with 1 million population and about 10\% in the cities with population between 3 to 5 lakh\textsuperscript{14}.

2) Urban Housing Problems:

The problems of the urban housing are poor slums and squatter settlements which are an extension of the process of urbanization, impoverishment and lack of economic and social opportunities in rural areas. It may not be possible to connect directly the problems and quality of urban shelter with that of the villages. But, there can be no doubt that migrants to cities bring with them their culture, economic skills and patterns of settlement that are clearly reflected in the urban habitat. The process of urbanization in India has been much slower than anticipated by economic planners.
However, the problems associated with the second largest urban population in the world are the same or not worse than those in other developing countries.

Regional disparities are also been fairly marked as one of the reason.

Many Cities have a technically inflated slum population even after massive relocation efforts because the ‘old walled city’ is enumerated as a slum. The densities of many individual slums are higher and the actual spaces available in the dwelling unit are much lower.

The NSS 1981 also revealed that about 58% of the slum houses in cities were in areas which were logged during monsoon. The slums are particularly characterized by chronic problem in respect of sanitation and other essential facilities. For example, in ‘Dharavi’ the largest slum in Asia has an estimated population of 4 lakhs. There is only 1 tap for 320 people and one toilet for over 300 people.

Water supply in almost all the Cities of India is not satisfactory. The water supply situation in Chennai is desperate. Each resident there gets barely half the minimum recommended amount of water per day. Chaotic scenes at public taps are routine, sometime the water is unfit for human consumption. The high rate of incidence of death and diseases among urban poor can be attributed to the poor quality of water and sanitation facilities.

Thus housing problem in the Country has many dimensions. A large availability of housing stock in India in brief is characterized by poor conditions of the structure, absence of essence of facilities and amenities, unsafe and unhygienic environment. These problems are grave in the slums and squatter settlements.

By 2011 A.D India’s population has touched 121,00,00,000 and urban population may be the order of 345 million. Housing situation in India worsened because of land invasion, illegal sub-division, over crowding, lack of basic services, poor access to employment opportunities, and rapidly rising land and housing prices. More that half of the major cities population is presently living either in squatter
settlement or in extremely congested sub standard areas in the dilapidated inner cores of our large cities. Acute housing shortages are also responsible for simmering social tensions\textsuperscript{16}.

National Building Organization (NBO) had estimated that the shortage of about 21 million housing units in the country of which 16 million in rural areas and 5 millions in urban areas. The number of total useable housing units was about 94 million. About 39.6\% of urban household are living in single room and about 3.5\% in ‘\textit{Katcha}’ houses 36.15\% of people do not have toilet facilities, 57\% are without electricity and 66\% manage without electricity and 66\% manage without water supply facilities\textsuperscript{17}.

Of all the problems of housing, the finance is the big problem. As such, it is important to concentrate more attention on this problem.

\textbf{IV- ROLE OF GOVERNMENT IN HOUSING}

For majority of household, housing has been primarily a self help activity. It has made it necessary of the state government to launch housing schemes for weaker sections of the population. In India, the formulation and implementation of the housing programmes is the responsibility of the State Governments. The Central Government however, supplements to the effects of the State Governments.

\textbf{Housing Schemes by Government of India:}

The following are some of the housing schemes formed by government for development of housing in India.

1) \textbf{Integrated Subsidized Housing Scheme}: This scheme was introduced in 1952 for the low paid industrial workers and other Economically Weaker Sections (EWS) of the community. Under EWS Housing Scheme, financial assistance of Rs.5,000/- will be given for the eligible persons whose monthly income will not exceed Rs.700.
2) **Low Income Housing Scheme (LIG):** This scheme was started in 1954 to assist whose income ranges between Rs.701 to Rs.1,500 per month. This scheme covered those houses, whose cost of construction was not exceeding Rs.30,000/-. The loan assistance granted by the government was Rs.23,500 which represent 80% of cost of construction.

3) **Middle Income Housing Scheme (MIG):** The MIG housing scheme launched in 1959, is financed by LIC as loans were given to the eligible persons whose monthly income ranges between Rs.1500/- to 2500/- . Loan assistance was restricted to 80 % of the cost of construction subject to a maximum of Rs.40,000/-. Loans were also granted for purchase of readily built houses.

4) **Jawaharlal Nehru National Urban Rural Mission (JNNURM):**

This scheme was launched by Ministry of Urban Development, Government of India at National level. The aim is to encourage reforms and fast track planned development of identified Cities. Focus is to be on efficiency in urban infrastructure and service delivery mechanisms, community participation and accountability of housing agencies towards citizens.

**Objectives:**

The objectives of the JNNURM are to ensure that the following are achieved in the urban sector are:

i. Focused attention to integrated development of housing infrastructure services in cities.

ii. Ensuring adequate funds to meet the deficiencies in urban infrastructural services.

iii. Planned development of identified cities including peri-urban areas, outgrowths and urban corridors leading to dispersed urbanization.

iv. Scale-up delivery of civic amenities and provision of utilities with emphasis on universal access to the urban poor.
v. Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation, and ensuring delivery of other existing universal services of the government for education, health and social security.

5. Valmiki Ambedkar Awas Yojana (VAMBAY):

Valmiki Ambedkar Awas Yojana (VAMBAY) is a centrally sponsored scheme by Ministry of Urban Development, Govt. of India for the benefit of Slum Dwellers. The scheme is primarily aimed at ameliorating the housing problems for the Slum Dwellers living Below Poverty Line in different towns and cities of the State. The objective of Valmiki Ambedkar Awas Yojana (VAMBAY) is primarily to provide shelter or upgrade the existing shelter for people living Below Poverty Line in Urban Slums, with a view to achieve the goal of ‘Shelter for All’.

6) National Housing Policy (NHP) 1998:

The Government through a National Agenda declared ‘HOUSING FOR ALL’ as a priority area and has set a target of construction of 2 million houses every year with emphasis on the poor and deprived, out of which 0.7 million houses shall be constructed in the urban areas.

By 1997 the total housing shortage in the country was estimated to be 13.66 million units, out of which 7.57 million units would be in the urban areas. More than 90% of this shortage is for the poor and the low income category. It was estimated that an investment of Rs.1, 51,000 crores would be required to bridge this deficit. But, not more than 25% of this will flow from banks, financial institutions, central and state governments. It was further estimated that Rs.2,50,000 crores shall be required for urban infrastructure during the ninth plan. But not more than 10% would be available from Government sources. Therefore, no significant headway can be achieved without massive participation of the private sector. This called for creation of enabling environment by way of legal and regulatory reforms and fiscal concessions to encourage non-government sector to take up land assembly, housing
construction and investment in infrastructure services. With this background, the New National Housing and Habitat policy (NHHP) was formulated in 1998. The policy was laid before the parliament on 29-07-1998.

**Objectives of National Housing Policy (NHP):**

The Housing and Habitat Policy 1998 aims at the following:

i. Creation of surpluses in housing stock either on rental or ownership basis.

ii. Providing quality and cost effective shelter options, especially to the vulnerable groups and the poor.

iii. Ensuring that housing, along with the supporting services, be treated as priority and at par with infrastructure sector.

iv. Removing legal, financial and administrative barrier for facilitating access to land, finance and technology.

v. Forging strong partnership between private, public and cooperative sectors to enhance the capacity of the construction industry to participate in every sphere of housing and habitat.

vi. Using technology for modernizing the housing sector to increase efficiency, productivity, energy efficiency and quality.

vii. Empowering the Panchayat Raj Institutions and village co-operatives to mobilize credit for adding to the housing stock.

**V- HOUSING FINANCE IN INDIA**

The responsibility of providing housing finance largely rested with the Government of India till the mid-eighties. The setting up of the National Housing Bank (NHB), a fully owned subsidiary of the Reserve Bank of India (RBI) in 1988 as the apex institution marked the beginning of the emergence of housing finance as a fund based financial service in the country. It has grown in volume and depth with the entry of a number of specialized financial institutions/companies.
1. Housing Finance System:

The implementation of housing finance policies presupposes efficient institutional arrangements. Although there were a large number of agencies providing direct finance system to individuals for house construction, there was no well established finance system till the mid 80s in as much as it had not been integrated with the main financial system of the country. The setting up of the National Housing Bank (NHB) a fully owned subsidiary of the Reserve Bank of India (RBI) and as an apex institution was the culmination of the fulfillment of a long overdue need of the housing finance industry in India. The system has also been characterized by the emergence of several specialized financial institutions which have considerably strengthened the organization of the housing finance system in the country. At present there are about 320 housing finance companies of which only 37 are registered with the NHB which accounts for 98% of the total housing loan disbursed.

2. Central and State Governments:

Till mid eighties, the responsibility to provide housing finance rested by and large with the govt. The Central and State government supports the housing building effort indirectly. The Central govt. has introduced, from time to time, various social housing schemes.

The Central govt. had set up the Housing and Urban Development Corporation (HUDCO). The Central government supports the equity support to HUDCO and guarantees the bonds issued by it. Both Central and State government provides house building advances to their employees. While the Central government formulates the housing schemes, the State governments are the actual implementation agencies.19

3. Housing and Urban Development Corporation (HUDCO):

Incorporated on 25th April, 1970, HUDCO was an expression of the concern of the Central government with regard to the deteriorating housing conditions in the country and a desire to assist various agencies in dealing with it in a positive manner. The principle mandate of HUDCO was to ameliorate the housing conditions of all groups with a thrust to the needs of the Low Income Group (LIG) and Economically
Weaker Sections (EWS). HUDCO today has emerged as the leading national techno-financing institution with the major objective of financing/encouraging the housing activity in the country and alleviating housing shortage of all groups in rural and urban areas and also the development of urban infrastructure of various shades in human settlements.

i) Objectives:

The following are the objectives of HUDCO:

a. To provide long-term finance for construction of houses for residential purposes in urban and rural areas and finance or undertake Housing and urban infrastructure development programmes in the country.

b. To finance or undertake, wholly or partly, the setting up of the new or satellite towns.

c. To subscribe to the debentures and bonds issued by the state Housing and Urban Development Boards, Improvement Trusts, Development Authorities etc. especially for the purpose of Housing and Urban Development programmes.

d. To finance or undertake the setting up of industrial enterprise for building material.

e. To administer the funds received from time to time, from the Government of India and other sources as grants or otherwise for the purpose of financing or undertaking housing and urban development programmes in the country.

f. To promote, establish, assist, collaborate and provide consultancy services for the projects of designing and planning of works relating to housing and Urban Development in India and abroad.
ii) Major Activities:

The major activities of HUDCO include the following:

a. HUDCO has implemented a variety of schemes for providing shelter & services, thereby improving the living conditions of the people.

b. HUDCO is also contributing to improve the quality of life by augmenting providing basic community facilities & infrastructural services.

c. Projects involving self help by the beneficiaries are promoted by encouraging sites & services schemes, core housing, skeletal housing, shelter up gradation & so forth.

d. In order to provide basic facilities in the existing houses where adequate sanitary disposal systems are not available, financial assistance for basic sanitations schemes is being extended on liberalized terms.

iii) Other Government Activities:

The Ministry of Works and Housing was constituted and National Building Organization (NBO) and Town and Country Planning Organization were set up. An industrial housing scheme was also initiated. The central subsidized scheme to the extent of 50% was allotted towards the cost of land and construction. Due to financial constraints, a satisfactory programme of rural housing could not be envisaged. Therefore, the principle of self help was followed in case of rural housing.

iv) Resource Base:

HUDCO was established with an equity base of Rs.2 crores. Over the years, the equity base has been expanded by the Government. The authorized capital base of HUDCO was RS.2500 crores and paid up capital was Rs.2001.90 crores (as on 31.01.2012). HUDCO has created reserves of Rs. 1773.50 crores (as on 31.01.2012). The net worth of HUDCO (as on 31.01.2012) was Rs. 3735.99 crores. Over the years, HUDCO has further been able to mobilize resources from institutional agencies like LIC, GIC, banking sector, international assistance (KFW, JBIC, ADB, USAID, etc.) and market borrowings through debentures, taxable & tax-free Bonds as well as
through public deposits taking the overall borrowings to Rs.20,780.30 crores (as on 31.01.2012). With this, the cumulative resource base of HUDCO was Rs. 30,791.69 crores (as on 31.01.2012) as given below.

Table 1.3

<table>
<thead>
<tr>
<th>Resource Base</th>
<th>Amount in Rs (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital base (authorized)</td>
<td>2,500.00</td>
</tr>
<tr>
<td>Paid up equity capital</td>
<td>2,001.90</td>
</tr>
<tr>
<td>Reserves</td>
<td>1,773.50</td>
</tr>
<tr>
<td>Net worth</td>
<td>3,735.99</td>
</tr>
<tr>
<td>Borrowings (unaudited)</td>
<td>20,780.30</td>
</tr>
<tr>
<td>Total</td>
<td>30,791.69</td>
</tr>
</tbody>
</table>

Source: Report on HUDCO ‘Mini Ratna Status’

Based on the sustained outstanding performance and profitability of HUDCO, the Government of India has conferred the status of ‘Mini Ratna’ to HUDCO in 2011-12.

v) Programmes of HUDCO:

In order to realize the objectives for which it was established, HUDCO has implemented a variety of schemes for shelter and services thereby improving the living conditions of the people. Apart from financing housing schemes, HUDCO is also contributing to improve the quality of life by augmenting basic community facilities and infrastructural services.

Projects involving self help by the beneficiaries are promoted by encouraging sites & services schemes, core housing, skeletal housing, shelter upgradation and so forth.

In order to provide basic facilities in the existing houses where adequate sanitary disposal system are not available, financial assistance for basic sanitation schemes is being extended on liberalized items. HUDCO extends assistance benefiting the masses in urban and rural areas under a broad spectrum of programmes as listed below:
o Urban Housing.
o Rural Housing.
o Staff Rental Housing.
o Repairs & Renewals
  o Shelter and Sanitation Facilities for Footpath Dwellers in Urban areas
    (night shelter and pay & use toilets).
o Working Women Ownership Condominium Housing.
o Housing through Private Builders/Joint Sector.
o Individual Housing Loans through HUDCO Niwas.
o Land Acquisition.
o Valmiki Ambedkar Awas Yojana (VAMBAY).
o Jawahar Lal Nehru National Urban Renewal Mission (JNNURM).

v (a) Infrastructure:
o Integrated Land Acquisition and Development.
o Environmental Improvement of Slums.
o Utility Infrastructure.
o Social Infrastructure.
o Economic and Commercial Infrastructure.

v (b) Building Technology:
  Building Centers for Technology Transfer at the Grass-roots
  Building Material Industries.

v (c) Consultancy Services:
  Consultancy in Housing, Urban Development and Infrastructure.

v (d) Research and Training:
  Capacity building and technical assistance to all the borrowing agencies;
  training in the area of research; training in the area of networking in human settlement
  planning and management will be undertaken by HUDCO.
v (e) Eligible Agencies:

HUDCO’s financial assistance for these projects are made available to agencies which include State Housing Boards, Rural Housing Boards, Slum Clearance Boards, Development Authorities, Improvement Trusts, Municipal Corporations, State/City Parasatals, Primary Co-operative Societies, Apex Co-operative Housing Federations, Public and Private Sector Agencies, NGOs CBOs, Private Developers, Joint Sector and Individuals etc.

Finance for infrastructure is made available to State level Financing Corporations, Water Supply and Sewerage Boards of the State and City level, Development Authorities, Roads and Bridges Development Corporations, New Town Development Agencies, Regional Planning Board, Municipal Corporation/Councils, and similar urban local bodies, Improvement Trusts, Private/Joint Sector Agencies/Companies, Sector Specific SPVs, and NGOs etc.

v (f) Operational Highlights:

HUDCO since inception and till end of January 2009 has sanctioned 15,659 projects worth Rs. 2,00,183 crores for which HUDCO loans commitment is Rs. 70322 crores, out of which Rs. 55159 crores, has already been released. These projects on completion will help provide over 1.41 crore residential units, over 5.33 lakh developed plots, 67.09 lakh sanitation units, 1,280 urban infrastructure projects and 655 building centers.


Table 1.4

HUDCO’s. Cumulative Sanctions and Releases as on 31 Jan 2012

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs. (In crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects Sanctioned</td>
<td>15,659</td>
</tr>
<tr>
<td>Project cost</td>
<td>2,00,183</td>
</tr>
<tr>
<td>Loan Sanctions</td>
<td>70,322</td>
</tr>
<tr>
<td>Loan Releases</td>
<td>55,159</td>
</tr>
</tbody>
</table>

Source: Report on HUDCO ‘Mini Ratna Status’
4. National Housing Bank (NHB):

The National Housing Bank (NHB), the apex level financial institution for the housing sector in the country, was established on 9th July 1988 under the National Housing Bank Act, 1987. The NHB works as a facilitator in promoting Housing Institutions and providing financial and other support to such institutions.

As per its mission to promote an effective and cost effective housing finance system in the country, the NHB frames guidelines for housing finance institutions to ensure their growth on sound lines. The NHB provides loans and financial assistance to scheduled banks and housing finance institutions or to any authority established by or under any Central, State or Provincial Act.

Being the chief regulatory body, NHB regulates the activities of housing finance companies based on regulatory and supervisory authority derived under the NHB Act. As per the amendments to certain provisions of the Act, NHB is empowered to grant certificate of registration to companies for commencing/carrying on the business of a housing finance institution.

NHB also raises resources for the housing sector towards increasing new housing stock and provides refinance to a large set of retail lending institutions. These include scheduled commercial banks, specialized housing finance institutions, apex co-operative housing finance societies and agriculture and rural development banks.

Besides the lending operations, NHB’s dedicated training division conducts regular training programmes in areas relating to housing and housing finance for development of management capabilities of officials working in the sector.

i) The main objectives of NHB are:

a. To promote, establish, support or aid in the promotion, establishment and support of housing finance institutions
b. To make loans and advances or render any other form of financial assistance whatever to housing finance institutions and scheduled bank or to any
authority established by any Central or State Act and engaged in slum clearance.
c. To subscribe to or purchase stocks, shares, bonds, debentures and securities of every other description.
d. To guarantee the financial obligations of housing finance institutions and underwrite the issues of stocks, shares debentures and securities of every other description of housing finance institutions.

5. LIC Housing Finance Limited (LICHFL):

LIC Housing Finance Limited (LICHFL) as a subsidiary of LIC was incorporated on June 19th 1989, to accelerate the development of housing. LIC Housing Finance Ltd is the second largest Housing Finance Company in India.

LIC Housing Finance provides long term finance of individuals and corporate for the purchase, construction, repair and renovation of new/existing flats/houses. The Company is the only one of its kind that offers a Life Insurance Policy as collateral security to back its loans. LICHFL provides finance on existing property of business/personal needs. The company has been growing steadily over the last one decade both in terms of business and profits.

i) Objectives of LICHFL:

“To each one a home of his own” is the main objective of LICHFL. It renders liberal financial assistance to policy holders and other for purchase/construction of residential houses/flats. The following are the other objectives of LICHFL.

a. To provide loans to public sector/private sector employees to construct residential accommodation for their employees.
b. To mobilize insurance linked long-term savings form the public to deploy such funds in long-term finance in the housing sector.
c. To facilitate approval of builders in advance and offer them construction finance to enhance customer servicing with a real estate market information.
6) **Housing Development Finance Corporation (HDFC):**

The Housing Development Finance Corporation (HDFC) was formally promoted and incorporated on October 17, 1977 under the Chairmanship of Mr. H. T. Parekh.

HDFC from its very first day of operations has built a principle centered organization. An organization built on the basis of fairness, kindness, efficiency and for effectiveness. It had gradually built trust among the people by strengthening communications and participative management style. Trust is the very cement for meaningful relationships and an open and creative management style. It is the very foundation for measuring worth.

**i) Objectives of HDFC:**

The Primary objective of HDFC is to enhance residential housing stock and to promote house ownership by providing individual household/families with long term mortgage loans at commercially viable rate. More specifically, the objectives of HDFC are:

a. To finance mainly low and middle income group of people to purchase/construct a single family dwelling unit primarily for self occupation, and

b. Granting loans to the cooperative sector for housing their employees.

7) **Commercial Banks and Housing Finance Companies:**

Commercial banks lending to individuals for housing emerged in the wake of the report of the working group on the role of Banking System in Providing Finance for Housing schemes (R. C. SHAH working group, RBI, 1978). They have been lending to the housing sector based on annual credit allocations made by RBI.

The policies of the government have made it easier for banks as well as consumers to seek and procure home loans.
i) Different types of Home Loans in India:

a. Home Improvement Loans.
b. Home Extension Loans.
c. Home Equity Loans.
d. Topup Loans.
e. Home Purchase Loans.
f. Land Purchase Loans.
g. Commercial Property Loans.

Private and public sector banks like ICICI Bank, HDFC Bank, LIC Housing Finance Bank of India, Standard Chartered, IDBI Bank, State Bank of India, Union Bank of India and Citibank offer home loans as per the guidelines of the government.

If you are looking to buy a home then you can easily apply for home loans even before you find a suitable property. Your loan amount will depend on your eligibility that comprises of many factors like salary, fixed deposits etc. Indian government has made it easier for NRIs to procure home loans but an NRI can't avail tax benefits on home loans unless he/she files returns. However there is a tax exemption to a home loan customer under sections 88 and 24 of the income tax act.²⁴

ii) Housing Finance Industries in India:

With the growth of real estate sector in India, housing finance Companies and Banks are cashing on this sector by offering home loans at cheap and attractive rates. Banks have many plans and offers that range right from buying a land to possessing a flat or a house.
<table>
<thead>
<tr>
<th>Sl No</th>
<th>Name of the Bank / Financial Institution</th>
<th>Interest Rate Fixed / Floating</th>
<th>Processing Fees &amp; Administrative Fees</th>
</tr>
</thead>
</table>
| 1     | LIC Housing Finance Limited (LICFHL)     | Scheme I: 10.40%  
Scheme II: 10.70%  
(Fixed for 3yrs),  
(Fixed for 5 yrs): 11.15% | Up to Rs.30 lakhs : 10,000 +  
(Service tax)  
Rs.30 – Rs.50 lakhs : 15,000 +  
(service tax)  
Rs.50 lakhs - 1Cr : 20,000 +  
(service tax) |
| 2     | HDFC Bank                                | 1) Up to Rs 30 lakhs  
Option A: 10.75  
Option B: 11.25  
2) Rs.30.01 lakhs to Rs.75 lakhs  
Option A: 11.25  
Option B: 11.50  
3) Rs.75 lakhs and above: 11.75% | 0.5% or maximum  
10,000+service tax (12.36%) |
| 3     | State Bank Of India (SBI)                | 10.50% (special scheme up to 30-9-2012), then 10.75% | Rs.5,000 + service tax (Up to 30 lakhs), 10,000 + service tax (above 30 lakhs) |
| 4     | ICICI Bank                               | Scheme I: 10.50% (Fixed 1 yr)  
Scheme II: 10.75% (Fixed 2 yrs)  
Scheme III: 10.75% (Fixed 3 yrs), then 10.50% | 0.50% of loan amount up to 1 crore+service tax. |
| 5     | HSBC Bank                                | 10% to 13% | INR 10,000 plus service tax & cess |
| 6     | AXIS Bank                                | Scheme I : 11.75%  
(Fixed for 20 yrs)  
Scheme II : 10.75% | Rs.5515 (Up to 30 Lacs), Then 10,000 + Service Tax |
| 7     | IDBI                                     | 10.75% to 11.75%  
(Upto 25 Lacs), Then 11%-12% | Up to 1% of loan amount  
(Rs. 2,500 to be collected at login and balance at the time of sanction)+ service tax |
| 8     | ING Vysya                                | 10.75% | 5000 + 12.36% (service tax)  
(Upto 20 lakhs)  
5000 + 12.36% (service tax)  
(above 20 lakhs) |
| 9     | Standard Chartered Bank                  | 10.40%  
(Upto 25 Lacs), Then 10.65% | Rs.7500/- + Service tax |
| 10    | Deewan Housing Finance Limited (DHFL)    | 11.50% | 1+ Service tax |
| 11    | Citi Bank                                | 10.50% - 11.25% | 0.50% + Service tax |
| 12    | Deutsche Bank                            | 10.75% | 10000 + Service tax |
| 13    | India Bulls                              | 10.50%  
(Up to 25 Lacs),  
Then 10.75% | up to 30 lacs - 2,500 + 12.36%  
(service tax)  
above 30 lacs to 1Cr - 5,000 + 12.36% (service tax) |
| 14    | Allahabad Bank                           | 12.50% | 0.50% of loan amount,  
Maximum Rs. 10,000/- |
| 15    | Bank of Maharashtra                      | 10.80%  
(Up to 25 lacs)  
then 11% | Nil (Upto 25 Lacs) 0.50%  
(Max Rs. 50,000/-) (25 lacs & above)+ Service tax |
<table>
<thead>
<tr>
<th></th>
<th>Bank</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Central Bank of India</td>
<td>10.50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.50% of loan amount or maximum Rs.20,000/- + Service tax.</td>
</tr>
<tr>
<td>17</td>
<td>Corporation Bank</td>
<td>10.85%</td>
</tr>
<tr>
<td></td>
<td>(Upto 25Lacs), then 11.50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Up to 30 lacs: 0.40% 30-75 lacs : 0.50% 75 lacs &amp; above: 0.60%+Service tax.</td>
</tr>
<tr>
<td>18</td>
<td>Bank of India (BOI)</td>
<td>10.50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Upto Rs.30 lacs: 0.55%. Above Rs.30 lakhs: Rs. 3,000/- and max. Rs.10,000/- Rs.30 lakhs to Rs.1Crore : flat Rs.20,000/-+ Service tax.</td>
</tr>
<tr>
<td>19</td>
<td>Union Bank of India</td>
<td>10.50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.25% of loan amount subject to a maximum of Rs.15000/- plus service tax as applicable+Service tax.</td>
</tr>
<tr>
<td>20</td>
<td>United Bank of India</td>
<td>10.95%</td>
</tr>
<tr>
<td></td>
<td>(up to 25 lacs) then 12.10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.50% of the loan amount + S.T</td>
</tr>
<tr>
<td>21</td>
<td>UCO Bank</td>
<td>12.25% - 12.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 +Service tax</td>
</tr>
<tr>
<td>22</td>
<td>Bank of Baroda (BOB)</td>
<td>11.50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>23</td>
<td>Canara Bank</td>
<td>11.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>24</td>
<td>Oriental Bank of Commerce (OBC)</td>
<td>11.40%</td>
</tr>
<tr>
<td>25</td>
<td>Kotak Bank</td>
<td>11.25%</td>
</tr>
<tr>
<td></td>
<td>(for Salaried), 11.50% (for Self Employed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.25% - 0.5%+Service tax</td>
</tr>
<tr>
<td>26</td>
<td>Dena Bank</td>
<td>10.75%</td>
</tr>
<tr>
<td></td>
<td>11.25% (fixed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>27</td>
<td>Punjab National Bank</td>
<td>10.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>28</td>
<td>Vijaya Bank</td>
<td>11.30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>29</td>
<td>Syndicate Bank</td>
<td>10.75%</td>
</tr>
<tr>
<td></td>
<td>(Up to 25 lacs), Then 11.50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>30</td>
<td>Indian Overseas Bank</td>
<td>11.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>31</td>
<td>Reliance</td>
<td>11.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.75% of loan amount + service tax</td>
</tr>
<tr>
<td>32</td>
<td>Federal Bank</td>
<td>10.73%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2% +Service tax</td>
</tr>
<tr>
<td>33</td>
<td>Development Credit Bank (DCB)</td>
<td>11.50%</td>
</tr>
<tr>
<td>34</td>
<td>State Bank of Hyderabad (SBH)</td>
<td>11.25%</td>
</tr>
<tr>
<td>35</td>
<td>Tata Capital Housing Finance Ltd</td>
<td>10.75%</td>
</tr>
<tr>
<td>36</td>
<td>Dhana Lakshmi Bank</td>
<td>12.50%</td>
</tr>
<tr>
<td></td>
<td>(up to 25Lacs), then 12.75%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1+Service tax</td>
</tr>
<tr>
<td>37</td>
<td>Indian Bank</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.50 +Service tax</td>
</tr>
</tbody>
</table>

Source: Independent Survey Report
VI- PROBLEMS OF HOUSING FINANCE

The major problem being faced by majority of the people in India is housing. Still crores of people in country do not have shelter. The Government at Central and State levels have been taking many measures and establishing many institutions including HUDCO and NHB to cope up with the situation. In fact the problem of the people in getting in constructing the houses in India is not related to the quantum of finance. They are more bothered about the type of the services being offered by these house finance companies.

The following are the some of the major problems of housing finance in rural and urban housing in India:

1. Insufficient allocation of funds by government in the budget for shelterless people is one of the reasons. Though the government in its policies had allocated funds for housing, it is insufficient to meet the demand or requirement.
2. Lack of identification of the genuine beneficiaries of housing finance.
3. Most of the banks operating in rural or weak areas are concentrating on the priority sector like agriculture, farming and other occupations than on housing finance.
4. In urban areas, most of the corporate banks concentrate on the high income groups to credit housing finance as it is beneficial. So, housing finance is not reaching all the required people.
5. Many of the financial institutions are not concentrating on all the geographical, income, class segments of the society to extend loans for housing.
6. Most of the housing finance applicants do not meet the income eligibility, service eligibility and other frame works set by the housing finance companies.
7. Most of the people who desire to construct a house do not meet the stipulated layout rules set up by the village panchayat, municipality and corporation, thus making housing finance companies to reject housing finance.
8. Due to fast growth of population, most of the people in urban areas do not find land or house. Thus lack of identification of property is a reason for not obtaining housing finance.

9. Higher rates of interest set by the private banks are a barrier for obtaining housing finance.

10. Frequent fluctuations in the rate of interest of housing finance due to international markets, competition etc are also the problems of housing finance.

It is in this context an attempt is made in this study to evaluate the problems of housing finance in Hyderabad by LIC Housing Finance Limited (LICHFL) and Housing Finance Development Corporation (HDFC).

REFERENCES

17. Ibid., P-34.