



# Housing Ecosystem and development & stability of housing finance markets

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**Talking about poverty**  
**“ I am not naïve about the  
problem. But I think that stable,  
steady housing is one of the  
surest footholds we could have  
on the road to financial stability”**

**Desmond Matthew,  
American Sociologist**

# HOUSING ECOSYSTEM

Overarching Ecosystem  
given its market size and  
linkages

Main driver of Economic  
Growth with  
Multifaceted impact on  
society



Complex dynamics with  
multiple sectors,  
stakeholders &  
interconnected variables

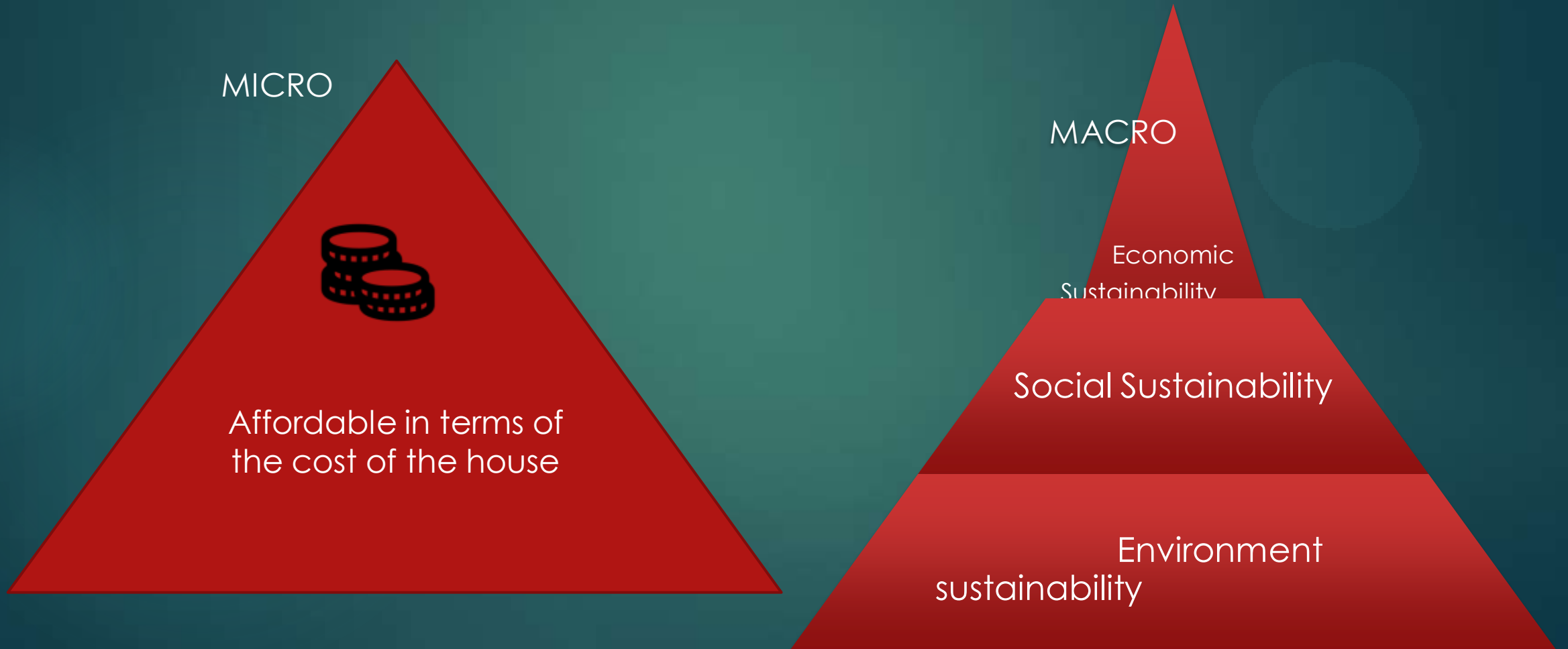
Requires high level of  
Integration, Regulation  
and  
co-ordination



Challenge

Accessibility and  
Affordability of  
Housing and  
Housing Finance

# Affordability : changing context



# Present Housing Ecosystem - Issues

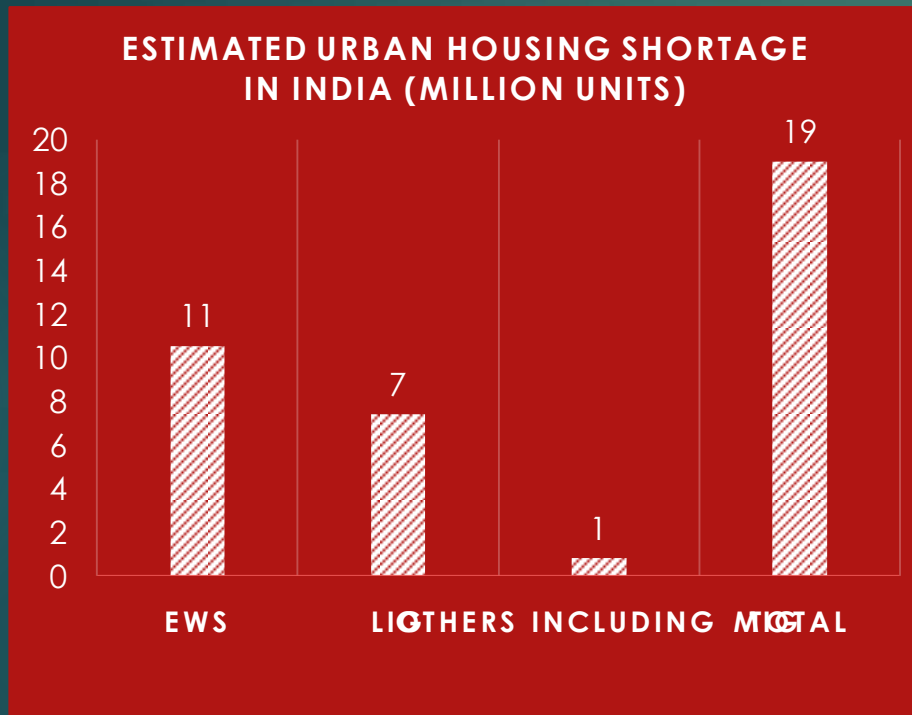
- ▶ Chronic shortage of decent and affordable housing due to rapid urbanization and migration
- ▶ Lack of accessibility of formal institutional housing finance to low income segments
- ▶ Private sector reluctant to participate in affordable housing in view of the financial viability of affordable housing projects and lack of incentives.
- ▶ Availability and accessibility of land is an issue
- ▶ Escalating cost of construction
- ▶ Regulatory issues with respect to land and construction reforms
- ▶ Striking a right balance between government policies and housing market poses a challenge : Always Work in Progress

# Housing Challenge- Global context

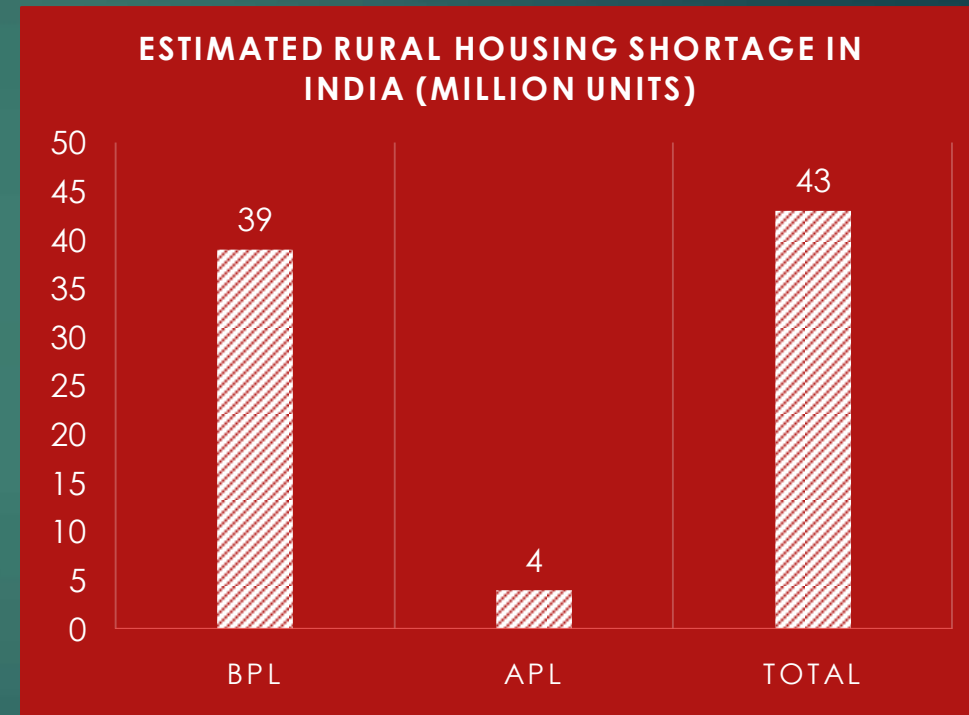
- ▶ As per World Bank reports, by 2045, the number of people living in urban areas will increase by 1.5 times to 6 billion
- ▶ 330 million households across the world live in substandard housing which would grow to 440 million by 2025
- ▶ 200 million households in developing countries live in slums
- ▶ 32 million households in developed countries live in slums
- ▶ More than 60 million households are stretched financially by housing cost in United States, European Union, Japan & Australia

# Housing Shortage- India

*(>95% is in low income segments)*



*(>90% is in BPL segment)*





# Present Scenario



1. Increasing cost of housing
2. Availability and affordability of formal credit
3. Loan eligibility
4. Subsidy
5. High Risk factor
6. Formalizing the informal sector

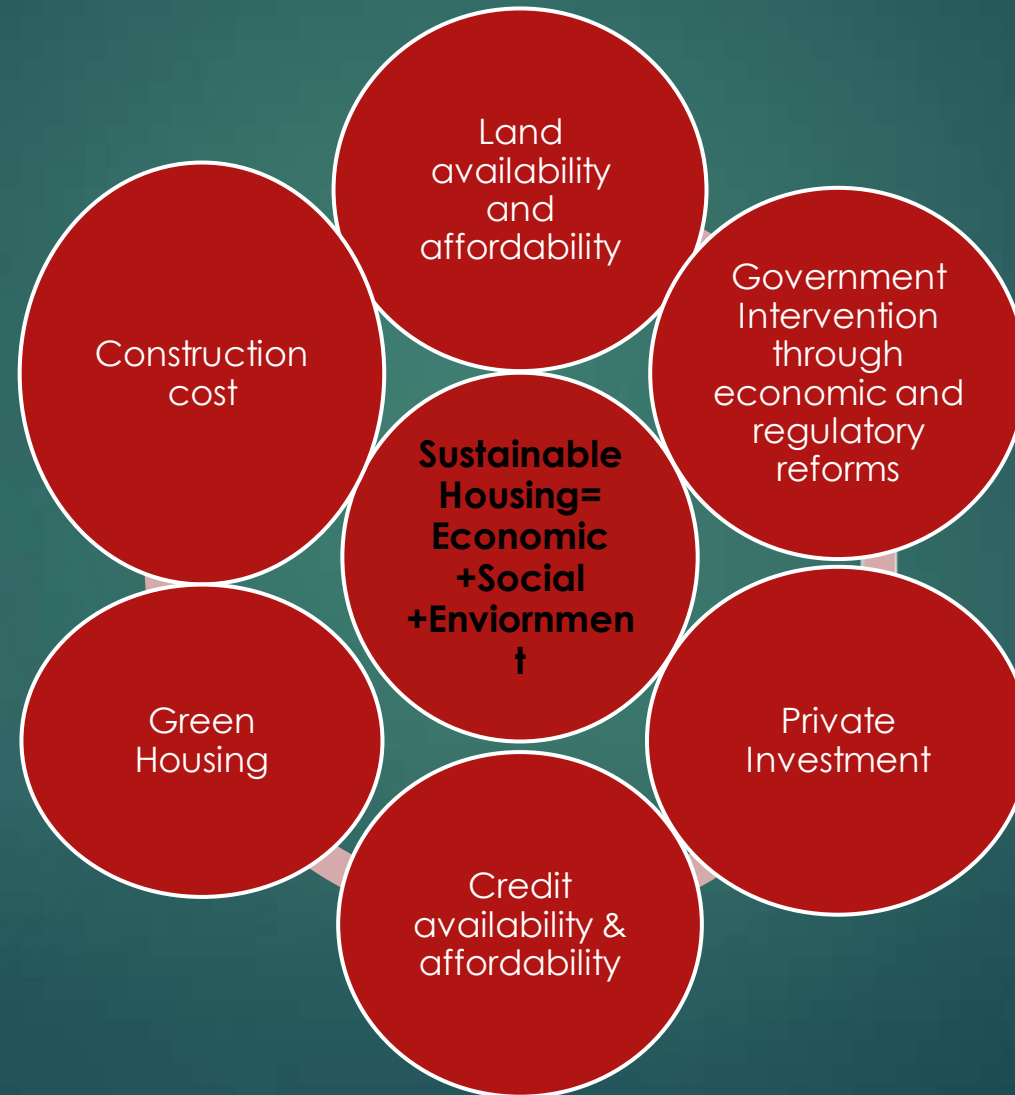


1. Shortage of land
2. Escalating construction cost
3. Regulatory approvals
4. Lack of Private participation
5. Unavailability of formal finance
6. Formalizing construction industry



# Housing Ecosystem Cycle

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# Issues in Affordable Housing

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## **Land Availability & affordability**

- ▶ Regulatory land reforms
- ▶ Digitization of land records
- ▶ Transparency in ownership rights
- ▶ Formalizing ownership of informal land
- ▶ Efficient use of public land
- ▶ Promoting PPP for mass housing

# Continues....

## Construction Cost

- ▶ Promoting new mass housing construction technologies
- ▶ easing the approval mechanisms, single window clearance process to reduce construction delays and cost overruns,
- ▶ Incentives to private developers to use advanced and efficient construction technologies including designing and building techniques
- ▶ Promoting green housing to ensure cost minimization in the long run

# Continues....

## **Credit Availability and affordability**

- ▶ Measures to open access of formal institutional finance to low income segments of society – Institution-building
- ▶ Introduction of credit guarantee schemes for financing the lower income segments and motivating formal finance sector to participate : develop capacity of the MFIs and micro housing
- ▶ Formalizing interest subsidy and refinance scheme to improve the flow of formal finance and affordability
- ▶ Building robust risk management models to keep defaults under control and De-Risk the sector
- ▶ Efficient Regulations of Real sector and financial sector
- ▶ Efficient pricing mechanism

# Continues....

## Private Sector Participation

- ▶ Confidence- building measures thru Reforms and Incentives
- ▶ Thrust on ease of doing business through digitalization, land and construction related reforms
- ▶ Public Private partnerships to be encouraged : Land, Infrastructure and Construction
- ▶ Ease of financing Projects and Developers : Role of Grading the Builders and fiscal and regulatory Incentives
- ▶ Introducing supportive policies to develop mutually healthy and sustainable partnerships

# Continues....

## **Government Intervention**

- ▶ Government's role in institution-building and market infrastructure development
- ▶ Integration and co-ordination between center and state governments
- ▶ Holistic approach through policy making involving all stakeholders in mutually healthy partnership : Enabling Market environment
- ▶ Confidence-building measures : supportive policies, regulatory and financing reforms both on the demand and supply side
- ▶ Fiscal and Financial incentives for private sector participation in low income and affordable housing

# Continues....

- ▶ Easing land and construction regulations for developer and builders
- ▶ Interest subsidy schemes for low income households
- ▶ Credit Guarantee and refinance Schemes for lending institutions to mitigate risk.
- ▶ De-risk the sector through promotion of better risk management and MIS system
- ▶ Tax benefits for the house owners
- ▶ Focus on Mass housing
- ▶ Encourage use of innovative construction technology



# Housing Macro Dynamics

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Housing and Housing Finance Market as a part of an integrated ecosystem with many stakeholders, sectors and variables which are highly interdependent and interconnected.

# Stability Challenges

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## Causes

- Overheating of the Market
- Property Price Bubble
- Oversupply of Credit
- Over supply of Housing
- Low Credit absorption capacity of the Sector
- Weak Underwriting Standards

## Responses

- Monitoring Liquidity and prices
- Monitoring Price Trends and Valuation
- Regulatory Intervention (Counter cyclical) (Risk weights, LTV, Provisioning etc.)
- Monitoring Housing starts, Housing stock vs Home Ownership
- Supply side Policy Distortions (Reforms)
- Regulations on Prudential Norms and close Supervision; Capacity building

# Continues....

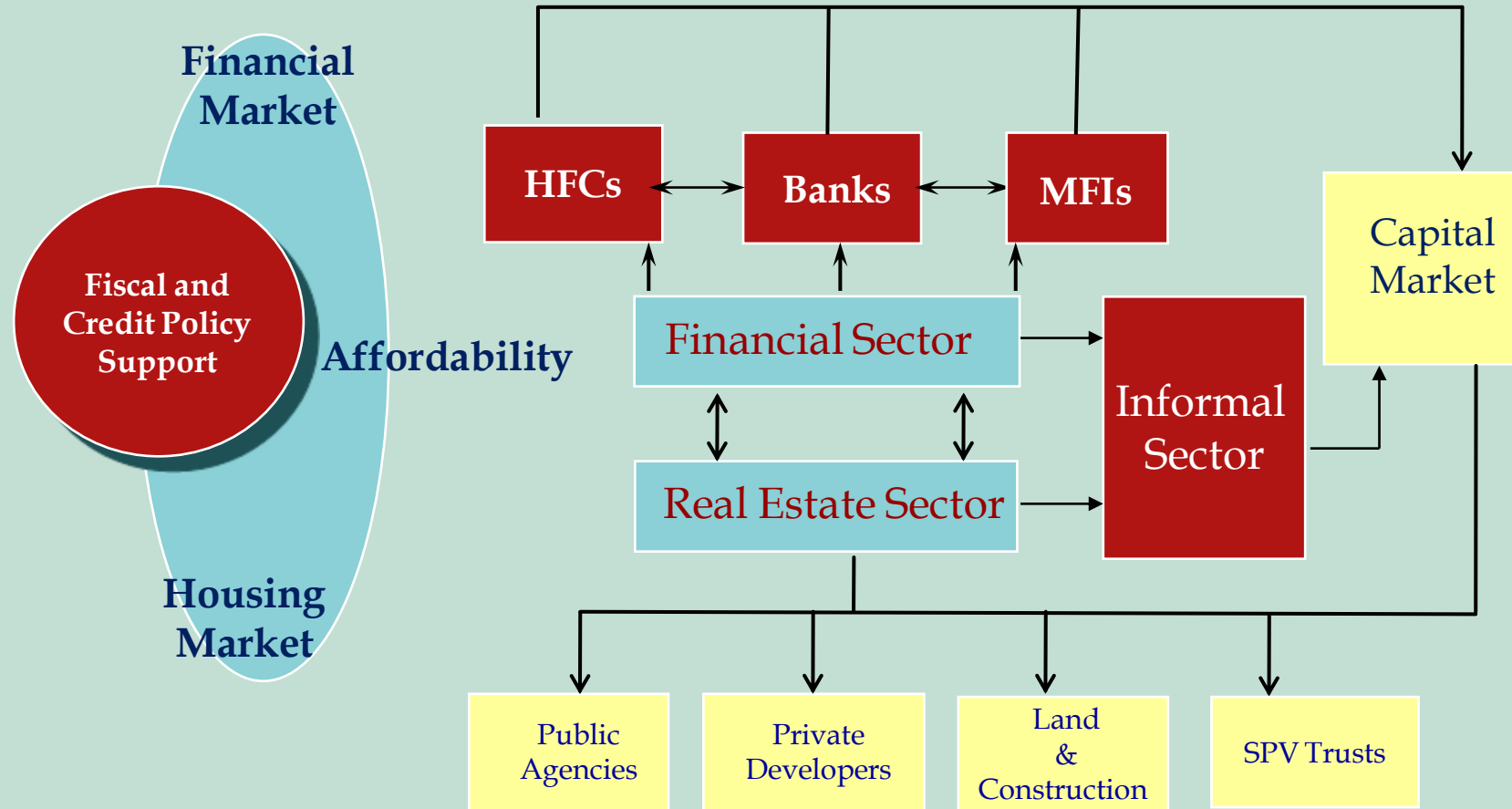
- Weak Risk Management
- Originate to Sell Model (Securitisation)
- Contagion and Weak Regulation (slicing and dicing and selling)
- Lending for Informal Sector
- De-Risk the Sector (Macro level); Market Infrastructure; Regulatory Guidelines
- Origination standards, Underlyings; Regulations (seasoning, retention, credit enhancement etc)
- Strong Regulations and Oversight Skin in the game
- Good understanding of the market and Risk Mitigation

*Is Macro missing the Micro*

# India's Housing Finance Market

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## National Housing Bank



# Market Infrastructure

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## (De-Risking the Sector)

- Regulatory Prescriptions
- Credit Bureaus including Micro finance
- (SARFAESI Act), 2002
- Central Registry (CERSAI) in 2011
- Credit Guarantee Trust Fund in 2010 Housing
- Digitization of land and property records
- India Mortgage Guaranty Corpn
- RERA (Real Estate Regulation) 2016
- Title Insurance made mandatory
- Project and Builder Rating
- Insolvency and Bankruptcy Code, 2016
- Stability and sustainability for Lenders
- Credit information
- Easy foreclosure on defaulted loans
- Property portal
- Default protection: Low Income
- Easy access; Ease of business
- Registered with RBI as the first MGC Company (a joint venture of IFC, ADB, NHB)
- Consumer Protection Act
- Work in Progress
- Confidence-building
- Streamlining construction Industry

# Continues....

## **Green Housing/Environmentally Sustainable Housing**

- ▶ Green Housing has emerged as high performance, energy efficient structure which ensures cost minimization in long run
- ▶ The financial viability of green housing projects needs to be calculated considering the initial capital investment and operational cost over the life of the structure to encourage investment
- ▶ New and efficient Construction technology with holistic and integrated design may result in reduced construction cost
- ▶ Introduction of interest subsidy schemes especially for green housing projects
- ▶ Fiscal Measures to support green housing projects

**“ We can start with housing, the sturdiest of footholds for economic mobility. A national affordable housing program would be an anti-poverty effort, human capital investment, community improvement plan and public health initiative all rolled into one ”**

**Desmond Matthew**

Thank You