REPORT ON TREND
AND
PROGRESS OF HOUSING IN INDIA

2012

राष्ट्रीय
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NATIONAL
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CHAPTER - 1

Overview of the Indian Housing Sector

Housing is one of the basic needs of every individual as besides providing shelter and security, it also enables easy access to the credit market by working as collateral comfort / security. The urban population of India has been growing at a rapid pace. As per the Census 2011, 31.16 per cent of the total population is in the urban areas. The shortage of housing units for the urban areas for 2012 is estimated at 18.78 million units[1].

With time, there has been expansion and improvement in the housing finance market by way of various financial reforms, however the housing loans as a percentage of GDP have remained at around 7 per cent, significantly lower than the levels achieved in most of the developed countries.

The major policy concern with respect to housing as well as housing finance market is the mismatch between the demand and supply of housing units and the financial solutions available for the same. On the demand side factors like growing middle class, income levels of the people, cyclical condition and urbanization, and on the supply side factors like the lack of availability of land, finance at reasonable rate, infrastructure, legal and regulatory framework and the limitations of the private and other stakeholders to provide low income housing play a major role. Also "Affordable Housing" has serious implications for the country's housing sector as the wide gap between the demand and availability of housing units can be narrowed down only by way of affordable housing. The same requires appropriate funding models within a regulatory framework and pro active participation of all stake holders so as to improve the availability as well as the quality of housing in India.

1.1 IMPORTANCE OF HOUSING

1.1.1 Macroeconomic stability and the housing sector are inextricably linked. Housing is a significant engine for growth and development of any economy. Safe, secure and affordable housing implies an increase in employment and educational opportunities for individuals and also enriches communities leading to a better quality of life and a better civil society.

1.1.2 The housing sector has strong backward and forward linkages to over 250 ancillary industries which includes construction workers, builders, developers, suppliers, civil engineers, valuers, property consultants, furnishers, interior decorators, and plumbers – a virtually unending list. Housing ranks fourth in terms of the multiplier effect on the economy and third amongst 14 major industries in terms of total linkage effect. After agriculture, the housing and real estate industry is the second largest employment generator in India. The sector is labour intensive and, including indirect jobs, provides employment to around 33 million people. It is estimated that about 70 per cent of these are employed in the infrastructure segment and the remaining 30 per cent in the real estate segment[2]. According to industry estimates, the industry is expected to generate additional employment of 47 million, with the total number of persons employed in the sector reaching 83 million persons by 2022[3]. Housing and building activity levels have significant macroeconomic effects - directly in terms of the consumer price index and interest rates, and indirectly in terms of the 'wealth' effect on spending levels and multiplier effects from employment in the sector.

1.1.3 Further, housing indirectly contributes to the social, physical and psychological well being. Poor housing conditions, including overcrowding and unhygienic infrastructure leads to ill health, increase in sickness and lack of productivity at work.

1.1.4 Housing loans as a percentage of GDP have remained at around 7 per cent, significantly lower than the levels achieved in most of the developed countries[4]. It indicates the extent of opportunity for deeper penetration of such market. With improving demographics and economies of scale, the mortgage to GDP ratio is likely to increase. The stakeholders, however, need to reckon with problems and impediments in the process which may arise from changes in the economic cycle, uncertainties surrounding land acquisition policies, changes in the policy framework and systemic risk that could arise out of rapid credit expansion with lax due diligence standards.

1.2 ISSUES CONCERNING HOUSING IN INDIA

1.2.1 Housing shortage has always been a major problem over the years in our country since independence. Such shortage estimated as excess households over houses including houseless households, congestion (number of married couples requiring separate house), and replacement/ up-gradation of kutcha/ unserviceable kutcha houses and obsolescence/ replacement of old houses, etc. had grown over the decades.

1.2.2 The Working Group on Rural Housing for the Twelfth Five Year Plan (2012-17), has estimated the total housing shortage in rural areas at 43.67 million units. It is also of major concern that 90 per cent of the rural housing shortage (approximately, 39.30 million units) are in respect of Below the Poverty Line (BPL) categories. The vulnerabilities to the rural housing sector are often thought to be limited to the delivery system for housing materials, services and finance. The sector, however, is deeply affected by infrastructure deficit – roads, electricity supply, drinking water and sanitation. Housing finance which plays a key role in the urban housing revolution is rather conspicuous by its absence in the rural setting. To aggravate the situation further, there is a real paucity of common or non-agricultural land for meeting the housing needs of the poor; whatever little is available is pre-empted by the demands from other sectors. The lack of vibrancy in the market for village properties and the marked volatility in agricultural incomes combine to dampen the prospects of this sector.

1.2.3 As per the latest Government estimates, the housing shortage in the urban areas is 18.78 million units. The situation is appalling with 99 per cent of the housing shortage pertaining to the Economically Weaker Section (EWS) and Low Income Group (LIG) categories which does not seem to be getting translated into economic demand due to lower affordability by the poor. Out of this shortage, the congestion factor contributes to 12.67 million of households and need for fresh housing contributes to 16.29 Million units. The ever increasing demand for housing and consequent development of slums drags down the productivity of the city and its potential contribution to economic growth. Table 1 exhibits the total demand of new housing in Slum and Non Slum areas.

Table 1 : Investment Estimates for Affordable Housing

Units	Slum areas Million	Non slum areas Million	Total Million	Unit Cost ₹	Total Cost ₹ Crore
Need for fresh housing units	10.61	5.68	16.29	3,50,000	5,70,150
Incremental housing to address congestion	4.78	7.89	12.27	60,000	76,020
Provision of infrastructure for new housing units	10.61	5.68	10.61	1,20,000	1,27,320
Up gradation of infrastructure in existing slums	10.85	0	10.85	70,000	75,950

1.2.4 Looking deeper into the extent of availability of basic amenities, the position is all the more disturbing. As per the Report of Housing Condition & Amenities in India (2009) by National Sample Survey Office (NSSO)[5], 65 per cent of rural and 11 per cent of urban households do not have adequate sanitation facilities. 34 per cent of the rural and 4 per cent of the urban households did not have the facility of electricity. Only 18 per cent of the rural households had all the three facilities (drinking water within premises, sanitation & electricity) whereas in urban areas, all the three facilities were available to 68 per cent households.

1.3 DIMENSIONS OF THE PROBLEM OF HOUSING SHORTAGE

1.3.1 The housing market in India is influenced by both demand and supply side constraints. The growing middle class, income levels of the people, cyclical conditions, urbanization are demand drivers which have impacted the housing sector. The major supply side constraints include the lack of availability of land, finance at reasonable rate, infrastructure, legal and regulatory framework and the limitations of the private and other stakeholders to provide low income housing.

Some of the dimensions, both supply and demand side of affordable housing are as outlined below:

i) As per the provisional Census 2011, the population of India was 1.21 Billion compared to 1.02 Billion in 2001. For the first time since Independence, the absolute increase in population is more in the urban areas. The Rural – Urban distribution was 68.84 per cent & 31.16 per cent respectively. The level of urbanization increased from 27.81per cent in 2001 Census to 31.16 per cent in 2011 Census and the proportion of rural population declined from 72.19 per cent to 68.84 per cent. There has been a spurt in growth of population in urban areas in the country, which could be due to migration, natural increase and inclusion of new areas under 'Urban'.

ii) At 31.16 per cent as recorded in the provisional Census 2011, the urban population has been growing steadily and the number of people in urban cities and towns has gone up substantially. The absolute increase in urban population is more than in the rural areas. This has resulted in unplanned & induced rural urban migration. The number of homeless people, slums and squatters has gone up and the concept of low income/affordable housing for such segments has assumed great importance.

iii) Amongst the supply side impediments, land bears particular importance. A major concern today is the inflated prices of land which in turn leads to lack of availability of land for housing, developmental and other economic activities. Even when supply is increased from medium to long term, prices do not decline. Prices are normally downwardly rigid. Further, lack of clear titles and also proper legal regulations to develop land is increasing the pressure on the metros. While smaller cities and towns are fast emerging as centre of demand, the pressure on existing four metros remains enormous. A crucial factor behind this tendency is the barrier for major players in real estate for tapping the vast land potential in rural areas reinforced by poor enforcement of laws against encroachment of public lands as well as lack of clear titles to private lands causing an artificial scarcity of land in rural areas. Another major issue is absence of large scale digitization of land records and the easy access to such records for checking titles/encumbrances. The dynamics between rural and urban housing demand are also different. A possible reason for this, among other things, could be the problem of transferring ownership rights. As the pressure on the metros is increasing due to the population explosion, it is felt that the rural areas should increasingly come under the focus of real estate development. Accordingly, we would require a strong legal framework to prevent the bottlenecks.

iv) The current financing mechanism prevalent in the country mostly targets middle and high income sections of the society while the households falling under low income and economically weaker sections category especially from the unorganized work force have no or limited access to housing finance. This can be attributed to the reluctance of the formal housing finance providers to cater to these segments due to seasonal incomes, lack of collateral, lack of title deeds, no regular payments and high transaction costs.

v) Housing constitutes a long term asset for a large segment of population in rural and urban areas. As debt markets are not very deep, access to long-term funding for housing finance institutions is difficult. Most banks use their short term funds from deposits and deploy these funds in long-term housing loans, thereby creating an asset liability mismatch. To tackle the interest rate risks, most assets and liabilities are on a floating rate basis. In India, there has been a long-standing demand to allow pension and provident funds to invest in housing finance. These funds are suppliers of long-term capital. They typically have a low risk tolerance but do crave for diversification. The mutuality of interest is strong between homeowners and long-term institutional investors. Going forward, to tide over the paucity of funds, it is imperative to develop the secondary mortgage market as securitization ensures recycling of funds. While some countries in South Asia, have issued mortgage-backed securities, most transactions are sporadic and ad-hoc. Rigidities in the legal framework, high stamp duties and lack of uniformity in underwriting norms are recognized as some of the hindrances in the development of secondary mortgage market. Further, regulatory concerns for unbridled securitization and massive growth in home loan portfolio with very lax underwriting standards which caused considerable damage to the financial markets, particularly in the context of the advance economies like the US, have to be kept in mind.

1.4 CONCEPT OF AFFORDABILITY AND AFFORDABLE HOUSING

1.4.1 "Affordability" as a concept is very generic and could have different meanings for different people based on differences in income levels. Different countries have defined affordable housing to present the economic potential of an individual buying a house. In developed countries like the US and Canada, a commonly accepted guideline for affordable housing is that the cost of housing should not exceed 30 per cent of the gross income of the household. Affordable housing and low-cost housing are often interchangeably used but are quite different from each other. Low-cost housing is generally meant for the Economically Weaker Sections (EWS) categories and comprises bare minimum housing facilities while affordable housing is mostly meant for the Low Income Groups (LIG) and the Middle Income Groups (MIG).

Box 1

Revision of Income Ceilings for Economically Weaker Sections (EWS) and Low Income Groups (LIG)

The Ministry of Housing and Urban Poverty Alleviation (MoHUPA) vide their letter dated November 14, 2012 has advised that the income ceilings for Economically Weaker Sections (EWS) and Low Income Groups (LIG) have been revised as follows:

(i) For Economically Weaker Sections (EWS) : - ₹ 1,00,000/- as household income per annum
(ii) For Low Income Groups (LIG) : - ₹ 1,00,001/- to ₹ 2,00,000/- as household income per annum

1.4.2 Defining affordable housing in India is a difficult task given that for every square kilometer of the country the dynamics of the market are different. Keeping in mind that the housing shortages affect mostly the EWS and LIG, and the younger group of urban to urban migrants changing cities in search of better prospects, affordable houses, for the purpose of such schemes, are taken as houses ranging from about 300 square feet (super built up area) for EWS, 500 square feet for LIG and 600-1200 square feet for MIG[6], at costs that permit repayment of home loans in monthly instalments not exceeding 30 to 40 per cent of the monthly income of the buyer.

Table 2 : Definition of EWS and LIG

	Size	EMI or Rent
EWS	Minimum 300 Sq Ft Super Built Up Area	Not Exceeding 30-40per cent of Monthly Income of Buyer
	Minimum 269 Sq Ft Carpet Area	
LIG	Minimum 500 Sq Ft Super Built Up Area	
	Minimum 517 Sq Ft Carpet Area	
MIG	600-1200 Sq Ft Super Built Up Area	
	Minimum 861 Sq Ft Carpet Area	

Source: Guidelines of Affordable Housing in Partnership (Ammended), MHUPA, 2011

1.5 HOUSING : CENSUS 2011

1.5.1 As per the Census 2011, the number of Households increased from 19.2 crore households in 2001 to 24.7 crore households in 2011[7]. There has been considerable increase in the Housing Stock from 18.7 crore in 2001 to 24.5 crore in 2011, indicating a growth of 30.7 per cent (Fig 1). Census 2011 also indicated that the Gap between the households and housing stock has been contracting.

Figure 1 : Increment in Housing Stock

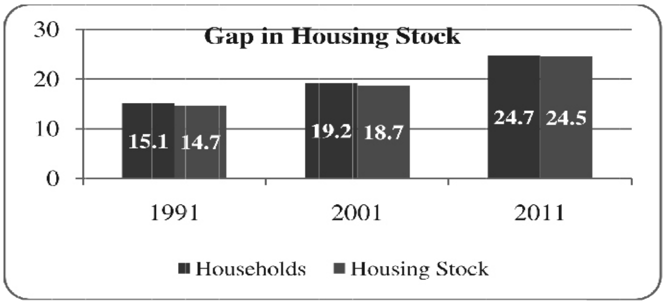


Table 3 : Increment in Housing Stock

Census Year	Households (in crore)	Housing Stock (in crore)
1991	15.1	14.7
2001	19.2	18.7
2011	24.7	24.5

1.5.2 There has been a substantial improvement in the quality of housing stock. The country witnessed a decline of 16 per cent in households using Grass/Thatch/Bamboo/ Wood/ Mud/Tiles as material of roof. On the other hand, there has been a growth of 14 per cent in the proportion of households using metal/Asbestos sheets and Concrete as material of roof. Similarly there was a decline of 9 per cent in the households using Thatch/Bamboo/ Wood/ Mud/Tiles for construction of walls and an increase of 10 per cent in the households using Burnt Brick and Stone for construction of walls. The rural-urban gap has reduced from 44 per cent in 2001 to 37 per cent in 2011.

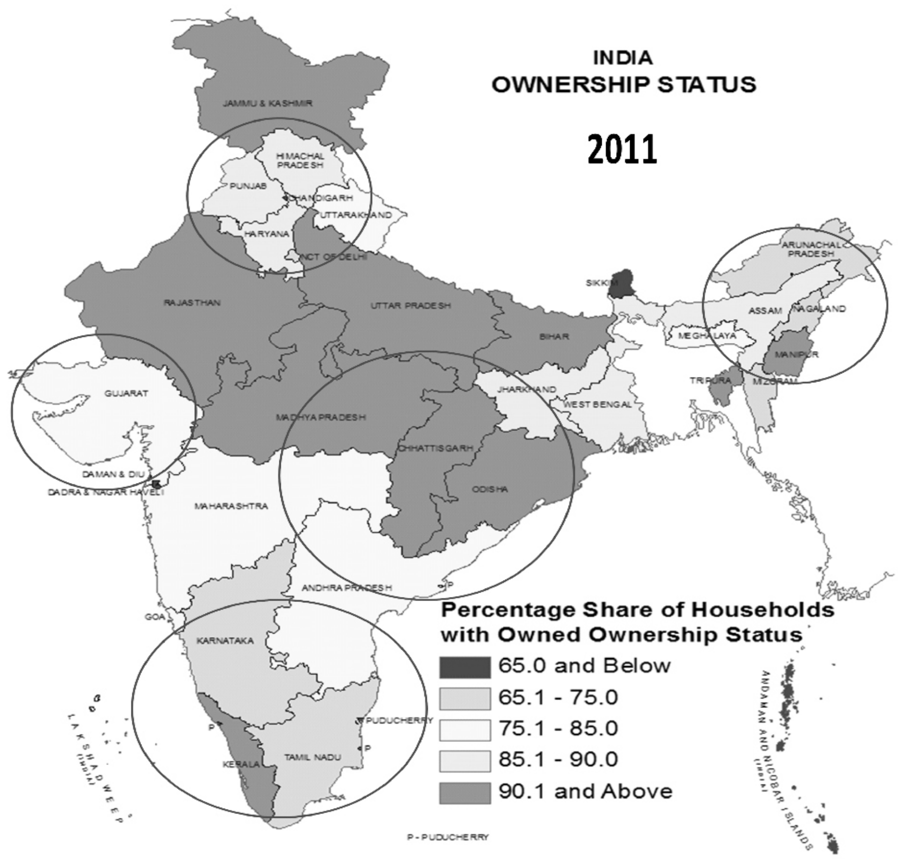
1.5.3 Approximately 86.6 per cent of the households live in their own housing stock and 11.1 per cent on rental basis. The ownership pattern has remained almost constant in the last two decades, though the population has grown by 1.21 billion compared to 1.02 Billion in 2001.

Table 4 : Distribution of Households by Tenure Status[8]

(Figures in Percentage)

Status	1991	2001	2011
		Owned	
Total	86.3	86.7	86.6
Rural	94.6	94.4	94.7
Urban	63.1	66.8	69.2
		Rented	
Total	11.8	10.5	11.1
Rural	4	3.6	3.4
Urban	34.1	28.5	27.5
		Others	
Total	1.8	2.8	2.4
Rural	1.5	2.1	1.9
Urban	2.8	4.7	3.3

Figure 2: State wise distribution of ownership status[9]



1.5.4 Around half of the households have drainage connectivity out of which two thirds have the open drainage and one-third has the closed drainage. 47 per cent of the households have sanitation facility within premises out of which 36 per cent households have water closet and 9 per cent households have pit sanitation.

[1] Report of the Technical Group on Urban Housing Shortage 2012-2017
[2] Economic Survey 2010-12: Report on service sector
[3] Economic Survey 2010-12
[4] RBI, Annual Reports of mortgage lenders and ICRA report on Housing Finance Companies and the Indian Mortgage Finance Market
[5] http://mospi.nic.in/mospi_new/upload/press_note_535_15nov10.pdf
[6] Task Force on Affordable Housing, MoUHPA, 2011
[7] http://censusindia.gov.in/2011census/hlo/hlo_highlights.html
[8] Source: Houselisting and Housing Census Data Highlights – 2011, Provisional Census-2011
[9] Source: Houselisting and Housing Census Data Highlights – 2011, Provisional Census-2011

CHAPTER - 2

Policy Environment for Housing and Housing Finance

Both central and state Governments have undertaken various schemes and put in place various reforms / measures for facilitation of improving and enhancing the level of housing in India i.e. quantitatively as well as qualitatively. The Indira Awas Yojana (IAY), Golden Jubilee Rural Housing Finance Scheme (GJRHFS), Bharat Nirman, National Urban Housing and Habitat Policy (NUHHP) are of few examples of initiatives taken by the GoI. The Government also ensures announcements in the annual budgets for the housing sector.

Further to improve the affordability of housing loans by EWS/LIG segments in urban areas, Ministry of Housing and Urban Poverty Alleviation (MHUPA), Government of India has introduced Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) .

One of the latest initiatives of the Govt. of India through MHUPA is setting up the Credit Risk Guarantee Fund Trust for Low Income Housing on 1st May, 2012. The fund will provide credit risk guarantee to the lending institutions against their housing loans up to ₹ 5 lakh for new borrowers in the EWS/LIG categories without requiring any collateral security and/or third party guarantee.

Various State Governments have undertaken / initiated schemes with respect to housing and also successfully implemented the same.

2.1 NEED FOR HOUSING POLICY

2.1.1 The need to facilitate supply of affordable housing to the unserved population and to encourage broad based home ownership through a right mix of policy initiatives cannot be overemphasized. In this context, the role of the governments, in terms of deliberate policies and interventions, is to create an enabling environment -for the private sector - so as to facilitate realization of affordable and decent housing for all.

Therefore, the core objective through policy measures is to make housing affordable and accessible to lower income families which generally suffer from discriminatory actions. Policy includes interventions along two broad dimensions:

(i) Increasing the housing stock and occupancy and also upgrading housing to improve living condition within the overall urban development of the country.

(ii) Increasing access and affordability for housing finance.

2.1.2 The Government of India has envisaged housing policies to increase housing stock and provide low cost housing finance to the underserved and unserved through various policy measures. Housing has been an important subject in the 5 Year plans and other schemes such as IAY, Golden Jubilee Rural Housing Scheme, National Urban Housing and Habitat Policy.

2.1.3 The Ministry of Housing and Urban Poverty Alleviation has envisaged a seven fold strategy to realize the goal of affordable housing for all which is to be achieved in coordination and cooperation with State Governments, Urban Local Bodies and other related Ministries. The main objectives of the strategy include:

(i) The creation of a slum-free India, through upgradation, redevelopment and where there is no alternative, relocation of all existing slums so as to provide access to basic civic amenities, shelter, property and land titling and a decent quality of life to all slum dwellers, through the realignment of State policies, planning and institutional structures for urban development, land use and town planning so that future urban growth accommodates, within planned spaces, the living and working needs of the poor.

(ii) The access to affordable housing for all and the creation of conditions that facilitate a continuous addition of adequate serviced land and housing to meet the needs and aspirations of all urban citizens.

(iii) An accelerated rate of poverty reduction, by the convergence of different programmes and services relating to skill development, creation of livelihoods, social security and social services including health and education, in order to address poverty in all its aspects, and to do so in a transparent, participatory and citizen centric manner.

2.2 HOUSING SCHEMES IMPLEMENTED BY THE GOVERNMENT OF INDIA

The major policies/schemes implemented by the Central Government in housing are as outlined below:

2.2.1 The National Urban Housing & Habitat Policy, 2007 strives to promote equitable distribution of land, shelter, and services by promoting "various types of public-private partnerships for realizing the goal of affordable housing for all"

2.2.2 To prevent frauds in loan cases involving multiple lending from different banks/HFCs on the same immovable property, the Government has facilitated setting up of the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) under the SARFAESI Act, 2002. This Registry has become operational with effect from March 31, 2011. The objective of setting up the Central Registry is to provide a database of security interest over property rights to secure loans and advances granted by banks and financial institutions. Availability of encumbrance status, inter alia, help in preventing frauds involving cases where loans are taken from different lenders against the same property by creating multiple mortgages by deposit of title deeds as well as fraudulent sale of property without disclosing the security interest over such property. The operation of CERSAI is currently being managed by NHB partially.

2.2.3 The Jawaharlal Nehru National Urban Renewal Mission (JNNURM), a Central Government Program launched in collaboration with various State Governments and Urban Local Bodies, supports 63 cities across the country. The focus of the programme is on improving efficiency in urban infrastructure, services delivery mechanism, community participation and accountability of Urban Local Bodies. The Bharat Nirman programme, launched in 2005, is continuing its focus on the provision of basic amenities like drinking water, roads, irrigation facilities, electricity and the construction of houses in rural areas through its six flagship programmes.

2.2.4 The Indira Awas Yojana (IAY) is focused on the provision of cash subsidy to rural BPL families for construction of dwelling units using their own design and technology. The funding under the Scheme is provided by the Centre and State in the ratio of 75:25 respectively. The Two Million Housing Programme, launched in 1998-99 is a loan based Scheme and seeks to facilitate the construction of 20 lakh additional houses per annum of which 7 lakh are targeted in urban areas and 13 lakh in rural areas.

Box 2

Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)

Background:

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 ('the Act') had provision for setting up a "Central Registry" for the purposes of registration of transactions of securitisation and reconstruction of financial assets and creation of security interest under the Act. The Act also permits the government to entrust the function of operating the registry to any person or company.

Accordingly, Government of India had established a Central Registry, as per the provision of the Act, for registration of security interest over property, securitization and asset reconstruction. Government has entrusted the operations of the Central Registry to a company called Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), setup as a non-profit organization under section 25 of the Companies Act, 1956. Government has also notified SARFAESI (Central Registry) Rules, 2011, which contains the operative guidelines, applicability of fee for registration etc.

As per the provisions of Central Registry Rules, 2011, transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by Banks and "Financial Institutions", as defined under the SARFAESI Act, are to be registered in the Central Registry. The forms for registration and the fees for filing are prescribed by the SARFAESI (Central Registry) Rules, 2011 notified by the Government on March 31, 2011. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property.

Objective:

The Central Registry has been set up with an objective to provide a database of security interest over property rights to secure loans and advances granted by banks and financial institutions. Availability of encumbrance status, inter alia, help in preventing frauds involving cases where loans are taken from different lenders against the same property by creating multiple mortgages by deposit of title deeds as well as fraudulent sale of property without disclosing the security interest over such property. As of now, transactions relating to creation of security interest, securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advance granted by Banks and FIs, as defined under the Act, are to be registered in the Central Registry. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property.

The Central Registry is operational since March 31, 2011 and transactions on or after this date and all transactions prior to March 31, 2011 which are subsisting, related to mortgage by deposit of title deeds in favour of a secured creditor are required to be registered.

NHB Role:

National Housing Bank played a crucial role in Central Registry starting from the inception and setup. The operation of CERSAI is currently being managed by NHB partially.

As on 30th June, 2012, 251 institutions were registered which included 46 Indian Banks (including both Public and Private sector), 24 Foreign Banks, 64 Regional Rural Banks, 58 Co-Operative Banks and 59 FIs. Till date, 90,981 users have been created and 48, 32,844 registration of mortgage by deposit of title deeds have been executed by banks, HFCs and other financial institutions which includes 12,46,947 of regular transactions and 35,85,897 of subsisting transactions.

2.2.5 To improve the affordability of housing loans by EWS/LIG segments in urban areas, Ministry of Housing and Urban Poverty Alleviation (MHUPA), Government of India introduced Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) scheme on December 26, 2008. Under the Scheme, an interest subsidy of 5 per cent per annum for whole duration of the loan (15-20 years) is provided for loans up to ₹ 1 lakh extended to the EWS/LIG beneficiaries by PLIs. This interest subsidy was provided on NPV and upfront basis. The Scheme is being implemented through Primary Lending Institutions viz. Banks and select Housing Finance Companies. The Scheme envisages the appointment of State Level Nodal Agencies (SLNA) by various States to facilitate the identification and selection of eligible beneficiaries for its effective implementation.

NHB and HUDCO are designated as the Central Nodal Agencies (CNA) for the implementation of the Scheme. NHB as Nodal Agency for the aforesaid Scheme had taken various measures to bring awareness through wider publicity, sensitization programmes and building co-ordination among the various agencies for facilitating effective implementation of ISHUP. As on June 30, 2012, NHB has entered into MoU with 33 primary lending institutions (27 banks including 5 Regional Rural Banks and 6 Housing Finance Companies) for implementation of the Scheme.

As on March 31, 2012, NHB as nodal agency has disbursed subsidy claims of ₹7.26 crore covering 8545 beneficiaries under ISHUP Scheme. The status of subsidy claims disbursed during the last three years 2009-12 is as follows:

Table 5 : Status of Subsidy Claims in the Past 3 Years

	YEAR			TOTAL
	2009-10	2010-11	2011-12	
Amt. of NPV of interest subsidy disbursed (Amt. in ₹ Crore)	0.37	3.41	3.48	7.26
No. of Beneficiaries	531	4611	3403	8545

From the above table, it can be seen that the amount of subsidy disbursed under the Scheme has increased from ₹ 0.37 crore covering 531 beneficiaries during 2009-10 to ₹ 3.41 crore covering 4611 beneficiaries during 2010-11 and further to ₹ 3.48 crore during 2011-12 covering 3403 beneficiaries.

As on March 31, 2012, the state-wise status of claims disbursed under ISHUP Scheme is as follows:

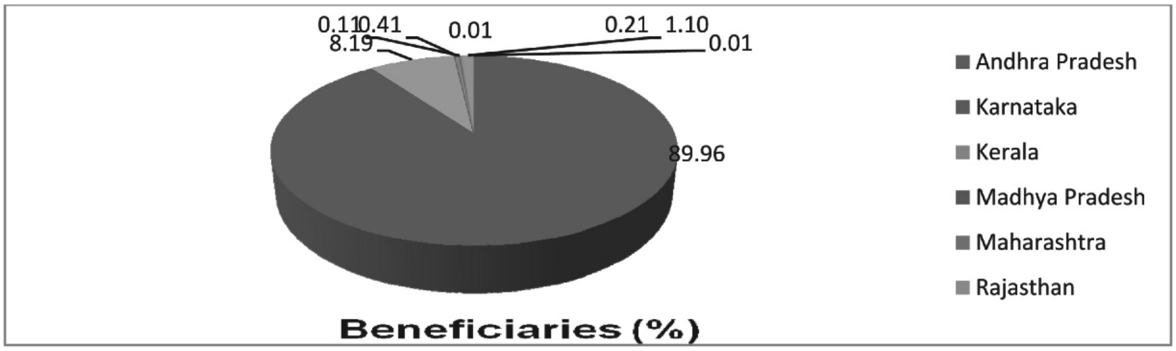
Table 6: Claims Status as on March 31, 2012

STATE	CLAIMS RECEIVED		CLAIMS SANCTIONED / DISBURSED	
	No. of beneficiaries	Amt. of NPV of interest subsidy in ₹	No. of beneficiaries	Amt. of NPV of interest subsidy in ₹
ANDHRA PRADESH	7,934	5,85,46,967.37	7,687	5,64,47,508.53
KARNATAKA	702	1,19,78,660.35	700	1,18,87,651.45
KERALA	220	55,00,574.55	35	9,37,543.55
MADHYA PRADESH	9	1, 54, 647.65	9	1, 54, 647.65
MAHARASHTRA	1	22,798.00	1	22,798.00
RAJASTHAN	18	4,10,241.64	18	4,10,241.64
TAMIL NADU	95	27,52,966.43	94	27,20,220.43
UTTAR PRADESH	1	28,895.02	1	28,895.02
TOTAL	8,980	7,93,95,751.01	8,545	7,26,09,506.27

As is evident from the above table, the highest amount of disbursements have been witnessed in the State of Andhra Pradesh for an amount of ₹ 5.64 crore covering 7,687 beneficiaries followed by Karnataka and Tamil Nadu. A graphical representation of the number of beneficiaries under ISHUP across different states has been depicted in figure 3.

2.2.6 The Government has also launched a scheme of **"Affordable Housing Partnership"** with an outlay of ₹ 5,000 crore for construction of one million houses for EWS/LIG/MIG with at least 25 per cent reserved for EWS category. The Scheme seeks to foster partnership between various agencies/ Government/ parastatals/ Urban Local Bodies/ developers for realizing the goal of affordable housing for all.

Figure 3 : Number of Beneficiaries under ISHUP across different states



2.2.7 To stimulate demand for credit for housing in the middle & lower income segments, the 1 per cent Interest Subvention Scheme for Individual housing loans up to ₹ 10 Lakh and cost of the unit upto ₹ 20 lakh was introduced by the Government from 1st October, 2009. Further in the budget for FY 2010-11 the Scheme was extended up to

March 31st, 2011. Scheme was further extended for FY 2011-12 with increase in limit of housing loans up to 15 lakh and cost of house up to ₹ 25 lakh from ₹ 10 lakh & ₹ 20 lakh respectively in earlier years. All States/UTs in the country, including rural & urban areas are covered under the Scheme. The Scheme is being implemented through Scheduled Commercial Banks (SCBs) & Housing Finance Companies (HFCs). The Scheme recognizes that subsidy in interest rates has an important role to play in reducing the burden of EMIs on borrowers and creating additional demand for housing. All regions of the States and Union Territories in the country, including rural and urban areas are covered under the Scheme.

Table 7 : Subsidy amount disbursed under the 1% Interest Subvention Scheme (ISS)

(Amt. in ₹ Crore)

Financial Year	FY 2010-11	FY 2011-12
Amount disbursed to Implementing Agencies	38.54	300

Figure 4 : Subsidy amount disbursed under 1 percent Interest Subvention Scheme (ISS)

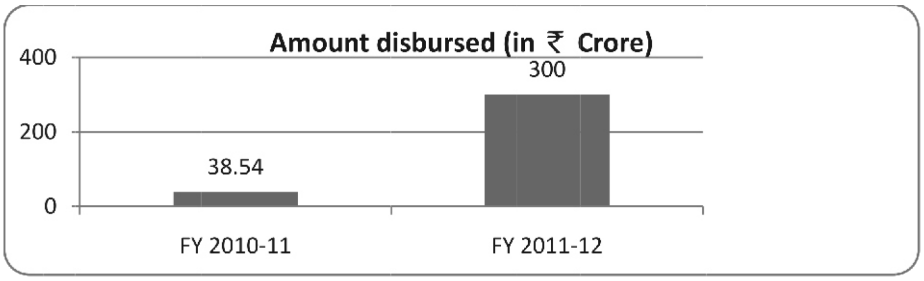
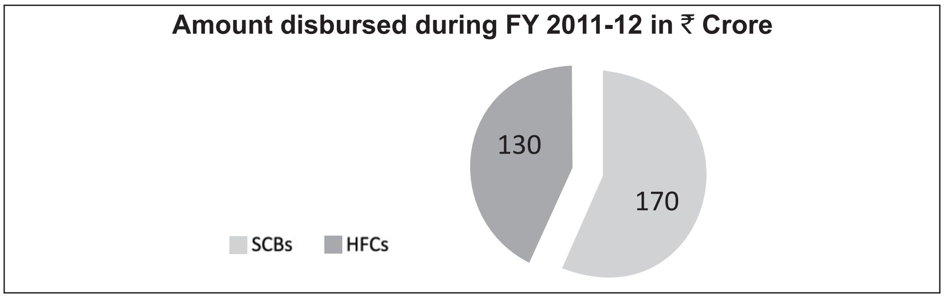


Table 8 : Disbursement details under the Scheme for FY 2011-12

(Amt. in ₹ Crore)

Implementing Agencies(IA)	Amount Disbursed to IAs
SCBs	170
HFCs	130
Total	300

Figure 5 : Subsidy Disbursement under 1 Per Cent Interest Subvention Scheme for FY 2011-12



From FY 2011-12, NHB has been designated as the sole Nodal Agency for SCBs & HFCs for implementing the Scheme (earlier RBI & NHB were the Nodal Agencies for SCBs and HFCs respectively).

2.2.8 Rajiv Awas Yojana envisages a 'Slum-free India' with inclusive and equitable cities in which every citizen has access to basic civic and social services and decent shelter. It aims to achieve this vision by encouraging States/Union Territories to tackle the problem of slums in a definitive manner. The Ministry of Housing & Urban Poverty Alleviation (MHUPA) has formulated the guidelines relating to implementation of Rajiv Awas Yojana (RAY) for realizing the vision of creating a slum free India. The Scheme envisages financial assistance to states willing to assign property rights to slum dwellers for provision of shelter and basic civic and social services for slum redevelopment and for creation of affordable housing stock. The Scheme is expected to cover 250 cities by the end of the 12th Plan.

2.2.9 Credit Risk Guarantee Fund Trust for Low Income Housing : In pursuance of the Union Budget announcements in FY 2010-11 and 2011-12, the Credit Risk Guarantee Fund Trust for Low Income Housing was set up & registered by the Government of India (GoI) on 1st May, 2012 through the Ministry of Housing and Urban Poverty Alleviation (MoHUPA). Under the arrangements, the National Housing Bank (NHB) will be managing the Fund Trust and will facilitate and oversee the implementation of the Scheme. The scheme has since been notified in the Gazette of India (July 7-13, 2012) and is effective from June 21, 2012.

2.2.9.1 Under the Scheme, the Fund will provide credit risk guarantee to the lending institutions against their housing loans upto ₹ 5 lakh for new borrowers in the EWS/LIG categories in urban areas without requiring any collateral security and/or third party guarantee. The extent of Guarantee Cover to be provided under the Scheme is 90 per cent of the amount in default in respect of loan amount upto ₹ 2 lakh and 85 per cent of the amount in default for housing loans above ₹ 2 lakh to ₹ 5 lakh. The lending institutions eligible to avail benefit of the Guarantee cover under the Scheme of the Fund Trust are Commercial Banks for the time being included in the second schedule to RBI Act, 1934, Regional Rural Banks, Urban Cooperative Banks, NBFC-MFIs, Apex Cooperative Housing Finance societies registered under the State Co-operative Societies Act eligible under RBI Guidelines as may be specified by the Trust from time to time and Housing Finance Institutions registered with National Housing Bank (NHB) or any other institution (s) as may be directed by the Government of India from time to time.

2.2.9.2 Intended Benefits of the guarantee cover provided by Fund Trust will be:

To the lenders: Their credit risk will get transferred to the Trust which will lead to the reduction in their risk weighted assets. This in turn will provide the needed capital relief as there will be lesser capital requirement for CRAR with reduction in risk weighted assets.

To the borrowers: Provision of guarantee under Fund Trust will enhance the credit worthiness of EWS and LIG borrowers which will encourage lenders to lend to this segment. Further it is expected that in addition to the increased availability and accessibility of loans to this segment, the rate at which the loans will be available will also come down due to reduced risk & lesser Capital requirements for lenders.

2.2.9.3 Further, the Scheme is applicable for the eligible housing loan extended by the lending institution in Urban Areas. The coverage under urban areas may extend to statutory towns, urban agglomerations and planning areas. The description of statutory towns, urban agglomerations & Planning areas is given below:

i) Statutory Towns: All places with a municipality, corporation, cantonment board or notified town area committee, etc- This category of urban units is known as Statutory Towns. These towns are notified under law by the concerned State/UT Government and have local bodies like municipal corporations municipalities, Municipal Committee, etc., irrespective of their demographic characteristics as reckoned on 31st December 2009, Examples: Vadodara (M Corp.), Shimla (M Corp.) etc.

ii) Planning Area: Planning Area means a planning area or a development area or a local planning area or a regional development plan area, by whatever name called, or any other area specified as such by the appropriate Government or any competent authority and includes any area designated by the appropriate Government or the competent authority to be a planning area for future planned development, under the law relating to Town and Country Planning for the time being in force.

iii) Urban Agglomeration: An urban agglomeration is a continuous urban spread constituting a town and its adjoining outgrowths (OGs), or two or more physically contiguous towns together with or without outgrowths of such towns. An Urban Agglomeration must consist of at least a statutory town and its total population (i.e. all the constituents put together) should not be less than 20,000 as per the 2001 Census. In varying local conditions, there were similar other combinations which have been treated as urban agglomerations satisfying the basic condition of contiguity. Examples: Greater Mumbai UA, Delhi UA, etc.

2.2.10 NATIONAL RURAL LIVELIHOODS MISSION (NRLM): The fast growth of the Self Help Group (SHG)-Bank Linkage (SBL) model is heartening but there are also many concerns. A large part of the problem derives from the top-down, target-driven approach that has undermined the demand-driven thrust, which was the original mandate. There are also reports of high rates of mortality in many SHGs, which has had an adverse impact on the credibility of the SBL model in the eyes of key stakeholders, including potential women members, as also bankers. The real power of the SBL model lies in the economies of scale created by SHG Federations (comprising 150- 200 SHGs each). This is evident, for example, in bulk purchase of inputs (seeds, fertilizers etc.) and marketing of outputs (crops, vegetables, milk, Non Timber Forest Products (NTFPs) etc). They can also provide larger loans for housing and health facilities to their members by tying up with large service or loan providers. A variety of insurance services can also be made available, including life, health, livestock and weather insurance. It has also been shown how doing business with SHG Federations can help public sector bank branches in remote rural areas become viable entities. Taking a cue from the lessons of the Swarnjayanti Gram Swarozagar Yojana (SGSY) experience, the Government of India has launched the National Rural Livelihoods Mission in 2011. There is a clear understanding that the SBL programme can only be successful if it is tied up with livelihood programmes such as improved agriculture, dairying, marketing, etc. Thus, the SBL and livelihood programmes are complementary to each other and their simultaneous implementation is the key to poverty alleviation.

2.3 STATE LEVEL INITIATIVES IN HOUSING

Besides initiatives by the Central Government, various State Governments have formulated housing policies to address housing shortage and improve affordability, particularly from the perspective of those belonging to EWS/LIG categories. Some of these policies are wholly supported by individual State Governments while some are implemented with assistance from the Centre. Some state-level housing policies initiated to address housing shortage and improve affordability have been discussed below.

2.3.1 UTTAR PRADESH: The UP Urban Housing Policy outlines measures to improve the operations of administrative agencies, with a focus on development agencies, self-financed schemes for creating new housing stock and the development of plots and service facilities for the urban poor. As per the Policy, development agencies are empowered to encourage private and cooperative sectors(to participate in the housing sector) and individual beneficiaries to construct their own houses based upon resources provided by the authorities including land, infrastructure facilities, loans, and building materials.

Furthermore, the Policy seeks to introduce infrastructural initiatives in both unauthorized and under-developed colonies, which should serve to improve communities as well as encourage residents to maintain existing housing stock. Also, cost-effective building materials and innovative techniques will be prioritized, as well as the simplification of existing procedures and regulations, which should also contribute to making affordable housing more available for people with different economic backgrounds. Under the Policy, every EWS/LIG plot shall include not only housing but also shop or section for a business or cottage industry. Linkages between housing and employment are prioritized in new housing and transportation development.

2.3.2 ANDHRA PRADESH: According to the Master Plan regulations relating to EWS/LIG housing issued by the Government with respect to layout/plotted development, at least 5 per cent of developable land is to be earmarked for EWS housing facility with maximum plot size of 50 sq m, and at least 5 per cent for the LIG housing facility with maximum plot size of 100 sq m. The developer will have the option to develop only EWS plots in lieu of LIG.

In respect of Group Housing projects (which include apartment blocks, row housing, cluster housing, mixed housing units, gated developments and residential enclaves), at least 5 per cent of the total units shall be set apart and developed for EWS dwelling units with maximum plinth area of 25 sq. m and at least 5 per cent of the total units shall be set apart and developed for LIG dwelling units with maximum plinth area of 40 sq. m.

In order to encourage social housing mix in housing projects and to augment the supply of EWS and LIG housing, various incentives in terms of waiver of fees and other charges have been made available to developers.

2.3.3 GUJARAT: The Gujarat Town Planning & Urban Development Act (GTPUDA) provides for Town Planning Schemes for development of land on public-private partnership basis and reservation of land for EWS housing. Further, provisions have been made under GTPUDA for development of low-cost housing for socially and economically weaker sections. With respect to slum redevelopment /rehabilitation, redevelopment of building units/ lands/ plots on which slums exist as per the 2001 census shall be permitted for the rehabilitation of slum dwellers. All eligible slum dwellers residing on the building unit/land/plots to be redeveloped shall be accommodated on the same plot.

2.3.4 MADHYA PRADESH: Madhya Pradesh State Housing and Habitat Policy 2007 facilitates the provision of housing for EWS/LIG segments as follows:

(i) 30 per cent of developed land will be reserved for EWS/LIG segment in cases where land has been made available by the State at concessional rates.

(ii) 15 per cent of the developed land will be reserved for EWS/LIG segments in colonies where land has been purchased by private / cooperative sector developers.

(iii) Additional Floor Space Index (FSI) will be given for providing higher developed areas for EWS/LIG housing.

2.3.5 MAHARASHTRA: The objectives of Maharashtra State Housing Policy introduced in 2007 are;

i) To facilitate affordable housing in urban and rural areas, create adequate housing stock for Lower Income Group (LIG), Economically Weaker Section (EWS) and shelters for the poorest of the poor on ownership or rental basis; and

ii) To promote rental housing through amendments in the Rent Control Act and incentives to different options of rental housing for weaker sections.

2.3.5.1 Maharashtra has constituted the Slum Rehabilitation Authority (SRA) under the Maharashtra Slum Areas Act, 1971 for the purpose of slum rehabilitation. The SRA implements schemes that focus on redevelopment as well as rehabilitation of slum-dwellers.

2.3.5.2 In pursuance of the Maharashtra State Housing Policy 2007, Mumbai Metropolitan Regional Development Authority (MMRDA) formulated a scheme to promote rental housing under which small rental tenements of 160 square feet carpet area are to be built under different models within MMR and are to be made available at reasonable rent. Mumbai Metropolitan Region (MMR) covers an area of 4355 sq. km. and consists of 7 Municipal Corporations, 13 Municipal Councils and over 1000 villages. Under the Scheme, rental housing can be constructed by a land owner, an agency approved by MMRDA, or MMRDA itself as per various models formulated by MMRDA.

2.3.6 RAJASTHAN: The Affordable Housing Policy 2009 of the Government of Rajasthan seeks active private participation to promote EWS/LIG housing. The target is to construct 1,25,000 houses for EWS, LIG and MIG categories during the next four years. About 75,000 houses (60 per cent of the budgeted target) are to be constructed for the EWS/LIG sections through the PPP mode. The Policy is a composition of the following models:

- Private developers on Government Land/Acquired Land: Under this model, 50 per cent of the land will be earmarked for the construction of EWS/LIG flats. A bidding process would be initiated wherein the developer offering maximum number of free EWS/LIG flats would be selected. The developers are free to construct and sell HIG/MIG flats on the remaining 50 per cent of the land.

- Private developers on Private Land: Selected developers are allowed to construct EWS/LIG flats in the (G+2/G+3) format on minimum 40 per cent of the total land. These flats are bought by the nodal agency (Avas Vikas Ltd.) at pre-determined prices. Several incentives like waiver of charges, fees, lower stamp duties etc. are offered to developers. The developers are free to construct HIG/commercial units on the remaining land.

- Slum redevelopment with participation of

Private Developers: The model is based on various schemes approved by Government of India i.e. BSUP, Intetrated housing and slum development programme (IHSDP), Rajiv Awas Yojana (RAY) and also on the lines of "Mumbai Model" of slum redevelopment with private sector participation.

2.3.7 KERALA: Under the Kerala Housing and Habitat Policy, 2007, Integrated habitat development is the focus of intervention, incorporating spatial planning and a clustering approach, involving people in the planning and construction of houses while remaining environmentally friendly. In light of the gap between supply and demand for housing, the policy is aimed at creating solutions to improve the housing supply at affordable prices. Two crucial elements will be the necessary convergence of resources and the versatility of the public sector to function in different roles according to varying circumstances. Action points are provided for the purpose of guiding stakeholders in effective plans and initiatives in the areas of FDI, PPP, financial and regulatory measures, pro-poor partnerships, and resource conservation, to name a few.

Specific roles of the Central and State governments are outlined in the policy, as well as Local Bodies and Municipalities, Parastatals and Public Agencies, HFCs, the Private and Cooperative Sectors, and Research and Technology organizations. The Housing Policy contains a unique section on special housing needs for different working groups which constitutes the state's working class. The Policy recognizes the fact that different groups like women, physically challenged and senior citizens need special design features in housing and public buildings. The "State Housing & Habitat Development Plan" will attempt to eradicate homelessness and provide housing for 10 lakh families.

2.4 PUBLIC PRIVATE PARTNERSHIPS (PPPs)

2.4.1 PPPs are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. PPP can be effectively used to address the stakeholders concerns and are characterized by the sharing of investment, risk, responsibility and reward between the various stakeholders i.e. the public sector and the private sector.

2.4.2 Public Private Partnership (PPP) has emerged as an efficient model for delivery of services in various sectors including infrastructure. The Government of India through an enabling policy and regulatory environment is advocating Public Private Partnership for housing. In a Public Private Partnership, the strength of the Public Sector, this has ownership of land and capital and its regulatory and legal power combines with the initiative and resources of the private sector and its efficiency. Thus, the strength of both can be synergized to far greater effect and productivity.

2.4.3 The National Urban Housing & Habitat Policy 2007 (NUHHP-2007) seeks to promote various types of public-private partnerships for realizing the goal of "Affordable Housing for All" with special emphasis on the urban poor. Given the magnitude of the housing shortage and budgetary constraints of both the Central and State Governments, the NUHHP-2007 focuses the spotlight on multiple stake-holders namely, the Private Sector, the Cooperative Sector, the Industrial Sector for labour housing and the Services/ Institutional Sector for employee housing. The State Housing Policies of states including Rajasthan, Tamil Nadu and Maharashtra has various provisions for facilitating accelerated Public Private Partnerships. The Rajasthan Model for Public Private Partnerships has proved to be successful and now other states are also trying to formulate their own policies.

CHAPTER - 3

Global Developments and Economic Trends

The after-effects of the global meltdown of 2008-09, continued to be felt in all parts of the world in 2011-12. The economic turbulence was quite evident in the developed as well as the developing economies. Fiscal deficits in most of the countries coupled with weak financial system and global uncertainties are the reasons behind the slowdown. To further aggravate the situation, weakening of currencies , increase in prices of crude oil along with inflationary pressures took its toll over most of the countries. India being no exception to the same.

The major area of concern for most of the developed economies was medium term fiscal consolidation, and reduction in the debt level and generation of internal accruals for a sustainable growth process.

The Indian economy also witnessed slow growth in the manufacturing as well as the services sector, however the housing sector in specific was not hit by the slowdown as the regulators commendably monitored the sector by way of specifying capital requirements, applying adequate risk management systems and maintaining the asset quality.

3.1 GLOBAL ECONOMY

3.1.1 The global economy has yet to shake off the fallout from the crisis of 2008-2009 and global growth prospects have weakened both in advanced economies and developing economies. It is observed that unlike 2010 and 2011, when growth in major emerging economies was strong during the slowdown, in 2012 growth in developing economies has also decreased[10].

3.1.2 Global growth prospects for 2012 have been revised from 2.0 per cent down to 1.5 per cent for advanced economies, and from 6.0 per cent down to 5.6 per cent for emerging market and developing economies[11]. Fiscal consolidation, a weak financial system coupled with an accommodative monetary policy and prevailing uncertainty are the major factors resulting in slow growth in advanced economies. Slow growth and uncertainty in advanced economies are affecting emerging market and developing economies, through both trade and financial channels, adding to decelerated growth.

3.1.3 In the US, growth in the 3rd quarter of 2012 has picked up relative to the earlier quarter[12]. In the UK, after three consecutive quarters of contraction, growth turned positive in 3rd quarter of 2012.The euro area continued to experience contraction in output in 2nd quarter, and recessionary headwinds have persisted in the 3rd quarter. Growth decelerated significantly in Japan. High unemployment relative to trend persisted in all major developed economies, although in September 2012, the US unemployment rate declined to below 8 per cent for the first time in four years.

3.1.4 As regards the other emerging markets which include – Brazil, Russia, China and South Africa – they have also slowed in the first half of 2012, with China decelerating further in Q3[13]. According to the October 2012 Global Financial Stability Report of the IMF, risks to financial stability have increased since April 2012 as confidence in the global financial system remains fragile, notwithstanding greater monetary accommodation by central banks. Growth is estimated to have weakened appreciably in developing Asia, to less than 7 percent in the first half of 2012[14], owing to tightening in credit conditions, and weaker external demand.

3.2 DOMESTIC ECONOMY

3.2.1 The loss of growth momentum that started in 2011-12 has extended into 2012-13, though the pace of deceleration moderated in 1st quarter of 2012[15]. There was a noted decline in the growth projections, due to slackness in activity, waning business confidence amid slow approvals for new projects, sluggish structural reforms, policy rate hikes designed to rein in inflation, and flagging external demand.

3.2.2 After continuous deceleration, GDP growth was marginally higher at 5.5 per cent in Q1 of 2012-13. The improvement was mainly driven by growth in construction, and supported by better than expected growth in agriculture. On the expenditure side, the growth of gross fixed capital formation decelerated from 14.7 per cent in Q1 of 2011-12 to 0.7 per cent in Q1 of 2012-13. The slowdown in growth of private consumption expenditure witnessed during Q4 of 2011-12 continued through Q1 of 2012-13. (Source : RBI Second Quarter Review of Monetary Policy 2012-13).

Table 9: Growth Parameters

S.No	Parameters	Details/Status from Financial year 2012 viz a viz 2011
1	Gross Fixed Capital Formation	High deceleration in growth from 14.7 percent to 0.7 percent
2	Private Consumption Expenditure	Decline/Slowdown
3	Index of industrial production (IIP)	Modest Growth of 2.7 per cent in August 2012
4	Export demand conditions	Declined
5	Crude Oil Prices	Increased
6	Capacity utilization of the manufacturing sector	Declined
7	WPI Inflation	Increased at 7.5 percent
8	Sales of private, non-financial firms	Declined both in Q1 and Q2
9	External Debt	Marginal Increase
10	Housing Prices	Increase in house price and volume of housing transactions over the preceding quarter.

3.2.3 The World Outlook Report October 2012 by IMF has predicted India's growth to be 4.9percent viz a viz 5.5 per cent in the previous projections. The projections are lower than expected which have been attributed to an outcome of stalled investment caused by governance issues and red tape, and deterioration in business sentiment against the backdrop of a rising current account deficit and the recent rupee depreciation. The Reserve Bank of India in the Monetary and Credit Review of October 2012 has predicted a fiscal slippage in 2012-13 despite recent measures by the government.

3.3 INFLATION

3.3.1 The Economy is passing through a moderate growth rate with an increase in inflation due to rise in the commodity prices, particularly oil. Inflation is a global phenomenon with a contagious effect across borders. In India, Inflation has seen an increasing trend due to increase in oil and coal prices, higher subsidy expenditure of the Government and rise in wages and raw material prices. Downward stickiness of inflation would also arise from structural component of food inflation along with higher global food prices.

3.3.2 It is anticipated that slower growth and excess capacity in some sectors will help moderate core inflation[16]. Stable, or in the best case scenario, declining commodity prices will reinforce this tendency. An appreciating rupee will also help to contain inflationary pressures by bringing down the rupee cost of imports, especially of commodities.

3.3.3 On the upside, persistent supply constraints may be aggravated as demand revives, resulting in price pressures. Rupee depreciation, which may result from global financial instability, will add to imported inflation. An important driver of inflation is the upsurge in both rural and urban wages, which is exerting cost-push pressures. Finally, as under-pricing in several products is corrected as part of the fiscal consolidation process, suppressed inflation is being brought into the open.

3.4 WORLD OUTLOOK

3.4.1 In its October 2012 World Economic Outlook (WEO), the IMF scaled down its projection of world GDP growth for 2012 to 3.3 per cent from its July projections of 3.5 per cent, and for 2013 to 3.6 per cent from its earlier projection of 3.9 per cent (Table-10)[17]. Since September 2011, the IMF has been scaling down its projection of global growth for 2012, evidencing persistent and more than anticipated weakness in the global economy.

3.4.2 The outlook for developed economies such as the US, Europe seems bleak and it seems critical for the Government and Central Banks to enable a credible medium-term fiscal consolidation strategy to avert the fiscal cliff and to avoid the risks of a prolonged downturn more real than before. A close monitoring is required by the Developed Economies to reduce the debt level and Emerging Economies will have to rely on domestic sources to maintain their growth momentum.

3.5 DOMESTIC OUTLOOK AND PROJECTIONS

3.5.1 The growth predictions for the Indian economy have been declining in the projections of IMF to 4.9 per cent and the RBI to 5.8 per cent in October 2012. The growth predictions have declined on account of worsening global macroeconomic conditions, decline in domestic industrial activity and service sector growth falling below trend.

Table 10 : Overview of the World Economic Outlook Projection[18]

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
			Projections		Difference from July 2012 WEO Update		Estimates	Projections	
	2010	2011	2012	2013	2012	2013	2011	2012	2013
World Output[1]	**5.1**	**3.8**	**3.3**	**3.6**	**–0.2**	**–0.3**	**3.2**	**3.0**	**4.0**
Advanced Economies	**3.0**	**1.6**	**1.3**	**1.5**	**–0.1**	**–0.3**	**1.3**	**1.1**	**2.1**
United States	2.4	1.8	2.2	2.1	0.1	–0.1	2.0	1.7	2.5
Euro Area	2.0	1.4	–0.4	0.2	–0.1	–0.5	0.7	–0.5	0.8
Germany	4.0	3.1	0.9	0.9	0.0	–0.5	1.9	0.9	1.4
France	1.7	1.7	0.1	0.4	–0.2	–0.5	1.2	0.0	0.8
Italy	1.8	0.4	–2.3	–0.7	–0.4	–0.4	–0.5	–2.3	0.0
Spain	–0.3	0.4	–1.5	–1.3	–0.1	–0.7	0.0	–2.3	0.2
Japan	4.5	–0.8	2.2	1.2	–0.2	–0.3	–0.6	1.6	2.1
United Kingdom	1.8	0.8	–0.4	1.1	–0.6	–0.3	0.6	0.0	1.2
Canada	3.2	2.4	1.9	2.0	–0.2	–0.2	2.2	1.7	2.2
Other Advanced Economies[2]	5.9	3.2	2.1	3.0	–0.4	–0.4	2.4	2.3	3.6
Newly Industrialized Asian Economies	8.5	4.0	2.1	3.6	–0.6	–0.6	3.0	3.2	3.5
Emerging Market and Developing Economies[3]	**7.4**	**6.2**	**5.3**	**5.6**	**–0.3**	**–0.2**	**5.7**	**5.5**	**6.2**
Central and Eastern Europe	4.6	5.3	2.0	2.6	0.1	–0.2	3.6	1.9	3.3
Commonwealth of Independent States	4.8	4.9	4.0	4.1	–0.1	0.0	4.3	2.9	4.8
Russia	4.3	4.3	3.7	3.8	–0.3	–0.1	4.6	2.5	4.8
Excluding Russia	6.0	6.2	4.7	4.8	0.2	0.2	. . .	. . .	. . .
Developing Asia	9.5	7.8	6.7	7.2	–0.4	–0.3	6.9	7.2	7.4
China	10.4	9.2	7.8	8.2	–0.2	–0.2	8.9	7.9	8.1
India	10.1	6.8	4.9	6.0	–1.3	–0.6	5.0	5.5	5.9
ASEAN-5[4]	7.0	4.5	5.4	5.8	0.0	–0.3	2.8	7.2	6.6
Latin America and the Caribbean	6.2	4.5	3.2	3.9	–0.2	–0.3	3.7	3.0	4.6
Brazil	7.5	2.7	1.5	4.0	–1.0	–0.7	1.4	2.9	3.8
Mexico	5.6	3.9	3.8	3.5	–0.1	–0.2	3.9	3.2	4.1
Middle East and North Africa	5.0	3.3	5.3	3.6	–0.2	0.0	. . .	. . .	. . .
Sub-Saharan Africa[5]	5.3	5.1	5.0	5.7	–0.1	0.0	. . .	. . .	. . .
South Africa	2.9	3.1	2.6	3.0	0.0	–0.3	2.6	2.7	3.3
Memorandum									
European Union	2.1	1.6	–0.2	0.5	–0.2	–0.5	0.8	–0.2	1.2
World Growth Based on Market Exchange Rates	4.1	2.8	2.6	2.9	–0.1	–0.3	2.3	2.2	3.3
World Trade Volume (goods and services)	**12.6**	**5.8**	**3.2**	**4.5**	**–0.6**	**–0.7**	**. . .**	**. . .**	**. . .**
Imports									
Advanced Economies	11.4	4.4	1.7	3.3	–0.2	–0.9	. . .	. . .	. . .
Emerging Market and Developing Economies	14.9	8.8	7.0	6.6	–0.8	–0.4	. . .	. . .	. . .
Exports									
Advanced Economies	12.0	5.3	2.2	3.6	–0.1	–0.7	. . .	. . .	. . .
Emerging Market and Developing Economies	13.7	6.5	4.0	5.7	–1.7	–0.5	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil[6]	27.9	31.6	2.1	–1.0	4.2	6.5	20.8	3.7	–3.3
Nonfuel (average based on world commodity export weights)	26.3	17.8	–9.5	–2.9	2.6	1.4	–6.4	1.9	–5.4
Consumer Prices									
Advanced Economies	1.5	2.7	1.9	1.6	–0.1	0.0	2.8	1.7	1.7
Emerging Market and Developing Economies[3]	6.1	7.2	6.1	5.8	–0.2	0.2	6.5	5.6	5.3
London Interbank Offered Rate (percent)[7]									
On U.S. Dollar Deposits	0.5	0.5	0.7	0.6	–0.1	–0.2	. . .	. . .	. . .
On Euro Deposits	0.8	1.4	0.6	0.2	–0.1	–0.3	. . .	. . .	. . .
On Japanese Yen Deposits	0.4	0.3	0.4	0.3	0.0	–0.1	. . .	. . .	. . .

3.5.2 The mortgage and housing finance market of India is on a commendable traction despite the turbulent trend prevailing in the micro and macro economic conditions globally. The sector has been demonstrating the same resilience as it did during the global meltdown in 2007-09. The is due to the steps taken by the regulators, by developing enhanced risk management systems and constantly keeping a vigil on the exposure limits, capital requirements and asset qualities while benefiting all the stake holders viz the PLI's and the borrowers. Despite, the global economic slowdown and recessionary pressure, The Reserve Bank's quarterly house price index suggests that house price inflation remained firm in Q1 of 2012-13. Further, notwithstanding the increase in house prices, the volume of housing transactions have grown at a faster pace viz a viz the previous year than in the preceding quarter

Table 11 : Annual Change (Per Cent) of Local House Prices in India for Major Cities

Local House Prices, Annual Change (percentage)				
Cities	Q2 2011		Q2 2012	
	Nominal	Real	Nominal	Real
Pune	11.11	2.02	33.33	21.06
Chennai	35.52	24.43	24.6	13.12
Jaipur	4.92	-3.67	21.88	10.65
Delhi	33.64	22.7	17.01	6.23
Mumbai	13.13	3.87	8.84	-1.18
Bengaluru	35.29	24.22	8.7	-1.31
Lucknow	20.3	10.45	6.88	-2.97
Ahmedabad	29.01	18.45	2.96	-6.52
Kolkata	10.23	1.21	1.03	-8.27
Faridabad	44.74	32.89	-1.36	-10.45
Surat	9.56	0.59	-2.68	-11.65
Patna	17.74	8.1	-4.11	-12.94
Hyderabad	10.98	1.89	-6.59	-15.19
Bhopal	46.41	34.42	-7.59	-16.1
Kochi	28.92	18.36	-31.78	-38.06

However during the second quarter of the Financial Year 2012-13. There was a marginal decline in the overall property prices across the country . According to the NHB - RESIDEX data for the quarter July-September 2012, the prices have declined in smaller towns and the increase in other cities is just marginal, barring Kochi and Jaipur. There are signs of convergence of prices around this level across the cities covered in NHB-RESIDEX (for 20 cities)[19].

[10] *Reserve Bank of India: Macroeconomic and Monetary Developments: Second Quarter Review 2012-13- October 2012*
[11] *IMF World Economic Outlook, October 2012 (http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf)*
[12] *Financial Year–January to December 2012*
[13] *Reserve Bank of India: Macroeconomic and Monetary Developments: Second Quarter Review 2012-13, October 2012*
[14] *IMF- World Economic Outlook*
[15] *The Financial Year in India is considered from April – March i.e. in this case April 2012- March 2013*
[16] *IMF 2011 forecast*
[17] *RBI Monetary and Credit Review October 2012*
[18] *IMF World Economic Outlook, October 2012 (http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf)*
[19] *NHB Residex Update for July-September Quarter, 2012-13*

CHAPTER - 4

Role of National Housing Bank

The year 2011-12 was another landmark year for NHB where it continued its growth story for another successive year. The disbursements of ₹ 14389.91 crore during the year 2011-12 represented the highest ever annual refinance disbursements showing an increase of nearly 23 per cent over the previous year's refinance disbursement, with the major portion of refinance being availed by the Scheduled Commercial Banks.

The annual refinance disbursement towards rural housing accounted for 38.97 per cent of the total disbursements. More than eighty two percent of the total refinance disbursements in the year 2011-12 have been made in respect of housing loans in the priority sector segment i.e., individual housing loans up to ₹ 25 lakh. The loans of less than ₹ 5 lakh comprise 34.11 per cent of the total disbursement.

NHB continues to play its role for creating and supporting market infrastructure for sustainable growth of the housing and housing finance sector with clear emphasis on the EWS and LIG. Since through its cross border linkages, the housing sector drives the economic growth and generates employment, NHB has initiated a number of steps to ensure easy availability of finance to eligible individuals.

4.1 ROLE OF NHB IN HOUSING & HOUSING FINANCE

4.1.1 The National Housing Bank (NHB) is the apex level financial institution established under an Act of Parliament 1987, and the principal mandate of the Bank is to promote housing finance institutions to improve/strengthen the credit delivery network for housing finance in the country.

4.1.2 The National Housing Bank entered its 25th year of existence in July 2012 and endeavors to continue to support a healthy housing finance sector in the country and realize the goal of affordable housing for all. The Bank has been promoting inclusive expansion and stability in the housing finance market. The proactive policy support of NHB has expanded the reach and depth of the Housing finance industry.

4.1.3 The Bank seeks to catalyze institutional funds to reduce housing shortage in the country through various development initiatives particularly for rural housing and housing for low and moderate income households. The Bank is focused on the holistic development of the housing finance market in the country.

To achieve the above, the Bank has adopted a multipronged strategy assuming mutually synergic roles of

i. Financing - Leveraging liquidity & Credit flow
ii. Promotional – Market infrastructure
iii. Regulatory & Supervisory – Confidence Building & Stability

The above roles are assumed in collaboration with various housing finance institutions, multilateral agencies, microfinance institutions, development authorities, public agencies. The integrated approach and continuous efforts of NHB has been undertaking measures for capacity building for the housing finance system and for improving the credit absorption capacity of the sector.

4.2 FINANCIAL PERFORMANCE OF NATIONAL HOUSING BANK

The financial highlights of the National Housing Bank for the year ending June 30, 2012 are as outlined below:

Table 12 : Financial Highlights of the National Housing Bank for the Year ending June 30, 2012

(Amt. in ₹ Crore)

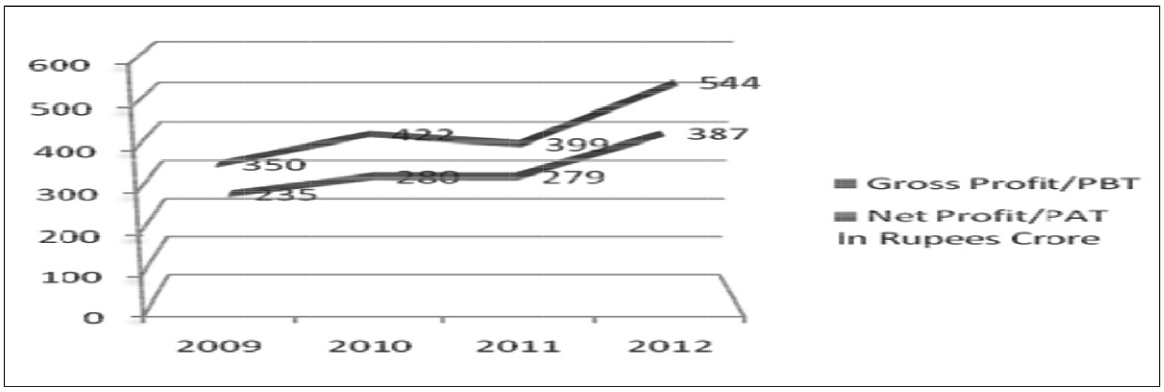
Year Ended 30th June	2009	2010	2011	2012
Reserve & Surplus	1,792	2,072	2,352	2,739
Gross Profit/PBT	350	422	399	544
Net Profit/PAT	235	280	279	387
Balance Sheet Size	19,927	22,753	25,781	31,332
PAT Per Employee	2.62	3.15	3.21	4.07

As reflected above, the major parameters i.e. the balance sheet size, reserve and surplus, gross profit, net profit show an increasing trend. A profit of ₹ 387 crore was posted by the National Housing Bank in 2011-2012 i.e. a rise of approximately 38.7 per cent over the previous fiscal year.

The Bank's Balance sheet size increased from ₹ 25,781 crore to ₹ 31,332 crore in 2011-2012 from the preceding year which is an increase of 21.53 per cent.

The Bank has recorded continuous growth in profit as depicted in Figure 6 below:

Figure 6 : Profit movement of National Housing Bank from 2009-2012



4.3 REFINANCE DISBURSEMENTS IN 2011-12

4.3.1 During the year 2011-12, refinance disbursements aggregated to ₹ 14,389.91 crore. The details of disbursements during 2011-12 as compared to previous year are as under:

Table 13 : NHB Refinance Disbursements to various PLIs for last two years

(Amt. in ₹ Crore)

Institution	Disbursements	
	2010-11	**2011-12**
Housing Finance Companies	3,308.67	5,302.13
Scheduled Commercial Banks	8,112.00	8,851.42
Regional Rural Banks	134.12	143.04
Cooperative Sector	168	93.32
Total	**11,722.79**	**14,389.91**

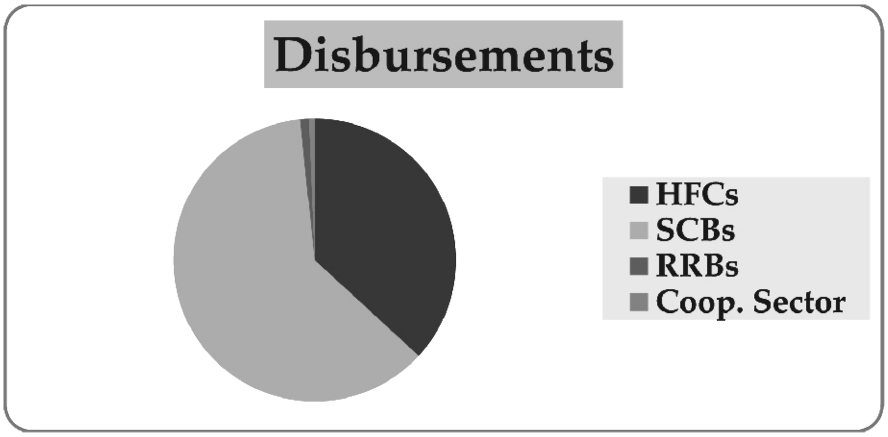
The disbursements for all categories of institutions have increased compared to the previous year except the cooperative sector. The disbursements of ₹ 14389.91 crore during the year 2011-12 represented the highest ever annual refinance disbursements showing an increase of nearly 23 per cent over the previous year's refinance disbursements.

4.3.2 The percentage-wise breakup of disbursements between various categories of PLIs in 2011-12 is as under:

Table 14 : Percentage-wise Breakup of Disbursements Between Various Categories of PLIs in 2011-12

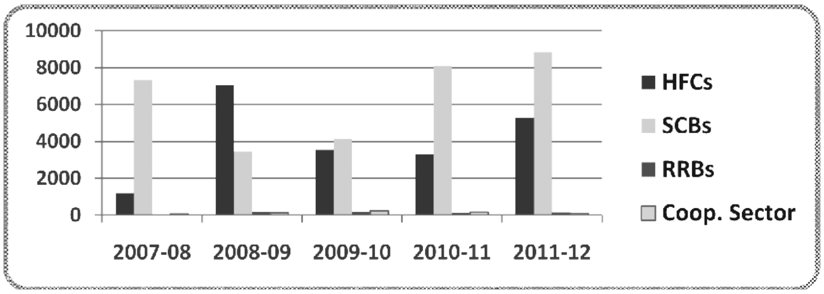
PLI Category	Disbursements	
	Amount ₹ (crore)	**Percent of Total**
HFCs	5,302.13	36.85
SCBs	8,851.42	61.51
RRBs	143.04	0.99
Coop. Sector	93.32	0.65
Total	**14,389.91**	**100**

Figure 7 : Percentage-Wise Breakup of Disbursements between Various Categories of PLIs in 2011-12



As reflected above, Banks availed 61.51 Per cent of the total refinance disbursed by NHB. It may be observed that a similar trend is being followed for the past 5 years with the exception being in the year 2008-09, as is reflected below:

Figure 8 : Trend of Disbursements to Various Categories of Primary Lending Institutions



Box 3

Availment of Refinance by Various PLIs

During the last five years, Scheduled Commercial Banks constitute the biggest category of PLIs (Primary Lending Institutions) availing refinance from NHB (except for the year 2008-09 where the HFCs constituted the biggest category). Banks, due to their vast size, branch network and captive customer base and experience of the retail finance segment, act more aggressively as compared to most of the HFCs and other PLIs. In the HFCs sector, barring a few large sized HFCs, most of the players are quite small and regional, which makes it difficult for them to compete equally with banks on the outreach as well as cost competitiveness front. However, many of the smaller HFCs are now emerging as important players in niche segments such as affordable housing, and have started making an impact in segments which were hitherto not receiving full attention from the bigger players. Therefore, various constraints notwithstanding, HFCs have been performing well during the last few years, expanding their customer base and housing loans portfolio while keeping their NPA levels under control. It may be observed that the cooperative sector disbursements have been declining as compared to the previous fiscal year and the refinance assistance to the co-operative sector has been negligible during the last few years. This is on account of declining levels of recovery and losses incurred by these institutions, which has made most of the cooperative sector institutions ineligible for availing refinance assistance from the Bank.

4.3.3 TENURE WISE BREAKUP OF DISBURSEMENTS - The tenure wise breakup of disbursements during 2011-12 is as under:

Table 15 : Tenure Wise breakup of NHB Refinance disbursements during 2011-12

Period of Refinance	Amount (₹ crore)	Percentage of Total
Upto 1 year	0	0
1 year to 3 years	8,237.57	57.25
3 years to 5 years	1285.20	8.93
5 years to 7 years	3,682.31	25.59
7 years to 10 years	966.75	6.72
Over 10 years	218.08	1.52
Total	**14,389.91**	**100.00**

Out of the total refinance disbursed in 2011-12, nearly 34 per cent represented long term refinance having repayment period of 5 years or above.

4.3.4 INTEREST RATE TYPE WISE BREAKUP OF DISBURSEMENTS - The breakup of disbursements during 2011-12 on the basis of type of interest rate is as under:

Table 16 : Interest Rate Wise Breakup of NHB Refinance disbursements during 2011-12

Type of Interest Rate	Amount (₹ crore)	Percentage of Total
Fixed Rate	12,457.97	86.57
Floating Rate	1,931.94	13.43
Total	**14389.91**	**100.00**

4.3.5 LOAN SIZE WISE BREAKUP - The breakup of refinance disbursements in 2011-12 on the basis of size of underlying individual housing loans is as under:

Table 17 : Loan Size Wise Breakup of NHB Refinance disbursements during 2011-12

Loan Size	Amount (₹ crore)	Percentage of Total	Percentage cumulative
Upto ₹ 2 lakh	1,115.85	7.75	7.75
₹ 2 lakh to ₹ 5 lakh	3,792.71	26.36	34.11
₹ 5 lakh to ₹ 15 lakh	5,974.39	41.52	75.63
₹ 15 lakh to ₹ 25 lakh	984.76	6.84	82.47
Over ₹ 25 lakh	2,522.21	17.53	100.00
Total	**14,389.91**	**100.00**	

More than 82 per cent of the total refinance disbursements in the year 2011-12 have been made in respect of housing loans in the priority sector segment i.e., individual housing loans up to ₹ 25 lakh. The loans of less than ₹ 5 lakh comprise 34.11 per cent of the total disbursement.

4.3.6 INTEREST RATE TYPE WISE BREAKUP OF OUTSTANDING - The breakup of refinance outstanding as on 30-06-2012 on the basis of type of interest rate is as under:

Table 18 : Interest Rate Breakup of NHB Refinance Outstanding with various PLIs

Institutions Rated	Amount (₹ crore)	Percentage of Total
Fixed Rate	24,828.41	86.92
Floating Rate	3,735.54	13.08
Total	**28,563.95**	**100**

4.3.7 DISBURSEMENTS IN RESPECT OF HOUSING LOANS IN RURAL AREAS

The break-up of annual refinance disbursements into rural and urban (i.e. refinance disbursed against individual housing loans in rural / urban areas) during the five year period 2007-08 to 2011-12 is given in Table 19.

Table 19 : NHB's Annual Refinance Disbursements into Rural and Urban During the Five Year Period 2007-08 to 2011-12

(Amt. in ₹ Crore)

Year	Total Disbursements	Rural				Urban	
		GJRHFS		RHF			
		Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
2007-08	8,586.89	3,856.19	44.91	-	-	4,730.70	55.09
2008-09	10,853.62	718.44	6.62	1,761.48	16.23	8,373.70	77.15
2009-10	8,107.76	1,680.00	20.72	2,015.82	24.86	4,411.94	54.42
2010-11	11,722.79	3,781.92	32.26	2,003.66	17.09	5,937.21	50.65
2011-12	14,389.91	2,604.51	18.10	3,003.03	20.87	8,782.37	61.03

4.3.8 REFINANCE DISBURSEMENTS UNDER THE RURAL HOUSING FUND (RHF)

4.3.8.1 The Hon'ble Finance Minister, in his Union Budget speech for 2008-09, announced the setting up of the Rural Housing Fund to enable primary lending institutions to access funds for extending housing finance to targeted groups in rural areas at competitive rates. The corpus of the Fund for 2008-09, 2009-10 and 2010-11 was ₹ 2,000 crore, and enhanced to ₹ 3,000 crore in 2011-12. An allocation of ₹ 4,000 crore has been made in the Union Budget for the financial year 2012-13 for Rural Housing Fund.

4.3.8.2 The break-up of refinance disbursements under the Rural Housing Fund during the four years of its existence is as under :

Table 20 : Refinance Disbursements under the Rural Housing Fund

Year	Allocation (crore)	Utilization						
		Institution Category						
		HFCs (₹ crore)	SCBs (₹ crore)	UCBs (₹ crore)	RRBs (₹ crore)	ACHFS & ARDBs (₹ crore)	Total (₹ crore)	No. of Units
2008-09	1778.18	1544.88	0	15	201.6	0	1761.48	95577
2009-10	2000	1794.86	0	4	184.96	32	2015.82	70995
2010-11	2000	1687.54	182	0	134.12	0	2003.66	42859
2011-12	3000	2125.25	721.42	13.32	143.04	0	3003.03	126795
Total	8778.18	7152.53	903.42	32.32	663.72	32	8783.99	336226

4.3.8.3 Since its inception in 2008-09, the Rural Housing Fund was available for refinance to HFCs, RRBs and Co-operative Sector Institutions. Later in the year 2009-10, the Bank decided to extend the benefit of the Fund to those Public Sector Banks which have fulfilled their priority sector commitments and are therefore not required to contribute to the corpus of the Fund. This was intended to leverage the rural outreach and branch network of the Public Sector Banks in order to promote housing finance in rural areas. During 2011-12, refinance disbursements of ₹ 903.42 crore were made to Public Sector Banks under the Rural Housing Fund.

4.3.9 Refinance for Energy Efficient Housing

4.3.9.1 NHB, in partnership with KfW, Germany, is promoting energy efficiency in the housing sector. The Bank, in 2010-11, launched the Energy Efficient Housing Refinance Scheme, aimed at encouraging energy efficiency in the residential sector. During the year 2011-12, refinance disbursements aggregating ₹ 128.96 crore were made under this Scheme. The refinance assistance under the Scheme is expected to improve the demand for energy efficient residential units in the country.

Box 4

Salient Features of Refinance Scheme Under RHF

- **Purpose:** To provide refinance assistance in respect of housing loans extended by PLIs to borrowers belonging to 'weaker sections' for purchase / construction / repairs & upgradation of housing units in 'rural areas'.

Note:

(1) Rural area' is defined as the area comprised in any village, including the area comprised in any town, the population of which did not exceed 50,000 as per the 1991 Census.)

(2) "Weaker section" means and includes :

(a) Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;

(b) Women

(c) All individuals' eligible for loans under Swarnjayanti Gram Swarozgar Yojana (SGSY) and Differential Rate of Interest (DRI) i.e. classified as BPL or marginally above the poverty line.

(d) Scheduled Castes, Scheduled Tribes and;

(e) Persons from minority communities as may be notified by Government of India from time to time. In States, where one of the minority communities notified is, in fact, in majority, item (e) will cover only other notified minorities. These States / Union Territories are Jammu & Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

(f) Rural population with income upto ₹ 2 lakh

- ◈ Eligible Loans: Individual loans upto ₹ 15 lakh is eligible for refinance
- ◈ Tenure – Refinance can be availed for a minimum period of 3 years and maximum period of 7 years.

- **Interest rate :** Fixed for the entire tenor of refinance. The interest rate on refinance as applicable on June 30, 2012 for various categories of institutions are as under:

Institutions	Slab –Wise	Interest rate as on 30th June, 2012*
HFCs, SCBs & Coop. Sector	Loans upto ₹ 2 lakh	**6.50 per cent p.a.**
	₹ 2 lakh to 5 lakh	**7.00 per cent p.a.**
	Above ₹ 5 lakh to 15 lakh	**7.50 per cent p.a.**
RRBs	Loans upto ₹ 2 lakh	**6.25 per cent p.a.**
	₹ 2 lakh to ₹ 5 lakh	**6.75 per cent p.a.**
	Above ₹ 5 lakh to ₹ 15 lakh	**7.25 per cent p.a.**

* Bank extended special concession of 25 bps on the above rates to housing loans extended rural areas having population up to 5,000.

Box 5

Salient Features of Energy Efficient Housing Refinance Scheme

- **Purpose** - To provide refinance assistance in respect of housing loans extended by HFCs for construction / purchase of new energy efficient housing units in urban areas.
- **Eligible Loans-**
  - a) Type of housing unit - Having energy efficiency (EE) certificate recognized by National Housing Bank in consultation with KfW, based on Fraunhofer/TERI calculations
  - b) Loan size - upto ₹ 50 lakh
  - c) Location - Urban
  - d) Date of origination of loan - Loans sanctioned and disbursed on or after 01-01-2011
  - e) Tenure - 1 year to 15 years

4.4 NEW SCHEMES LAUNCHED

As the Bank entered its 25th year of existence, two schemes were launched by the Hon'ble Minister for Housing and Urban Poverty Alleviation as outlined below:

4.4.1 A Special Refinance Scheme for Urban Low Income Housing was launched with an objective of providing long term funds to retail lending institutions at lower interest rates to enable these institutions to increase their housing credit flow to the lower income segments in urban areas. The Scheme covers loans up to ₹ 5 lakh extended to households having monthly income of not more than ₹ 15, 000 for purchase/acquisition of house. The lending institutions would pass on the benefit of lower interest rates to the ultimate borrowers. The Scheme aims to improve affordability by providing refinance at fixed lower interest rate for a long term ranging 10-15 years resulting in considerable reduction in EMIs and also hedging against interest rate volatility.

4.4.2 NHB also launched a Refinance Scheme for Installation of Solar Water Heating and Solar Lighting Equipments in Homes, to promote the use of solar equipment in the domestic context so as to conserve energy and reduce dependence on fossil fuels. NHB through its efforts aims to promote energy efficient homes. The newly launched scheme for solar equipments, which covers retail loans up to ₹ 50,000, is expected to go a long way towards improving the penetration and usage of solar lighting and solar water heating equipments in homes.

Box 6

NHB's Refinance schemes for PLIs

No.	Schemes	Purpose
1	Liberalized Refinance Scheme (LRS)	To provide refinance assistance in respect of housing loans extended for : 1. Construction / purchase of dwelling units 2. Repairs / renovation / up gradation of dwelling units

No.	Schemes	Purpose
2	Golden Jubilee Rural Housing Refinance Scheme (GJRHRS)	To provide refinance assistance in respect of housing loans up to ₹ 15 lakh (in both Rural and Urban areas) extended for : 1. Construction / purchase of dwelling units 2. Repairs / renovation / up gradation of dwelling units
3	Rural Housing Fund (RHF)	To provide refinance assistance in respect of housing loans upto ₹ 15 lakh (in only Rural areas) extended for : 1. Construction / purchase of dwelling units 2. Repairs / renovation / upgradation of dwelling units
4	Energy Efficient Housing Refinance Scheme (EEHRS)	To provide refinance assistance in respect of housing loans for construction / purchase of new energy efficient housing units in urban areas.
5	Special Refinance for Urban Low Income Housing	To provide refinance assistance in respect of housing loans upto ₹ 5 lakh extended in urban areas for : 1. construction / purchase of new dwelling units 2. purchase of existing dwelling units 3 extension / up gradation / repairs of existing dwelling units
6	Refinance Scheme for Installation of Solar Water Heating and Solar Lighting Equipments in Homes	To provide refinance assistance in respect of loans extended for : 1. Purchase and installation of solar water heating systems 2. Purchase and installation of solar lighting systems

4.5 SANCTIONS AND DISBURSEMENTS THROUGH DIRECT FINANCE

4.5.1 The National Housing Bank provides financial assistance for project lending to a range of borrowers both in the public and private sector including microfinance institutions and Non Governmental Organizations (NGOs) under the Bank's housing microfinance program.

4.5.2 During the year 2011-12, the Bank has sanctioned Project Finance assistance for 6 projects amounting to ₹ 314.30 crore and disbursed ₹ 63.72 crore. The disbursements were made to Housing Micro Finance Institutions, Public Agencies, Welfare Housing Organizations and Public Private Partnerships.

4.5.3 NHB has been engaged in housing microfinance since the year 2004. Through housing microfinance, NHB has been providing long term financial support, technical assistance and training in doing housing finance for low income families. Under the program, the Bank has extended financial assistance to 31 microfinance institutions across 11 states to the tune of ₹ 97.42 crore to finance the construction of 30,210 housing units. The beneficiaries include farmers, petty traders, artisans, dairy workers and other low income households.

Table 21: Sanction and Disbursement Under Project Financing for the Last 6 Years.

(Amt. in ₹ Crore)

Year	Sanctions	Disbursements
2006-2007	560.82	171.6
2007-2008	819.50	449.49
2008-2009	248.30	35.41
2009-2010	312.07	51.53
2010-2011	78.80	311.79
2011-2012	314.30	63.72

4.6 UN HABITAT – WATER & SANITATION PROGRAMME

4.6.1 NHB had signed an agreement of cooperation with UN-Habitat for collaborating on water supply and sanitation projects for low income households in the year 2008-09. Under the agreement UN Habitat has agreed to provide $3,75,000 through NHB for the water and sanitation component of housing micro finance projects as well as for standalone water and sanitation projects, as well as for capacity building and training efforts in this field. Under this program the Bank has sanctioned ₹ 7.65 crore for construction of estimated 12984 toilet/water connections to 6 institutions covering 6 states.

4.6.2 A workshop on Water and Sanitation was organized by NHB in collaboration with UN-Habitat at Institute of Rural Management, Anand. Representatives from UN-Habitat, Microfinance Institutions such as Sanghamitra Rural Financial Services, Swayamshree Micro Credit Services and Cooperatives such as Kaira District Milk Producers Union Limited, SUMUL and research institutes such as Environmental Sanitation Institute participated and benefited from the workshop.

4.7 NHB-RESIDENTIAL HOUSING PRICE INDEX (RESIDEX)

4.7.1 **RESIDEX Evolution:** RESIDEX has been set up with the purpose of setting up a mechanism which could help in tracking the movement of prices in the residential housing segment. The National Housing Bank in 2007 undertook a pilot study of 5 cities to evaluate the housing prices, taking into consideration the inputs received from National Council of Applied Economic Research (NCAER) and HFCs. The RESIDEX has evolved over different phases and is being scaled up with each successive phase.

4.7.2 **Scaling up of RESIDEX:** The Index has been formulated with an objective to create an index which can track the movements in housing prices. The RESIDEX is aimed at helping the end users including general consumers, property buyers, and borrowers in their decision-making by enabling comparisons over time and across cities and localities based on the emerging trends. The RESIDEX also provides insights into the property market for the lending agencies in their credit evaluation and assessment of the value (present and potential) of the security against the loan. NHB RESIDEX can be a useful indicator for estimating the value of property to be financed and also for assessing the value of security cover on the outstanding loan. Builders and developers may also benefit from the index by assessing the demand scenario in a locality, and mapping the housing needs in different parts of the country. NHB RESIDEX may be useful to policy makers, banks, housing finance companies, builders, developers, investors and individuals.

Phase1 2007

- Pilot Study covering 5 cities viz. Bangalore, Bhopal, Delhi, Kolkata and Mumbai taking 2001 as the base year
- Index updated for the year 2006 and 2007

Phase 2 2008-09

- Expanded to fifteen cities 15 cities including Bangalore, Bhopal, Delhi, Kolkata, Mumbai, Ahmedabad, Faridabad,Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat
- Updated to December 2008, January-June, 2009 and July-December, 2009
- Updated on a half yearly basis

Phase 3 2010 -12

- Frequency of updating changed to quarterly basis since Jan-March, 2012
- Extended to 20 cities i.e. addition of 5 more cities viz. Bhubaneswar, Guwahati, Indore, Ludhiana and Vijayawada
- Intended to be increased to 63 cities to make it a national index

4.7.3 **Present status of RESIDEX:** NHB has released the latest Index for the quarter April-June, 2012. The movement in prices of residential properties has shown increasing trend in sixteen cities and marginal decline in three cities while one city has shown stable price level under NHB RESIDEX during the quarter April-June, 2012 in comparison to the previous quarter January-March, and 2012. The Index for the quarter April-June, 2012 has witnessed marginal increase/decrease in property prices in majority of the cities over the previous quarter except in Pune, Patna and Bengaluru which have witnessed significant increases. Hyderabad, Jaipur and Indore have witnessed corrections in the property prices as compared to last quarter. Faridabad has remained stagnant in this quarter.

Table 22 : City Wise Housing Price Index (updating Upto Quarter April-june, 2012)

CITIES	2007 Index	Jan-June 2009 Index	July-Dec 2009 Index	Jan-Mar 2010 Index	Apr-Jun 2010 Index	July-Sept 2010 Index	Oct-Dec 2010 Index	Jan-Mar 2011 Index	Apr-Jun 2011 Index	Jul-Sept 2011 Index	Oct-Dec 2011 Index	Jan-Mar 2012 Index	Apr-Jun 2012 Index
Hyderabad	100	65	81	81	82	87	87	83	91	84	79	86	85
Faridabad	100	139	145	154	152	170	176	165	220	206	218	217	217
Patna	100	107	119	127	124	148	146	146	146	141	140	129	140

CITIES	2007 Index	Jan-June 2009 Index	July-Dec 2009 Index	Jan-Mar 2010 Index	Apr-Jun 2010 Index	July-Sept 2010 Index	Oct-Dec 2010 Index	Jan-Mar 2011 Index	Apr-Jun 2011 Index	Jul-Sept 2011 Index	Oct-Dec 2011 Index	Jan-Mar 2012 Index	Apr-Jun 2012 Index
Ahmedabad	100	127	128	113	131	141	164	165	169	163	167	164	174
Chennai	100	120	143	164	183	210	214	218	248	271	296	304	309
Jaipur	100	71	63	66	61	63	69	67	64	65	64	80	78
Lucknow	100	104	119	112	133	148	152	157	160	154	165	164	171
Pune	100	103	117	124	135	140	141	148	150	169	184	181	200
Surat	100	111	123	109	136	128	133	128	149	139	152	144	145
Kochi	100	90	83	79	83	97	101	86	107	97	82	72	73
Bhopal	100	139	162	158	153	166	173	167	224	208	211	204	207
Kolkata	100	162	185	165	176	191	213	211	194	191	190	191	196
Mumbai	100	124	126	134	160	167	173	175	181	194	193	190	197
Bengaluru	100	58	59	64	68	74	101	88	92	93	100	92	100
Delhi	100	121	113	106	110	115	123	126	147	154	167	168	172
Bhubaneshwar	100											161	164
Guwahati	100											157	159
Ludhiana	100											163	171
Vijayawada	100											184	186
Indore	100											208	203

4.8 MORTGAGE BACKED SECURITIZATION

4.8.1 Securitization is a process of converting loans or future receivables into tradable securities or assignable debt. Securitization of Mortgages is the packaging of designated pool of mortgage loans originated by a primary lending institution and the subsequent sale of the packages to the investors in the form of securities which are collateralized by the underlying mortgages and the associated income streams.

4.8.2 A typical process of securitization involves sale of specific loans to a Trust or to a Special Purpose Vehicle (SPV). The SPV or Trust in turn issues securities (promissory notes, participation certificates or other debt instruments) to the investors. The securities are rated by an independent credit rating agency. On the recommendation of the credit rating agency, additional credit support other than the obligation of the borrowers is provided in order that the instrument may receive the desired level of rating. Typically the seller of the loans continues to service them. The excess cash flows (remaining after deducting the interest and the principal and other monies payable to the investors and other fees) accrue to the seller.

4.8.3 NHB is authorized to take up Securitization Transaction. Under the amended provisions of Section 14 of the NHB Act, NHB has been, inter alia, permitted to take up the following activities relating to a securitization transaction:-

i) Buying, selling or otherwise dealing in any loans or advances secured by mortgage or charge of the immovable property (Sec.14(ea))

ii) Creating trust(s) and transferring loans or advances together with or without securities therefore to such trusts for consideration (Sec.14(eb))

iii) Setting aside loans or advances held by the NHB and issuing and selling securities based upon such loans or advances so set aside, in the form of debt obligations/trust certificates of beneficial interest or other instruments by whatever name called, and act as a trustee for the holder of such securities (Sec.14(ec))

4.9 NHB'S RESIDENTIAL MORTGAGE BACKED SECURITIZATION (RMBS) TRANSACTION PROCESS

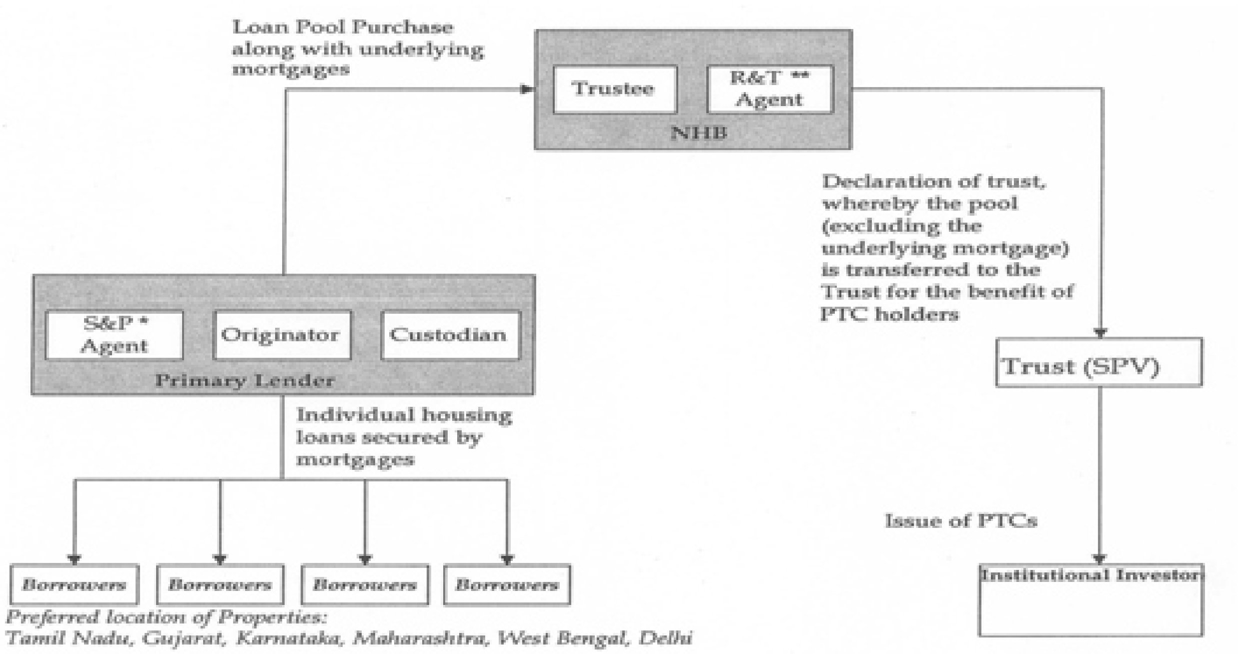
4.9.1 The transaction involves:

(i) Assignment and Transfer of a pool of housing loans along with the underlying mortgages, from the primary lending institution to NHB.

(ii) Securitization of Mortgage Debt: On acquiring the pool along with the underlying mortgages, an express declaration of trust will be made by NHB in respect of the mortgage debt, appointing itself as the trustee for the benefit of the investors. Once the assets have been declared property in trust ("the Trust"), the Trust will issue Pass Through Certificates (PTCs) to investors.

4.9.2 National Housing Bank (NHB) has so far undertaken fourteen transactions of RMBS including the three maiden RMBS issues involving housing loans originated by Deutsche Post Bank Home Finance Limited and Guaranteed by the NHB. The transaction of these RMBS issues aggregating ₹ 862.20 crore involving 38,809 individual housing loans of six Housing Finance Companies and one Scheduled Commercial Bank are depicted in the pictograph below:

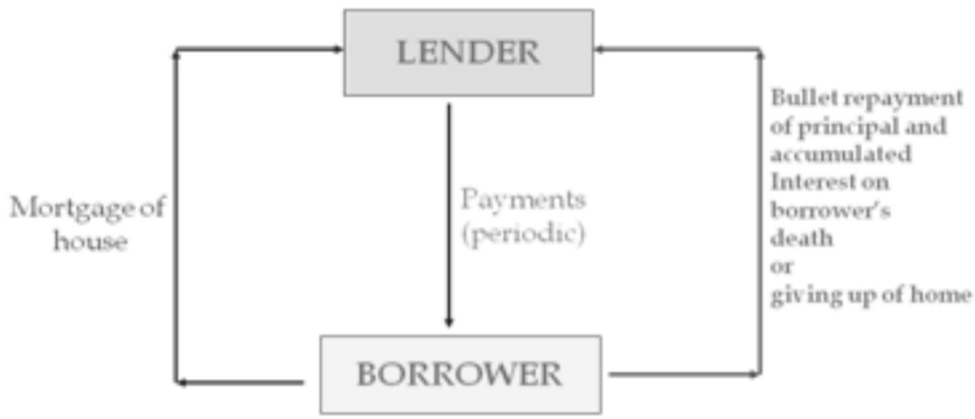
Figure 9: Residential Mortgage Backed Securitization Transaction Process



4.10 REVERSE MORTGAGE LOANS (RMLs) IN INDIA

4.10.1 The Reverse Mortgage Loans was initially designed by NHB with a view to enable conversion of the owner's equity in his or her otherwise illiquid house asset and get a stream of fund inflows throughout the life time for meeting increased living expenses, while at the same time allowing the individual to continue to occupy the house. The scheme involves Senior Citizen borrower(s) over the age of 60 mortgaging the house property to a bank/HFC, which then makes periodic payments to the borrower(s) during the latter's lifetime. The scheme envisages married couple – both husband and wife – to be joint borrowers for availing the periodic payments. A unique feature of the product is that the Senior Citizen borrower is not required to service the loan during his lifetime and therefore does not make monthly repayments of principal and interest to the lender. On the borrower's death or on the borrower leaving the house property, the loan is repaid along with accumulated interest, through sale of the house property. The borrower(s)/heir(s) can also repay or prepay the loan with accumulated interest and have the mortgage released without resorting to sale of the property. In the process, the lender will have limited recourse in respect of only the mortgaged residential property. The concept of the reverse mortgage loan is shown in Figure 10.

Figure 10: Concept of the Reverse Mortgage Loan



4.10.2 The National Housing Bank (NHB) formulated the Operational Guidelines for RMLs in India in May 2007 for the Scheduled Commercial Banks and Housing Finance Companies for extending RMLs to senior citizens to avail a monthly stream of income against mortgage of his/her house. The Reverse Mortgage Scheme is now being implemented by 24 banks and 2 HFCs all over India.

4.10.3 NHB has introduced Reverse Mortgage Loan as a part of its promotional role and is providing support to the various stakeholders for RML. NHB has initiated efforts by way of instituting a programme for counseling the elderly citizens of the country to enable them to take informed decision for availing RMLs. NHB has collaborated with NGOs actively involved in the welfare of the elderly and have opened 12 counseling centers in 11 cities. Further, NHB is also working on the lenders side with commercial banks and HFCs for implementing the product by way of its training programmes and seminars for the personnel of these institutions.

4.10.4 NHB has also worked towards issues and concerns such as taxation and succeeded in enactment of the Income Tax Act implying that a senior citizen borrower will be thus liable to pay tax on capital gains only at the point of alienation of the mortgaged property.

4.10.5 Reverse Mortgage is a concept which has been introduced in the USA, UK, Canada etc. The reverse mortgage scheme introduced by NHB in the year 2007 had certain limitations which affected the off take of the scheme. The challenges faced by the scheme are outlined below:

i. Maximum Payment tenure: The stream of monthly payments being made by the Banks/HFCs to the senior citizens was limited to a maximum period of 20 years.

ii. Payments not assured: In the event of adverse movements in property prices, the Banks/HFCs had the discretion to cease to make payments to the senior citizen borrowers, at any given point in time.

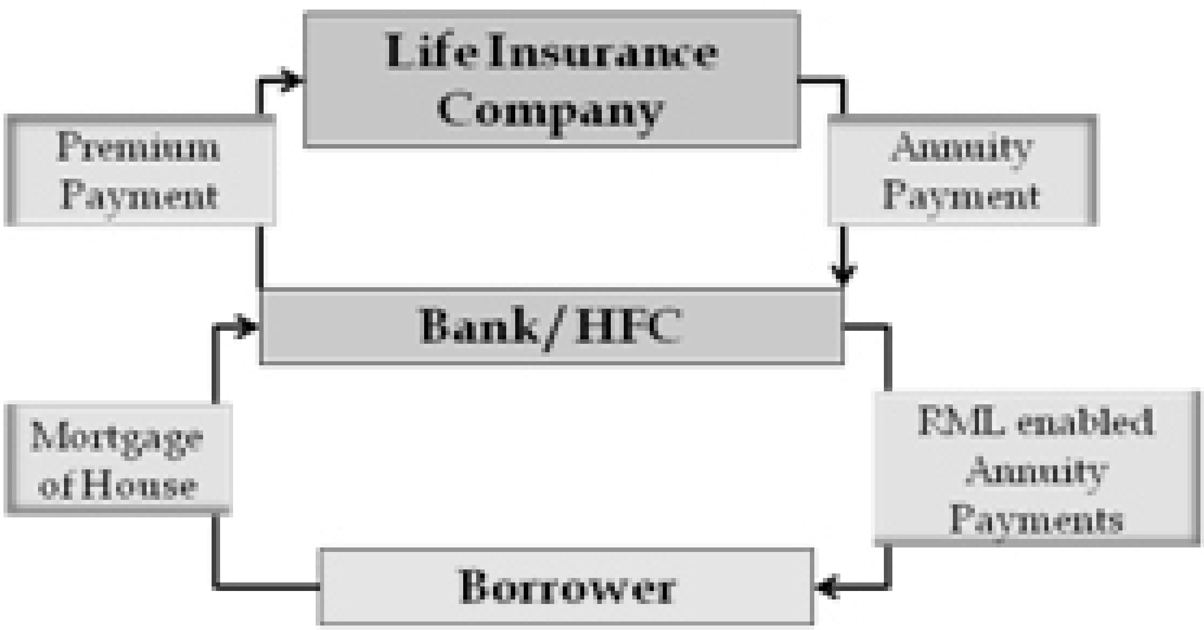
iii. Low Quantum of Payments.

4.11 REVERSE MORTGAGE LOAN ENABLED ANNUITY (RMLEA)

4.11.1 With a view to overcome the above limitations and keeping in view the potential of the increase in the population above sixty years, NHB conceptualized an extended RML scheme ensuring assured life-time annuity payments to the senior citizens. This novel scheme envisages the bank / HFCs to source assured life time annuity for the senior citizens from a life insurance company.

4.11.2 Further, the scheme provides an option for married couple – both husband and wife – to be joint borrowers for availing the periodic annuity payments throughout their life time i.e. the payments shall continue to flow till the last surviving borrower is no more. This new scheme is a significant improvement over the initial RML scheme which limited the loan disbursement tenure to a fixed term of twenty years causing uncertainties to the senior citizen borrowers. The new scheme will now facilitate the senior citizen borrowers to receive assured life-time payments i.e. even after completion of the fixed term of 20 years, in accordance with the announcement in Budget 2007-08. NHB has also formulated Operational Guidelines for new RML enabled Annuity product.

Figure 11 : Illustration of the NHB extended RML Scheme



4.11.3 The new scheme was launched by NHB in association with Star Union Dai-ichi Life Insurance Company Ltd., (SUD Life) and Central Bank of India (CBI) in December 2009. SUD Life has obtained necessary approval from Insurance Regulatory and Development Authority (IRDA) for introducing the annuity part of the RML product in India. The new product is to be implemented by other Commercial Banks and HFCs in association with other life insurance companies.

The benefits accrued from the new scheme are below:

i) Assured life-time income to self and spouse

ii) Continued ownership and stay in the house for life time

iii) Enhanced payments in comparison with earlier RML payments

iv) Annuity payment independent of interest rate

v) Option to receive lump-sum

4.11.4 The product has been customized and designed with a view to overcome the limitations of the RML product and it brings together the Housing Finance Sector and the Insurance sector. Such collaboration has brought better efficiencies in the system, as the Housing Finance Sector (Lender) takes care of the mortgage risk and the insurance sector takes care of the longevity risk, thereby enabling lifetime payments to the senior citizen borrower.

4.11.5 The Bank is conducting and sponsoring research and analytical studies on areas relating to housing and housing finance. Apart from this the Bank has prepared occasional research papers and conducted meetings/ conferences/ knowledge-dissemination exercises on different aspects of housing and housing finance etc in collaboration with various research institutions. The Bank is also focussing on the promotion of low cost, localized technology as part of an integrated approach towards low cost housing.

Table 23 : Result of Survey for RML Scheme

	Population of Senior Citizens	Owning House	Intention to Mortgage House (In Per cent)	Estimated population	Potential (assuming average loan size Rs.10 lakhs) (₹ In Crore)
India (Urban Metros)	44,54,000	38,67,000	21	8,12,070	81,207
Chennai	1,37,000	1,06,000	9	9,540	954
Delhi	3,17,000	2,97,000	29	86,130	8,613
Mumbai	3,83,000	3,43,000	24	82,320	8,232
Source: NHB Commissioned Survey undertaken by Hansa Research Group (2006-07)					

CHAPTER - 5

Institutional Performance- Scheduled Commercial Banks, RRBs, Microfinance Institutions and ACHFs.

A number of Primary Lending Institutions are into the business of providing housing finance. However the Scheduled Commercial Banks by virtue of their strong branch network and a strong customer base have been able to retain the major share of housing loan portfolio in the market in the recent years.

The housing loans outstanding of SCBs as on 31st March, 2012 was ₹ 4, 02,678 crore.

Recently the Regional Rural Banks and the Micro Finance Institutions have also started catering to the finance requirements of specific segments of the market. Similarly the Apex Cooperative Housing Finance Societies are starting to play a major role in lending for housing to their primary societies and members.

5.1 CATEGORIES OF INSTITUTIONS PROVIDING HOUSING FINANCE

5.1.1 Prior to formation of the National Housing Bank in 1988 and tabling of the draft housing policy, the housing finance sector was dominated by informal sources. However, the market has evolved since then and today a number of institutions offer housing finance as a product.

As on today, the need of long term finance for housing in the country is catered to by the following types of institutions:

i. Financial Institutions
ii. Scheduled Commercial Banks
iii. Scheduled Cooperative Banks (Scheduled State Co-operative Banks, Scheduled District Co-op Banks and Urban Co-op Banks)
iv. Regional Rural Banks,
v. Agriculture and Rural Development Banks
vi. Housing Finance Companies
vii. State Level Apex Co-operative Housing Finance Societies
viii. NBFCs/MFIs/SHGs have also been lending for housing though in a small way.

5.1.2 The Indian Mortgage Market has been growing at around 18 per cent in the fiscal year 2010-11 owing to enabling factors such as a stable operating environment, buoyant property prices etc. The Scheduled Commercial Banks hold the maximum share in the housing loans outstanding formal housing market[20]. The share of Banks can be attributed to extensive network and broad customer base, access to stable low-cost funds and other regulatory mandates. However, the share of HFCs is also growing and is indicative of the strength of their focused approach, targeting of special customer segments, relatively superior customer service, and significant growth plans.

5.2 SCHEDULED COMMERCIAL BANKS AND THEIR PERFORMANCE IN HOUSING FINANCE

5.2.1 The housing loans outstanding of SCBs are ₹ 4, 02,678 crore including priority sector lending as on March 31, 2012[21]. Housing loans constitute 8.7 per cent of the total advances of Scheduled Commercial Banks. Housing loans, which forms a part of personal loans increased by 12.9 per cent in the fiscal year 2011-12 compared to 7.6 per cent in the previous year.

5.2.2 Size of Housing Loans Disbursed By Scheduled Commercial Banks: The National Housing Bank is collecting the slab-wise Housing Loan Data from Public sector Banks on quarterly and yearly basis in five different slabs namely up to ₹ 2 lakh, above ₹ 2 lakh and up to ₹ 5 lakh, above ₹ 5 lakh and up to ₹ 10 lakh, Above ₹ 10 lakh and up to ₹ 25 lakh and above ₹ 25 lakh. The data so captured consists of attributes like total housing loans disbursed during the quarter, housing loans outstanding as on the last day of the quarter and per cent of NPA in respect of the slab-wise loans. The following table depict the status of housing loan disbursed & outstanding across various slabs over the period of three years and per cent of NPA in respect of various slabs:

Table 24 : Status of Housing Loan Disbursed & Outstanding across various slabs over the period of three years and percentage of NPA in respect of SCBs

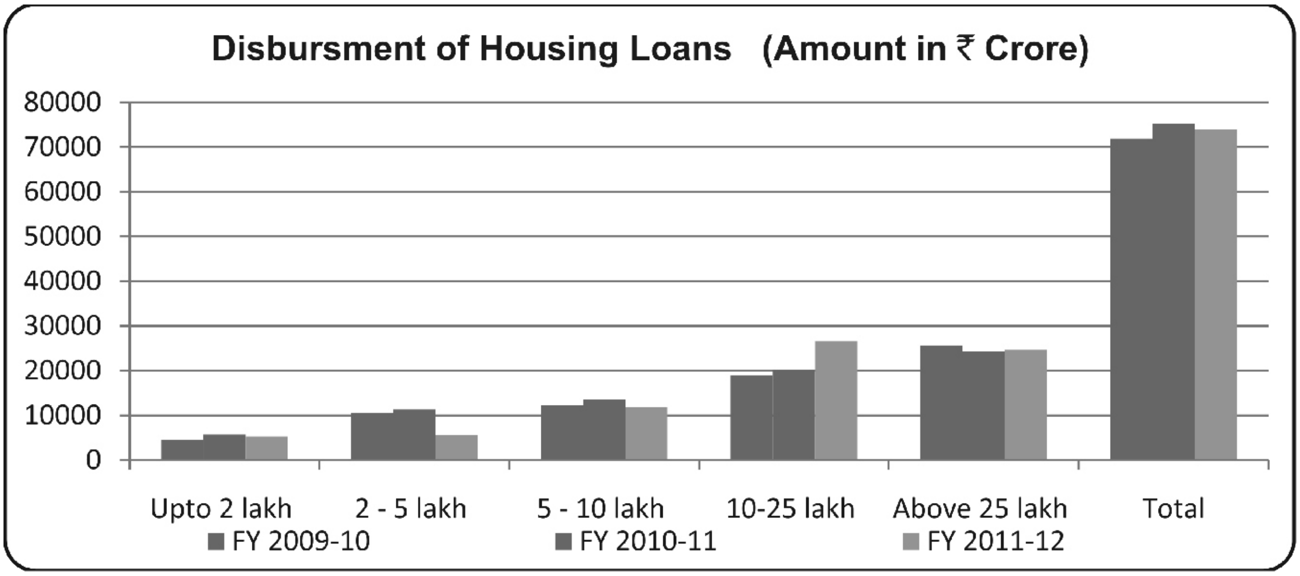
(Amt. in ₹ Crore)

Slab Wise Housing Loan (in ₹)	FY 2009-10				FY 2010-11				FY 2011-12			
	Disbu-rsed	O/S	Percent-age of total	NPA Percent-age	Disbur-rsed	O/S	Percent-age of total	NPA Percent-age	Disbu-rsed	O/S	Percent-age of total	NPA Percent-age
Upto ₹ 2 Lakh	4473	8977	4.4	6.3	5762	9442	3.95	6.1	5254	6786	2.49	11.54
₹ 2-5 Lakh	10559	43969	21.7	5.8	11334	48307	20.21	4.9	5571	38491	14.1	4.82
₹ 5-10 Lakh	12243	51210	25.3	4.3	13510	58771	24.58	3.7	11760	64312	23.56	3.37
₹ 10-25 Lakh	18991	54982	27.2	2.9	20237	68398	28.61	2.6	26614	101189	37.06	1.67
Above ₹ 25 Lakh	25609	43218	21.4	1.4	24328	54162	22.65	1.6	24632	62234	22.8	1.09
Total	71876	202356	100	3.7	75171	239080	100	3.2	73831	273012	100	2.63

5.2.3 It may be noted from the above table that the loan volumes of ₹ 10-25 lakh & above ₹ 25 lakh constitute the major portion of the total housing loan disbursed.

5.2.4 As is evident from the graph, for housing loans up to ₹ 10 lakh, disbursements have followed the similar trend by showing an increase in the FY 2010-11 in comparison to the previous year i.e. 2009-10 and then showing a fall in the FY 2011-12 viz-a-viz the year 2010-11. However, in case of the slab ₹ 10-25 lakh, disbursements have shown an increasing trend during the three years while for loans above ₹ 25 lakh, disbursement fell marginally during the year 2010-11 in comparison to the previous year 2009-10 but showed a sign of improvement in the year 2011-12 though still falling short of the 2009-10 figures. Further, as is seen in all the three years, it can be said that the volume of disbursements increase with increase in the ticket size of loans with maximum amount of disbursements in case of loans above ₹ 25 lakh except in the year 2011-12 in which maximum disbursement is in the case of slab ₹ 10-25 lakh.

Figure 12 : Slab Wise Disbursement of Housing Loans in the past 3 years by SCBs



5.3 HOUSING LOAN OUTSTANDING

5.3.1 The total outstanding housing loans of Public Sector Banks have shown an increasing trend in the last three years with an approximate increase of 18 per cent in the year 2010-11 and 14 per cent in the year 2011-12. Further, for all the 3 years maximum portion of total outstanding housing loan is in the slabs ₹ 5-10 lakh and ₹ 10-25 lakh. It may be clearly said that the housing market is not being able to cater to the low income housing segments.

5.3.2 Amount outstanding at the end of the year for housing loans above ₹ 5 lakh has shown an increasing trend whereas for housing loans below ₹ 5 lakh amount outstanding at the end of the year 2011-12 registered a fall over 2010-11 figures followed by an increase in the year 2010-11 over the figures of year 2009-10.

5.3.3 The point put forward by many policy documents that Banks are not very active in lending to small ticket-size loans is supported by our database and analysis also. It can be seen from Table 24 that percentage share of loan outstanding for loans upto ₹ 2 lakh in total outstanding loans at the end of all the 3 years is below 5 per cent and has reduced over the years.

5.4 CREDIT TOWARDS RURAL AND URBAN HOUSING

5.4.1 The SCBs have a vast network and thus housing loans are distributed. However as reflected below (Table 25), rural and semi urban areas where majority of the population resides, have access to minimum bank credit. However, the share of metropolitans in the total bank credit is almost 50 per cent showing inequitable distribution of housing loans by SCBs. The factors attributing to low credit distribution of housing credit in rural and urban areas are high transaction cost, lack of proper titles, lack of collateral, largely unorganized sector and low income households. The credit outstanding by SCBs as on March 31, 2011 towards housing as per the areas is classified in Table 25[22].

Figure 13 : Housing Loan Outstanding in Various Slabs by SCBs for last 3 years

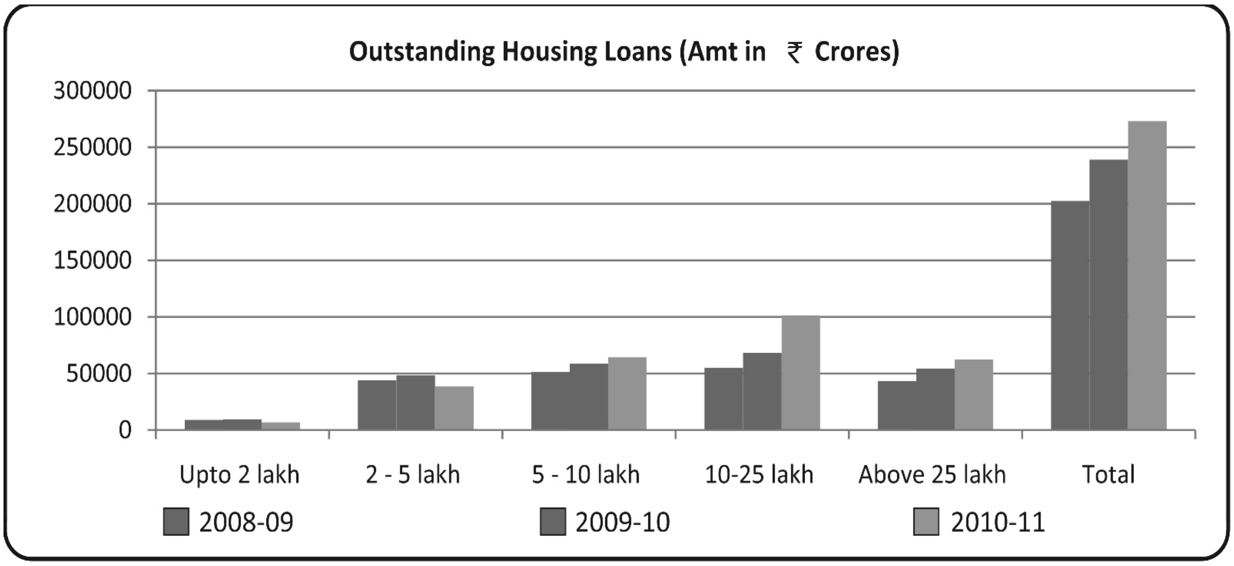


Table 25 : Credit towards Urban and Rural Housing (2010-11)

Area	Outstanding in ₹ Crore	Percentage to total
Rural Area	25,777.10	7.45
Semi Urban Area	55,407.00	16.01
Urban Area	96,220.50	27.81
Metropolitan Areas	168,526	48.71
Total	**3,45,930.6**	**100.00**

5.5 CLASSIFICATION OF HOUSING LOANS AS PER INTEREST RATES

5.5.1 Housing loans are generally given at floating rate and are directly linked to the base rate of the Bank. The loans are given for longer gestation period. As may be observed the housing loans extended by Scheduled Commercial Banks are in a range of 10 per cent-13 per cent. Some Banks extend housing loans at lower interest rates under special schemes of refinance from NHB and other mandates such as priority sector lending.

5.5.2 The housing loans classified as per the rates of interest disbursed by the SCBs as on March 31, 2011 are outlined in Table 26[23]. As reflected from the table, 83 per cent of housing loans are disbursed at a rate of interest lower than 12 per cent. However, the loans are mainly for higher income and moderate income groups who have access to formal sources of housing finance.

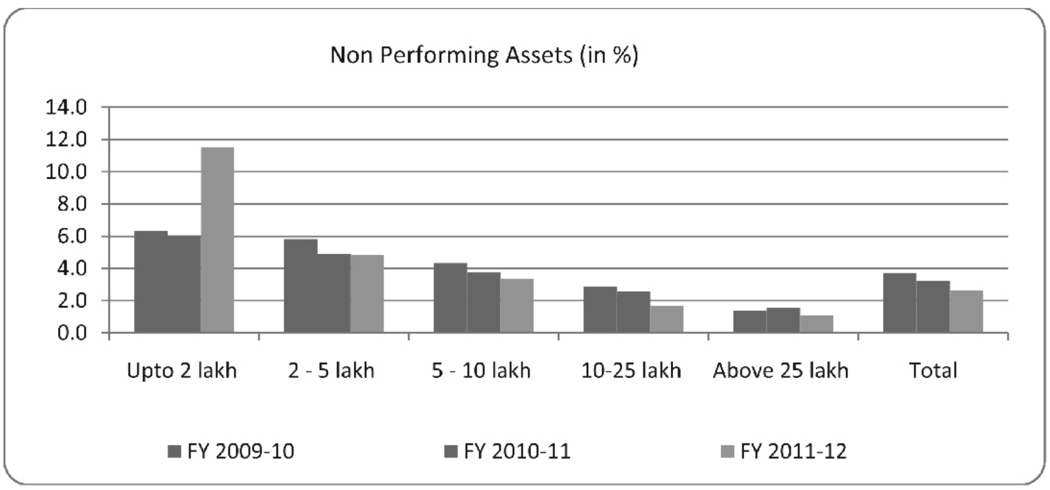
Table 26 : Loan Outstanding as per Rates of Interest Percentage Wise

Loan Interest (Percentage)	Loan outstanding (in ₹ crores)	Percentage of total
Less than 6	1,418.13	0.43
6 % to less than 10 %	1,37,220.39	41.44
10 % to less than 12 %	1,41,446.22	42.72
12 % to less than 13 %	19,128.45	5.78
13 % to less than 14 %	15,312.24	4.62
14 % to less than 15 %	7,659.35	2.31
15 % less than 16 %	4,915.21	1.48
16 % to less than 17 %	1,388.60	0.42
17 % to less than 18 %	2,418.75	0.73
18 % to less than 20 %	141.9	0.04
20 % and above	58.85	0.02
Total	**3,31,108.09**	**100**

5.6 PERFORMANCE OF LOANS AS PER NPA

5.6.1 It is widely acknowledged that the percentage of non performing loans in housing sector is very minimal and the same is supported by our database which depicts that percentage of total NPA for all the 3 years is below 5 per cent.

Figure 14 : Performance of Loans as Per Non Performing Assets



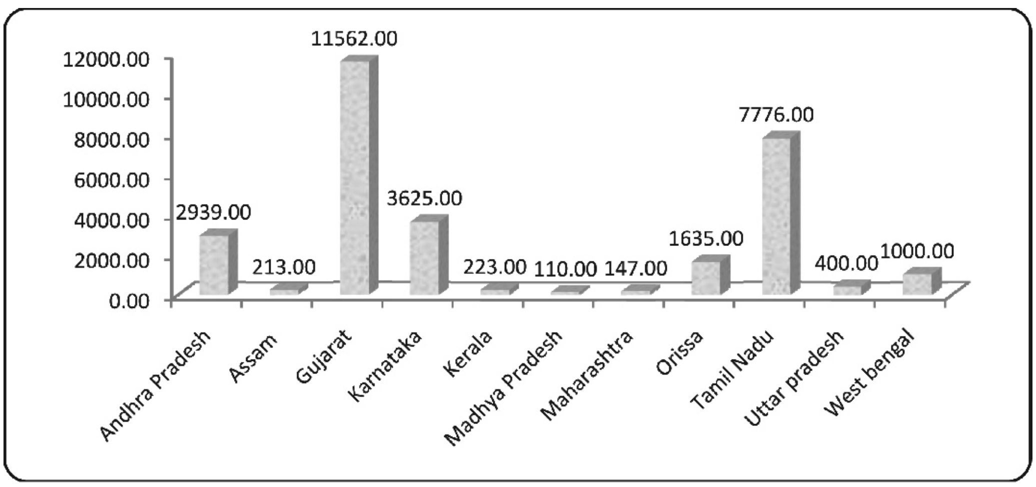
5.6.2 As it is visible from the graph, NPA percentage increases with the decrease in the ticket-size of the loan i.e. NPA level is the highest in case of small size loans i.e. loan below ₹ 2 lakh & ₹ 5 lakh and lowest in case of loans above ₹ 25 lakh. This restores the fact that there is a need for different subsidy schemes & guarantee cover for enhancing the credit worthiness of small ticket size loans i.e. loans upto ₹ 5 lakh. This will encourage lending institutions to augment their credit flow to this sector.

5.7 MICROFINANCE INSTITUTIONS

5.7.1 Other than Scheduled Commercial Banks, Housing Finance Companies, Microfinance Institutions or Non Governmental Organizations who are present locally and have a bottom participative approach are making various efforts to cater to the housing finance needs of the low income segments of the society. The MFIs work on the model of SHGs linked with Banks. The National Housing Bank has recognized the penetration of Housing Micro Finance Institutions as delivery mechanisms for channelizing housing finance to the unserved sections of society and accordingly developed a suitable Housing Microfinance Programme to cater to the needs of this section. The Bank in its endeavour to provide housing to the unserved segments of the society pioneered a Housing Micro Finance (HMF) programme in 2004. Cumulatively, till June 30, 2012 Bank has sanctioned loans amounting to ₹ 97.42 crore to 31 microfinance institutions for financing 30,210 urban and rural housing/sanitation units.

5.7.2 The Housing Microfinance Program of the Bank is spread across 11 states which include Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Orissa, Gujarat, Kerala, Assam, Uttar Pradesh, West Bengal and Madhya Pradesh. The beneficiaries include farmers, housemaids, petty traders, artisans, dairy workers and other low income segments. More than 90 per cent of the beneficiaries are women. The approximate income levels of the beneficiaries range between ₹ 5000/- to ₹ 7000/- per month. Besides, NHB has also opened a specialized window for Water and Sanitation programmes being taken up by MFIs for their members of Self Help Groups. These programmes form an integral part of the HMF programme of the Bank. The distribution of the Bank's housing microfinance is given in the graph below:

Figure 15 : State Wise outreach of NHB's Housing Microfinance Program



5.7.3 During the year 2011-12, the Bank sanctioned ₹ 14.30 crore to five microfinance institutions including two dairy cooperatives for construction of housing, repairs and renovations as well as water and sanitation. The Bank also disbursed ₹ 3.95 crore to seven microfinance institutions under its housing microfinance program.

The enforcement of the Andhra Pradesh Microfinance Ordinance adversely affected the microfinance sector specially the institutions functioning in the state of Andhra Pradesh. The recoveries of the microfinance institutions reduced drastically. The Microfinance Bill 2012 which has been introduced in the Parliament is anticipated to bring about the much awaited regulatory reforms in the microfinance sector and to help the microfinance institutions cater to the housing needs of the poor.

5.8 COOPERATIVE SECTOR - Apex Co-Operative Housing Finance Societies (ACHFs)

5.8.1 The National Cooperative Housing Federation of India (NCHF) is an apex national cooperative society registered under the Multi-State Cooperative Societies Act. It was promoted by Apex Cooperative Housing Federations in the year 1969. The basic thrust of its formation was to have an organization at the national level to assume the responsibility of promoting, developing and coordinating the activities of housing cooperatives in the country.

5.8.2 The cooperative housing structure in India consists of primary housing cooperatives at the grass root level and Apex Cooperative Housing Federations (ACHFs) at the State level. ACHFs at the State level are affiliated to NCHF, which looks after their growth strategies, policy formulations and evolving housing programmes besides inter-facing with various institutions to channelize finance for these Federations for onward lending to the ultimate borrowers. In addition, NCHF also helps the member Federations in improving their financial, organizational and technical capabilities.

5.9 APEX COOPERATIVE HOUSING FEDERATIONS

5.9.1 The primary housing co-operatives functioning at the grass root level are supported by 26 ACHFs all over the country. The sources of funds for the ACHFs are their investment in share capital by primary cooperative housing societies, State Governments and other cooperative institutions, loans from the Government, Life Insurance Corporation of India (LIC), National Housing Bank (NHB), Housing and Urban Development Corporation (HUDCO), Commercial and Cooperative Banks etc. and issue of debentures guaranteed by the Government.

5.9.2 **Mobilization of Resources:**

5.9.2.1 The details of the resources mobilized by the ACHFs during the last three years are outlined in Table 27 below

Table 27 : Borrowings of Apex Cooperative Housing Federations (Cumulative)[24]

(Amt. in ₹ Crore)

Lending Agency	2009-10	Percentage of Total	2010-11	Percentage of Total	2011-12	Percentage of Total
LIC	3,637.88	35.1	3,707.83	35.5	3,750.13	35.5
NHB	893.04	8.6	893.04	8.5	893.04	8.5
HUDCO	1,589.87	15.4	1,589.87	15.2	1,,589.87	15.1
State Governments	265.57	2.6	265.57	2.5	265.57	2.5
Deposits	210.34	2	211.35	2	211.92	2
Banks	3,197.11	30.9	3,222.89	30.9	3,288.47	31.2
Debentures	142.6	1.4	142.6	1.4	142.6	1.3
Others	413.68	4	413.68	4	413.68	3.9
Total	10,350.09	100	10,446.83	100	10,555.28	100

5.9.2.2 During the initial years of the ACHFs, LIC was the major source of funding. However, it is now experiencing lower share in the liability side portfolio of the ACHFs. The share in borrowings from LIC has been stagnant at 35.5 per cent over the period 2010-11 and 2011-2012. As far as borrowing from HUDCO is concerned, it has shown a marginal downward trend over the last three years and stood at 15.1 per cent during 2011-12. The share of Banks in the total borrowings has increased over the years and stood at 31.2 per cent during the year 2011-12. The contribution of NHB to total borrowings by ACHFs has been almost steady with slight moderation over the last three years.

5.9.3 Deployment of Resources:

5.9.3.1 The sanctions and disbursements of housing loans extended by ACHFs during the period 2006-07 and 2011-12 are indicated in Table 28 below:

Table 28 : Lending Operations of Apex Co-Operative Housing Federations (Cumulative)

(Amt. in ₹ Crore)

Type	2006-07	2007-08	2008-09	2009-10	2010-11	2011-2012
Loan Sanctioned	10,603.65	10,958.87	11,185.36	11,396.63	11,610.85	12,063.36
Loan Disbursed	10,125.22	10,440.57	10,709.36	10,908.80	11,104.26	11,571.71

5.9.3.2 The State-wise housing loans disbursed by the ACHFs, both in terms of amounts and number of dwelling units constructed over the last three years are outlined in the Table 29 below:

Table 29 : Housing Loans Disbursed and Units Constructed by ACHFs State Wise

(Amt. in ₹ Lakh)

State	2009-10		2010-11		2011-12	
	Units Constructed/ Financed	Amount	Units Constructed/ Financed	Amount	Units Constructed/ Financed	Amount
Andhra Pradesh	756	1,874.04	609	2,422.96	595	4,444.02
Assam	104	n.a.	14	34.3	6	6.5
Bihar	-	-	-	-	-	-
Chandigarh	100	n.a.	n.a.	n.a.	800	330
Delhi	173	3,023.88	95	2,186.20	769	10,156.95
Goa	63	n.a.	46	176.11	31	315.13
Gujarat	-	-	-	-	-	-
Haryana	-	-	-	-	n.a.	70.99
Himachal Pradesh	6	114.7	n.a.	82.1	n.a.	81.2
Jammu & Kashmir	n.a	871.15	4	396.17	n.a.	518.49
Karnataka	1,085	932	244	1,000.73	447	6,163.02

(Amt. in ₹ Lakh)

State	2009-10		2010-11		2011-12	
	Units Constructed/ Financed	Amount	Units Constructed/ Financed	Amount	Units Constructed/ Financed	Amount
Kerala	5,157	8,632.11	4353	9,321.94	6255	18,392.95
Madhya Pradesh	-	-	-	-	-	-
Maharashtra	-	-	-	-	-	-
Manipur	n.a.	n.a.	n.a.	n.a.	-	-
Meghalaya	-	-	n.a.	n.a.	-	-
Orissa	-	-	n.a.	n.a.	-	-
Pondicherry	12	155.7	30	149.61	n.a.	289.52
Punjab	588	1,705.18	2,918	2,782.53	2527	4802.42
Rajasthan	84	205.52	29	48	4	8
Tamil Nadu	1,194	1,679.00	-	-	-	-
Uttar Pradesh	201	305.42	196	232.93	10	359.27
West Bengal	129	444.68	77	712.99	152	805.78
Total:	9,652	19,943.38	8615	19,546.57	11596	46,744.24

5.9.3.3 The quantum of cumulative sanctions of housing loans by the ACHFs increased to ₹ 11,597.97 crore while cumulative disbursals rose to ₹ 11,094.26 crore during the year 2010-11.

[20] *Housing Finance Companies and the Indian Mortgage Finance Market- ICRA-2010*
[21] *Statistical tables relating to banks of India – November 2012*
[22] *Banking and Statistical Returns by RBI as on March 31,2011 – Published on 01 June 2012*
[23] *Banking and Statistical Returns by RBI as on March 31,2011 – Published on 01 June 2012*
[24] *Source: National Co-operative Housing Federation of India*

CHAPTER - 6

Operations and Performance of Housing Finance Companies

Housing Finance Companies (specialized institutions lending for housing) registered with the National Housing Bank are a major component of the mortgage lending institutions in India. The 54 HFCs registered with the National Housing Bank as on March 31, 2012 have a network of approximately 1692 branches spread across the country. The growth in the housing loan portfolio of HFCs has been encouraging with a growth of 19 per cent in the outstanding housing loan portfolio for the year ending March 31, 2012. The market share of HFCs is approximately 30-35 per cent of the retail housing finance market catering primarily to the borrowers in the formal sector. The Policy Circulars/Guidelines issued by NHB for the HFCs on issues pertaining to NOF requirements, LTV ratio, risk weights and provisioning, KYC and AML etc have all been intended to ensure growth of the HFCs and the housing finance sector on sustainable lines. Some of the key highlights of the HFCs portfolio include:

- *Total loan portfolio of HFCs grew by 21.75 per cent during the FY 2011-12 over the FY 2010-11.*
- *Housing loan portfolio grew by 19.19 per cent during the FY 2011-12 over the FY 2010-11.*
- *Housing loans which were 75.24 per cent of the total loans as on March, 2011 marginally decreased and stood at 73.66 per cent as at end of March, 2012.*
- *Non housing loans which were 24.76 per cent of the total loans at the end of the FY 2010-11 have increased to 26.34 per cent at the end of FY 2011-12.*
- *Non housing loans grew by 29.53 per cent during the FY 2011-12, as compared to FY 2010-11.*
- *Total borrowings of the registered HFCs increased by 21.86 per cent during the FY 2011-12 over the FY 2010-11.*
- *Public Deposits outstanding at the end of March 2011 were ₹ 28,694 crore which increased to ₹ 35,476 crore at the end of the March 2012, thereby registering a growth of 23.63 per cent during the year.*
- *Total NNPAs as at the end of 2010-11 were ₹ 1303 crores, which increased to ₹ 1450 crores as at the end of the March, 2012, showing an increase of 11.22 per cent.*

6.1 NUMBER OF HOUSING FINANCE COMPANIES

6.1.1 The number of specialized institutions namely Housing Finance Companies increased both in public and private sector. As on 31st March, 2012, there are 54 HFCs to whom Certificate of Registration (CoR) has been granted in terms of the provisions of Section 29A. Of these, 35 HFCs have been given the CoR without permission to accept public deposits. Further, till 30th June 2012, CoR were given to two more HFCs, increasing the number of HFCs registered with NHB to 56.

6.2 FINANCIAL INDICATORS OF HFCs

6.2.1 The data and the analysis thereof in this Chapter are based on the information furnished in the Annual Returns submitted by the HFCs registered with NHB. As the financial year of the HFCs is from April to March, the financial data given in this Chapter is as on March 31, 2012. The data in the chapter pertains to 54 HFCs registered with NHB as on March 31, 2012.

The key financial indicators of the HFCs as on March 31, 2012 have been reflected in the table (Table 30) below.

Table 30 : HFCs Key Financial Indicators as on March 31, 2012

HFCs - KEY FINANCIAL INDICATORS

(Amount in ₹ Crore)

Particulars	Outstanding as on 31st March					
	2010	Growth Percent	2011	Growth Percent	2012	Growth Percent
Paid up capital	4,890.47	1.95	5,167.72	5.67	5,402.52	4.54
Free reserves	24,674.83	23.8	29,657.67	20.19	34,658.03	16.86
Net owned fund (NOF)	28,180.65	26.41	32,730.89	16.15	37,103.02	13.36
Public Deposits	27,035.75	33.21	28,694.34	6.13	35,475.58	23.63
Outstanding Housing Loans	1,53,188.73	20.79	1,86,438.25	21.71	2,22,224.74	19.19

6.2.2 The housing loans outstanding at the end of March, 2011 were ₹ 186,438.25 crore which increased to ₹ 2, 22,224.74 crore at the end of March, 2012, thereby registering a growth of 19.19 per cent during the financial year 2011-12. The Public Deposits grew by 23.63 per cent from ₹ 28,694.34 crore at the end of March, 2011 to ₹ 35,475.58 crore at the end of March, 2012. The paid-up capital has also increased to ₹ 5,402.52 crore at the end of March, 2012 from ₹ 5,167.72 crore at the end of March, 2011, registering a growth of 4.54 per cent. Free reserves and Net Owned Fund have also increased by 16.86 per cent and 13.36 per cent respectively at the end of March, 2012 as compared to March, 2011.

6.2.3 The paid- up capital of HFCs (including the preference share capital which is compulsorily convertible into equity) increased by 4.54 per cent from ₹ 5,167.73 crore as on March 31, 2011 to ₹ 5,402.52 crore as on March 31, 2012. The Net Owned Funds of the registered HFCs registered an increase of 16.15 per cent from ₹ 28,180.65 crore as on March 31,2010 to ₹ 32730.89 crore as on March 31, 2011, and further to ₹ 37,103.02 crore thereby recording an increase of 13.36 per cent as on March 31, 2012.

6.3 The key financial parameters of HFCs given above have been classified into three categories:

6.3.1 **HFCs in Public and Private Sector:** Two HFCs have been classified in Public sector - of which one is Government sponsored viz. HUDCO. The other is sponsored by financial institution viz. GIC Housing Finance Limited. There were 52 HFCs in private sector as on March 31, 2012.

6.3.2 **HFCs sponsored by Commercial Banks and others:** Five HFCs have been sponsored by Commercial Banks and one HFC is sponsored by a multi-state co-operative Bank. These are:

S.No	Name of Housing Finance Company	Name of sponsor Bank
1	Can Fin Homes	Canara Bank
2	Cent Bank Home Finance Ltd	Central Bank of India
3	ICICI Home Finance Ltd	ICICI Bank
4,	Ind Bank Home Finance	Indian Bank
5	PNB Home Finance Ltd.,	Punjab National Bank
6	REPCO Home Finance Ltd	Repco Bank(Multi State Cooperative Bank)

6.3.3 **Classification of HFCs based on deposit accepting and non-deposit accepting:** The expression of public deposit has been defined in detail in clause (w) of sub-paragraph (1) of paragraph 2 of The Housing Finance Companies (NHB) Directions, 2001. However, the definition of public deposit specifically excludes certain deposits like amount received from Central or State Governments, Banks, public financial institutions and other institutions, from other companies, mutual funds etc. Of the 54 HFCs registered with NHB on March 31, 2012, 19 HFCs have been given the CoR with permission to accept public deposits.

6.3.4 **HFCs in Public And Private Sector :** It is evident from the Table 31 that the outstanding housing loans of private sector HFCs as at 31st March 2012 was almost double at ₹ 2,12,053.33 crore compared to the outstanding housing loans of the public sector HFCs which stood at ₹ 10,171.41 crore. Also the share of private sector HFCs vis-à-vis Public Deposits was almost 734 per cent higher than that of the public sector HFCs. The capital cushion of the private HFCs is also quite higher than that of the public sector HFCs i.e. ₹ 30,664.04 crore and ₹ 6,438.98 crore respectively

Table 31 : Key Financial Indicators of HFCs in Public and Private Sector

(Amt. in ₹ Crore)

Particulars	2009-10				2010-11				2011-12			
	Public Sector	Private Sector	Total	Growth (per cent)	Public Sector	Private Sector	Total	Growth (per cent)	Public Sector	Private Sector	Total	Growth (per cent)
Paid up capital	2,055.75	2,834.68	4,890.47	1.95	2055.75	3111.97	5167.72	5.67	2055.75	3,346.77	5,402.52	4.54
Free reserves	3,428.32	23,246.51	24,674.83	23.8	3931.55	25726.12	29657.67	20.19	4425.78	30,232.25	34,658.03	16.86
Net owned fund (NOF)	5,461.02	22,719.63	28,180.65	26.41	5951.06	26779.83	32730.89	16.15	6438.98	30,664.04	37,103.02	13.36
Public Deposits	5,517.63	21,518.13	27,035.75	33.21	4661.42	24032.92	28694.34	6.13	3799.1	31,676.48	35,475.58	23.63
Outstanding Housing Loans	9,280.09	143,907.64	153,188.73	20.79	9357.77	177080.48	186438.25	21.71	10171.41	212053.33	222,224.74	19.42

6.3.5 **HFCs Sponsored by Commercial Banks and Others:** The position of outstanding Housing Loans of other HFCs as at 31st March 2012 was ₹ 2,09,907.16 crore while that of the HFCs sponsored by Commercial Banks and Multi State co-operative Banks was ₹ 12,317.58 crore. The difference in the portfolio is almost 1604 per cent. Similarly the share of other HFCs vis-à-vis the public deposits is almost 2642 per cent more than that of the HFCs sponsored by Commercial Banks and Multi State co-operative Banks. Also the capital base of other HFCs is larger than that of the sponsored HFCs.

Table 32 : Performance of HFCs Sponsored by Commercial Banks and Multi State Cooperative Banks Versus Others

(Amt. in ₹ Crore)

Particulars	2009-10				2010-11				2011-12			
	Commercial Bank Sponsored HFCs'	Others	Total	Growth (Per cent)	Commercial Bank Sponsored HFCs'	Others	Total	Growth (Per cent)	Commercial Bank Sponsored HFCs'	Others	Total	Growth (Per cent)
Paid up capital	1,390.66	3,499.81	4,890.47	1.95	1225.68	3942.05	5,167.73	5.67	1225.68	4,176.84	5,402.52	4.54
Free Reserves	952.55	23,722.28	24,674.83	23.8	1080.91	28576.76	29,657.67	20.19	1310.92	33,347.11	34,658.03	16.86
Net Owned Fund (NOF)	2,129.02	26,051.63	28,180.65	26.41	2105.38	30625.51	32,730.89	16.15	2331.45	34,771.57	37,103.02	13.36
Public Deposits	3,667.62	23,368.14	27,035.75	33.21	2334.18	26360.16	28,694.34	6.13	1248.36	34,227.22	35,475.58	23.63
Outstanding Housing Loans	15,844.86	137,343.87	153,188.73	20.79	12164.48	174273.7	186,438.25	21.71	12317.58	209907.16	222,224.74	19.42

6.3.6 **Deposit and Non Deposit Accepting Housing Finance Companies**: There were 19 HFCs accepting deposits during the year 2012. For the purpose of protecting public interest, the deposit taking companies have a higher stipulation in respect of parameters like minimum paid up capital and Net-owned Funds (NOF). The financial position of the deposit taking companies vis-a-vis those which do not accept deposits is given in Table 33.

The table indicates that the level of outstanding Housing Loans of Deposit accepting HFCs as at 31st March 2012 at ₹ 2,10,640.43 crore was almost 1718 per cent higher than that of the non deposit accepting HFCs (the actual figure being ₹ 11,584.51 crore). Similarly the level of net owned funds of the Deposit accepting HFCs was almost 1250 per cent higher than that of the Non deposit accepting HFCs as at 31st March 2012.

Table 33 : Performance of Deposit Accepting and Non Deposit Accepting HFCs

(Amt. in ₹ Crore)

Particulars	2009-10				2010-11				2011-12			
	Deposit Accepting HFCs'	Non - Deposit Accepting HFCs'	Total	Growth (Per cent)	Deposit Accepting HFCs'	Non - Deposit Accepting HFCs'	Total	Growth (Per cent)	Deposit Accepting HFCs'	Non - Deposit Accepting HFCs'	Total	Growth (Per cent)
Paid up capital	4,363.60	526.87	4,890.47	1.95	4,301.84	865.89	5,167.73	5.67	4,323.41	1,079.11	5,402.52	4.54
Free Reserves	24,048.39	626.44	24,674.83	23.8	28471.18	1,186.49	29,657.67	20.19	33,075.46	1,582.57	34,658.03	16.86
Net owned Fund (NOF)	27,029.98	1,150.67	28,180.65	26.41	30,720.59	2,010.30	32,730.89	16.15	34,544.60	2,558.42	37,103.02	13.36
Public Deposits	27,035.75	0.01	27,035.75	33.21	28,694.34	0	28,694.34	6.13	35,475.58	0	35,475.58	23.63
Outstanding Housing Loans	149,813.91	3,374.82	153,188.73	20.79	178,737.72	7,700.54	1,86,438.25	21.71	2,10,640.43	11,584.51	2,22,224.74	19.42

6.3.7 Composition of Borrowings by HFCs

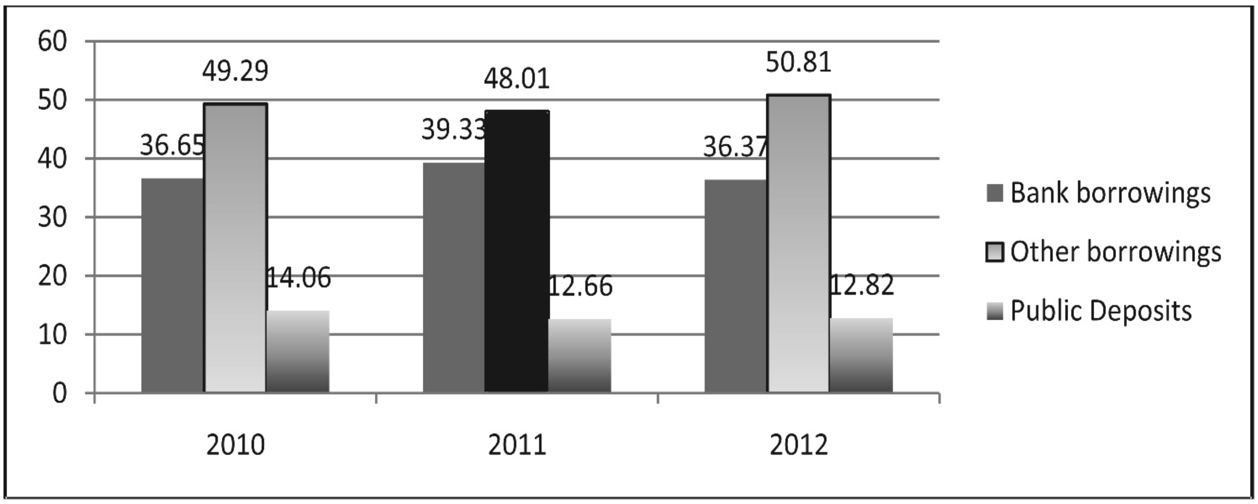
The HFCs primarily depend on loans from banks and financial institutions besides their own funds i.e. equity and reserves. Borrowings through bonds and debentures, inter- corporate deposits (ICDs), commercial papers, sub-ordinate debt and fixed deposits from public are the other sources of funds for HFCs. A graphical representation of the borrowings of the HFCs on a broad scale for the last three years, up to March 31, 2012 is given below. It can be observed from Table 34 and graphical representation of the same in Figure 16 that the dependence on 'bank borrowings' had increased in FY 2010-11 as compared to FY 2009-10 and again decreased in FY 2011-12 while the dependence on 'other borrowings' had marginally decreased in FY 2010-11 as compared to FY 2009-10 but again increased in FY 2011-12. Similarly the dependence on public deposits decreased in FY 2010-11 as compared to FY 2009-10 but the same increased in FY 2011-12.

Table 34 : Composition of Borrowings by HFCs

(Amt. in ₹ Crore)

Composition of borrowing as on 31st March						
Type of borrowings	2010		2011		2012	
	Amount	Per cent Total	Amount	Per cent Total	Amount	Per cent Total
Bank borrowings	70,471.39	36.65	89,177.73	39.33	1,00,663.03	36.37
Other borrowings	94,786.89	49.29	1,08,845.39	48.01	1,40,647.09	50.81
Public Deposits	27,035.75	14.06	28,694.34	12.66	35,475.58	12.82
Total	1,92,294.04	100	2,26,717.46	100	2,76,785.70	100

Figure 16 : Composition of borrowings by HFCS (Per cent of Total Borrowings)



6.4 CLASSIFICATION OF HFCs UNDER PUBLIC DEPOSITS

6.4.1 Classification based on size of deposits: The size-wise details of public deposits outstanding at the end of last three years are indicated in the Table No.35. The share of size of public deposits over ₹ 1, 00,000 accounted for 84.91 per cent of the total deposits as on March 31, 2012 as against 84.83 per cent of the total deposits, as on March 31 2011. The smallest component is that of deposits upto ₹ 5,000 which constitute only 0.02 per cent of the total deposits of the HFCs (Table 35). The outstanding public deposits with the HFCs have shown an increasing trend during the period 2010-2012. It has been noticed that major HFCs viz. HDFC, HUDCO, Dewan Housing Finance Corporation Ltd, PNB Housing Finance Ltd, Sundaram BNP Paribas Home Finance Ltd, Can Fin Homes Ltd. etc have mobilized significant public deposits during the year 2011-12.

Table 35 : Outstanding Public Deposits

(Amt. in ₹ Crore)

Size	Outstanding public deposit as on 31st March					
	2010		2011		2012	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Upto ₹ 5000	6.35	0.02	6.29	0.02	6.17	0.02
₹ 5001 to ₹ 10000	55.28	0.21	38.16	0.13	26.52	0.08
₹ 10001 to ₹ 25000	498.62	1.85	446.68	1.56	475.13	1.34
₹ 25001 to ₹ 50000	1,939.11	7.17	1,969.33	6.86	2,553.98	7.20
₹ 50001 to ₹ 100000	1,738.89	6.43	1,893.46	6.6	2,291.32	6.46
Over ₹ 100000	22,797.50	84.32	24,340.41	84.83	30,122.44	84.91
Total	**27,035.75**	**100.00**	**28,694.34**	**100.00**	**35,475.58**	**100.00**

6.4.2 **Classification of deposits based on Interest Rate:** The interest rate-wise classification of deposits outstanding for the period 2010 to 2012 with all the Registered HFCs is indicated in Table 36. It is observed that the major portion of the deposits in the Financial Year 2011-12, viz. 64.84 per cent of the total deposits is held by the HFCs in the interest rate category of 9 to 11 per cent. Further, the HFCs have 29.23 per cent of deposits in the interest rate slab of 6 to 9 per cent which has decreased from the last financial year when the level was at 55.67 per cent. The slab of interest rate of 13 per cent and above had the least share of deposits for the past three years.

Table 36 : Classification of Deposits Based on Interest Rate

(Amt. in ₹ Crore)

Rate of interest (Rate per annum)	Outstanding public deposit as on 31st March					
	2010		2011		2012	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Free of interest	7.65	0.03	15.29	0.05	16.22	0.05
Below 6 %	15.57	0.06	15.06	0.05	9.48	0.03
6 % to below 9 %	12,755.69	47.18	15,974.23	55.67	10,368.05	29.23
9%to below 11 %	10,504.20	38.85	9,818.00	34.22	23,003.19	64.84
11 % to below 13 %	3,752.53	13.88	2,871.39	10.01	2,078.58	5.86
13 % or more	11.97	0	0.37	0	0.04	0
Total	**27,035.75**	**100**	**28,694.34**	**100**	**35,475.58**	**100**

6.4.3 **Classification based on Maturity of Deposits:** An analysis of maturity-wise classification of public deposits indicates the Depositors' preference for public deposits having a maturity period of 24 months or more but less than 48 months as observed in the previous three years also (2010 to 2012). The share of the deposits in this category has shown an increasing trend during the period 2011 – 2012 compared to the period 2010-11 as may be noted from Table 37.

Table 37 : Classification Based on Maturity of Deposit

(Amt. in ₹ Crore)

Maturity period	Outstanding public deposit as on 31st March					
	2010		2011		2012	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Repayable on demand or on notice	19.19	0.07	33.67	0.12	21.68	0.06
Less than 12 months	100.14	0.37	41.94	0.15	-	-
12 months or more but less than 24 months	3,908.92	14.46	3,061.77	10.67	5,430.01	15.31
24 months or more but less than 48 months	11,679.64	43.2	11,850.10	41.3	17,695.43	49.88
48 months or more but less than 60 months	514.88	1.9	567.75	1.98	1,321.92	3.73
60 months	3,389.75	12.54	5,676.39	19.78	4,795.97	13.52
More than 60 months but less than 84 months	107.25	0.4	154.34	0.54	138.2	0.39
84 months	1,054.64	3.9	662.02	2.31	564.07	1.59
More than 84 months	6,261.33	23.16	6,646.36	23.16	5,508.30	15.53
Total	**27,035.75**	**100**	**28,694.34**	**100**	**35,475.58**	**100**

6.4.4 **Borrowing and other deposits (other than public deposits):** The aggregate outstanding borrowings (excluding public deposits) of HFCs increased by 21.86 per cent from ₹ 198,023.12 crore as on March 31, 2011 to ₹ 241,310.12 crore as on March 31 2012. Borrowings from the banking system stood at ₹ 1, 00,663.03 crore as on March 31, 2012 as against ₹ 89,177.73 crore as on March 31, 2011. 'Other Borrowings' increased from ₹ 108,845.39 crore as on March 31, 2011 to ₹ 1,40,647.09 crore as on March 31, 2012 registering a growth of 29.22 per cent.

Table 38 : Borrowings and Other Deposits (Other Than Public Deposits)

(Amt. in ₹ Crore)

Outstanding borrowings and other deposits (Other than Public Deposits) as on 31st March						
Type of borrowings	**2010**		**2011**		**2012**	
	Amount	**Per cent of total**	**Amount**	**Per cent of total**	**Amount**	**Per cent of total**
Bank borrowings	70,471.39	16.39	89,177.73	26.54	1,00,663.03	12.88
Other borrowings	94,786.89	8.83	1,08,845.39	14.83	1,40,647.09	29.22
Total	**1,65,258.28**	**11.93**	**1,98,023.12**	**19.83**	**2,41,310.12**	**21.86**

6.4.5 Other loans and advances outstanding of HFCs stood at ₹ 79,456.29 crore as on March 31, 2012, as compared to ₹ 61,342.93 crore as on March 31, 2011, thereby, registering an increase of 29.53 per cent.

6.4.6 **Investments:** Aggregate investments of HFCs stood at ₹ 26,396.55 crore as on March 31, 2012 as against ₹ 23,543.33 crore as on March 31, 2011, thereby registering a marginal increase of 12.12 per cent.

6.5 HOUSING LOANS

6.5.1 The aggregate outstanding housing loans of all registered HFCs, which was ₹ 1,53,188.73 crore as on March 31, 2010 increased to ₹ 1,86,438.25 crore as on March 31, 2011 registering a growth of 21.71 per cent. Further, the housing loans increased to ₹ 2, 22,224.74 crore as on March 31, 2012, showing an increase of 19.19 per cent. The percentage of outstanding housing loan to total loans stood at 74.73 per cent as on March 31, 2010 which marginally increased to 75.24 per cent as on March 31, 2011 and marginally decreased to 73.66 per cent as on March 31, 2012.

Table 39 : Housing Loans as a Percentage of Total Loans

(Amt. in ₹ Crore)

Particulars	**As on 31.3.2010**	**As on 31.3.2011**	**As on 31.3.2012**
Outstanding Housing Loans	1,53,188.73	1,86,438.25	2,22,224.74
Outstanding Total Loans	2,04,992.78	2,47,781.18	3,01,681.23
Percentage of Housing loans to Total Loans (per cent)	74.73	75.24	73.66

6.5.2 Tenure wise analysis of loan portfolio: Analysis of the trend of the data received from HFCs indicates that loans having tenure of above 7 years, constituted 85.32 per cent of the housing loans (on tenure basis) as on March 31, 2010 which marginally increased to 87.15 per cent as on March 31, 2011 and further increased to 87.60 per cent as on March 31, 2012. The above trend displays the borrowers' preference for long-term housing loans.

Table 40 : HFCs - Term Wise Break Up of Housing Loans

(Amt. in ₹ Crore)

Term of Housing Loan	2011		2012	
	Amount	Per cent of total	Amount	Per cent of total
Up to 1 year	480.46	0.26	334.71	0.15
1 to 3 years	7,432.35	3.99	6,816.16	3.07
3 to 5 years	12,083.49	6.48	14,500.77	6.53
5 to 7 years	3,951.66	2.12	5,895.17	2.65
Above 7 years	1,62,490.29	87.15	194,677.93	87.6
Total	**1,864,38.25**	**100.00**	**2,22,224.74**	**100.0**

6.6 HOUSING LOAN DISBURSEMENT

6.6.1 The HFCs have disbursed housing loans amounting to ₹ 82,221.58 crore during the financial year 2011-12 as per details given in Table 41. Of these, approximately 83 per cent of the total loans were disbursed towards housing loans to individual, 12.60 per cent towards housing loans to builders and rest to corporate bodies and others.

Table 41 : Total Housing Loan Disbursement - Category Wise

(Amt. in ₹ Crore)

Item No.	Particulars	Amount
1	Housing Loan to Individuals	68,221.12
2	Housing Loan to Builders	10,370.88
3	Housing Loan to Corporate Bodies and Others	3,629.58
4	**Total**	**82,221.58**

6.6.2 Slab-wise Disbursement of housing loans to individuals during 2011-12 : From the year 2011-12, NHB has started obtaining housing loan data from HFCs in the revised loan slabs as it has been observed that with the pace of time there is more concentration of the loans in the higher loan slabs i.e. ₹ 10 lakh and above.

6.6.3 As seen from Table 42, there has been an increase in the loans disbursed upto ₹ 10 Lakh from ₹ 10,636 crore in 2010 to ₹

13,257 crore in 2011 which fell to ₹ 11,858 crore in 2012. There has been an increase in the loans disbursed above ₹ 10 Lakh from ₹ 34,933 crore in 2010 to ₹ 41,944 crore in 2011 and further to ₹ 56,363 crore in 2012.

Table 42 : Slab Wise Disbursement of Housing Loans to Individuals

(Amt. in ₹ Crore)

Size	2010		2011		2012*	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
upto ₹ 5,00,000 (a)	4,439.35	9.74	4,929.43	8.93	2,273.72	3.33
Above ₹ 500,000 and upto ₹ 10,00,000 (b)	6,196.81	13.60	8,327.59	15.09	9,583.94	14.05
Upto ₹ 10,00,000 (a+b)	10,636.16	23.34	13,257.02	24.02	11,857.66	17.38
Above ₹ 10,00,000	34,933.18	76.66	41,943.85	75.98	56,363.46	82.62
Total	**45,569.34**	**100.00**	**55,200.87**	**100.00**	**68,221.12**	**100.00**

*including resale cases

6.6.4 Further, break up with respect to slab wise disbursement of housing loans to individual for the FY 2011-12 is given below. From the table it is evident that disbursements in the slab of above ₹ 25 lakh constitute the major portion of housing loan disbursements in the FY 2011-12. It is also to be noted that loan disbursements above ₹ 5 lakh constitute as much as 96.67 per cent of the total disbursements.

Table 43 : Slab Wise Disbursement to Individuals During 2011-12

(Amt. in ₹ Crore)

Category/size of housing loans (₹)	Amount	Per cent of total
upto ₹ 2,00,000	361.97	0.53
Above ₹ 2, 00,000 and upto ₹ 500,000	1,911.75	2.80
Above ₹ 500,000 and upto ₹ 10,00,000	9,583.94	14.05
Above ₹ 10,00,000 and upto ₹ 15,00,000	9,732.39	14.27
Above ₹ 15,00,000 and upto ₹ 25,00,000	17,282.83	25.33
Above ₹ 25,00,000	29,348.24	43.02
Total	**68,221.12**	**100.00**

6.6.5 The details regarding disbursement of Housing loans to individuals for different purposes like acquisition / construction of new houses and purchase of old houses during the Financial Year 2011-12 is given below :

Table 44 : Purpose Wise Disbursement of Housing Loans to Individuals During 2011-12

Head	Disbursement	Percentage of total disbursement
A.1 For acquisition /construction of new houses	**48,666.05**	**71.34**

A.2 Slab-wise disbursement details for the above is given below –

(Amount in ₹ Crore)

Category/size of housing loans (₹)	Amount	Percentage of total
upto ₹ 2,00,000	247.52	0.51
Above ₹ 2, 00,000 and upto ₹ 500,000	1,210.83	2.51
Above ₹ 500,000 and upto ₹ 10,00,000	7,046.12	14.59
Above ₹ 10,00,000 and upto ₹ 15,00,000	6,681.14	13.84
Above ₹15,00,000 and upto ₹ 25,00,000	12,509.11	25.8
Above ₹ 25,00,000	20,971.33	42.74
Total	**48,666.05**	**100.00**

Head	Disbursement	Percentage of total disbursement
B.1 For repair of existing houses	**1794.81**	**2.63**

B.2 Slab-wise disbursement details for the above is given below –

(Amount in ₹ Crore)

Category/size of housing loans (₹)	Amount	Percentage of total
upto ₹ 2,00,000	96.19	5.36
Above ₹ 2,00,000 and upto ₹ 500,000	442.42	24.65
Above ₹ 500,000 and upto ₹ 10,00,000	694.38	38.69
Above ₹ 10,00,000 and upto ₹ 15,00,000	294.13	16.39
Above ₹ 15,00,000 and upto ₹ 25,00,000	178.91	9.97
Above ₹ 25,00,000	88.78	4.95
Total	**1,794.81**	**100.00**

Head	Disbursement	Percentage of total disbursement
C.1 For purchase of old/existing houses (Resale)	**17760.25**	**26.03**

C.2 Slab-wise disbursement details for the above is given below –

(Amount in ₹ Crore)

Category/size of housing loans (₹)	Amount	Percentage of total
upto ₹ 2,00,000	18.26	0.10
Above ₹ 2,00,000 and upto ₹ 500,000	258.5	1.46
Above ₹ 5,00,000 and upto ₹ 10,00,000	1,843.44	10.38
Above ₹ 10,00,000 and upto ₹ 15,00,000	2,757.12	15.52
Above ₹ 15,00,000 and upto ₹ 25,00,000	4,594.80	25.87
Above ₹ 25,00,000	8,288.14	46.67
Total	**17,760.25**	**100.00**
Total (A+B+C)	**68,221.12**	**100.00**

As is evident from the above table the majority of housing loans i.e. almost 71.34 per cent, disbursed to individuals has been for the purpose of acquiring or constructing new houses. Out of which loans disbursed in the slab of above ₹ 25, 00,000 constitute the maximum share. The next most important purpose for which Housing Loans have been disbursed to individuals is for purchase of old / existing houses (resale) i.e. 26.03 per cent, out of which loans disbursed in the slab of above ₹ 25,00,000 constitute the maximum share. The least important purpose of availing housing loan facility by the individuals is for the repair of existing houses i.e. 2.63 per cent, out of which loans disbursed in the slab of ₹ 5, 00,000 to ₹ 10,00,000 constitute the maximum share.

6.7 STATES AND UT WISE DISBURSEMENT OF INDIVIDUAL HOUSING LOANS:

6.7.1 From 2011-12, NHB started compiling data on disbursement of housing loans in different States/UTs. The States/UTs wise disbursement is given in Table No.45 for the year 2011-12. It may be observed that during the year 2011-12, out of total individual housing loans disbursement, maximum loan amounting to ₹ 17,287.34 crore was disbursed in the State of Maharashtra followed by Tamil Nadu and Uttar Pradesh with disbursements to the tune of ₹ 10,866.74 crore and ₹ 6,415.25 crore respectively. The minimum disbursement of ₹ 0.11 crore was in the state of Meghalaya and there was nil disbursement in the UT of Lakshadweep. It is also worth mentioning that the HFCs have financed a total of 7, 91,048 housing units in the financial year 2011-12.

Table 45 : States/UTs Wise Disbursement of Individual Housing Loans

(Amt. in ₹ Crore)

State	Total	
	No	Amt
Andhra Pradesh	49,975	6,253
Arunachal Pradesh	18	0
Assam	3,499	238
Bihar	1,291	124
Chhattisgarh	7,743	452
Delhi	13,841	2,872
Goa	1,139	136
Gujarat	61,231	3,375
Haryana	33,443	3,643
Himachal Pradesh	404	26
Jammu and Kashmir	404	17
Jharkhand	2,022	187
Karnataka	51,057	6,129
Kerala	33,082	2,193
Madhya Pradesh	29,379	1,742
Maharashtra	2,06,839	17,287
Manipur	319	10
Meghalaya	1	0
Mizoram	330	10
Nagaland	3	0
Odisha	6,702	414
Punjab	13,364	1,117
Rajasthan	31,312	2,212
Sikkim	301	36
Tamil Nadu	1,32,428	10,867
Tripura	8	1
Uttarakhand	7,956	491
Uttar Pradesh	78,253	6,415
West Bengal	18,178	1,497
Sub Total	7,84,523	67,746
Chandigarh	1,934	279
Puducherry	2,538	121
Dadra and Nagar Haveli	1,701	61
Daman and Diu	351	14
Lakshadweep	0	0
Andaman and Nicobar Islands	1	0
Sub Total	6,525	475
Grand Total	**7,91,048**	**68,221**

6.7.2 The position of New Housing Stock generated in different states/UTs: It has been noticed that with the Housing loan assistance of ₹ 68,221 crore during the financial year 2011-12 a total of 7,91,048 housing units were added in the different states/UTs for Acquisition/ Construction of New Houses. Out of total 7,91,048 units, the maximum units were constructed/ acquired in the state of Maharashtra followed by Tamil Nadu.

Table 46 : State/UTs Wise Disbursement of Housing Loans

(Amt. in ₹ Crore)

State	Acquisition/ Construction of New Houses					
	Urban		Rural		Total	
	No.	Amt	No	Amt	No	Amt
Andhra Pradesh	27,977	3,864	10,313	817	38,290	4,680
Arunachal Pradesh	14	0.36	2	0.07	16	0.43
Assam	2,702	189	289	23	2,991	212
Bihar	983	95	65	8	1,048	103
Chhattisgarh	5,141	265	506	28	5,647	293
Delhi	4,592	1,200	227	31	4,819	1,231
Goa	509	57	368	39	877	96
Gujarat	40,296	2,194	8,971	439	49,267	2,633
Haryana	22,412	1,966	2,498	419	24,910	2,385
Himachal Pradesh	218	12	48	3	266	15
Jammu and Kashmir	322	11	1	0	323	11
Jharkhand	1,644	155	125	10	1,769	165
Karnataka	22,173	2,864	19,466	1906	41,639	4,770
Kerala	14,177	902	8,830	541	23,007	1,444
Madhya Pradesh	16,274	962	3,466	105	19,740	1,068
Maharashtra	1,36,598	10,028	36,001	2319	1,72,599	12,347
Manipur	199	6	106	4	305	10
Meghalaya	1	0.11	0	0	1	0.11
Mizoram	157	5	154	5	311	10
Nagaland	3	0.18	0	0	3	0.18
Odisha	4,968	312	937	47	5,905	360
Punjab	8,035	641	1,555	97	9,590	738
Rajasthan	15,327	962	2,769	252	18,096	1,214
Sikkim	182	22	25	3	207	25
Tamil Nadu	68,367	6,724	40,375	2150	1,08,742	8,874
Tripura	6	1	0	0	6	1
Uttarakhand	4,291	227	959	67	5,250	293
Uttar Pradesh	54,824	4,081	1,761	187	56,585	4,268
West Bengal	13,469	1,040	846	76	14,315	1,116
Sub Total	4,65,862	38,788	1,40,663	9577	6,06,524	48,365
Chandigarh	1,288	140	43	4	1,331	144
Puducherry	615	58	1,667	35	2,282	93
Dadra and Nagar Haveli	1,501	53	0	0	1,501	53
Daman and Diu	281	12	2	0	283	12
Lakshadweep	0	0	0	0	0	0
Andaman and Nicobar Islands	0	0	1	0.01	1	0.01
Sub Total	**3,685**	**262**	**1713**	**39**	**5,398**	**302**
Grand Total	**4,69,547**	**39,050**	**1,42,376**	**9617**	**6,11,922**	**48,667**

6.7.3 Housing loan disbursed up to ₹ 5 lakh: It has been observed that out of the total amount of ₹ 2,273 crore disbursed for loan up to ₹ 5 lakh loan slab, an amount of ₹ 19.26 crore was disbursed to the borrowers having income up to ₹ 5,000 p.m. and ₹ 213.74 lakh to the borrowers having income between ₹ 5001 p.m. to ₹ 10000 p.m. and ₹ 2,041 crore to the borrowers having income more than ₹ 10,001 p.m. Out of total disbursement of ₹ 68,221.12 crore to individual, ₹ 2,273 crore were disbursed for Housing Loans upto ₹ 5 lakh which was only 3.27 per cent of total disbursement.

Table 47 : Disbursement during the Financial Year 2011-12 (Loan upto ₹ 5 Lakh)

(Amt. in ₹ Crore)

Size of Housing Loan	Income of the Borrower (in ₹)						Total	
	Upto ₹ 5000 per month		₹ 5001-10000 per month		₹ 10001 and above			
	No.	Amt	No.	Amt	No.	Amt	No.	Amt
Upto ₹ 3 lakh	4,407	18	24,745	151	39,489	552	68,641	721
Above ₹ 3 lakh and upto ₹ 5 lakh	40	1	2,158	62	48,149	1,489	50,347	1,552
Total	4,447	19	26,903	214	87,638	2,041	1,18,988	2,273

6.8 HOUSING LOAN DISBURSEMENT TO BUILDERS

6.8.1 From the last few years, HFCs disbursements towards builders for their housing loan projects has been increasing. During the financial year 2011-12, HFCs disbursed ₹ 10,370.88 crore to the builders. Maximum disbursements amounting to ₹ 5,244.43 crore disbursed to the builders in the state of Maharashtra and thereafter in the State of Delhi with disbursement of ₹ 1,730.71 crore. As far as loan slab-wise disbursement is concerned, maximum disbursement amounting to ₹ 7,970.68 crore was made to the builders in the loan slab of ₹ 25 crore and above and a minimum loan of ₹ 152.72 crore was disbursed to the builders in the loan slab of up to ₹ 2 crore.

Table 48 : Disbursements during the Financial Year 2011-12 Statement of Housing Loans to 'Builders'

(Amt. in ₹ Crore)

State	Upto ₹ 2 Crore		Above ₹ 2 Crore and upto ₹ 5 Crore		Above ₹ 5 Crore and upto ₹ 15 Crore		Above ₹ 15 Crore and upto ₹ 25 Crore		₹ 25 Crore and above		Grand Total	
	No.	Amt	No	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
Andhra Pradesh	2	4	4	21	12	94	6	81	10	181	34	381
Arunachal Pradesh	0	0	0	0	0	0	0	0	0	0	0	0
Assam	2	1	0	0	0	0	0	0	0	0	2	1
Bihar	0	0	0	0	0	0	0	0	0	0	0	0
Chhattisgarh	1	0	3	13	3	27	0	0	1	62	8	102

(Amt. in ₹ Crore)

State	Upto ₹ 2 Crore		Above ₹ 2 Crore and upto ₹ 5 Crore		Above ₹ 5 Crore and upto ₹ 15 Crore		Above ₹ 15 Crore and upto ₹ 25 Crore		₹ 25 Crore and above		Grand Total	
	No.	Amt	No	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
Delhi	7	8	8	19	14	89	19	205	50	1410	98	1731
Goa	0	0	0	0	0	0	0	0	0	0	0	0
Gujarat	26	22	18	65	12	105	1	20	3	69	60	280
Haryana	2	3	1	3	5	53	0	0	0	0	8	58
Himachal Pradesh	0	0	0	0	0	0	0	0	0	0	0	0
Jammu and Kashmir	0	0	0	0	0	0	0	0	0	0	0	0
Jharkhand	0	0	0	0	0	0	0	0	0	0	0	0
Karnataka	13	13	10	25	21	107	8	77	50	1324	102	1547
Kerala	10	8	23	24	12	37	0	0	3	94	48	162
Madhya Pradesh	18	6	6	9	20	9	0	0	1	1	45	25
Maharashtra	41	47	26	80	48	262	36	293	224	4562	375	5244
Manipur	0	0	0	0	0	0	0	0	0	0	0	0
Meghalaya	0	0	0	0	0	0	0	0	0	0	0	0
Mizoram	0	0	0	0	0	0	0	0	0	0	0	0
Nagaland	0	0	0	0	0	0	0	0	0	0	0	0
Odisha	3	1	0	0	0	0	0	0	0	0	3	1
Punjab	2	1	2	7	3	23	0	0	0	0	7	30
Rajasthan	0	0	12	13	2	18	1	16	2	20	17	67
Sikkim	0	0	0	0	0	0	0	0	0	0	0	0
Tamil Nadu	26	31	17	73	15	138	11	97	15	191	84	529
Tripura	0	0	0	0	0	0	0	0	0	0	0	0
Uttarakhand	0	0	0	0	0	0	0	0	0	0	0	0
Uttar Pradesh	1	1	6	6	2	32	3	26	0	0	12	64
West Bengal	12	8	5	18	4	16	4	17	2	58	27	117
Sub Total	**166**	**153**	**141**	**376**	**173**	**1,009**	**89**	**831**	**361**	**7971**	**930**	**10,339**
Union Territory												
Chandigarh	0	0	2	8	3	22	0	0	0	0	5	30
Puducherry	0	0	0	0	1	2	0	0	0	0	1	2
Dadra and Nagar Haveli	0	0	0	0	0	0	0	0	0	0	0	0
Daman and Diu	0	0	0	0	0	0	0	0	0	0	0	0
Lakshadweep	0	0	0	0	0	0	0	0	0	0	0	0
Andaman and Nicobar Islands	0	0	0	0	0	0	0	0	0	0	0	0
Sub Total	**0**	**0**	**2**	**8**	**4**	**24**	**0**	**0**	**0**	**0**	**6**	**32**
Grand Total	**166**	**153**	**143**	**384**	**177**	**1,032**	**89**	**831**	**361**	**7971**	**936**	**10,371**

6.9 Regulation & Supervision

6.9.1 Banks and Housing Finance Companies (HFCs) are the major players in the housing finance market in India. While Banks are subject to regulation and supervision by the Reserve Bank of India, HFCs are regulated and supervised by National Housing Bank under the provisions of the National Housing Bank Act, 1987 and the directions and guidelines issued thereunder from time to time. The regulatory measures include prudential norms, transparent and standardized accounting and disclosure policies, fair practice code, asset liability management and other risk management practices etc. These measures have helped to ensure the development of the sector on healthy and sustainable lines.

6.10 Certification of Registration (CoR) to HFCs

6.10.1 Companies desirous of commencing the business of housing finance are required to obtain a Certificate of registration from the National Housing Bank. The certificate is granted after the Bank is satisfied that the applicant companies fulfill the conditions for grant of such certificate prescribed under the National Housing Bank Act, 1987. The continuance of the registration depends on the continued compliance of the conditions by the Company subject to which certificate is granted and observance by the Company of the provisions of the Act and the directions/guidelines issued there under.

6.10.2 During the year 2011-2012, Certificate of Registration (CoR) was granted to the following 6 new HFCs viz .a) Shriram Housing Finance Limited b) A U Housing Finance Private Limited c) Milestone Home Finance Company Private Limited d) New Habitat Housing Finance and Development Limited e) Habitat Micro Build India Housing Finance Company Private Limited and f) USB Housing Finance Corporation Limited. As on June 30, 2012 the total number of HFCs registered with NHB stood at 56 of which 37 companies have been granted Certificate of Registration without permission to accept public deposits. Further during the year, the Bank has cancelled the Certificate of Registration of 2 companies namely Haware's Housing Development Corporation Limited and Inara Housing Finance Limited due to their non compliance with the Directions/ Guidelines issued by the Bank.

6.10.3 Important Notifications & Circulars during the Year -

6.10.3.1 Increasing the requirement of minimum NOF: Bank specifies the minimum of Net Owned Fund (NoF) requirement for all the existing registered HFCs desirous of carrying on the business of Housing Finance Companies beyond March 31, 2014 in the following phased manner-

(i) 4 crore by June 30, 2012,
(ii) 7 crore by June 30, 2013 and
(iii) 10 crore by March 31, 2014.

6.10.3.2 Provisioning Requirement: Bank has revised the provisioning requirements for HFCs in respect of doubtful assets, sub-standard assets and standard assets. The Bank has also directed the Housing Finance Companies not to contribute to the capital of a partnership firm or become a partner in the firm and if it has been done in the past, the HFC needs to seek early retirement from the partnership firm.

6.10.3.3 Need for ensuring due diligence in the matter of deployment of funds by HFCs: Bank has advised the HFCs to take proper and adequate security for the loans and also to review and strengthen their credit appraisal systems. Further, the Bank has advised HFCs that any relaxation in terms and conditions either at the time of sanction or anytime thereafter should also be in accordance with Board approved policy of the HFC, as also in conformity with the regulatory directions/guidelines. (Circular No-NHB (ND)/DRS/Misc. Circular No.5/2011 dated July 28, 2011).

6.10.3.4 Electronic Mode of Settlements- e-payments and e-receipts by HFCs: Bank has advised HFCs to use the e-mode for settlement of banking and financial transactions. Further, the HFCs are advised to ensure that the borrower & users of this facility are not charged any additional amount for using this facility as the same would act as a disincentive for using this facility (Circular No-NHB (ND)/DRS/Misc. Circular No.6 /2011-12 dated August 29, 2011).

6.10.3.5 Disclosures in the Balance Sheet: Bank has advised HFCs to distinctly indicate the provisions made as per Paragraph 28 of the NHB Act, under separate heads of account for housing and non-housing finance business and individually for each type of asset in the balance sheet as under: (a) provisions for standard, sub standard, doubtful and loss assets; (b) provisions for depreciation in investments (Circular No-NHB (ND)/DRS/Pol-No. 41/2010-11 dated September 26, 2011).

6.10.3.6 Grievance Redressal Mechanism in HFCs - Bank has advised that every housing finance company should put in place a complaint and grievance redressal mechanism in each of its offices, publicize it and also make it available on its web-site as per the instructions contained in the model guidelines on Fair Practices Code issued by the Bank. Bank has also advised HFCs to ensure that all disputes are heard and disposed off in a time bound manner. Further, it was advised to clearly display in all offices and branches and on their web sites that in case the complainant does not receive response from the company within reasonable time or is dissatisfied with the response received, the complainant may approach the National Housing Bank (Circular No. NHB (ND)/DRS/Misc Circular No. 7/2012 dated 03.01.2012).

6.10.3.7 Computation of Loan to Value (LTV) Ratio - Bank has advised HFCs to compute the LTV ratio as a percentage with total outstanding in the account (viz, “principal + accrued interest + other charges pertaining to the loan” without any netting) in the numerator and the realizable value of the residential property mortgaged to the HFC in the denominator (Circular No. NHB (ND)/DRS/Pol.No. 49/ 2011-12 dated 09.04.2012).

6.10.3.8 Pre-payment charges on pre-closure of housing loans- Bank has advised that pre-payment levy or pre-closure charges should not be levied by the HFCs with immediate effect on the borrowers -

i) Where the housing loan is on floating interest rate basis (pre-closed through any source).

ii) Where the housing loan is on fixed interest rate basis and the loan is pre-closed by the borrowers out of their own sources.

The expression “own sources” for this purpose means any source other than by borrowing from a bank/HFC/NBFC and/ or a financial institution.

Bank vide its Circular dated 04.04.2012 clarified that the instruction applicable to fixed interest rate housing loans referred to in the Circular No 43 shall apply to housing loans given on Special Rate basis (Circular No. NHB (ND)/DRS/Pol.No. 43/ 2011-12 dated 19.10.2011 and NHB (ND)/DRS/Pol. No. 48/ 2010-11 dated 04.04.2012).

6.10.3.9 Uniformity in charging interest (floating rate basis) for old and new Customers – Bank has advised that HFCs should ensure uniformity in rates, on floating rate basis, charged to their old and new customers, with the same risk profile, irrespective of the time of entry of the borrowers in the market. The Bank has reviewed the position further and advised the HFCs to complete the credit risk profiling of its individual housing loan borrowers by April 30, 2012 and convey the same to the borrowers etc (Circular No. NHB (ND)/DRS/Pol.No. 44/ 2011-12 dated 19.10.2011 and NHB (ND)/DRS/Pol. No. 46/ 2010-11 dated 23.02.2012).

6.10.3.10 Issue Of Caution Advice in respect of Fraudulent Transitions - An initiative which was taken by NHB is to issue Caution Advices to all the HFCs on the lines of similar information being shared by the Reserve Bank of India/Indian Banks Association to member banks. The HFCs are required to submit information on fraudulent transactions to NHB on a quarterly basis. Individual details of fraudulent home loan borrowers are then shared among all the HFCs along with the modus operandi involved and causative factors. It is expected that the caution list would help in instituting checks and balances among the various lending institutions, the larger objective being to prevent occurrence/ recurrence of frauds in the housing sector. In the year 2011-12, 4 caution advices were issued by the Bank totaling 435 number of fraudulent transactions.

6.11 Coordination with Other Regulatory Authorities

6.11.1 NHB continued the process of coordination with Other Regulatory Authorities through State Level Coordination Committee (SLCC) meetings convened by the Reserve Bank of India, the Police Department, officials of the State Government in Ministries / Department of Home Finance, Law, Economic Offences Wing, Registrar of Companies, Company Law Board, Securities and Exchange Board of India, Institute of Chartered Accountants of India at State/Regional levels etc. During the year 2011-12, NHB participated in the State Level Co-ordination Committee meetings convened by the Regional offices of RBI for the states of Delhi, Andhra Pradesh, Haryana, Jharkhand, Jammu, M.P, Gujarat, West Bengal, Rajasthan, Orissa, Assam, Himachal Pradesh, Punjab, Gujarat and U.T. Chandigarh etc.

CHAPTER - 7

Area of Focus - Rural Housing

The agenda of Rural Housing has attracted mainline attention amongst the policy makers and various other stake holders in the last few years. The fact that approximately 83.3 crore people reside in rural areas and that the rural incomes have grown at an accelerated pace from 2010 to 2012 has made Rural Housing as the focus of numerous policy developments[25]. However, the total shortage of rural housing is pegged at 43.67 million by the Working Group on Rural Housing for the 12th Five Year Plan. Some of the major impediments are inadequate availability of finance, unplanned rural habitations, inadequate availability of land etc. Borrowing from informal sources continues to be the major source of finance for the rural population which at times are exploitative, especially for the poor. Formal finance options, on the other hand, are still few and remain mostly inaccessible to the rural population. Thus, there is need for flexible and accessible credit system through suitable banking products and appropriate institutional mechanisms that respond to the needs and conditions of the rural areas such as irregular and seasonal income streams and low cash surpluses, poor land records etc.

The need is for deeper penetration of institutions in rural areas along with credit disbursal ability for housing. A multi-institutional approach catering to different segments of the rural areas is needed for the purpose so as to use the existing network of Banks, RRBs, HFIs, MFIs and NGOs/SHGs/CBOs etc having credit disbursal ability, along with risk absorption capacity so as to take housing credit to the door steps of the rural masses is required.

7.1 RURAL HOUSING

7.1.1 "Housing for all" is an important national agenda of the Government of India. The Rural population account for nearly 68.33 per cent of the country's total population and are the backbone of the country's economy[26]. However, the quality of rural housing as also the volume of rural housing shortage in the country is emerging as a critical and unique challenge considering the varied dimensions of the rural landscape and lifestyle. As per the Working Group on Rural Housing for the 12th Five Year Plan, the total housing shortage in rural areas is estimated at 43.67 million units. Of these, approximately, 39.30 million units[27] (90 per cent of the rural housing shortage) pertain to the Below Poverty Line population (BPL).

7.1.2 It has been understood by all that growth in the rural areas is a major catalyst for fuelling the overall economic growth of the nation. But shortage of housing is becoming a major impediment in the growth process. A major reason for housing shortage in rural areas is shortage of financing resources and thus there is a need to increase credit flow for housing and habitat development in rural areas. A survey by Planning Commission has shown that 66 per cent of rural households construct homes using own resources, 9 per cent use institutional finances and the remaining depend on non-institutional sources such as family, friends and money lenders. Some of the existing rural housing Schemes of the Central and State Government viz. Indira Awas Yojana (IAY) and Provision of Urban Amenities in Rural Areas (PURA) as also Schemes of the Banking sector viz. NHB's - Rural Housing Fund (RHF), IAY Top-up Loan Scheme and Golden Jubilee Rural Housing Finance Scheme (GJRHFS), NABARD's – Schemes for non-farm sector (NFS), have been successful to some extent, but could not address the magnitude of rural housing requirements on account of larger quantum loans, long tenure and absence of collateral, proper title deeds and regular income. There is a requirement of the Banking sector including Cooperative Banks and Regional Rural Banks to step in with appropriate instruments/programmes for lending to rural housing so as to overcome the barriers/constraints in rural housing finance which in turn can change the current status of institutional financing for rural housing.

Table 49 : Rural Housing Shortage for BPL families' 2012 -2017

S. No	Factors taken into account for assessing Housing shortage	Calculation	Shortage (in million)
1	No. of Households not having houses in 2012	No. of Households – No. of Housing Stock in 2012	4.15
2	No. of Temporary Houses in 2012	No. of Housing Stock – No. of Permanent Houses (Pucca + Semi Pucca)	20.21
3	Shortage due to Congestion in 2012	6.5%[2] x No. of Households	11.30
4	Shortage due to Obsolescence in 2012	4.3%[3] x No. of Household	7.47
5	Additional Housing Shortage arising between 2012 to 2017	No. of Households projected for 2017 over 2012 – No. of excess Housing Stock projected for 2017 over 2012	0.55
Total Rural Housing Shortage 2012 – 2017			43.67
Assuming 90% of total Rural Housing Shortage for BPL families 2012 -2017			**39.30**

(Source: Derived from the calculations of the Working Group on Rural Housing under the XI Plan)

7.1.3 Though the Central Government and the State governments have undertaken a number of initiatives to address the situation, the shelter conditions in the rural areas continue to pose a serious challenge to the Government's objective of "Shelter for All'. There is a significant lack of institutional finance for rural housing. Though the institutional infrastructure, particularly the banking sector has acquired reasonable depth in the rural areas, they continue to be hesitant in extending housing loans to the rural borrowers on account of various constraints and challenges associated with rural lending. Further, in absence of necessary flexibility in application of prudential norms, the lending agencies tend to keep away from such lending. As a result, the "availability" of institutional credit for rural housing and its "accessibility" by the rural population continue to be serious challenges.

Box 7

Need of the Hour- appropriate and viable institutional mechanism with built-in incentives

In view of the favourable environment induced by budgetary incentives and emerging housing and housing finance market etc. during the last few years, the credit flow to housing sector is continuously on the rise leading to emergence of new players and innovative products. While growth of credit to housing sector has witnessed an average increase of about 30 per cent over the last five years, a large part of these are centered in the urban areas and lending to rural areas has been confined at about 10 per cent . Considering the extent of housing shortage in the rural areas, spanning the entire country and across all States, there is need for an appropriate and viable institutional mechanism with built-in incentives and a supportive policy framework to tackle housing problem in the rural areas. "Sustainability" of any such mechanism is always a key concern which the Scheme should seek to satisfy.

7.1.4 In order to provide an enabling environment to the financial institutions to ensure increased flow of credit for housing in rural areas, it is important to recognize and mitigate the concerns of financing institutions which mainly relate to viability and sustainability of such lending on a large scale. The lending community generally considers charge on the title to the land as the primary security against housing loans. In rural areas, however, the land title, in terms of title verification as well as enforceability, is often deficient thereby limiting the scope of lending. Insurance cover against defaults arising from non-enforceability of the security due to defect in the title or title disputes can minimize the risk, as perceived by lenders and can activate their lending with increased confidence. Such insurance cover against defect in title including title disputes will provide protection and comfort to the lending agencies and will act as a positive catalyst for their lending, thereby enhancing their confidence and willingness. The non-life insurance companies both in the public and private sector could be potential actors in this programme as their title insurance policies on competitive basis would provide a strong base for the banks and financing institutions to expand their housing loan portfolio in the rural areas.

7.1.5 There is a definite need to encourage and enthuse the lending community through appropriate incentives by way of fiscal benefits. With a view to incentivize the lending agencies for rural housing and to cover the higher incidence of Non Performing Assets (NPAs) expected in rural areas, tax exemption on the entire income derived from lending for rural housing can act as a strong lever for the financing institutions. However, such incentives can only play the secondary role in boosting the credit flow to the rural housing sector. There is a need to formulate suitable financial products which could cater the rural populace and facilitate the Primary Lending Institutions (PLIs) to lend confidently to the sector. The special fiscal dispensation of tax exemption coupled with innovative bankable product will certainly spur lending for rural housing in the country. Fiscal concessions presently being extended to promote home ownership in the country are almost entirely availed of by the urban/metro population and the rural segment is presently left out of these benefits as most of the home loan borrowers in rural areas are not income tax payers.

7.2 CENTRAL AND STATE GOVERNMENT SCHEMES FOR RURAL HOUSING

7.2.1 Recognizing the above situation, some dedicated schemes of Government both Central and State are operating in rural areas, which are primarily subsidy/ grant/credit-cum-subsidy based.These

Schemes have been successful, however, on account of budgetary constraints and the magnitude of the requirements both in numbers and amounts, the need of the hour is to ensure greater credit flow for rural housing through bankable and sustainable schemes through the existing institutional framework particularly of banks, MFIs, select HFCs etc. so as to bring the vast majority of the rural people in the formal institutional credit framework.

7.2.2 **Indira Awaas Yojana:** The Government of India has been taking all necessary steps to meet the shortage of rural housing for quite some time. However, rural housing initiatives in its true sense and vigour in India began with the Indira Awaas Yojana (IAY) which was launched as a sub-scheme of RLEGP in 1985-86. From April 1989, it became a sub-scheme of the Jawahar Rozgar Yojana (JRY). Since 1996, however, it was delinked from JRY and made an independent scheme.

7.2.3 Indira Awaas Yojana is a Government of India social welfare programme to provide housing for the rural poor in India. It is one of the major flagship programs of the Ministry of Rural Development to construct houses for BPL population in the villages. The financial assistance provided for new construction in the form of full grant is ₹ 45,000/- per unit for plain areas & ₹ 48,500/- for hilly/difficult areas. Further, an IAY beneficiary can avail top-up loan upto ₹ 20,000/- under the Differential Rate of Interest (DRI Scheme) from any Nationalized Bank at an interest rate of 4 per cent per annum. Furthur, an assistance for up-gradation of unserviceable kutcha house to pucca/semi pucca house is ₹ 15,000/- . Upto 20 per cent of the total funds can be utilized for up gradation of existing kutcha houses and toward subsidy for construction of houses under credit-cum-subsidy Scheme.The houses are allotted in the name of the woman or jointly between husband and wife. The construction of the houses is the sole responsibility of the beneficiary and engagement of contractors is strictly prohibited. Sanitary latrine and smokeless chullah are required to be constructed along with each IAY house for which additional financial assistance is provided from Total Sanitation Campaign and Rajiv Gandhi Grameen Vidyutikaran Yojana respectively.This scheme has been operating since 1985 and provides subsidies and cash-assistance to people in villages to construct houses for themselves.

The broad purpose of the Scheme is to provide financial assistance to some of the weakest sections of society for them to upgrade or construct a house of respectable quality for their personal living. The vision of the government is to replace all temporary (kutchcha) houses from Indian villages by 2017. Scheduled Castes/Scheduled Tribes, freed bonded laborers, minorities and non-SC/ST rural households in the BPL category, widows and next-of-kin to defence personnel/ paramilitary forces killed in action (irrespective of their income criteria), ex-servicemen and retired members of paramilitary forces residing in rural areas form the primary target group of eligible candidates for the IAY Scheme.

IAY is an allocation based, centrally sponsored Scheme funded on a cost sharing basis between the Central Government and the State Government in the 75 per cent:25 per cent ratio, except in case of North-eastern states and Union Territories (UTs). For NE states the central government funds 90 per cent and 100 per cent for the UTs.

The funds are allocated to the states based on 75 per cent weightage of rural housing shortage and 25 per cent weightage of poverty ratio. As per the Budget 2011, the total funds allocated for IAY have been set at ₹ 10,000 crore for construction of houses for BPL families. since 1985, 25.2 million houses have been constructed under the scheme. a year wise break up of total houses constructed under IAY is given below for the last 5 years:

Table 50 : Year-Wise Breakup of total Houses Constructed Under IAY

Year	Total houses constructed under IAY
2005–2006	1,551,923
2006–2007	1,498,367
2007–2008	1,992,349
2008–2009	2,134,061
2009–2010	3,385,619
Total	**10,562,319**

7.2.4 Bharat Nirman Programme which was launched by the Government of India in 2005, represents a Vision for rural infrastructure development on a national scale. Among its various components, the Programme also includes basic amenities such as water, sanitation, sewage, local roads and connectivity etc and is being implemented by the Government of India. It covers providing safe drinking water to all the under developed areas in the country, and to develop housing facilities for the poor. 71.8 lakh houses were constructed during the first phase of Bharat Nirman against a target of 60 lakh houses, and now the Plan has been extended to the year 2014 and the targeted number of houses to be constructed has been increased to 120 lakh houses. Against this target, more than 53.07 lakh houses have already been constructed / upgraded at a cost of around 20,976 crore.

7.2.5 State run Housing Schemes: Long before the Central government introduced any scheme for rural housing some state governments had rural housing programmes. Currently, around 15 States/UTs like Andhra Pradesh, Karnataka, Kerala, Gujarat and Tamil Nadu have their own schemes, whose scope extends much beyond those of the IAY. During the eleventh five year plan, about 30 lakh houses were constructed under the various housing schemes of state governments.

Some notable State run schemes are mentioned below:-

i. **Tamil Nadu:** In the year 2010, the Government of Tamil Nadu launched the "Kaliagnar Housing Scheme (KVVT)" as an add on to the IAY. Under the scheme, all huts in rural areas will be replaced by permanent houses with concrete roof.

ii. **Kerala:** The EMS Housing Scheme envisioned with the objective that there should be no homeless family in the state. Under their housing scheme ₹ 1 lakh assistance is provided to each BPL SC family. Similarly, under the housing Scheme of ST Department, an assistance of ₹ 1.25 lakh is provided to eligible ST families.

iii. **Gujarat:** The Government of Gujarat is implementing 9 other schemes complimenting the IAY Scheme of the Government of India. Some of the important schemes initiated by the State are Sardar Awas Yojana implemented by District Panchayats, Dr. Ambedkar Awas Yojana for assisting SC families and Deen Dayal Upadhyay Awas Yojana for primitive tribal groups. In the year 2009, all the rural housing schemes of the State Government were brought under a common platform with uniform financial assistance of ₹ 55,500/- per unit and selection of beneficiaries from BPL list.

iv. **Karnataka:** The State Government is having two major schemes to help the homeless people. These are the Basava Vasathi Yojane which is for Special Occupational Groups and the Ambedkar Housing Scheme which is for the Economically Weaker Section of the society. Under Basava Vasathi Yojane for economically weaker sections in rural areas, the assistance provided is ₹ 63,500/- of which ₹ 50,000 is subsidy provided for all categories, ₹ 10,000 is provided as loan under DRI Scheme and ₹ 3,500 is beneficiary contribution. Under the Ambedkar Housing Scheme a total subsidy of ₹ 50,000 is provided as subsidy and ₹ 10,000 as bank loan under DRI Scheme the beneficiary contribution is ₹ 3,500/-.

v. **Rajasthan:** In the year 2011, the Government of Rajasthan launched the 'Mukhya Mantri Gramin BPL Awaas Yojana'as a complimentary scheme to IAY. The scheme aims to provide housing to 10 lakh rural BPL households in the course of next 4 years. The scheme has been financed through a loan of ₹ 3400 crore arranged by the state government from HUDCO for Zilla Parishads in the state.

7.2.6 These State housing schemes are a supplement to the efforts for rural housing under IAY. There is also a major thrust on all BPL housing schemes to construct earthquake resistant housing design and construction.

7.3 RURAL HOUSING FUND

7.3.1 The Hon'ble Finance Minister, in his Union Budget speech for 2008-09, announced the setting up of the Rural Housing Fund to enable primary lending institutions to access funds for extending housing finance to targeted groups in rural areas at competitive rates. The corpus of the fund for 2008-09 was ₹ 2,000 crore which was enhanced to ₹ 3000 crore for 2011-12. Till date, a total amount of ₹ 8778.18 crore has been received by NHB under the Fund, and the Bank has disbursed an amount of ₹ 8,783.99 crore towards refinance for rural housing for the targeted segments benefiting 3.36 lakh dwelling units (Table 51).

7.3.2 With the advent of the Rural Housing Fund, many housing finance institutions have been persuaded to increase their housing loan portfolios in rural areas. This has resulted in not only a better geographical distribution of housing finance and an increased penetration of housing loans among the under privileged segments of the society, but has also brought a greater understanding of the characteristics and contours of the rural housing finance market, enabling the various players to design better and more targeted products for the rural populace. Disbursements under the Rural Housing Fund have helped in creation of dwelling units for women, marginal farmers, small artisans, members of scheduled castes and scheduled tribes and minority communities. During 2011-12, disbursements aggregating ₹ 3003 crore were made under RHF . For the year 2012-13, the Government has allocated a budget of ₹ 4000 Crore towards the fund.

Table 51 : Rural Housing Fund - Allocation & Utilization

Year	Allocation (₹crore)	Utilization						
		Institution Category						
		HFCs (₹crore)	SCBs (₹crore)	UCBs (₹crore)	RRBs (₹crore)	ACHFs & ARDBs) (₹crore)	Total (₹crore)	No. of Units
2008-09	1778.18	1,544.88	0	15	201.6	0	1761.48	95577
2009-10	2000	1,794.86	0	4	184.96	32	2015.82	70995
2010-11	2000	1,687.54	182	0	134.12	0	2003.66	42859
2011-12	3000	2,125.25	721.42	13.32	143.04	0	3003.03	126795
Total	**8778.18**	**7,152.53**	**903.42**	**32.32**	**663.72**	**32**	**8783.99**	**336226**

Box 8

Rural Housing Finance Portfolio of Public Sector Banks – Stagnant at 10 per cent

Though the housing finance disbursements by Public Sector Banks (PSBs) and Housing Finance Companies (HFCs) in the last five years has been recording a CAGR of ~ 30per cent, only 8-12 per cent of the disbursements is towards rural housing. Further, the performance of the PSBs in housing finance during the last five years indicates that growth in rural housing loans has been stagnant at ~10percent as a percentage of the total housing finance portfolio of the banks. It is noteworthy that the growth in housing finance has been largely driven by value rather than volume i.e. number of houses.

Box 9

Impediments in Rural Housing Finance

The lending agencies generally associate higher credit risk with the rural housing portfolios on account of a number of factors. Some of the key impediments identified by the PLIs for rural housing are as below:

- Fluctuations in the level of income of the borrowers particularly agriculturists due to vagaries of nature;
- Difficulties faced by lending institutions in assessing the income of the rural borrowers in the absence of a uniform model for this purpose;
- Limited tax benefits for the lenders and in most cases borrowers;
- Limited reach particularly in respect of branch network of HFCs;
- Limited housing loan products for the rural segments;
- Higher costs on account of stamp duty towards creation of simple mortgage;
- Difficulties in obtaining tangible marketable securities for housing loans and difficulties encountered in enforcing the securities in rural areas;
- Non-availability of title deeds poses problems in legally establishing title to the property in Abadi/Lal Dora areas;
- Overall high operational costs for lending institutions in rural areas and risk perception associated with rural lending for housing make rural housing a less attractive business for lenders.

7.4 GOLDEN JUBILEE RURAL HOUSING FINANCE SCHEME

7.4.1 The Golden Jubilee Rural Housing Finance Scheme (GJRHFS) was announced by the Hon'ble Finance Minister in the Union Budget for the year 1997-98. Subsequently, NHB, with the support and commitment of the Government of India, had formulated and launched the Scheme in 1997 to mark the Golden Jubilee of India's Independence. The objective of the Scheme was to address the problem of rural housing through improved access to housing credit for individuals aspiring to build a new house or to improve or add to their old dwelling in rural areas.

7.4.2 In course of the last fifteen years of operation of the Golden Jubilee Rural Housing Finance Scheme (GJRHFS) various Primary Lending Institutions (PLIs) have improved their reach and penetration in the rural housing market. The public sector banks (including Regional Rural Banks), Housing Finance Companies and co-operative sector institutions have contributed to the success of the Scheme. In the process, a number of important lessons have been learnt which will help in developing a sustainable market based solution in this segment. Annual cumulative targets set by the Government of India and National Housing Bank under the Scheme have been successfully achieved over the years. Till March 2012, a total of 34,96,108 dwelling units has been financed by the HFCs, Banks and Co-operative sector institutions as against a target of 37,30,000 dwelling units (approximately 94 per cent of the target) during the fifteen year period from 1997 to 2012.

7.4.3 Further, the Scheme has been operating at the national scale for providing increased access to institutional credit both from the perspective of lenders as well as borrowers. GJRHFS has been instrumental in expanding the reach, depth and capacity of the PLIs in rural housing. This has offered opportunities and challenges to the PLIs for their lending while opening both new avenues in administering long term credit to this vast segment of the population.

Box 10

Golden Jubilee Rural Housing Finance Scheme - Success Factors and Lessons Learnt

The following aspects have contributed to the success of the Scheme:

- Use of market research techniques in designing and developing the product by involving all participating institutions resulting in wide acceptance of the Scheme by all Primary Lending Institutions;
- First rural housing scheme based on market based approach and solution with no element of subsidy;
- Sustainability of the Scheme emerged primarily from the market based approach which provided freedom in pricing the product according to the costs and risks of the borrowers served;
- Scheme has improved institutional depth in providing housing credit delivery in rural areas;
- The Scheme has demonstrated that more than subsidy, a proper understanding of the market and timely availability of credit and monitoring is important. NHB's role has been central in popularizing rural housing finance through continuous monitoring and follow-up, interactive meetings with PLIs, capacity building, besides providing ready available refinance support under the Scheme. Overall, the Scheme has catalyzed flow of institutional finance in rural housing;

- Though initiated on pilot basis, the Scheme has demonstrated the viability of rural housing finance activities for the lenders, and can be successfully and profitability scaled up;
- Though a modest number of houses under the Scheme have been constructed as compared to the rural housing shortage, however, the Scheme has added value to our perspective on rural housing and has resulted in better understanding of the market accompanied with institutional preparedness for serving this segment of the market.

Lessons Learnt

- PLIs can effectively lend for rural housing;
- This segment is vastly under penetrated;
- Existing infrastructure in the financial system can be utilized for enhancing the flow of rural housing credit;
- Rural housing finance is good business case and bankable too;
- The Non Performing Assets (NPA's) are contained;
- Financial support through NHB refinance is good incentive for the PLIs;
- Awareness Campaigns, participation at the State Level Bankers Committee (SLBC) and conduct of capacity building/skill development programmes have all resulted in synergy for both lenders as well as borrowers;
- In order to address the constraints for rural housing, appropriate risk mitigants may be considered that will encourage PLIs in increasing their lending in rural areas. These can include title guarantee/insurance, mortgage credit guarantee, rural risk fund etc.;
- Perceived risk in lending to this segment appears to be higher than the actual risk;
- Awareness about the local conditions and local practices (very relevant for hilly and tribal areas) is of utmost importance to customize the products.

7.5 NEEDS OF THE MARKET AND THE RURAL HOUSEHOLDS

7.5.1 There is a felt need for a flexible approach involving individuals as also groups and communities in partnership with both formal and informal sectors. Options could include demand led housing programs or supply oriented housing. Whereas demand led housing is individual oriented, supply oriented housing is cluster/group housing and mass housing which can be standardized and replicated.

7.5.2 There is need for customization of credit products according to the profile and requirement need of various segments of the rural population with the help of collaboration between formal financial institutions and grass root level local agencies including NGOs, SHGs, CBOs etc.

7.5.3 More importantly, the resource flow from the banking sector as also the long term institutional stake in rural housing needs to be leveraged and sustained for substantive impact on housing shortage in the rural areas.

7.5.4 The entire process in housing and housing finance is essentially a “people's process” particularly in rural areas and requires adequate and relevant information on various aspects relating to rural housing.

7.6 ROLE OF NGOs, CSOs and PANCHYATI RAJ INSTITUTIONS (PRIs)

7.6.1 Given the quantum of shelterlessness and the need for improving efficiency, it is important that local stakeholders are able to effectively participate in housing delivery. PRIs need to be supported to take a lead in micro-planning and prioritizing habitat development needs. NGOs can be professionally engaged to support PRIs to facilitate safe and sustainable habitat development in rural areas.

7.6.2 It is now fairly well recognized that demand for rural housing is constrained, among other factors, surprisingly by availability of land for building houses. The rising requirement of land for livelihood over time has meant that there is hardly any 'common panchayat land' available for non-agricultural uses, including for housing. Also most government land and forest land in the countryside has also been fairly extensively encroached. Besides the physical availability of land in rural areas for housing, the land problem has yet another dimension: the legal ownership rights to village land are often undefined and unclear. All this essentially means market for land for rural housing is also thin and ineffective. Paradoxically, there are indeed hot land markets in the villages close to the large cities and metros as the urban requirements for land have also increased in the recent years. But this is not the bulk of the rural areas. Housing in rural India is still largely for own use rather than for sale and resale and one important reason for this again is the problem of transferring ownership rights.

7.6.3 A distinctive aspect of rural housing, which is seldom recognised, is the lack of planning of rural habitations. They probably were planned at some point of time keeping in mind the security aspect besides their being less suitable for cultivation or having better drainage. But growth of population and other economic activities have led to deterioration of the quality of local environment. The problem is particularly acute in low rainfall and unirrigated areas.

7.6.4 The poor state of habitations is an economic problem. The role that panchayats can play in this respect as units of self-government is indeed huge. But as with municipalities, this is largely an issue of capacity and institutional strengths. To re-iterate, what the rising demand for rural housing has meant is also that village panchayats may have a chance to encourage the kind of housing plans that may improve quality of life for the millions of rural Indians. Financial resources for the panchayats are obviously constrained. Village panchayats have not been able to raise adequate revenues from property taxes and therefore not able to do much on improving the quality of habitation. The separation of land record and land revenue functions from the panchayats has meant that the panchayats have taken the state of the habitation as given and whatever improvements have occurred are mainly the outcome of the schemes planned from government bodies above. The prosperity of rural areas has meant better houses for only a few individuals and has not necessarily resulted in better habitation as a whole. The overall income of the panchayats from grants and own resources is still too inadequate to bring about any significant changes on their own.

7.6.5 There are two directions in which the village panchayats can play a more active role in rural housing development. In one direction, there is a need to strengthen the governance role of panchayats: influencing construction of better houses and in a manner so that the village infrastructure is optimally utilised; the land and property records are improved. This in turn would catalyse the other services- particularly finance- that helps in turning some of the latent demand into effective demand. The second dimension in which the panchayats can play an important role is bringing greater convergence of many of the rural development programs for greater impact.

7.6.6 The partnership with the NGOs, private sector and other civil society organisations will remain imperative as in many other rural development programs. The panchayats can also play a major role in facilitating the implementation of drinking water supply and sanitation programs (such as the accelerated rural water supply scheme and the total sanitation program) in the villages; they also facilitate building of rural roads as well as the execution of many other programs of rural development. The housing development perspectives actually provide greater convergence to many of these services as location of houses or new houses can be planned with reference to the various services. Their intimate knowledge of local needs, people and local conditions make them pre-eminently credible facilitators.

[25] *68th round of the National Sample Survey Organization (NSSO).*
[26] *Provisional Census, 2011*
[27] *Working Group on Rural Housing for the 12th Five Year Plan*

CHAPTER - 8

Disaster Mitigation in India and Natural Disasters

Natural disasters are common phenomena across the globe. These are not region specific and create havoc once they strike either in the form of floods, droughts, volcanic eruptions, earthquakes, cyclones, tsunamis or landslides etc. The inhabitant population of the affected region faces mass destruction and irreparable losses. In the given context it is of utmost importance to be in preparedness for the prevention of such catastrophes rather than wait and being reactive. It can be done by creating awareness, maps, vulnerability & risk analysis, and building capacities within.

With an intention to reduce such incidences of destruction and loss of life and property, caused by the Natural disasters, the Govt of India has set up the National Disaster Management Authority . The NDMA as the apex body is mandated to lay down the policies, plans and guidelines for Disaster Management to ensure timely and effective response to disasters.

Building Materials and Technology Promotion Council is also playing a pro-active role in the area of disaster mitigation and management.

8.1 Disasters are random and global phenomenon which may occur in any region or country. India has been traditionally vulnerable to natural disasters on account of its unique geo-climatic conditions. Natural disasters in India, (largely due to the climatic variations) such as droughts, flash floods, Tsunami, avalanches pose the greatest threats along with other uncertain natural disasters such as earthquakes. About 60 per cent of the landmass is prone to earthquakes of various intensities; over 40 million hectares is prone to floods; about 8 per cent of the total area is prone to cyclones and 68 per cent of the area is susceptible to drought.

8.2 FRAMEWORK FOR DISASTER MANAGEMENT

8.2.1 The aftermath of disasters are astronomical and result in loss in terms of private, community and public assets. The rate of development is adversely affected by the occurrence of these disasters. It has, therefore, become imperative to understand these disasters realistically and to identify the technical, administrative, financial, social and legislative measures to decrease the adverse impact of these disasters, thereby managing them in a proper way.

8.2.2 Disaster management occupies an important place in this country's policy framework as it is the poor and under-privileged who are worst affected on account of calamities/disasters. Over the past few years, the Government of India has brought about a paradigm shift in the approach to disaster management. The new approach proceeds from the conviction that development cannot be sustainable unless disaster mitigation is built into the development process. The framework also outlines mitigation to be multi-disciplinary, spanning across all sectors of development. The new policy framework springs from the belief that investments in mitigation are much more cost effective than expenditure on relief and rehabilitation.

8.2.3 The country has integrated administrative machinery for management of disasters at the National, State, District and Sub-District levels. Rescue, relief and rehabilitation measures in the event of natural disasters are managed by the State Government. The Government has established National Disaster Management Authority to bring out a comprehensive framework for disaster management of India. One of the major aspects of disaster management is rehabilitation of the displaced people and property during the disaster. The National Housing Bank endeavors to help in disaster management through refinancing Housing Finance Companies and Public Sector Banks for on-lending for earthquake resistant housing which includes retrofitting and disaster mitigation techniques laid down in the Bureau of Indian Standards (BIS) codes. The Bank in the past has funded Disaster Management Authority in Gujarat and AP State Housing Corporation Limited towards disaster rehabilitation projects.

Box 11

Disaster Management Policy - Asian Urban Disaster Management Programme

Asian Disaster Preparedness Center (ADPC)[28], Bangkok works towards the realization of disaster reduction for safer communities and sustainable development in Asia and the Pacific. Since its inception in 1986, ADPC has been recognized as the major independent center in the region for promoting disaster awareness and the development of local capabilities to foster institutionalized disaster management and mitigation policies. The role of ADPC includes role in assisting countries of the Asia and the Pacific region in formulating their policies and developing their capabilities in all aspects of disaster management. The areas of focus of ADPC are as outlined below:

1. Good governance and Disaster Risk Management Systems Development
2. Urban Disaster Risk Management
3. Climate Variability and Change/Climate Risk Management
4. Community-Based Disaster Risk Reduction
5. Public Health in Emergencies/Health Risk Management
6. Emergency Preparedness and Response System Development
7. Geological Hazard Risk Management
8. End to End Multi Hazard Early Warning Systems
9. Mainstreaming Disaster Risk Reduction into Development
10. Post-disaster Recovery and Reconstruction
11. Risk Assessment
12. Technological Hazard Risk Management

8.2.4 In India, the National Institute of Disaster Management (NIDM) constituted under an Act of Parliament acts as the nodal agency for training, capacity development, research, documentation and policy advocacy in the field of disaster management.

8.2.5 The Building Materials and Technology Promotion Council (BMTPC) set up in 1990 by the Government of India has been playing a pro active role as far as the disaster management is concerned. The following publications have been brought out by BMTPC with respect to the same:

i) Vulnerability Atlas of India (1996 & 2006).

ii) Landslide Hazard Zonation Atlas of India.

iii) Guidelines for Improving Earthquakes, Wind/Cyclone and Flood (1997 & 2010) prone Housing Construction and

iv) Earthquake Tips covering the various important aspects of earthquake resistant construction.

Box 12

BMTPC Initiatives towards Disaster Mitigation

BMTPC has successfully used seismic retrofitting techniques for buildings like in the Kupwara Sub-Divisional Hospital in Jammu & Kashmir, a Primary School in Thano, Dehradun and 7 MCD Schools in Delhi. Earlier, also BMTPC had constructed 478 model houses which were disaster resistant and retrofitted 445 public buildings in earthquake affected region of Gujarat. The Council also organizes Technical Workshops on Model Amendments in Town and Country Planning Act, Zoning Regulation, Development & Control Regulation and Building Regulation for safety against natural hazards.

Besides issuing various hazard guidelines, BMTPC has also drafted a report for housing and construction of buildings covering the following areas:

a) Identification of various hazard prone areas,

b) Vulnerability and Risk Assessment of Buildings,

c) Disaster damage scenarios,

d) Technical Guidelines for Hazard Resistant Construction of Buildings.

e) Upgrading of Hazard Resistance of Existing Housing Stock by Retrofitting, and

f) Techno-Legal Regime to be adopted

8.2.6 Extensive research is being undertaken in the field through various studies related to region specific disaster impact assessment study and developing housing designs as per the hazard specific zones in different parts of the country. Further, work is being done on the seismic retrofitting techniques which can be used when the design or detailing of the house is inadequate, there is degradation of materials or there is damage due to earthquake or any other catastrophe.

8.3 HOUSING AND DISASTER MANAGEMENT

8.3.1 Every year lakhs of houses are destroyed by floods, cyclones, earthquakes etc, mainly on account of not being disaster resilient. Since housing is a State subject, the State Governments have been advised by the Minister for Housing and Urban Poverty Alleviation (MHUPA) to adopt a Techno Legal Regime involving amendments and revision of the existing building bye-laws and regulations to ensure quake resistant construction of buildings and houses.

8.3.2 The role of structural engineers, professional architects, civil engineers and geo-technical engineers is very important as far as disaster management in housing is concerned to help examine the building / house from various aspects and ensure that the safety related codes and regulations as laid down in the National Building Code and various Indian Standards have been complied with and that the house / building is multi-disaster-resilient.

8.3.3 As per the National Disaster Management Guidelines , it is very important for the Banks and other Financial Institutions engaged in extending housing finance to individuals and other bodies to ensure that the house or the building being constructed by availing the particular finance is able to withstand the adverse impact of the natural hazards. Destruction of housing besides having economic losses, may also turn into non performing assets and aversely affect the quality asset of the Banks and the FIs. The Banks can safeguard their interests in such scenario by taking the assistance of their empanelled valuers, architects and technical experts.

8.3.4 Disaster Management for housing needs a multi-pronged approach and involvement of all the stakeholders. It should encompass interventions as outlined below:

i) Policy Framework.
ii) Techno-legal framework.
iii) Specific schemes for mitigation.
iv) Capacity building.
v) Creating preparedness.
vi) Special funding mechanism for the housing sector.

[28] http://www.adpc.net

CHAPTER - 9

Asia Pacific Union for Housing Finance (APUHF)

Asia Pacific Union for Housing Finance (APUHF) has been set up with the purpose of sharing knowledge and information of various innovations and best practices with respect to the housing and housing finance sector and to promote networking among the various institutions in the region. The forum helps in co-ordinating with the Asian Pacific countries in order to help them find out solutions for the housing and the housing finance sector. The NHB and APUHF also keep track of the global housing markets.

9.1 Asia Pacific Union for Housing Finance (APUHF)[29] is a platform to act as a knowledge sharing and networking medium. The forum promotes coalition and coordination among the Asia Pacific Countries in determining their housing and housing finance solutions. APUHF also tracks the events and happenings in the housing markets globally. The forum focuses on initiatives taken by different member countries in their own regional contexts. The users of the platform include member country institutions engaged in housing and housing finance such as housing finance institutions, construction agencies such as builders,co-operatives, Government agencies, policy and regulatory bodies, Central Banks, International Finance Institutions etc.

9.2 EVOLUTION OF APUHF

9.2.1 Setting up of the South Asia Housing Finance Forum (SAHF) was proposed at the Workshop in Jakarta, Indonesia organized by the World Bank Group during May 2009.

9.2.2 UNESCAP and UN-HABITAT, in collaboration with the National Housing Bank of India (NHB), launched an initiative on Pro-Poor Housing Finance in Asia-Pacific region in 2009.

9.2.3 The above initiatives were merged into a single Regional Network and the network was named as Asia Pacific Union of Housing Finance(APUHF). Different aspects of the working of Network were discussed at the Regional Symposium on Pro-Poor Housing Finance held in April 2010 at New Delhi, India.

9.2.4 National Housing Bank, India hosts the Secretariat for the Asia Pacific Union for Housing Finance. NHB is the host of the information portal (http://www.apuhf.info) of APUHF. NHB updates the contents of the website from time to time in consultation with the member countries in the advisory board

9.3 EVENTS

9.3.1 **Conference on Affordable Housing and Housing Finance & Launch of Website of Asia Pacific Union for Housing Finance during January 27-28, 2010 at New Delhi:** The National Housing Bank (NHB) in association with the World Bank and International Finance Corporation (IFC) organized an International Conference on Affordable Housing and Housing Finance during January 27-28, 2010 at New Delhi. The Conference had participants and Speakers from Afghanistan, Bangladesh, Brazil, India, Indonesia, Maldives, Mauritius, Pakistan, Sri Lanka, South Africa and Thailand besides IFC, World Bank and World Bank Institute, Affordable Housing Institute, ADB, Government of India – Central and State Government Officials, Reserve Bank of India, Banks & Housing Finance Companies. Representatives from Civil Society Organizations, academia, researchers and policy makers also participated in the Conference.

The Conference was preceded by Launch of Asia Pacific Union For Housing Finance (APUHF Forum-Formerly known as South Asia Housing Finance).

9.3.2 **Workshop on Housing Finance during June 26-29, 2011 at Ulaanbaatar, Mongolia:** Asia Pacific Union of Housing Finance (APUHF) in association with Mongolian Mortgage Corporation (MIK), kFw and Frankfurt School of Finance & Management organized Workshop on Housing Finance during June 26-29, 2011 at Ulaanbaatar, Mongolia. The Workshop focused on the entire spectrum of Housing Finance. The agenda was designed to share the various facets of Housing Finance in the Asia-Pacific region. Latest information, expert perspectives and deep insights on compelling topics confronting the policy makers, national governments, financial institutions and research bodies were deliberated upon during the workshop. The workshop showcased overview of practices together with specific country perspectives adaptable in local contexts. Participants of the workshop on Housing Finance included International Housing Finance experts representing countries viz. Thailand, Philippines, Japan, Azerbaijan, Indonesia, Malaysia and Mongolia besides India. The workshop also saw representation from UN-HABITAT, IFC and NHB.

The workshop focused on three main topics, capturing the housing problems faced in Mongolia as well as in other APUHF member countries. These included:

1. Housing finance market experience in selected APUHF countries;
2. Market-based experience with low-income housing finance; and
3. The experience with secondary mortgage market operators.

9.3.3 **Conference On Growth With Stability In Affordable Housing Markets' held on January 30-31,2012 at New Delhi, India :** The National Housing Bank (NHB) in association with the Asia Pacific Union for Housing Finance (APUHF) and the Asia Pacific Ministerial Conference on Housing and Urban Development (APMCHUD) organized an International Conference on 'Growth with Stability in Affordable Housing Markets' during January 30-31, 2012 at New Delhi. The Conference was attended by a large number of international participants and speakers from Bangladesh, Indonesia, Iraq, Japan, Malaysia, Mongolia, Pakistan, Sri Lanka, and Thailand besides International Finance Corporation, World Bank, Asian Development Bank and KfW (Germany). Representatives from NGOs, academia, researchers and policy makers were also present at the Conference.

The Conference focused on various emerging issues in Asia Pacific region and deliberated on various aspects of affordable housing. The areas discussed during the Conference include the following:

i. Housing & housing finance scenarios in different countries with special focus on issues concerning affordability with respect to Land, Technology, Credit and institutional arrangements
ii. Expansion and growth in affordable housing markets through demand and supply side interventions
iii. Role of Micro Finance Institutions in Micro Housing Finance
iv. Growth & prospects of Primary Mortgage Market
v. Issues related to Urban Planning like planning process, formulation of developmental plan/strategies/zonal plan
vi. Desirable financial sector intervention in the housing markets and necessary safeguards/risk mitigants.
vii. Global experience in the field of Energy Efficiency in Housing Sector.
viii. Mortgage funding strategies of various countries after financial crisis with special focus on MBS & Covered Bonds.

Further, discussions were held on the requirements of the industry particularly with respect to the recent concerns encountered by the global mortgage industry. The Conference also deliberated on wide ranging issues connected with policy development, product innovation, affordability models and recent changes and developments in the housing finance markets being witnessed in different countries. The recommendations are as summarized in the box below (Box 13):

Box 13

A Summary of Recommendations for the holistic development of the housing/housing finance sector

There is a need for a housing finance system in the Asia Pacific region which should be sustainable, expandable and promotes stability. Affordable housing is a big challenge and there is a need for countries across the region to share their experiences and best practices for formulating feasible solutions to address the problem.

Following measures are recommended for the holistic development of the housing/housing finance sector:

- Innovative, Affordable Technology and Standardization

Investment in low-cost and localized building technologies (e.g pre fabricated technologies) and Energy Efficiency is the need of the hour. There is a potential for energy conservation which exists in all forms - urban and rural, high end-low end and we need to come out with constant policy measures to introduce/innovate standards and norms for energy efficient housing. Homes should be designed to create savings of at least 20 per cent from non energy efficient homes in order to save on long term energy costs especially for the low income groups.

Affordability equals standardization. The solution lies with house construction industry moving from construction of house to manufacturing of house and from customized houses to standardized houses, thereby reducing cost and construction time. Housing should be a life cycle product. There is a need for technological innovation for cost reduction which would enable an increase in the housing stock and further help in ensuring a sustainable and dignified livelihood for the masses.

- Accessibility to finance at a lower cost and development of new funding instruments

The financing institutions should develop the requisite skills to mobilize domestic savings through innovative methods and devise schemes to lend at affordable rates. Transition from Housing micro-finance to micro mortgage loans is the key driver for simulating housing micro finance through Micro-Finance Institutions. Lending to lower segment should be insulated from volatility in interest rates which upper segment can absorb. Unlike upper segment who may invest in housing for returns, housing investment by people in lower segment is for consumption and self use. There is a strong need to tackle the informal income through the concept of innovative solutions. Customized appraisal methods, flexible repayment plans can help increase affordable housing finance for the unorganized and informal segments. Credit guarantee fund and mortgage insurance should enable lenders lend to lower segment of the market.

- Deepening of the Debt Markets and development of Securitization

Non availability of debt funds is the reason for the lack of longer term fixed rate loans. Lack of long term financing and ALM mismatches are the challenges to the housing sector. Securitization is important and efforts should be made to work on the 'Originate, Hold and Sell' model instead of just 'Originate and Sell' model. Pension funds, gratuity funds should invest in the long term debt papers and mortgage backed securities should be traded. Secondary mortgage market is critical to give impetus for housing finance. Standard documentation, Standard benchmarks and new instruments such as covered bonds are also required.

- Synergy among various institutional stakeholders and Supportive legal and regulatory environment

HFCs with their efficient risk management & back office capabilities and MFIs with their advantage in customer acquisition & collection mechanisms can operate together for micro mortgage finance. Further, on governance issues, role of public agencies, Public Private Partnerships (PPPs) are essential and there is need for sustainable partnerships among the various constituents. The commitment from the Government such as reforms in land policies, city planning, income tax benefits for the borrowers, lenders, investors and construction agencies are important. The state governments have also come out with supportive housing policies, lower transaction costs and incentives to the developers. The solutions to affordable housing are multiple approaches like targeted subsidy, relaxation in FSI, slum redevelopment, Income Tax benefits and Foreign Direct Investment (FDI).

- Tackling Land Issues

A viable solution for affordability cannot be found till the land problem is addressed. Scarcity of land and high price of land are major reasons for the housing shortage. There are land price distortions across cities and faulty land policies. There is need for appropriate land laws for acquisition of Land for housing, Efficient Land Records, Appropriate Valuation Regime, Full Land Mapping with Ownership Details, Appropriate Land Taxation ,High Intensity Land Utilisation and effective Financing for Land Procurement. Transparency, modern and standardized measures at the offices of Registrars of Land / Property Registration is essential. Further, low transaction costs especially stamp duty should br reduced. Legal systems should change, land acquisition should be made easy, government control should reduce and housing industry should be given priority sector status. Redundant past policies are to be changed, land use policy in terms of density and FAR needs to be changed, fresh land for urbanization has to be brought through innovative approaches (without force) from the land owners and plan approval/clearing processes need to be faster. Transfer of land from the public agencies to the private bodies should be done at a reasonable price with a condition that the benefits of the lower price will be passed on to the ultimate users.

- Urbanization ,Urban Planning and Rental Housing

Developing countries like India need more cities which provide economic activities to pull people out of poverty by earning livelihoods. The future of human settlements lies in environmentally satisfactory and sustainable development. Compatibility between ecological balance and the technological options should be ensured. Focus should be on Energy Efficiency in Buildings, Urban Transport and Waste Management. Development can only be sustained when it keeps pace with the rising expectations of the population. Redevelopment of existing areas can make cities more livable. Improvement of infrastructure and affordable housing may bring poor closer to the work centres. These calls for change and paradigm shift in urban planning process. There is a need for increased focus on the provision of rental housing and transitory accommodation to address the requirements of migratory populace and thereby substantially reducing the formation of slums and shanty settlements.

[29] *http://www.apuhf.info/*

CHAPTER - 10

Summing Up

10.1 CONCLUSION

10.1.1 Housing finance in India is growing rapidly. With the intervention of the banking sector and the emergence of more specialized financial institutions, the sector is attracting a wide range of customers ranging from individuals to corporations to groups. As on June 30,2012 fifty six (56) Housing Finance Institutions were registered with the National Housing Bank. The composition of funds for the housing sector - a mix of short and medium-term funds is a concern. Measures are being considered for channeling long-term pension and provident funds as well as external funds into the housing sector. A securitization market has also begun to operate, as a measure for better matching of assets and liabilities.

10.1.2 The Government of India, Reserve Bank of India and the National Housing Bank have attached priority to the housing finance sector and continue their support to the sector through fiscal and regulatory measures. The burgeoning middle class, their increasing purchasing power, the changing demographics, and the increasing number of nuclear families coupled with a low delinquency rate have resulted in a low number of non-performing assets compared to other sectors. Further, this has enabled the sector to grow at a phenomenal rate and attracting many institutional players representing high volume.

Box 14

Union Budget (2012-13) Announcements Relating to Housing and Housing Finance

❖ External Commercial Borrowings (ECBs) allowed for low cost affordable housing projects. As per National Housing and Habitat Policy 2007, the country requires about 24 million housing units during 2007-12 with an estimated investment of about ₹ 4 lakh crores. The majority of the housing requirements are with the EWS/LIG segments. The domestic institutional financial sector and the budgetary allocations have limited capacities to meet such huge investment requirements. Besides, the current high interest rate scenario is also a limiting factor in deployment of institutional credit in housing thereby limiting the supply of housing at affordable rates. Therefore, the announcement of allowing access to the international markets through ECB route for raising funds will help the construction agencies/developers to raise money in times of need. Availability of this source will add to the liquidity in the system for undertaking low cost housing projects.

❖ Credit Guarantee Trust Fund will be set up to ensure better flow of institutional credit for housing loans. This proposal will encourage lending by banks and housing finance institutions to EWS and LIG households as the proposed Guarantee Fund will enhance the confidence of the lending institutions in providing housing loans to these segments. The proposal will result in deepening the housing finance market for the lower income households and help in mitigating their housing requirements with increased flow of institutional credit.

- Provisions under Rural Housing Fund have been enhanced from ₹ 3000 crore to ₹ 4000 crore. This proposal will encourage the provision of Housing Finance to target groups in rural areas, a step towards mitigating the housing shortage in rural areas amongst the target groups.

- The Interest Subvention Scheme of 1 per cent on housing loan up to ₹ 15 lakh where the cost of the house does not exceed ₹ 25 lakh has been extended for another year: The proposal will have impact in improving the affordability levels and generating increased demand for housing loans particularly from low and median income segments.

- The limit of indirect finance under priority sector has been enhanced from ₹ 5 lakh to ₹ 10 lakh. This proposal will encourage the lending by Banks to HFCs as a result of which their portfolio of loan upto ₹ 10 lakh will increase significantly. As these loans will be recognized as priority sector loans in the books of banks, they will be able to increase their priority sector lending and meet their allocated target through indirect financing mechanism besides their own lending of housing loans upto ₹ 25 lakh. This may result in a significant increase in loans to lower and middle segment households by HFCs.

- Tax free bonds of ₹ 60,000 crore to be allowed for financing infrastructure projects in 2012-13 which includes ₹ 5000 crore for NHB and ₹ 5000 crore for HUDCO For NHB, issuance of Tax Free Bonds will ensure availability of funds at lower rates which can be utilized for refinancing housing loans disbursed by Banks & HFCs at competitive rates. NHB can also invest these low cost funds in financing the Public Private Partnership Projects in affordable Housing segment.

- Rate of withholding tax on interest payment on ECBs proposed to be reduced from 20 per cent to 5 per cent for 3 years for some sectors including affordable housing. It will improve the availability of funds through ECB as reduction in withholding tax will encourage the foreign lenders to lend to the eligible entities as approved.

- Investment linked deduction of capital expenditure incurred in the Affordable Housing businesses is proposed to be provided at the enhanced rate of 150 per cent, as against the current rate of 100 per cent will encourage the existing players in this segment to invest more in the Affordable Housing.

- Construction services relating to residential dwelling and low-cost mass housing up to an area of 60 sq. mtr. under the Scheme of Affordable Housing in Partnership have been exempted for Service Tax. The exemption for the monthly charges payable by a member to a housing society has been raised from ₹ 3,000 to ₹ 5,000. The proposal will exempt individuals/buyers from payment of service tax from on purchase of housing units up to an area of 60 sq.m. Under the Scheme of Affordable Housing in partnership. This step will encourage construction of affordable housing without any additional burden on the EWS/LIG borrowers. Similarly raising of monthly charges exemption limit from ₹ 3000 to ₹ 5000 will encourage housing co-operative societies to improve the quality of services in Affordable Housing in partnership.

- Renting of residential dwellings has been added in the negative list of services which are not taxable. This will encourage home owners to give their vacant houses on rent as their income from the same will not be subject to service tax.

10.1.3 Increasing attention has been placed in recent years on developing a dynamic housing finance system in the country. In general, it is contended that a dynamic housing finance system is essential to enhance significantly the level of savings by the household sector. Housing investment has strong macroeconomic linkages and is directly tied to the internal efficiency and productivity of cities[30].

10.1.4 Indian housing finance market is characterized by a deep and vibrant primary mortgage market. However, the secondary markets is still to evolve and yet to attain maturity. The primary mortgage market has the required infrastructure and depth for continued supply of appropriate, demand-led housing supply in the country. A blend of market-oriented and government-supported programmes and initiatives has also added to the depth and stability of the housing market.

10.1.5 "Affordable Housing for All" has been a stated national policy of the Government of India. The efforts of the Central Government are being supplemented by housing schemes of several state governments. Many of the programmes of the government are designed to provide affordable housing to low income households through the subsidy-cum-loan schemes. The Subsidy Schemes of the Government for the low income populace have varied from a 100 per cent subsidy (the cost of the entire housing units including building materials, construction costs, and basic infrastructure, etc.) to partially subsidized programmes with some equity contributed by the borrowers themselves. These schemes have been more in the nature of public housing programs carrying direct subsidies out of the government budget. In some cases, this is done on a sharing basis between the Central and the State government, and in some cases with the financial intermediaries.

10.1.6 The rising population and rapid urbanization are further putting immense pressure on the housing stock of India. Presently, about 30 percent (328 million) of the population are living in urban centers, and this estimate is expected to further rise to about 40 percent by 2025. There is a need for concerted and proactive efforts on the part of all stakeholders in determining the right mix of implementable policies and programmes.

10.1.7 In order to expand the market to the lower-income segment of the populace, the availability of mortgage guarantee products like Credit Risk Guarantee Fund for Low Income Housing has been launched by the Central Government in May, 2012. RBI has issued the necessary guidelines for Mortgage Guarantee Companies and NHB in partnership with Asian Development Bank (ADB), International Finance Corporation (IFC) and Genworth has set up a joint venture mortgage guarantee company - India Mortgage Guarantee Corporation Pvt. Ltd. (IMGC). IMGC will offer mortgage guarantees against borrower defaults on housing loans from mortgage lenders, which will help to expand access to housing and housing finance in India, through a market-based mechanism.

10.2 THE WAY FORWARD

10.2.1 There is a need for an integrated approach which would help addressing the problems in a more efficient manner. This could include some key innovative interventions as outlined below:

Box 15

Housing Finance: The Emerging Contours

Housing has been a key driver of economic growth of a country. The key challenge is that very little funding is going to the segment (of low-income and affordable housing) where housing shortage is pre-dominant.

Key issues – Supply side

Land acquisition is the most critical part of housing development. Given the significant shortage of housing in the country, there is need for fresh supply of land to come into the housing market. Secondly, fresh supply of land needs to be there for low-income and affordable housing. Earmarking of land for low-income housing under various Government schemes and policies is a welcome step, but the shortages in this segment are chronic and critical and more measures are required to curtail the problem.

India now has almost 100 million people living in slums. Renewal of existing stock through redevelopment is another critical component of the housing market. The Rajiv Awaas Yojana (RAY) is an ambitious scheme in this regard. However, it's important to integrate slum redevelopment with comprehensive development of transport infrastructure and civic amenities so that no additional financial burden is imposed on the dweller due to the shift. Easy connectivity to work place is one of the most important criteria for slum dwellers in their choice of dwelling.

Policy level initiatives like changes in FAR norms, density norms and bringing them to international standards would increase supply of housing units..

Increasing supply of affordable housing is essential. The overall market size of this segment is around ₹ 25,000 crore and is bigger than the top end of the market. However, the value of houses in this segment has been inching upwards to ₹ 7-8 lakh level. Concerted efforts are required to make houses in the below ₹ 5 lakh range available.

A shift in the urban planning paradigm and emphasis on master planning of new urban centers would ensure long-term planned development. Civic infrastructure like road/train connectivity, water, electricity, education, healthcare, etc. needs to move in tandem with growth of housing.

The process of clearances and approvals for housing projects continues to be a long and tardy one extending over several months. This is one of the most critical stumbling blocks and could be eased by some form of single window clearance.

As the housing market in India grows and matures, there is a need for new players like Home Inspection industry, which should be regulated but independent from the developers. In the US, more than 70 per cent of home sale transactions involve the services of a Home Inspection professional. In India, presently there is no single authority to supervise the quality of construction and it is being loosely administered at the local municipality levels.

The Scheme of Affordable Housing in Partnership encourages public-private partnerships for the development of affordable housing by providing incentives like reduced stamp duty and central government subsidy of 25 per cent of the cost of developing civic infrastructure for the project. However, not much headway has been made under the Scheme. It is therefore important to come up with effective mechanisms to use central budgetary support to incentivise additional supply of affordable housing.

Housing Finance

In the year 2000, home finance was just 1.5 per cent of the total bank advances and in year 2012 it has risen to around 10-12 per cent.

Product innovation is required to be explored through the use of and channelizing of long term fixed rate savings (like insurance, pensions, etc.) so that a variety of fixed and floating rate products can be offered to the customer in a transparent manner. In most cases, interest rate risk on a long term home loan is being borne by the customer, due to the absence of choice of products being offered to the customer for home finance.

There is a need to develop secondary mortgage market with the right safeguards and incentives. The mortgage securitization market could be developed with the support of a credit enhancement package from NHB.The development of the long term mortgage securitization market would also help in introducing new lenders like insurance companies and pension funds and reduce asset liability mismatches with the banks. Investments like covered Bonds could add greater depth and vibrance to the mortgage market and capital market.

While rural housing is important and critical for increasing home ownership in the country, the key stumbling block in financing of rural housing is lack of legal titles and absence of credit information of the borrower. Credit bureaus mainly focus on urban customer data. Efforts are being made by various institutions to make available credible rural customer data.

Growing instances of frauds such as fake title documents, fake identities, multiple funding against same property, etc. need to be curbed. Establishing authenticity of title deeds is becoming increasingly difficult. In this regard, the role of a central/state registry is very important.

One of the constraints for Housing Finance Companies that cater to the low end customers is continuous access to affordable debt. Can there be an urban refinance scheme for small ticket home loans, to address this issue?

Consumer Protection

The biggest gap that exists today in this industry is that a home buyer gets no form of assurance on the quality and time of delivery of the home from the developer. In addition, the consumer is fully exposed to price risk till such time the delivery is made to him.

Grievance redressal mechanism against developers needs to be made robust and transparent. In the absence of a regulatory regime for the real estate developers, this has been extremely difficult to put in place. Many complaints exist against the developers such as sale of houses without necessary approvals in place, overstating saleable area, inordinate delays in delivery, non-completion of projects undertaken, etc. Can consumer protection policies be mandated such as a home can be sold by the developer only after receiving Occupation Certificate?

Legal protection must be provided in case of defective title being passed on to the consumer.

10.2.2 Rental Housing: In view of the increasing need for housing over the years, the possible solutions are oriented towards ownership housing both with Government and Institutional approaches. However, in view of the land market distortions and affordability aspects with low income segments depending heavily on Government support, there is a strong case for formulating an integrated policy framework and programmes for promoting rental housing for the country. Budgetary resources alone, may not achieve the objective of providing housing solutions for low income segments either on ownership or rental basis. There is a need to incentivize the private sector to look at the opportunity of rental housing in a more innovative fashion. These firms can as a good and sustainable business model create customized housing projects which shall focus at the needs of renters. Current challenges to develop such projects for private sector are higher upfront capital investment and low returns. Any policy framework design has to address these issues comprehensively and all stakeholders need to define priorities to establish a sustainable solution to these issues. High land prices and lack of institutional support are key barriers for entry of private players. Given the importance of this sector financial institutions could earmark this for priority sector lending to promote rental housing. Further the barriers for entry for Real Estate Investment Trusts (REITs) should be overcome so that they can provide suitable mechanism for exits for such investments.

10.2.3 The above shall evoke a fundamental shift in a lot of rigid structures that are present today in financial lending to real estate and policy matters around promotion of REITs. By no lesser degree it also demands a shift in an approach to conceptualization of housing projects in this country, where houses are built to be sold and not to be rented out. Rental housing is not only a statement of need in the face of unaffordable real estate prices but is also sometimes a statement of choice. Increasing mobility, aspiration for better lifestyle and flexibility also encourage many families to rent out their primary home to move to a more suitable residence or simply not buy a house and choose to live in a rented property.

10.2.4 The concept of dedicated rental housing projects is not unfamiliar to the western world where active communities are created by private firms for the pure objective of renting. These offer a better managed living environment than what can be offered by private individual owners. In light of the tremendous opportunity which is waiting to be tapped, the policy environment should make entry of professional firms highly attractive. On the supply side, there is relatively lack of protection to individual home owners as simply the possibility of getting muddled in a prolonged legal battle with the tenant, has distanced many from letting out their homes. Further, low rental yields, impacts the likelihood of properties to be let out. On the demand side, renters have a high search cost often involving brokers to find suitable accommodation and more often not a very amenable or amicable land owner who feels rather insecure.

10.2.5 Professional firms should be encouraged to enter this market space for promoting rental housing and wherewithal to tackle such business risks. It is widely quoted that India over the next five years needs $1 trillion to cover the infrastructure deficit and propel its annual GDP growth to over 10 per cent. In the same breath, housing need, which is an equally critical driver for economic and social growth, arising merely from urbanization trend, shall require a minimum investment of $750 billion over the next decade to accommodate the 100 million who shall make cities their new home. State governments are taking steps to meet housing shortage locally, largely focused on affordable segments, but this deficit is too big for the best interest of the market and the sector to handle alone without proactively inviting private partnerships and unleashing their potential in the Government authorities.

10.3 SETTING UP OF REAL ESTATE INVESTMENT TRUSTS (REITS)

10.3.1 In India, there is no legislation yet for the establishment of REITs. SEBI has outlined draft regulations for these trusts in December 2007. The then market conditions tending to be more bearish than expected, since the legislation had taken a back seat. But REIT if brought into existence in India can help in the following manner. In recent years; India's real estate business has seen significant expansion, underpinned by rapid economic growth coupled with a series of IPOs by real estate companies. Changing demographics, rising levels of foreign investment, a vibrant services sector powered by the IT sector and buoyant exports are the major contributors for India's rapid GDP growth. The GDP growth and corporates' growing scale of operation have led to greater demand for commercial space, including modern offices, warehouses, lodging facilities and operational infrastructure. It has also boosted housing demand. Moreover, improved access to housing finance has boosted the demand for residential property. Over the last few years, modern real estate development and some investor interest has spread beyond metros and large cities.

10.3.2 In the aforesaid backdrop, Real Estate Investment Trusts (REITs) play a crucial role. REITs have become a preferred public property investment vehicle around the world. REITs boost and help to stabilize capital access, and reduce capital costs. REITs help in real estate business efficiently by creating conditions for building integrated property businesses. Most REITs in the leading markets are internally managed, and have diverse skill bases in property development, redevelopment, acquisitions, leasing and management.

10.3.3 REITs provide better access to stable, global and more competitively priced capital, as well as stronger and more professional property businesses. A significant part of the urban development activities currently underway is being undertaken by private sector real estate development companies. To raise resources from the capital markets and to achieve economies of scale, private sector developers need to adopt better corporate governance and financial transparency practices.

10.3.4 In the residential sector, a growing middle class is enjoying rising income levels. Increasing consumer interest has encouraged growth in organized retailing contributing to the spread of 'mall culture' and the popularity of other large-scale retail property developments. REITs can become the investment vehicle of choice for institutional and retail investors looking to participate in real estate ownership, management and development. They provide a similar structure for investors buying into real estate as mutual funds provide for investment in stocks.

This is the right time to consider introducing REIT in Indian market and activating.

However, to achieve successfully the objective of setting up of REITs, some of the impediments mentioned below are to be addressed:

i) The real estate market lacks a Real Estate Regulator. The sector in India is surrounded by a lot of ambiguity in the absence of such a regulator. There is no control over prices of the real estate throughout the country, providing a thriving ground for non transparent practices and mis-selling. Under this situation, the hard earned money of the investors would be at stake. Establishing a regulator for real estate will also support this initiative in a large measure.

ii) Existing tax laws also should be amended to give the REITs a special status.

10.4 FINANCIAL INCLUSION THROUGH HOUSING

10.4.1 "Financial Inclusion" and affordable housing for low and moderate income segment, will be a dominant theme going forward given the rising expectations of the younger generation and the shift towards home ownership, requiring innovative bankable solutions.

10.4.2 In view of the multiplier effects and its huge positive externalities ,investment in housing will result in increased employment opportunities both directly and indirectly through its linkage effects in the other sectors of the economy, thereby contributing significantly in reviving the investment environment and growth of the economy at desired rate. Thus, housing will improve livelihood of the general populace and will constitute a base for additional economic activity leading to enhanced financial stability and "Social Inclusion". House as an asset, with the embedded value , that keeps appreciating can act as a strong "catalyst" for other borrowings by the owners to help providing their livelihood.

10.5 SETTING UP OF A REAL ESTATE REGULATOR

10.5.1 To improve transparency in the sector and to ensure that the construction agencies especially in the private sector follow fair practices in their transactions with homebuyers, there is a need for setting up of a Real Estate Regulator. The proposal is contained in the long-awaited Draft Real Estate (Regulation and Development) Bill, 2011. The Bill also proposes to create a Real Estate Regulatory Authority, which will be responsible for giving certificates of registration for projects or land that are 4,000 sq. metres or more in size, and ensure property developers comply with registration norms such as clear land titles, and prevent diversion of customer advances for a specific project to another one. The purpose of the Bill is two pronged—first, the regulation will protect home buyers from fly-by-night operators, who run away with buyers' money, and second, the Bill will prohibit creating an impediment to the growth of the real estate sector. The Bill will also focus on issues pertaining to real estate transactions and applying best practices in property deals. The draft Bill also seeks to provide an adjudicator for quick dispute redressals.

10.5.2 Currently, the real estate and housing sector is largely unregulated, with consumers often failing to obtain complete information or hold the builders accountable for not meeting their promises in the absence of effective regulation. The draft Bill suggests that 70 per cent of the money collected from buyers from time to time will be put in a separate escrow account within 15 days of its realization and will be used only for the construction of the particular project. In addition, the developer will not be able to sell or book any apartment without prior registration of the project with the authority. The builder will also be barred from taking any deposit or advance without entering into an agreement of sale.

10.5.3 The Real Estate Regulation Bill once implemented will ensure transparency and accountability of the sector. The Bill cites that developers will be barred from publishing any advertisement or prospectus or invite home buyers to book flats in projects without obtaining a copy of the certificate of registration from the authority. The Regulation bill once implemented also proposes setting up of a grievance redressal mechanism which would lead to greater accountability and help for the end users or the home buyers. offers is that there will be an authority available to attend to grievances and redressals. This is a big step in the direction of recognizing Indian real estate as an industry, since it means that the real estate sector is perceived to have attained a certain degree of scale, which warrants a regulatory agency with transparent rules, regulations, safeguards and redressal systems.

10.5.4 If the promoter fails to complete or is unable to give possession of a plot or building, he will be liable to return the amount received by him with interest and may also have to pay a penalty imposed by the authority, according to the draft Bill. In case any developer willfully fails to take the necessary registration certificate prior to the launch of its project, the developer/promoter will be punished with imprisonment for a term that may extend to three years, or a penalty of as much as 10percent of the estimated cost of the real estate project, or both.

10.5.5 A real estate appellate tribunal to resolve disputes between developers and customers will also be set up. The draft Bill also proposes to form a central advisory council, with the housing minister as ex-officio chairperson and representatives from other ministries as members that will advise the government on matters concerning the implementation of the real estate law and on policies to protect homebuyers.

10.5.6 The government is trying to provide the requisite stability to the economy, but now it also needs to focus on strengthening the real estate sector. This is important in view of the fact that the construction sector is the second-largest employer, next only to agriculture, and growth in the sector has a direct impact on ancillary industries like steel and cement. The sector creates a ripple effect in the market and helps to push the economy forward. The need for setting up of a real estate regulator will ensure fair play and transparency in the industry and protect consumer interests.

10.5.7 In brief, it is important to understand and unlock the potential of the housing sector which has yielded result in terms of orderly development of the housing and housing finance sector with active participation by both banks and HFCs. From a few players in the market at the beginning, the market now has plethora of financial institutions catering to the housing finance, in view of catalytical role played by the regulators and other financial institutions. The housing finance market has witnessed exponential growth with supportive competitive environment benefiting the home loan buyers. With proactive initiatives of all consumers, it has been possible to rewrite the rules that prevailed a few decades back, largely to the benefit of the low and median income segments in term of easier accessibility of institutional credit for housing at competitive rates for all income segment households. To address effectively the housing and housing credit needs of the different income group households, with ongoing and further support from the Government as also the regulatory and fiscal environment, it will be possible to generate momentum and adequate resources to enhance demand and supply of affordable housing and housing credit. The supply and demand side interventions will enable bringing together the initiatives, resources and expertise of both public and private sector agencies in improving the housing stock both on ownership and rental basis to address in mitigating the housing requirement of all the segments of the population focusing on Affordable Housing for the poor/EWS/LIG segments.

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CHAPTER - 11

Future Outlook

11.1 The housing sector is one of the major contributors to the economy and provides growth impulses to the broader economic development of the country. Investments and lendings for housing have come to occupy an important place in the financial system of our country. It thus forms an important component of the financial sector. The impact of investments in housing is transmitted to the rest of the economy through multiple channels that are associated with construction and other related industries. Often, the Governments in developed countries have boosted investments in housing to revive their economies. In the Indian context, the outstanding housing loans in the country have steadily increased to account for nearly 7 per cent of GDP, which is still very low as compared to some of the comparable emerging economies. The role of the financing institutions viz. Banks and Housing Finance Companies has grown significantly over the years in the housing sector. The sector has witnessed demand-led growth and the market has seen increased competition and innovation in the retail housing loan segment. The asset quality in the mortgage industry has remained largely under control, with low NPA level despite good growth in the business volumes across all locations including smaller towns and cities. Growing incomes of the people and their aspirations for owning a house have also added to the positive sentiments in the market and has contributed to the growth in the retail housing loan portfolio of the lending institutions.

11.2 The supply responses however, have been weak and fragmented. This has also partly resulted in the growth of unorganized market. In anticipation of asset bubbles due to sustained rise in the property prices, the regulatory interventions have been periodically applied. Going forward, relatively high property prices, tight liquidity position of builders, volatility in interest rates, increasing competition in the industry accompanied with regulatory tightening may pose new challenges for the sector. At the same time, on the supply side, there are growing concerns on construction and delivery of affordable housing at reasonable prices and at scheduled times. Mass scale housing for the lower income segments continues to be a challenge. This may also require policy interventions in the real sector at the centre, state and local levels.

11.3 In recent times, 'Affordable Housing' has emerged as a challenge for policy makers, town planners, housing finance providers and suppliers of housing in the private and government sectors. Appropriate sustainable model for public-private partnership is being explored. Though in some of the state jurisdictions, this has been tried with reasonable success. Any policy intervention in this sector will need to be sustainable over the long run, cutting across different markets such as land, technology, building materials, design and architecture and finance. While the demand for housing has always outpaced the supply, the challenge, for the most part, lies in the real sector that is responsible for production and supply of housing in the market. The production and supply chain must be strengthened to deliver customized products according to demand and affordability for different segments of the market. This would require a responsive and flexible supply mechanism with an optimal mix of all inputs viz. land, infrastructure, technology, design and specifications and financing to suit the needs and affordability of different income groups. Land and infrastructure are largely influenced by public policies of the Central and State Governments and urban local bodies. "Affordable" housing in the Indian context is also a problem of "scales" and will to be tackled through a multi-agency and multi-product approach. There is role for all actors and stake holders in this market and the Government policies have provided enough space for different entities.

11.4 The sector has witnessed entry of a number of private sector developers in this space with intent and promise to deliver affordable housing in the price range of Rs. 5 to 10 lacs. The financial sector is also witnessing the entry and growth of specialized Housing Finance Institutions desirous of doing business in the low income and informal housing markets. This market segment is continuously growing and offers business opportunities for the lending institutions. This is attracting new set of players who are keen to develop their skills and capacity to serve this market segment. National Housing Bank has a special role in supporting such specialist lending agencies through financing and other promotional and capacity building measures, with due regard to the sustainable growth of this market.

11.5 The demand side initiatives have to be matched by the supply side developments, and both sides operating in tandem will make significant difference in the affordable housing industry in the country. New models for ascertaining affordability of the lower income segments have already started emerging in the housing finance market, particularly with the advent of niche housing finance institutions which specialize in lending to hitherto unserved market segments. A house as an asset transcends generations and provides benefits beyond mere shelter. A house is a symbol of human dignity, and can also serve as a source of livelihood and as collateral for further borrowings for economic upliftment for the entire household. This is being increasingly recognized and addressed through a multiplicity of measures and interventions, both on financing as well as the construction side.

11.6 With the growing competition in the housing finance industry and increased awareness amongst the people about the product and services available in the market, the sector could be poised for a higher growth during the year 2012-2013 at or around 20 per cent Year on Year (YoY). In the recent past, the industry has witnessed a variety of products offered by the lending institutions to suit the customer's need, choice and abilities. These included special rate loans (also called teaser rate loans), higher loan-to-value (LTV) loans, floating and fixed rate loans, rate conversion facilities, pre-payment treatments etc. Though high demand for loans has also partly resulted in dilution of service standards and compromising customers' interests, giving rise to complaints and grievances among the customers, the industry is in the process of developing a strong and responsive grievance redressal mechanism. NHB recognizes this as an important integral component of a market oriented and demand driven sector and will be playing a key role in addressing the customer-related issues.

11.7 The burgeoning middle class, their increasing purchasing power, the changing demographics, and the increasing number of nuclear families coupled with low delinquency rate in housing loans, have continued to drive the growth in the sector, with sustained quality of assets and contained non-performing assets as compared to other sectors. This has also sustained the interest of the lending institutions in the sector while attracting new institutional players. Some recent initiatives such as mortgage guarantee products like Credit Risk Guarantee Fund for Low Income Housing and setting up of the Mortgage Guarantee Company under the RBI guidelines will support the lending institutions in serving larger segments of the market, improving the depth and stability of the sector. Such instruments will act as risk mitigants for the lenders and provide new opportunities to the borrowers while improving market access for large segments of the population across all income groups.

11.8 In a well-functioning housing finance market in a developed economy, there are significant linkages of the housing finance sector with the financial and the capital market and, in large measure, the growth of securitization and secondary mortgage market have been responsible for this integration. Significantly, in all such markets, supportive regulatory and fiscal regimes have catalyzed these developments. The Indian housing finance market is characterized by a deep and vibrant primary mortgage market. However, the secondary market has not fully developed as the regulations are considered to be rather conservative, not providing adequate incentives for the securitization and development of the secondary mortgage market. This disconnect, which is also a feature of several emerging economies, may also have limited the impact of the financial sector crisis, domestic and global, on the mortgage market.

11.9 The emerging environment and market-oriented model of economic development has thrown up a number of affordability-related issues, particularly for the low and moderate income households. Government -owned public agencies that have historically been the major providers of low and middle income housing in the past years, have made room for more efficient market players in the private sector. For ensuring affordability for low and moderate income households, the public and private sector agencies are seeking to work in partnership and supplement each other's efforts, deploying their resources to their areas of comparative strengths. The process of reforms has witnessed unification of the various market segments in the formal sector. The linkages between the formal and the informal sectors have also been strengthened, facilitating a free and unobstructed flow of capital. More recently though, the informal sector agencies like the micro-finance institutions (MFIs) have been facing uncertainties and are having to revisit and re-evaluate their business model. The sector is likely to see new legislations and regulatory frameworks.

11.10 Identification of demand is key challenge in addressing the informal sector housing needs. In the emerging scenario, there appears to be a necessary expanded role of the non-governmental organizations (NGOs) and Community based organizations (CBOs), to act as the critical link between the formal and informal sectors in the new and emerging institutional format. The Bank-SHG model can be an important vehicle for addressing the housing needs of the informal and the rural population.

Box 16

Constitution of Working Groups

In view of the emerging trends in the Housing Finance industry and the Global experience, National Housing Bank (NHB) constituted several Working Groups (WGs) during the year 2011-12. The members were drawn from different Stakeholder Institutions including RBI, Ministry of Finance, GoI, SEBI, Banks, HFCs, Rating Agencies etc. The following WGs were constituted relating to various aspects of the industry.

- Working Group on Credit Enhancement Mechanism: The objective of the group is to appraise the need and relevance of Credit Enhancement Facility (CEF) for the housing finance sector, including the impediments with measures to address the same and further refine and finalize the concept of CEF and its applicability to the housing finance market in the Indian context.
- Working Group for Promoting RMBS and Other Alternative Capital Market. Instruments - Covered Bonds : The objective of the group is to outline the feasibility framework, appropriate business model and suggest roadmap for developing suitable long term institutional model for issuance of residential mortgage backed securities in India, in the light of global experience. It will also examine the extent to which covered bonds can be structured under the existing legal structure of the country and suggest reforms in the regulatory structure in India including potential reforms of the insolvency laws, corporate laws etc and reviewing the existing set-up.
- Working Group to Study LTV linked NPAs: The WG will study and examine the relationship between the LTV and the quality of asset during the entire loan life and further will appraise the relevance of the study and examine correlation between Loan-to-Value (LTV), default pattern/ scenario and creation of non-performing assets (NPAs) of retail housing loans in the mortgage industry for the housing finance sector
- Working Group on Customer Service: The objective of the Working Group is to minimize the complaints from the customers of HFC's by bringing greater transparency in disclosure of terms and conditions by HFC's and by increasing awareness among the customers.
- Working Group on Rationalization of Returns: This WG will review the information required to be furnished by HFCs in the various returns prescribed by NHB and if required revise, add, modify, consolidate the formats keeping in view the objectives sought to be achieved by NHB through the particular information/return and thereby avoid duplication and help NHB in its off-site surveillance as also in responding to various authorities in the country. The WG will also suggest new returns to enable NHB assess the growth and developments relating to housing and housing finance sector.
- On submission of the reports, the findings and recommendations of the Working Groups shall be examined and suitably considered for implementation.

11.11 The Government continues to play an important role in ensuring that the affordability component merges well with the overall sectoral strategy. Two factors that have clearly emerged as key drivers in the Indian housing market are (1) a wider group of stakeholders and a multiplicity of institutions, and (2) enhanced confidence in the housing finance industry. It has been recognized that the housing sector is a critical economic sector and can potentially leverage large-scale economic development at the local and the national level. The contribution of Indian housing and the housing finance sector to GDP of India is expected to rise in the coming years as the housing finance sector migrates to a high growth trajectory, given the demographics and sustained demand for housing. With the growth of specialized housing finance institutions-currently 56 registered with the National Housing Bank and the banking sector's growing and sustained role in the housing finance sector, the market could be witnessing new financial depths. Measures, such as channelizing long-term pension and provident funds as well as external funds (bilateral, multilateral or through ECBs) into the housing sector could diversify the sources of funding with matching tenure. With growing financing of the housing sector, there is a strong imperative for an enabling and supportive framework for the real sector, viz construction and real estate industry comprising land and infrastructure development, technologies for smooth and efficient construction at affordable prices and timely approval processes. The need is for a complete Eco-System for ensuring a right balance between the supply and demand side of the markets that will fulfill the needs of the vast segments of the population and improve home ownership in the country.

11.12 With a deep and functional primary mortgage market, there is need to develop a secondary mortgage market through appropriate institution-building and supportive policy and regulatory measures. NHB will seek to play a Nodal and Catalytic role in development of a sound and vibrant securitization market through a variety of capital market instruments on the back of demand driven primary mortgage market. Risk mitigation and prudent standards will continue to be the hallmark of the mortgage lending industry and its overall quality of assets. This will provide the necessary depth to the industry for serving all segments of the market, including those who are currently un-served or under-served.

ABBREVIATIONS

ADB	Asian Development Bank
ACHFCs	Apex Co-Operative Housing Finance Societies
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AE's	Advanced Economies
APMCHUD	Asia Pacific Ministerial Conference on Housing and Urban Development
APUHF	Asia Pacific Union for Housing Finance
BIS	Bureau of Indian Standards
BMTPC	Building Materials and Technology Promotion Council
BPL	Below Poverty Line
BRICS	Brazil, Russia, India, China and South Africa
CAD	Current Account Deficit
CAFRAL	Centre for Advanced Financial Research and Learning
CAN	Central Nodal Agency
CBOs	Community Based Organizations
CCIL	Clearing Corporation of India Limited
CEO's	Chief Executive Officers
CFRS	Central Forms Repository System
CMD	Chairman and Managing Director
CoR	Certificate of Registration
CPGRAMS	Centralized Grievance Redress and Monitoring System
CP's	Commercial Papers
CPSS	Committee on Payment and Settlement Systems
CRGFTLIH	Credit Risk Guarantee Fund Trust for Low Income Housing
DARPG	Department of Administrative Reforms and Public Grievances
DFS	Department of Financial Services
DRAC	Development and Research Advisory Committee
DRS	Department of Registration and Stamps
ECB	European Central Bank

ECBs	External Commercial Borrowings
EDE's	Emerging and Developing Economies
EU	European Union
FSI	Floor Space Index
GDP	Gross Domestic Product
GJRHRS	Golden Jubilee Rural Housing Refinance Scheme
GoI	Government of India
GTPUDA	Gujarat Town Planning and Urban Development
HFC's	Housing Finance Companies
HIP	Housing Information Portal
HMF	Housing Micro Finance
HPI	House Price Index
IAY	Indira Awas Yojana
IFC	International Finance Corporation
IHSDP	Integrated Housing and Slum Development Programme
IIM	Indian Institute of Management
IMF	International Monetary Fund
IOSC	International Organization of Securities Commissions
IPE BFSI	Institute of Public Enterprise Banking Financial Services & Insurance
IRMA	Institute of Rural Management
ISHUP	Interest Subsidy Scheme for Housing the Urban Poor
LAF	Liquidity Adjustment Facility
LTRO's	Long Term Refinancing Operations
LTV	Loan to Value
MFI's	Micro Finance Institutions
MMR	Mumbai Metropolitan Region
MMRDA	Mumbai Metropolitan Development Authority
MoHUPA	Ministry of Housing and Urban Poverty Alleviation
MTM	Marked to Market
NBFC	Non Banking Financial Company
NCHF	National Cooperative Housing Federation
NGO's	Non Government Organizations

NHB	National Housing Bank
NIDM	National Institute of Disaster Management
NOF	Net Owned Funds.
NTFA	Non Timber Forest Products
PHIRA	Productive Housing in Rural Areas
PLI's	Primary lending Institutes
PMI's	Purchasing Manager Indices
PPP	Public Private Partnership
PTC	Pass Through Certificate
RAY	Rajiv Awas Yogna
RBI	Reserve Bank of India
RESIDEX	Residential Index
RHF	Rural Housing Fund
RMBS	Residential Mortgaged Backed Securitization
RML	Reverse Mortgage Loan
RMLeA	Reverse Mortgage Loan enabled Annuity
RRB's	Regional Rural Banks
SBL	SHG-Bank Linkage
SCB	Scheduled Commercial Banks
SGSY	Swarnjayanti Gram Sawarozagar Yojna
SLCC	State Level Coordination Committee
SLR	Statutory Liquidity Ratio
SPV	Special Purpose Vehicle
SRA	Slum Rehabilitation Authority
T&P	Trends and Progress
UCB's	Urban Co-operative Banks
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USAID	United States Agency for International Development
WEO	World Economic Outlook
WHD	World Habitat Day
ZCB	Zero-coupon Bonds