REPORT ON TREND
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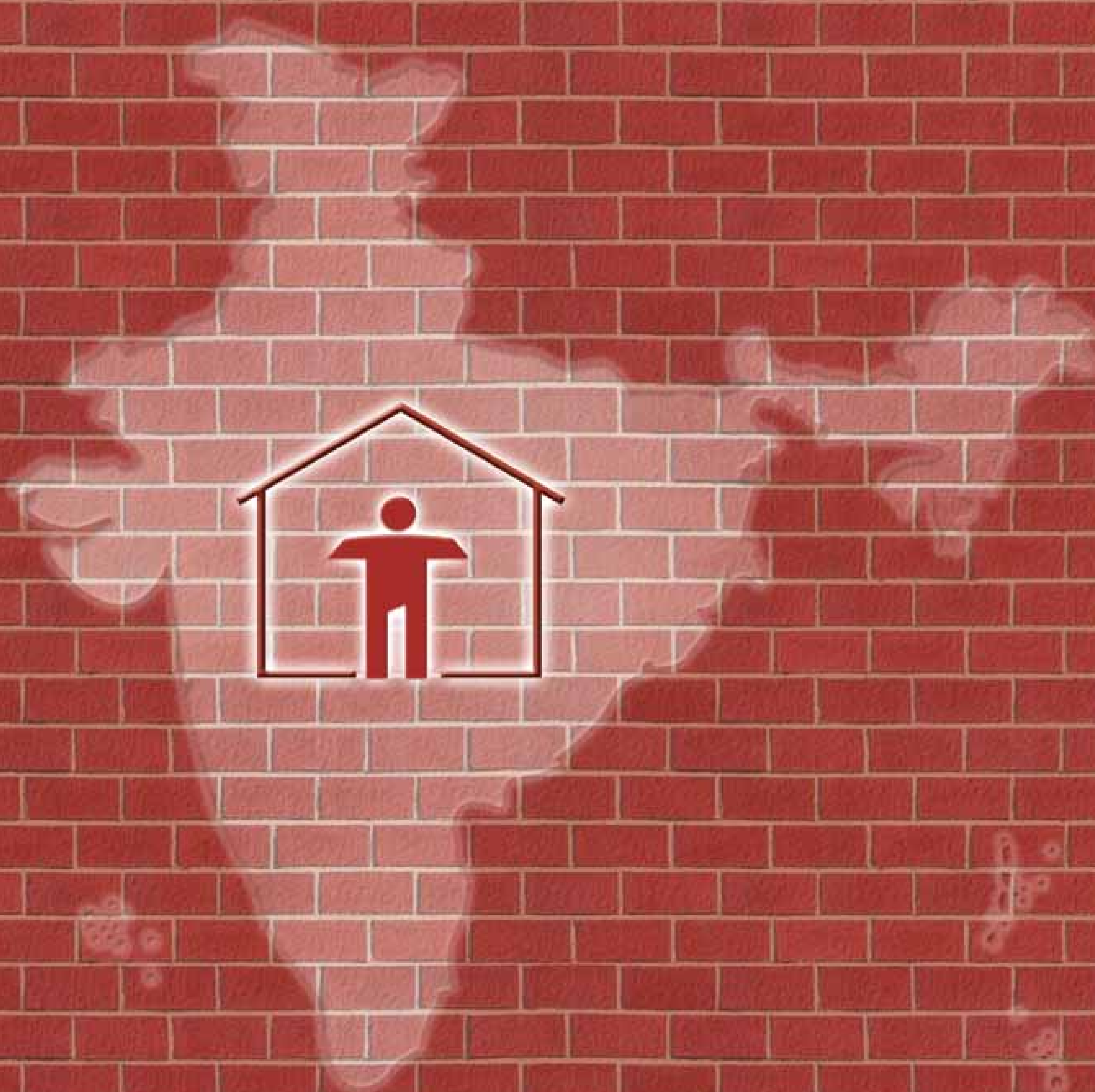
IN
INDIA 2006



REPORT ON TREND AND PROGRESS OF HOUSING IN INDIA 2006

National Housing Bank
New Delhi

FOREWORD

Amid rapid urbanisation and changing socio-economic scenario, the demand for housing has continued to grow at significant pace. Besides, housing in rural areas offer huge potential for investments. The dream of owning a house is one of the important priorities of every individual for whom, a house is a major source of financial and physical security. Home ownership is key to savings, investment, consumption, household wealth and empowerment. The housing industry is the second largest employment generator in the country, besides being a significant contributor to the GDP. The investments in housing lead to a chain of investments and spendings. The vast housing needs of the sector require a matching institutional depth and reach. National Housing Bank clearly recognizes that the investments in housing through adequate credit supply needs to be substantially stepped up and the Bank will continue to pursue this priority agenda through a slew of promotional measures, consistent with the Bank's charter and mandate.

Several programs and schemes of the central and the state governments have been implemented for the benefit of the poorer and disadvantaged sections of the people. Financial deepening and widening will add to the sustainability of the sector and can trigger reforms at the state and local levels. While the poorer segments of the population will continue to need assistance from the government through subsidy and poverty alleviation programmes, market-based solutions must be explored and upscaled to cover larger segments of the population. The policy support for the financial sector has come in good measure which has improved accessibility and availability of housing finance in the country, consistent with the trend witnessed in the recent years.

While the institutional funds are reaching larger markets across different geographies and different segments of the population, a large segment continues to remain outside the formal sector, in particular the low income segments. Taking a leaf out of the international experience, there is clearly a need for multi-pronged strategy to reach the unserved segments. These may include measures that could help people save for their housing through appropriate instruments, policies that could incentivize people build up their equity and interest in their housing, introduce risk mitigating tools for the lenders and broadbase the institutional intervention, including community based financing, membership-based saving instruments/ institutions, simplifying the formal housing sector to be accessed by all, develop supplyside intervention such as promoting appropriate construction technology, construction finance etc to match the demand-led growth of the market segment.

The Report on Trend and Progress of Housing in India - an annual publication of the National Housing Bank is an exercise that seeks to present the significant trends on housing and housing finance during the year including the challenges and opportunities in the housing finance market for the stakeholders. The Report outlines the policies and programs pertaining to housing and housing finance, performance of the lending institutions in delivery of housing credit viz. the Housing Finance Companies, Scheduled Commercial Banks and Co-operative sector Institutions. Recognizing the rural housing shortage as a critical area for intervention, a separate Chapter on Rural Housing - a key thrust area of NHB has been included in the

Report based on the in-house study conducted by the National Housing Bank under the Golden Jubilee Rural Housing Finance Scheme and shared with the industry.

Having identified housing as a priority area in the Ninth Five Year Plan (1997-2002), the .National Housing Policy has envisaged an investment target of Rs. 1,500 billion for this sector. Further, the demographic profile has been marked by disproportionate urbanization resulting in a huge demand on the infrastructure of the cities, besides causing pressure on the land and all this resulting in spiraling prices of real estate which has raised the spectre of an asset bubble. The upward pressures on real estate values, lowering interest rates, easy liquidity combined to feed the perception of overheating and 'asset bubble'. The increase in the risk weightage on exposure on individual housing loans and commercial real estate during the year is seen as proactive measures for ensuring greater prudence in lending to the sector. Another significant development in the sector was SEBI Guidelines on Real Estate Mutual Funds which invest directly or indirectly in real estate property. During the year, the Government of India also issued SEZ guidelines allowing use of allotted areas for non-industrial/real-estate purposes. These measures are expected to facilitate availability of capital for housing and related activities in the country.

The landscape for housing and housing finance in the country is constantly changing on the back of the market dynamics. Also, housing is probably the single-most important asset most households invest in. The facilitating role of the Government and other financial institutions along with private intervention to address the housing needs has been well recognized and building a sustainable and inclusive housing finance system would go a long way in fulfilling the national agenda of housing for all.

ACKNOWLEDGEMENTS

The Report on Trend and Progress of Housing in India besides being a statutory obligation under the NHB Act, 1989, is prepared annually by National Housing Bank to disseminate information about the developments in housing and housing finance in the country. For the preparation of this Report, NHB has obtained information from publications of Reserve Bank of India, Ministry of Finance, Ministry of Rural Development, Ministry of Housing and Urban Poverty Alleviation, National Co-operative of Housing Federation besides other apex level organizations and housing finance agencies. In order to enhance the quality of coverage, NHB constituted an Advisory Committee to suggest improvement in the content and coverage of the Report. The following were the members of the Advisory Committee:

Dr. Janak Raj, Advisor, Dept. of Economic Analysis & Policy, RBI

Dr. A. S. Ramasastri, Director, Dept. of Statistical Analysis & Computer Services, RBI

Prof. Ravi S. Srivastava, Member, National Commission for Enterprises in the Unorganised Sector, Government of India.

Dr. Kiran Wadhwa, Executive Director (Retd.), HUDCO.

NHB places on record the valuable contribution received from the members of the Advisory Committee.

CHAPTER 1

Economic Scenario- Macroeconomic Overview

1.1 The growth of Indian economy since 2003-04 indicates the beginning of a new phase of cyclical upswing which continued with marked stability during the year 2005-06 also. As per the latest estimates, the real GDP at constant (1999-2000) prices, witnessed a growth rate of 9% due to the strong performance of the industry and the services sector (7.5 per cent in 2004-05). At current prices, the economy witnessed a growth rate of 13.8% in real GDP during 2005-06. The GDP at constant (1999-2000) prices stood at Rs. 26,04,532 crore (Rs. 32,50,932 crore at current prices) during 2005-06. Though there were inflationary pressures, particularly due to the international crude oil market, several monetary and fiscal measures were successful in ensuring that the dual objective of growth and stability are achieved. The contribution of construction industry in GDP increased from 6.5% (both at constant (1999-2000) and current prices) in 2004-05 to 6.81% at constant (1999-2000) prices (6.83% at current prices) in 2005-06.

1.2 The total population of the country is estimated to be 1107 million in 2005-06 as compared to 1090 million in 2004-05. Accordingly, in 2005-06, the per capita income stood at Rs. 20,734 at constant (1999-2000) prices and Rs. 25,716 at current prices registering a growth of 7.4% and 12.1% respectively over the the year 2004-05.

1.3 A notable feature of the growth is the sharp rise in the rate of investment in the economy. Investment in general being a forward looking variable, reflects a high degree of business optimism. The revival in gross domestic capital formation (GDCF) that commenced in 2002-03 has been followed by a sharp rise in the rate of investment in the economy for four consecutive years. The rate of GDCF for 2005-06 is 26.7 per cent at constant (1999-2000) prices and 28.1 per cent at current prices as per CSO estimates.

1.4 Services sector growth continued to be broad-based. Among the three sub-sectors of services, 'trade, hotels, transport and communication services' contributed to the sector by double-digit growth rates for the fourth successive year. Impressive progress in information technology (IT) and IT-enabled services, both rail and road traffic, and fast addition to existing stock of telephone connections, particularly mobiles, played a key role in such growth. Growth in financial services (comprising banking, insurance, real estate and business services) registered a growth of 10.9 per cent at constant (1999-2000) prices and 12.4% at current prices in 2005-06 compared to 8.7 per cent in 2004-05. The construction sector which also includes housing construction activities, recorded growth rate of 14.2% at constant prices and 19.6% at current prices during the year 2005-06 which is significantly the highest growth rate amongst all the sectors of the economy during the year 2005-06.

1.5 The saving rate in India has been one of the highest in the world and reached its highest level of 29.1% of the GDP at current prices. Households' savings is the predominant source of gross domestic savings which stood at 22% of GDP in 2004-05. A notable feature of the households savings since 2000-01 is that it has shown preferences for savings in the form of physical assets which could be attributed partly to the soft interest rate regime and investments in housing. It may also be mentioned here that during this period, the financial liabilities of household sector registered significant increases inter-alia, due to increased demand for housing loans.

1.6 For the most part of the year 2005-06, the monetary and liquidity conditions in the economy were largely comfortable. Some tightness in liquidity conditions during the last four months of the year was due partly to the impact of the redemption of India Millennium Deposits (IMDs). The Reserve Bank resorted to the Market Stabilisation Scheme (MSS) and repo operations under the liquidity adjustment facility (LAF) along with some private placement of the Central Government securities to inject liquidity. These measures helped the banking system meet the credit demand mainly from the commercial sector.

1.7 In order to meet the rising demand for credit from the commercial sector, banks incremental investments was restricted in Government paper. Availability of funds from deposits as well as non-deposit sources helped the banking system meet the enhanced demand. As a result, scheduled commercial banks' non-food credit, on a year-on-year basis, registered a growth of 31.8 per cent as on March 31, 2006 compared to 27.5 per cent a year ago *(source Economic Survey of India, 2006-07)*.

1.8 On the price front, headline inflation firmed up in many countries mainly triggered by high levels of international crude oil prices. As a fall out of this, many central banks adopted a tighter monetary policy during 2005-06. The dual challenge was to contain not only inflation but also inflationary expectations, especially since a significant part of the price increase was being viewed as somewhat permanent.

1.9 Several measures from the Government and the RBI helped to control inflation. Such measures (both fiscal and monetary) undertaken since the previous financial year helped to reduce the pressure of imported price increases on domestic inflation. As a result of these measures, the year-on-year wholesale price inflation in the country was 3.5 per cent on April 1, 2006 as compared with 5.7 per cent a year ago.

1.10 With the imminent importance of housing and related activities in the economy, it was important to track the market on actual price trends. This was crucial not only for market development but also for enhancing the efficiency of market processes. Complexity of the residential property markets specially due to the heterogeneity of characteristics across localities, size of construction etc. was one of the many challenges towards construction of a price index which could track the price movements in the residential properties segment in India. Nonetheless, work was initiated in this direction with joint efforts from Ministry of Finance and NHB for identifying a suitable model for development of a representative index. Details of the project undertaken by NHB have been elaborated in Chapter 3, Box 3.1.

1.11 As mentioned above, developments in global and domestic markets influenced the monetary policy stance of the Reserve Bank of India. Importance of managing risks particularly in the face of the interest rates cycles emerged to be an important consideration in policy making. With this view, the monetary policy 2005-06 aimed the following:

- Ensuring adequate liquidity in order to address the credit requirements of the industry along with maintaining price stability.
- Ensure a conducive interest rate environment for this purpose

1.12 To achieve the twin objectives of sustainable growth and controlled inflation, RBI recalibrated the policy variables appropriately. While the Bank Rate and the Cash Reserve Ratio (CRR) were kept unchanged during the current year at 6.0 per cent and 5.0 per cent, respectively, the fixed Reverse Repo Rate under the Liquidity Adjustment Facility (LAF) of the Reserve Bank of India (RBI) was raised three times, by 25 basis points each, to reach 5.50 per cent on January 24, 2006. With the given spread of 100 basis points vis-à-vis the reverse repo rate, the repo rate is pegged at 6.50 per cent since January 24, 2006. RBI's cautious response, in the face of the threat of inflationary expectations firming up with high crude oil prices, was aimed at moving interest rates in the economy in a measured way.

1.13 The strong macro economic fundamentals and buoyant economic activities as explained in earlier paragraphs, reflected a strong demand for bank credit from all sectors including housing especially from the growing middle income category households. As a result, the housing finance provided by the primary lending institutions (PLIs) e.g. commercial banks, housing finance companies and co-operative sector institutions registered significant increases. Retail credit led by demand for housing loans has emerged as a driver of growth in bank credit. Bank credit to housing sector recorded an increase of 57.3% during 2002-05. During 2005-06, sectoral deployment of bank credit indicates that 14.2% of the incremental bank credit was absorbed by housing loans alone. Accordingly, the housing loan disbursements by banks and HFCs increased from Rs. 76,440 crore in 2004-05 to Rs.86,034 crore in 2005-06. As at end March 2006, the outstanding loan portfolio of commercial banks and HFCs stood at Rs. 1,82,167 crore and Rs. 86,129 crore respectively reflecting 16.6% of the total outstanding loan portfolio of banks (Rs.15,13,842 crore) and HFCs (Rs.1,03,705 crore).

1.14 However, with the increase in the credit flow from housing finance institutions coupled with continuation of fiscal concessions to individuals, had led to increase in house price assets. The phenomenon can be attributed to increase in population, rise in disposable incomes of growing middle class, sharp increase in liquidity, liberal credit policies, nuclearisation of families, growing urbanization, continuation of tax sops, introduction of effective foreclosure laws and greater financial and capital market developments eventually boosting the housing loan market. As per NSS Report No.488 (59th Round) on housing conditions in India, 2002, the highest average expenditure for acquiring new ready built accommodation was seen in urban Andhra Pradesh (Rs. 8,99,000) followed by Himachal Pradesh (Rs.8,34,000), Punjab (Rs.7,86,000) and Assam (Rs.6,99,000). In view of the continuous appreciation in the real estate prices, RBI/NHB took effective measures like increasing the risk weight for home loans, increasing the provisioning requirements etc. so as to keep speculators away from the housing market. However, substantive commercial bank credit flows to the housing and real estate and retail sectors continue to provide support to the boom in construction and consumer durables. The monetary policy changes, from time to time have seen interest rates move northwards impacting adversely not only the growth rate in housing finance but also leading to increasing financial burden specially on the floating rate loans. This may be cause for concern specially in respect of non performance of assets.

1.15 Despite significant increase in housing finance by banks and HFCs as also effective deployment of Central and Budgetary resources for housing under various Central/ State sponsored Schemes, the country has been witnessing continuous housing shortage especially with Economically Weaker Section (EWS) and Low Income Groups (LIG) segments for whom both the affordability and accessibility of housing finance has remained unaddressed. As per National Building Organisation publication on 'Housing Statistics: an overview -2006', the country had housing shortage of 24.68 million units in 2001 of which 14.12 was in rural areas and 10.56 was in urban areas. In view of growing urbanization, the housing shortage in urban areas in 2007 has been estimated as 24.71 million units of which 99% is in the category of EWS and LIG segments. In view of this, the draft National Urban Housing and Habitat Policy 2005 as well as Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) of Government of India has suggested bringing appropriate changes in the policies, programmes etc. to enable mitigating the housing shortage in EWS/LIG segments as also for households residing in slum and squatter settlements. The policies and programmes further emphasize the involvement of Micro Finance Institutions and Self Help Groups in increasing the outreach of financial institutions to meet the housing credit requirements of this section and to mitigate their housing shortages.

(Source: CSO, Economic Survey 2005-06, 2006-07, RBI publications, Bank Net)

CHAPTER 2

SALIENT POLICY MEASURES: HOUSING & HOUSING FINANCE : 2005-06

2.1 Population growth and increasing urbanization has a direct bearing on the requirements of housing in India. With the increase in the disposable income level of the people especially the middle income groups coupled with easy accessibility and availability of institutional finance and tax sops attached to housing, a new dimension to housing sector as a viable investment proposition, has emerged of late. As a result, there has been not only increase in the supply of new houses but also improvement in the conditions of the existing housing stock. As per 58th Round of NSS survey carried out during July 2002-December 2002 and published in May 2005, construction of 41 million houses was initiated and 34 million completed in rural areas during the last 5 years (1997-2002) while in urban areas, 8.5 million constructions had been initiated and 7.2 million completed during the same period. Eight million constructions was initiated and completed in Uttar Pradesh alone during this period followed by West Bengal (4.8 million), Tamil Nadu (4.7 million), Andhra Pradesh (4.1 million), Maharashtra (3.1 million) and Bihar (3.1 million). The Survey also points out increase in ownership status of houses by the households. Nearly 92 percent of the rural households owned the dwelling units as compared to 60 percent in urban areas. The Survey further points out that the numbers of completed constructions have doubled during this Survey period as compared to last survey undertaken in 1993. As regards improvement in conditions of the existing houses, the Survey shows a fall in the percentage of 'Katcha' construction in rural areas from 45 percent to 40 percent and a rise in percentage of 'Pucca' construction from 34 percent to 38 percent while in urban areas, percentage of 'Katcha' constructions decreased from 18 percent to 12 percent and Pucca constructions increased from 64 percent to 74 percent during the two survey periods.

2.2 Based on the aforesaid growth in housing, it is estimated that as at the beginning of 2006, the total housing stock in the country stood at 211.86 million units (153.03 million units in rural areas and 58.83 million units in urban areas) and as against the total households of 222.93 million (156.63 million households in rural areas and 66.30 million households in urban areas) as compared to 187.1 million houses and 191.96 million households in 2001. Of these estimated housing stock, 117.63 million houses are 'Pucca' houses, 65.53 million units are semi-pucca houses while the remaining i.e. 28.70 million units are 'Katcha' houses needing replacement. Accordingly, the housing shortage in the country including congestion and obsolescence is estimated as 71.75 million units of which about 90 percent existed for BPL/EWS and LIG segments (*these estimates are by the Technical Group on Housing for the 11th Plan Period set up by the Ministries of Housing & Urban Development* *and Rural Development, Government of India in 2005-06).*

Despite such a significant growth in housing stock, NSSO survey 2002, revealed existence of increased number of slum and squatter settlements numbering 52,000 slums holding 8 million urban households, representing about 14 percent of the total urban population.

2.3 In view of the above, Ministry of Housing and Urban Poverty Alleviation (MHUPA) revised the (draft) National Urban Housing and Habitat Policy in 2005 suggesting therein the various policy measures which inter-alia included the importance of public private partnerships and increased private sector investment in mitigating the housing shortage in urban areas. To cater to the provisions of housing and basic services to urban poor, MHUPA launched the Jawaharlal Lal Nehru Urban Renewal Mission (JNNURM) in 2005 in 63 specified cities and also for non specified cities. The Mission inter-alia, covered projects of integrated development of slums providing shelter, basic services and other related civic amenities to urban poor including low cost housing for the urban poor. Similarly, the Planning Commission under the aegis of Ministry of Rural Development set up a Group on Rural Housing for the 11th Plan in 2006 which in their draft report inter-alia, recommended increase in capital assistance under IAY, launching of market based composite housing loan schemes for just above poverty line rural borrowers i.e. EWS and LIG segments, setting up of National Rural Shelter Fund, introduction of Title Indemnity Scheme and interest subsidy scheme etc.

2.4 Thus, affordable housing continued to be the major consideration behind the various policy measures taken during 2005-06 by the Government, Reserve Bank of India (RBI) and the National Housing Bank (NHB).

Fiscal Policy: Developments in Housing Finance

2.5 The fiscal incentives available to individuals under Sections 88 and 24 of the Income Tax Act, 1961 and to the Corporate sector in terms of Section 36(i)(viii) of the Income Tax Act, 1961 continued to drive the demand and supply of credit into the housing sector. However, withdrawal of the following concessions in the Union Budget for the year 2006-07 has impact on the sector development in terms of investment in housing.

- Withdrawal of Tax exemption under Section 10(23G): Under the extant provision, income by way of dividends, interest or long term capital gains of an infrastructure capital fund or company, from any investment made on or after June 1, 1998 by way of shares or long term finance in any enterprise wholly engaged in the business of developing, maintaining and operating any infrastructure facility, which was earlier exempt from income tax has been withdrawn.

- Tax exemption under Section 54 (EC) of the Income Tax Act, 1961 for fresh issues of Capital Gain Bonds by NHB was not extended beyond March 31, 2006.

Securities Exchange Board of India (SEBI): Initiative for Real Estate Mutual Funds

2.6 The Securities and Exchange Board of India (SEBI) Advisory Committee on Mutual Funds has considered the subject of mutual funds launching specialized real estate products (REMFs) on the lines of German open-end funds. A proposal to enable retail investors to participate in the real estate market via real estate-dedicated mutual funds is under consideration by SEBI. Presently, 38 companies have been licensed to operate as mutual funds in India. These firms have already floated more than 500 funds. The bulk of the mutual fund assets are invested in income-oriented options, including debt and money market instruments.

2.7 Permitting mutual funds to make investments in real estate sector would not only enable the small investors to take exposures on high value real estate assets, but also facilitate prudentially systematic flow of investible funds in the real estate sector.

Policies for Real Sector Development

Special Economic Zone (SEZ) Act and Rules:

2.8 To provide a stable economic environment for the promotion of Export-Import of goods in a quick and efficient manner, Government of India enacted the Special Economic Zone (SEZ) Act, which received the assent of the President of India on June 23, 2005. The SEZ Act and the SEZ Rules, 2006 were notified on February 10, 2006. SEZs are expected to give a big thrust to exports and consequently to the foreign direct investment (FDI) inflows into India, and is considered to be a significant legislation that would represent the future strategy for industrial development in India. The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (both domestic and foreign), boosting economic growth, exports and employment. SEZs are seen to have significant potential for increasing the demand for housing and housing finance.

Bharat Nirman Programme:

2.9 The Government of India launched its Bharat Nirman Programme as a time bound plan for rural infrastructure in partnership with the State Governments and Panchayatraj Institutions for the period 2005-09. The programme envisages development in irrigation, roads, rural housing, rural water supply, rural electrification and rural telecommunication, in a target oriented manner. Under this Programme, 15.52 lakh units were constructed/upgraded as against the annual target of 14.41 lakh rural houses for the year 2005-06. Towards this, a sum of Rs.3,653.90 crore was utilized by the states during 2005-06 of which the total share of Central Government was Rs. 2,907.53 crore.

2.10 Bharat Nirman Programme has not only resulted in positive impact on ancillary industries such as steel, cement, brick etc. and the secondary chain of industries, but has also been responsible for generation of additional employment. With the implementation of Bharat Nirman Programme gathering greater momentum, the Government increased its budgetary outlay

REAL ESTATE MUTUAL FUNDS

What is a Real Estate Mutual Fund?

Real Estate Mutual Fund is a fund which has investment objective to invest directly or indirectly in real estate property and shall be governed by the provisions and guidelines under SEBI (Mutual Funds) regulations.

How would a real estate mutual fund work?

Since the product is at a very initial stage in India, it is worthwhile to look at the USA market where the real estate investment trust (REIT) is popular. In the USA, there are a large number of REITs that buy, develop, sell and manage real estate properties. At present, there are more than 300 funds functioning in these countries. Real Estate Funds in the US have reportedly been able to yield high returns of 12.5% annualized on a five year basis.

- REIT is a publicly listed entity, which basically passes on at least 90% of its profits to investors. REITs typically own large commercial office spaces, hotels and rely mainly on rental incomes.
- REITs buy, develop and sell property and share profits with investors/unit holders from any capital appreciation on the sale of property. Apart from sale of property, real estate funds also make money from rentals on property owned by them. However, there are some that are more focused on capital appreciation as well.
- Some real estate funds may not actually own property as that may involve above-average risk from volatility in property prices. Instead such funds invest in bonds/instruments that are secured by property. They finance mortgages and earn income through interest payments on property-related loans (in the same way as HDFC Bank, ICICI Bank or LIC Housing Finance does). The coupon rate that they receive on these bonds/instruments is then distributed to investors/unit holders as dividends.
- REITs are not obliged to pay tax on net income but 90% of the income has to be distributed as dividend. The dividends are exempted from tax. Any company that qualifies as REIT is allowed to deduct dividend paid to its shareholders from the corporate taxable income.
- Real estate funds like regular mutual funds charge fund management fees, brokerage fees (for buying and selling property), administration fees, marketing fees and the like. Investors clock a return on real estate fund units only after accounting for fees and charges.

for 2005-06 for the programme by 54 per cent to the order of Rs. 18,696 crore, reflecting its continued commitment in this area which can also be assessed from the higher level of investment in the housing sector. This is seen to have the potential to augment overall improvement in habitat conditions, both in urban and rural areas.

Salient Regulatory Policies: Developments in Housing Finance Sector

2.11 Encouraging the banking sector to increase their lending to the retail segments in the low and middle income categories and restrict their lending for commercial real estate development, RBI in its policy statements announced during the year introduced the following measures:

Foreign Direct Investment (FDI) in Real Estate sector in India

Over the past decade, India has emerged as a leader in the global economy as the third most preferred country for foreign investment. Many foreign companies are starting or expanding operations in India. There has been a considerable surge in foreign investment and joint ventures between Indian and foreign companies.

BOOM IN REAL ESTATE SECTOR IN INDIA

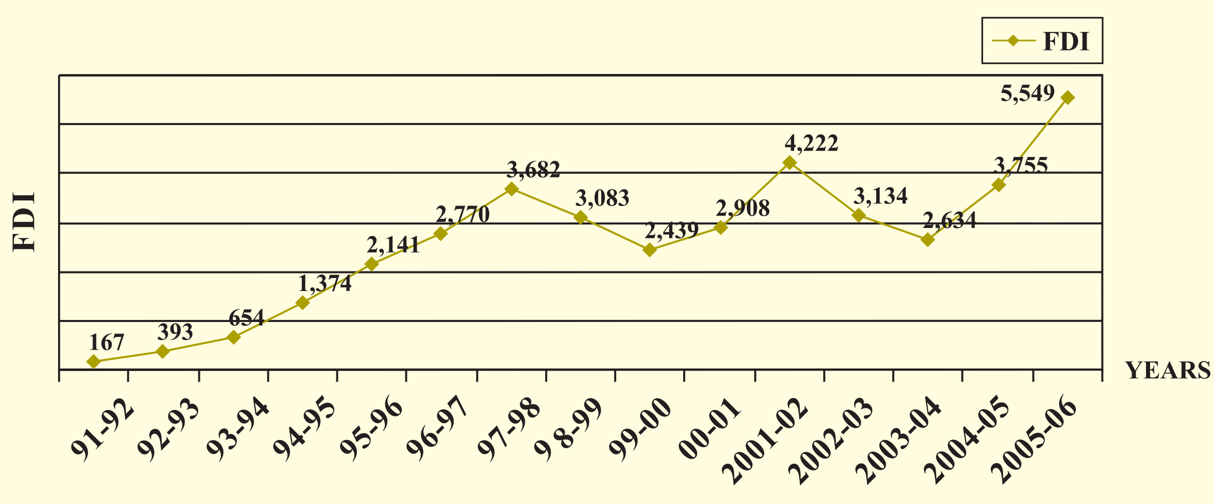
Real Estate is one of the fastest growing sectors in India, with the housing sector growing at an average of 34% annually. The importance of the Real Estate sector, as an engine of the nation's growth, can be gauged from the fact that it is the second largest employer next only to agriculture and its size is close to US $ 12 billion and grows at about 30% per annum. Five per cent of the country's GDP is contributed by the housing sector and is expected to rise to 6% in the next few years.

SIGNIFICANT LINKAGES WITH OTHER SECTORS OF THE ECONOMY

- The Real Estate indu stry has significant linkages with several other sectors of the economy and over 250 associated industries.
- A unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as five times.
- If the economy grows at the rate of 10%, the housing sector has the capacity to grow at 14% and generate 3.2 million new jobs over a decade.

The Inflow of FDI into the country over various years is as follows:

(Source: Indian Economy Survey 2006)



(a) Increase in general provisioning requirement on standard assets of residential housing loans beyond Rs.20 lakh and commercial real estate loans from the present level of 0.40 per cent to 1 per cent

(b) Increase in risk weight on exposures to commercial real estate from 125 per cent to 150 per cent.

2.12 The increase in the risk weightage for exposures on individual housing loans and commercial real estate are seen as measures for ensuring greater prudence in lending to the sector. The upward pressures on real estate values (both residential and commercial) was perceived as over heating the 'asset bubble'. The increasing exposure of commercial banks (the largest financer to this sector) was a cause of concern specially in case there is a 'burst of the bubble'. RBI has taken a cautious approach to channelise the funds in a manner so as to control the over heating and at the same time not adversely affect the genuine housing needs of the public. These measures which necessitate higher capital requirement for the banks and HFCs for their increased exposures in such assets, is expected to discourage speculative demand in the real sector and reduce the over heating of the sector.

Increase in Risk Weight on Housing Loans to Individuals:

2.13 In accordance with its Annual Policy Statement, RBI increased the risk weight on exposure of banks to individual housing loans secured by mortgage of immovable property, which are classified as standard assets, from 50 per cent to 75 per cent. NHB too increased the risk weight on exposure of HFCs to such individual loans to 75 per cent from 50 per cent.

Increase in Risk Weight to Commercial Real Estate:

2.14 In accordance with its Annual Policy Statement, RBI increased the risk weight on exposure of banks to commercial real estate from 125 per cent to 150 per cent in May, 2006. NHB followed suit by increasing the risk weight on exposure of HFCs to such commercial real estate loans to 150 per cent from 125 per cent in June, 2006.

2.15 Further, with a view to ensure the observance of prudent lending practices while taking exposure in real estate sector, RBI and NHB advised the banks and HFCs, to exercise selectivity and strengthen the loan approval process.

RBI's Guidelines for Securitization of Assets:

2.16 RBI issued its Guidelines for Securitization of Standard Assets in February, 2006, as applicable to Commercial Banks, All India Term Lending and Refinancing Institutions and Non-Banking Financial Companies, with immediate effect. These Guidelines are seen as apt and timely intervention to define the direction for securitization transactions in the long term. The Guidelines aim at promoting specialization and risk dispersion in the secondary market for residential mortgages.

Know Your Customer (KYC) Guidelines and Anti Money Laundering (AML) Standards:

2.17 RBI issued comprehensive KYC guidelines under Sections 45K and 45L of the Reserve Bank of India Act, 1934 to all Non-Banking Financial Companies, Miscellaneous Non-Banking Companies, and Residuary Non-Banking Companies in February, 2005 in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and Combating Financing of Terrorism (CFT). These standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities.

2.18 The RBI has advised all NBFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place with the approval of their respective Boards and ensure that NBFCs are fully compliant with the provisions of this circular before December 31, 2005.

2.19 Accordingly, NHB issued comprehensive KYC Guidelines for HFCs in April, 2006 and advised all HFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures are formulated and put in place with the approval of their respective Boards by June 30, 2006 and ensure full compliance before September 30, 2006.

2.20 With all supportive policies, housing finance disbursements reflecting the effective demand for housing increased significantly over the years. During the year 2005-06, the Housing Finance Companies (HFCs) registered their aggregate annual disbursement of the order of Rs. 27,411.40 crore as against Rs. 26,042.48 crore in 2004-05, a growth of 5.26 per cent over previous year. The aggregate disbursement by the Scheduled Commercial Banks (SCBs) was Rs. 58,622.98 crore in 2005-06 compared to Rs. 50,398 crore in 2004-05, a growth of 16.32 per cent over the previous year. Combining the two, the aggregate disbursements of individual housing loans amounted to Rs.86,034.38 crore compared to Rs.76,440.48 crore, a growth of 12.55 per cent over previous year. The Compounded Annual Growth Rate (CAGR) of the total disbursement by these institutions stood at 30 per cent over the period 1995-96 to 2005-06. As a result, the outstanding housing loans of banks and HFCs to GDP stood at 6.99 per cent at 1999-2000 prices (5.60 per cent at current prices).

Table 2.1 Chronology of Major Policy Developments affecting Housing (including Real Estate) and Housing Finance

Date	Policy Development	Category of Institution	Issuing Authority
29 June 2005	Banks were advised to formulate a policy, in respect of their real estate exposure in respect of exposure limits, collaterals to be considered, margins to be kept, sanctioning authority, level and sector to be financed. Banks were also directed to report their real estate exposure under certain heads and disclose their gross exposure to the sector (along with details of the break-up) in their Annual Report.	Scheduled Commercial Banks	RBI
26 June 2005	The risk weight for credit risk associated with exposure of banks to commercial real estate increased from 100 per cent to 125 per cent.	Scheduled Commercial Banks	RBI
4 July 2005	Draft guidelines on Securitisation of Standard Assets to the Housing Finance Companies, sent to all registered Housing Finance Companies for feedback.	Housing Finance Companies	NHB
1 October 2005	The risk weight on exposure of housing finance companies to individual housing loans secured by mortgage of immovable property, which are classified as standard assets increased from 50 per cent to 75 per cent.	Housing Finance Companies	NHB
19 December 2005	Risk weight on HFCs' exposure to commercial real estate revised to 125 per cent from 100 per cent	Housing Finance Companies	NHB
19 December 2005	HFCs to ensure that at all times there is full cover available for public deposits accepted by them, in order to ensure protection of depositors' interest. While calculating the cover, the value of all debentures (secured and un-secured) and outside liabilities other than the aggregate liabilities to the depositors are required to be deducted from the total assets.	Housing Finance Companies	NHB
2 February 2006	Guidelines on securitisation of standard assets issued. The guidelines, spell out definitions and norms relating to true sale, criteria to be met by SPV, special features including representations and warranties and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services prudential norms for investment in the securities issued by SPV and accounting treatment of the securitisation transactions.	Scheduled Banks excluding RRBs	RBI

Date	Policy Development	Category of Institution	Issuing Authority
3 March 2006	All registered Housing Finance Companies having deposits of Rs. 50 crores and above advised to rotate the partners of audit firms appointed for auditing the company. The partner/s of the Chartered Accountant firm conducting the audit could be rotated every three years so that the same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the HFC after an interval of three years, if the HFC, so decides.	Housing Finance Companies	NHB
1 & 16 March 2006	While appraising loan proposals involving real estate, HFCs to ensure that the borrowers have obtained prior permission from Government/Local Government/Statutory Authorities for the project, wherever required. HFCs further to ensure that the loan approval process is not hampered on this account, while the proposals could be sanctioned in the normal course; the disbursements should be made only after the borrower has obtained the requisite clearances from the Government authorities.	Banks & Housing Finance Companies	RBI & NHB respectively
10 April, 2006	HFCs were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of suspicious nature for the purpose of reporting it to appropriate authority. HFCs were also advised to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures was formulated and put in place with the approval of the Board by June 30, 2006 and ensure full compliance by September 30, 2006.	Housing Finance Companies	NHB
25 May 2006	The risk weight on exposure of banks to commercial real estate increased to 150 per cent from 125 per cent.	Scheduled Commercial Banks	RBI
29 May 2006	General provisioning requirement for banks on standard advances including, inter alia, residential housing loans beyond Rs. 20 lakhs and commercial real estate loans increased to 1 per cent from the present level of 0.40 per cent.	Scheduled Commercial Banks	RBI
1 June 2006	The risk weight on exposure to commercial real estate increased to 150 per cent from 125 per cent.	Scheduled Urban Co-operative Banks	RBI

CHAPTER-3

TRENDS IN HOUSING

Housing Situation and Housing Policies in India

3.1 Housing is an important indicator of the social and economic development. "Affordable Housing" has been an important national agenda of the Government. Various policy initiatives taken by the Government and RBI have resulted in significant increase in housing stock situation with enlarged housing finance market. However, total numbers of households have always outpaced available number of houses used for residential and residential cum other purposes. As per census 2001, there were 191.96 million households (83.50 million in 1961) as against 187.1 million occupied houses used as residential and residential cum other purposes (79.2 million in 1961), indicating absolute housing shortage of 4.86 million units (4.30 million units in 1961). However, if the unserviceable katcha houses needing immediate replacement are also taken into consideration, the housing shortage is always at higher than what is projected. As per National Building Organisation (NBO), Government of India (Housing Statistics - an overview, 2006), the housing shortage in India is estimated at 24.7 million units in 2001 as compared to 15.2 million units in 1961. However, there has been marked improvement in the conditions of housing structures during 1961-2001. The total number of pucca houses which were only 18.8 per cent of the total occupied houses in 1961 has gone up significantly to a level of 51.65 per cent in 2001. As a result, the percentage of katcha houses which were 44.6 per cent in 1961 has gone down to 18.2 per cent in 2001.

3.2 India is undergoing a transition from rural to urban society and as a result, the percentage share of urban population which was 18 per cent of the total population in 1961, has gone upto 27.8 per cent in 2001 and it is expected that by 2025, nearly 36 per cent of India's population will be residing in urban areas. As a result, the requirements for housing would be more in urban areas. As per estimates by NBO, Government of India, housing shortage in urban areas at the beginning of 2007 is about 24.71 million units and is likely to go up to 26.53 million units by 2012. Similarly in rural areas, the housing shortage is estimated to be 47.43 million units by 2012 (draft technical report of Working Group set up by Ministry of Rural Development, Government of India).

3.3 In view of the above, National Housing and Habitat Policy (NHHP) was framed in 1998 which, inter-alia, aimed at creation of surpluses in housing stock with quality and cost effective options to poor and vulnerable groups and removing legal, financial and administrative barriers for facilitating access to land, finance and technology etc. In view of the fast emerging trends in urbanization and growing requirements of shelter and related infrastructure due to growing mismatch between demand and supply of sites and services at affordable costs and inability of most new and poorer urban settlers to access formal land markets due to high costs and their own low incomes leading to unsustainable situations and increase in slum and squatter settlements, a need for new and urban NHHP was felt focusing on such issues. Accordingly, the National Urban Housing and Habitat Policy 2005 which is under preparation, aims inter-alia, at facilitating accelerated supply of serviced land and housing with particular focus to EWS and LIG categories, facilitating upgradation of infrastructure of towns and cities, ensuring easy accessibility of basic amenities, promotion of larger flow of funds to meet the revenue requirements of housing and infrastructure, using appropriate technology to meet the housing needs of poor, progressive shift to a demand driven approach, encouraging private sector participation to build houses for EWS/LIG segments at affordable rates etc. The main thrust of the policy is to provide "affordable housing to all".

3.4 A Working Group on Rural Housing for formulation of the 11th Plan was set up by the Ministry of Rural Development, GOI to focus inter-alia on issues like role of Government agencies in facilitating the convergence of land, finance, technology and delivery systems for improved access to shelter for the rural poor, facilitating use of cost effective construction technologies in rural housing, to outline a National Strategy for addressing the problem of rural shelterness and suggest administrative, legal, fiscal and any other operational changes required for tackling rural shelterness by the end of the 11th Plan Period.

3.5 Apart from creating a supportive and conducive fiscal, monetary and legal environment for increased flow of institutional credit and investment in housing, Central and State Governments have continued with various housing schemes to address the housing problems of the poor, EWS and LIG segments both in rural and urban areas. The progress of some of these housing schemes is summarized in the following paragraphs.

Government Initiatives in Rural Housing

INDIRA AWAS YOJANA (IAY)

3.6 IAY, a flagship rural housing scheme of Government of India was launched in 1985-86 as a sub scheme of Rural Landless Employment Guarantee Programme (RLEGP) and from 1989 as a sub scheme of Jawahar Rojgar Yojana (JRY) became independent Scheme from 1st January 1996. IAY is a cash subsidy scheme for rural BPL families for construction of dwelling units on their own using indigenous design and technology. The present per unit assistance is Rs.25,000 in plain areas and Rs.27,500 in hilly areas. Funding under the Scheme is provided by Centre and the State in the ratio of 75:25.

3.7 During the year 2005-06, an amount of Rs. 3,641.34 crore (Rs. 2,732.40 crore as Central share + Rs.908.94 crore as States share) was allocated for construction / upgradation of 14.41 lakh houses. As against this target, a total of 15.52 lakh houses were constructed / upgraded under the Scheme for which an amount of Rs. 3654 crore was utilized. State wise number of houses constructed / upgraded during 2005-06 is given in **Annexure-I**.

3.8 Since inception of the Scheme in 1985-86 and till end March 2006, a total of 146 lakh houses have been constructed/upgraded against the target of construction/upgradation of 153 lakh houses with a total (Central and States) budgetary expenditure of Rs. 26,959 crore.

Bharat Nirman

3.9 Bharat Nirman Programme was announced by the Hon'ble Prime Minister on 15th August 2005 covering six components of rural infrastructure, irrigation, roads, housing, telecommunication, power and water supply. Under the programme 60 lakh houses are to be built in rural areas during 2005-09 i.e. 15 lakh houses per year. However, the target of construction of 15 lakh houses during 2005-06 is forming part of the IAY as the Programme does not provide additionality in terms of funding or implementation.

State-run Housing Schemes

3.10 Many States have been implementing their own rural housing schemes. Nearly 15 States/UTs are having their own schemes enabling them to increase their coverage to a much larger group than what is possible under IAY. Most of the State run rural housing schemes broadly follow the IAY pattern of providing subsidy for construction of houses and are financed through State budgetary allocations. However, the ceiling on assistance varies from state to state. These schemes target different groups of beneficiaries and exhibit a range of unit cost with varying proportions of subsidy, credit and beneficiary contribution. The implementation agencies also vary depending on the Scheme and from State to State unlike in the case of IAY where DRDAs are the implementing agency.

3.11 During the year 2005-06, a total of 7.28 lakh houses were constructed under the state run rural housing schemes. Cumulatively, a total of 27 lakh houses had been constructed under State run rural housing schemes in the 15 States/UTs during the period 2001-06. State wise number of houses constructed / upgraded during 2001-06 is given in **Annexure-II**.

Government Initiatives in Urban Housing

Valmiki Ambedkar Awas Yojana (VAMBAY)

3.12 VAMBAY, a centrally sponsored Scheme was launched in 2001-02 with a view to ameliorate the conditions of urban slum dwellers living below poverty line who do not posses adequate shelter. The Scheme inter-alia, facilitates construction and upgradation of dwelling units for urban slum dwellers. Under the scheme, GOI provides subsidy of 50 per cent and the balance 50 per cent is to be arranged by State Government with ceiling cost prescribed both for dwelling units/ community toilets. During the year 2005-06, a target of construction of 60,335 dwelling units and 381 community toilets was envisaged with total funds allocation of Rs. 249 crore.

3.13 As on 31.12.2005, GOI released subsidy of Rs. 866.16 crore as against the allocation of Rs. 1093.93 crore under the Scheme covering construction/upgradation of 4,11,577 dwelling units and 60,133 toilets. Of these dwelling units, 2,34,669 dwelling units have been completed.

3.14 VAMBAY has been subsumed in a new scheme called Integrated Housing and Slum Development Programme (IHSDP) along with Jawaharlal Nehru National Urban Renewal Mission (JNNURM). However, VAMBAY will continue till IHSDP is implemented in full force.

Housing under Twenty Point Programme

3.15 Under the 20 Point Programme, the Ministry of Urban Employment and Poverty Alleviation (now Ministry of Housing and Urban Poverty Alleviation) is implementing housing schemes for Economically Weaker Section (EWS) and Low Income Groups (LIG).

3.16 *EWS Housing*

Investments under the scheme are made through State/UTs budgetary provisions supplemented by loans from financial institutions. During the year 2005-06, 61,981 dwelling units were constructed (uptil November 2005) as against the target of construction of 43,416 dwelling units. State wise number of dwelling units constructed is shown in **Annexure-III**.

3.17 *Low Income Group Housing*

The scheme is being executed by the State/UTs through Housing Boards and Housing Departments through budgetary provisions supplemented by loans from financial institutions. During the year 2005-06, 8,657 dwelling units were constructed upto November 2005, as against the target of construction of 24,358 dwelling units. State wise number of dwelling units constructed is shown in **Annexure-IV**.

Two Million Housing Programme (2 MHP)

3.18 In accordance with National Housing and Habitat Policy 1998, 2 MHP was launched in 1998-99. This is a loan based scheme envisaging facilitation of construction of 20 lakh additional houses per annum of which 7 lakhs are targeted in urban areas and 13 lakhs in rural areas. Of this, HUDCO is required to meet the annual target of 10 lakh dwelling units (4 lakh units in urban areas and 6 lakh units in rural areas) while banks and HFCs were to meet the target of 2 lakh dwelling units and co-operative sector to meet the remaining balance of 1 lakh dwelling units in urban areas.

3.19 During the year 2005-06 (uptil 30.12.2005), HUDCO financed 86,378 dwelling units in urban areas while the banks and HFCs financed 1,34,601 dwelling units (as on 31.8.2005).

3.20 Cumulatively since 1998-99 and till 2005-06, HUDCO (as at end 30.12.2005) had financed a total of 29.91 lakh dwelling units in urban areas as against the target of 32 lakh units, banks and HFCs (as at end 31.8.2005) financed 16.03 lakh units as against the target of 16.0 lakh units and co-operative sector (as at end 31.3.2005) financed 6.52 lakh units as against the target of 7 lakh units. Thus, a total of 52.46 lakh dwelling units were financed uptil 2006 as against the target of financing of 55 lakh units in urban areas.

Box 3.1 : Measuring the House Prices: NHB RESIDEX

Rapid urbanization and high economic growth experienced by the Indian cities in the last few years combined with high liquidity has resulted in an upsurge in property values. The importance of facilitating supply of affordable housing to the masses and the necessity of designing a right mix of policy initiatives to encourage broad based home ownership underline the relevance of tracking the movement in the prices of residential houses. Development of a credible database on actual price trends has emerged as a crucial element of market development and for enhancing the efficiency of market processes.

The complex nature of markets for real estate is one of the major challenges towards construction of a representative price index for residential properties in India. Being a heterogeneous check in terms of qualitative and quantitative aspects like locality, covered area, community facilities, individual layouts etc, determination of prices are an outcome of complex interaction of various factors. Such characteristics posed challenges in choice of appropriate methodology, selection of sampling techniques, collection of data and finally development of a representative price index.

NHB identified the primary objective as the assessment of the feasibility of an appropriate model for developing indices of realistic prices of residential properties in metros/large towns in the country and to draw a roadmap for implementing the model on a dynamic basis. In order to facilitate the above operations in a manner most suitable for Indian conditions, a Technical Advisory Group (TAG) with representations from the Government, Reserve Bank of India and market players, was constituted to deal with all issues relating to methodology, sampling techniques, collection of data etc. and provide guidance for construction of appropriate indices.

There was a felt need to expand data/input base required in formulation of various policies particularly in relation to housing and real estate. Tracking of price movements in respect of residential properties constitutes an important element in this initiative. Towards this end, Ministry of Finance (Department of Economic Affairs), Government of India advised the National Housing Bank (NHB) to develop a system of Housing Price Index to track residential property market changes at macro as well as regional level. In order to assist NHB and guide the implementation of the project, a Technical Advisory Group (TAG) was constituted with Adviser, Ministry of Finance as the Chairman and members from Reserve Bank of India, National Housing Bank, Central Statistical Organisation, Labour Bureau, Life Insurance Corporation, Housing Development Finance Corporation, Housing Urban Development Corporation, LIC Housing Finance Ltd., Dewan Housing Finance Corporation Ltd., and the Society for Development Studies. The survey work and the analysis of the house price data were done by Society of Development Studies who were appointed by NHB for the purpose.

The project has attempted to capture the price movements in 5 major cities representing different regions of the country, viz. Delhi & NCR, Mumbai, Kolkata, Banaglore and Bhopal. The index covered the movement in prices over a period of time on spatial basis as well as by size of dwelling units in each of these five cities. Once compiled on a regular basis, apart from being a price tracker, it will also make available a large and reliable database on prices and auxiliary information, which will help to increase transparency in the sector.

The process of making a choice of the most appropriate method for constructing the index was as complex as the nature of the market for residential houses in our country. Nonetheless, it was felt that it would be appropriate to test alternative methodologies keeping in view the availability of data before making a specific choice. Accordingly, different statistical models for index computation viz. hedonic, weighted average and price relative methods were examined by TAG.

Inclusive Housing Finance through innovation: Reverse Mortgage Loan (RML)

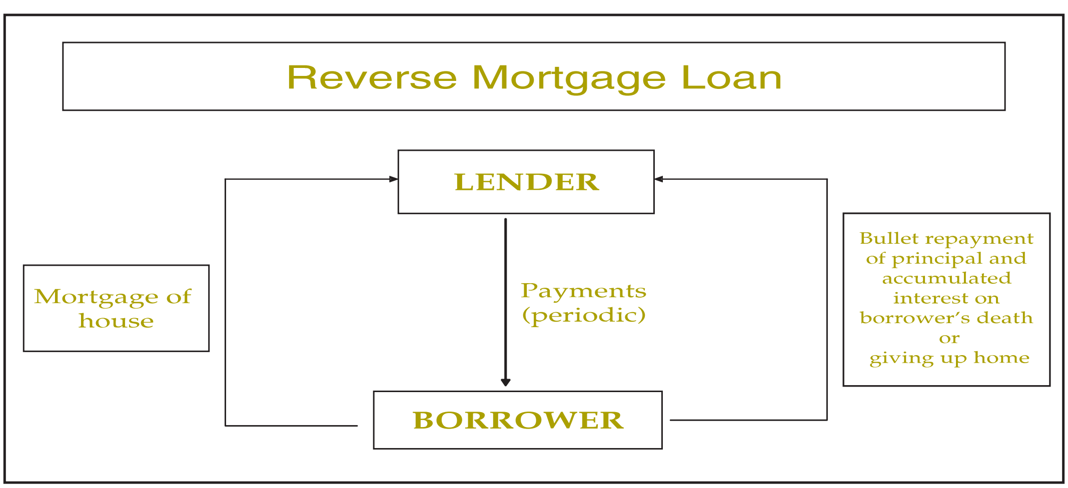
3.21 The senior citizens segment of India has for long been unable to access institutional housing finance. Conventional loan programmes of banks or financial institutions do not provide scope for financing this section of the population even against security. In order to address this void, NHB introduced Reverse Mortgage Loan for senior citizens who owned a house.

3.22 The Reverse Mortgage Loan (RML) seeks to enable residential property owning Senior Citizens to monetize their home equity for meeting living expenses of any kind without selling their property. The reverse mortgage is so named because the payment stream is "reversed" i.e. instead of the borrower making monthly payments to a lender (as in a conventional mortgage), a lender makes payments to the borrower.

3.23 Reverse Mortgage can be seen as loan against the residential property that does not require to be paid back as long as the borrower is alive and residing in the property. It provides a way of converting the home equity into cash, and does not require monthly payments as in other mortgages. While a conventional mortgage loan involves the borrower making repayments to the loan obtained and hence increasing the borrowers equity in the residential property, reverse mortgage loans envisages no such re-payments and so the debts go on increasing. The borrower's equity in the house property therefore reduces to an extremely low value, unless the property value keeps increasing. Therefore reverse mortgages are often known as "rising debt and falling equity" loans.

3.24 With a view to introduce Reverse Mortgage Loans in India, NHB has conceptualized the product for the first time in the country for implementation by the banks and financial institutions dealing with retail segments. A sample survey to test the concept and estimate the market for such a product conducted by NHB has revealed a distinct market for the product albeit at present being limited to certain niches in the senior citizens market.

Chart 3.1



3.25 Generic Features of Reverse Mortgage Loan:

- A borrower does not require an income to qualify for RML; neither is his/her/their credit history verified before approving the loan. The loan amount depends on borrower(s) age as well as the property value, interest rates and closing costs of home loans.
- The owner of the residential property and his/her spouse can be joint borrowers for RML, provided both qualify to be regarded as Senior Citizens.
- There is no provision for monthly or periodic repayments by borrowers to lenders in such mortgages. The borrower(s) do not have to make any repayment as long as he/she/they are alive and reside in the property.
- With a reverse mortgage, a borrower remains the owner of the property and is responsible for paying property taxes and homeowner insurance, and also for conducting home repairs.
- Before availing a reverse mortgage, a borrower has to first pay off his previous debt or he may also repay them with the cash obtained from the reverse mortgage.
- Borrower can use the funds for any consumption purpose.

Box 3.2: RML and Conventional Mortgage Loans: Salient distinctions

	Conventional Mortgage	Reverse Mortgage
Purpose of loan	To purchase/upgrade a house	To get cash from a residential asset to be used to meet expenses.
Eligible Borrowers	Creditworthy Borrowers with regular income and repayment capacity	House Owning Senior Citizens. Borrowers need not have income or repayment capacity.
Asset Ownership at time of Origination	Borrower may not own a house. Therefore has no equity in the house.	Borrower owns the house and has substantial equity in the house.
Loan Disbursements	As per the schedule of acquisition / construction of the house.	Receives payments from the lender on periodic basis, or as a line of credit or as lump sum or a combination;
Status of Loan during the Loan Tenure	• Borrower makes repayments to the lender during loan tenure; • Loan balance goes down; • Borrower's Equity grows;	• Borrower does not make any repayments to lender during his/her lifetime or till he/she is alive or occupies the property; • Loan balance rises; • Borrower's equity declines
Repayment of loan	Through monthly repayments by borrower to the lender;	• Sale Proceeds of House Property used to settle the loan dues, on borrower's demise or giving up house • Bullet repayment of principal and accumulated interest • Borrower/Heirs have option to prepay or settle loan dues without sale of property • Senior citizen borrower is not required to repay loan.

Box 3.3 RML: International Perspective

Reverse Mortgages have gained popularity in developed countries such as USA, UK and Australia. The concept of reverse mortgage was conceptualized in USA to allow elderly homeowners access to their home equity to pay increasing living expenses or emergency bills without having to sell their homes. The support of the Government and existence of developed secondary market for mortgages in these countries have catalyzed the development of the reverse mortgage market. A comparative position of the product in the above countries is given hereunder.

	USA	Canada	Australia	UK
Maximum Amount of Loan	US$ 362,790	Cd $ 500,000	Aus $ 5,00,000	£ 600,00
Maximum Loan to Value Ratio (LTV)	40 per cent	40 per cent	50 per cent	50 per cent
Minimum Borrower Age	62 years	62 years	60 years	55 years
Maximum Loan Term (for receipt of loan payments)	15 years	15 years	15 years	15 years
Interest Rates on Conventional Mortgage loans *	5.38 per cent to 6.89 per cent	5.55 per cent to 7.55 per cent	6.64 per cent to 6.69 per cent	6.30 per cent to 6.54 per cent
Interest Rate on RMLs *	8.08 per cent to 8.15 per cent	7.70 per cent to 8.57 per cent	8.09 to 8.57 per cent	7.7 per cent to 8.90 per cent
Security	Mortgage of Residential Property	Mortgage of Residential Property	Mortgage of Residential Property	Mortgage of Residential Property
Tax Benefits	• Tax free	• Tax free	• Tax free	• Tax free only for periodic payments
Prepayment Penalty	Not levied	Yes. If prepaid within first 3 years. per cent varies	Yes. If prepaid within first 3 years. per cent varies	Not levied
Funds Source	• Government (HUD–HECM) • Secondary Market	• Private Sources • Secondary Market	• Private sources • Secondary Market	• Private sources • Secondary Market
Secondary Market	• Exists • Secondary Mortgage Market Institutions and Capital Market Investors support Securitization	• Exists • Capital Market Investors support Securitization	• Exists • Capital Market Investors support Securitization	• Exists • Capital Market Investors support Securitization

* *Interest Rates prevalent during August 2006 as reported in websites of Reverse Mortgage Lenders*

RML: The Relevant Emerging Issues in India

3.26 The issues pertaining to regulations, taxation and legal aspects are emerging in respect of the Indian financial milieu. Reverse Mortgage being a new instrument, these issues have direct bearing for the successful implementation of the programme. In this regard, some salient issues concerning RMLs are given below.

Taxation issues in Reverse Mortgage Loans

3.27 Taxation is a critical issue to the reverse mortgage borrowers. The proceeds of RMLs as received by the borrowers are to be regarded as 'loan advances' and therefore need to be exempted from taxes. Further, if borrower(s) purchases annuity from an insurance company with the proceeds from RML, the annuity would be subjected to taxation as per the existing Income Tax law. These issues would have to be addressed on a holistic basis by the Government.

Perpetual Annuity Payments throughout the lifetime of Borrower(s):

3.28 RMLs in India are envisaged as fixed tenure loans. This may serve the borrowers only for a part of their lifetime. The borrower(s), however, can purchase annuity products offered by life insurance companies for fulfilling their need for receiving periodic payments throughout their lifetime.

Prudential Norms:

3.29 The application of prudential norms such as income recognition, asset classification, provisioning in respect of RML needs to be addressed.

Box 3.4: Title Indemnity

Title indemnity is primarily a business of loss avoidance and can be availed by both lenders and borrowers/home buyers. It is incidental and directly related to the business of housing finance as a risk mitigation tool providing the necessary protection in respect of the underlying securities for extending housing finance. It ensures transparency and clarity in status of ownership of underlying mortgaged properties at any given time and enable safe transfers of property/mortgages thereby curbing fraudulent transactions.

The National Housing and Habitat Policy (2005) of the Government of India has envisaged introduction of title indemnity in India as a tool for mitigating the risks pertaining to imperfections associated with property / mortgage titles. This will also facilitate the process of creation of a Central Registry to facilitate transparency in the status of ownership of residential properties and enables their safe transfers, as envisioned in the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002. Besides, this would also bring about greater specialization in the process of transfer of properties and mortgage transactions that will ultimately lead to enhanced quality of services benefiting the house buyers, the housing loan borrowers, the housing finance intermediaries and the overall housing finance system.

Protection against loss due to reasons of defects in title by way of title indemnity helps functioning of both primary and secondary residential mortgage markets.

With title guarantee, the primary mortgage lenders would be induced to extend credit to additional potential house-buyers with more permissive financing terms, thereby expanding house-buying market. The product will immensely benefit lenders, borrowers, house buyers and the overall housing finance system.

Presently there is no entity that provides indemnity for its opinion on property titles in India. The concept is widely accepted in the developed markets and would be a valuable tool for enhancing the credit quality in India's growing housing finance market.

CHAPTER 4

Institutional Performance

4.1 Housing finance as a financial service is relatively of recent origin in India. It has witnessed significant growth particularly over the last few years both in terms of value and volume as is evident from the fact that during the last five years (2001-06), the housing finance disbursals have witnessed a CAGR of 43 per cent. The outstanding housing loan portfolio of banks and HFCs stood at Rs. 2,72,558 crore as at end March 2006.

4.2 With various policy initiatives aimed to ensure easy availability and accessibility of institutional finance for housing, there has been not only an increase in housing stock but also vast improvement in condition of housing stock in the country. As per Census 2001, the country has 187.1 million houses of which 'pucca' houses constituted 51.7 per cent as against just 18.8 per cent in 1961. Similarly, 'katcha' houses which constituted 44.6 per cent of the total housing stock in 1961 decreased to 18.2 per cent in 2001.

Housing Finance System in India

4.3 The need of long term finance for housing in the country is catered to by the following types of institutions:

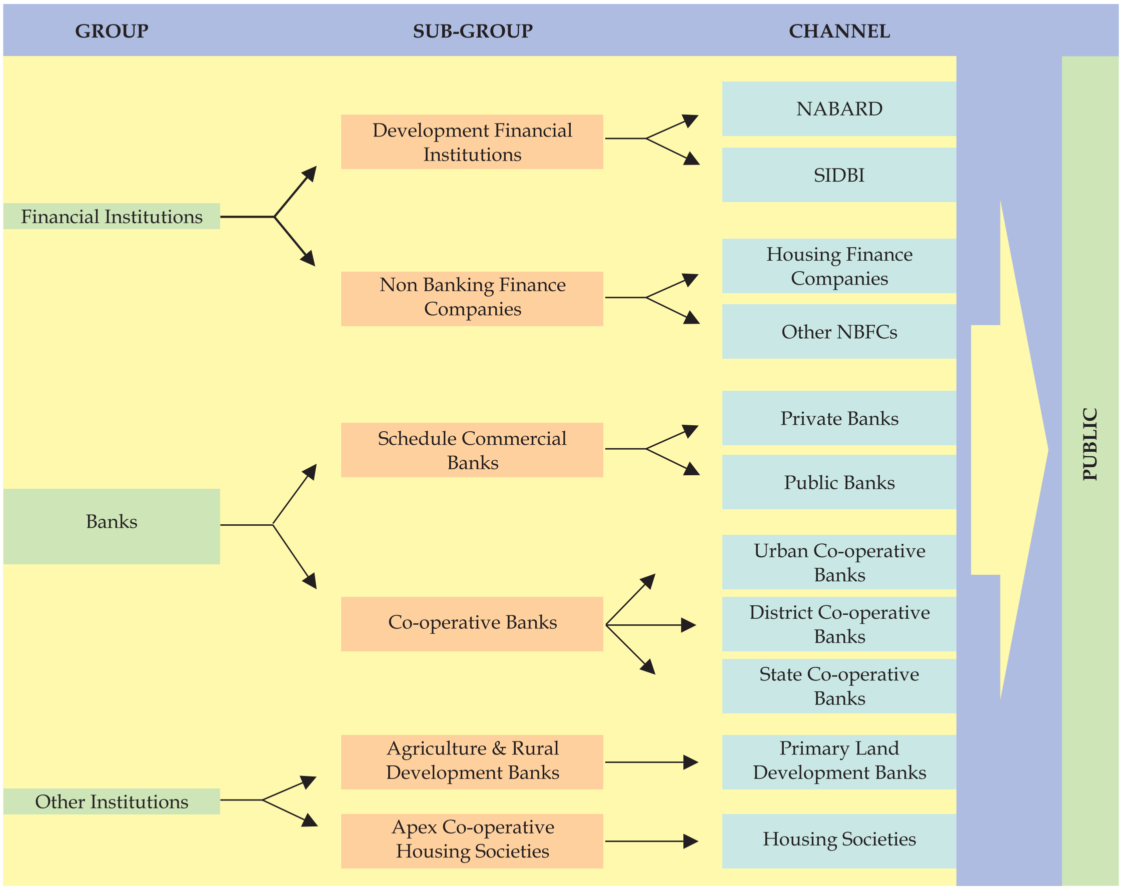
- Scheduled Commercial Banks
- Scheduled Cooperative Banks (Scheduled State Co-operative Banks, Scheduled District Co-op Banks and Urban Co-op Banks)
- Regional Rural Banks,
- Agriculture and Rural Development Banks
- Housing Finance Companies, and
- State Level Apex Co-operative Housing Finance Societies.

National Housing Bank

4.4 The National Housing Bank (NHB) is the apex Financial Institution engaged inter-alia in the business of extending financial assistance for housing by way of refinance to various primary lending institutions (PLIs) such as Housing Finance Companies, Scheduled Banks and Co-operative Sector Institutions against the housing loans given by the PLIs for acquisition and construction of new as well as up-gradation of existing dwelling units.

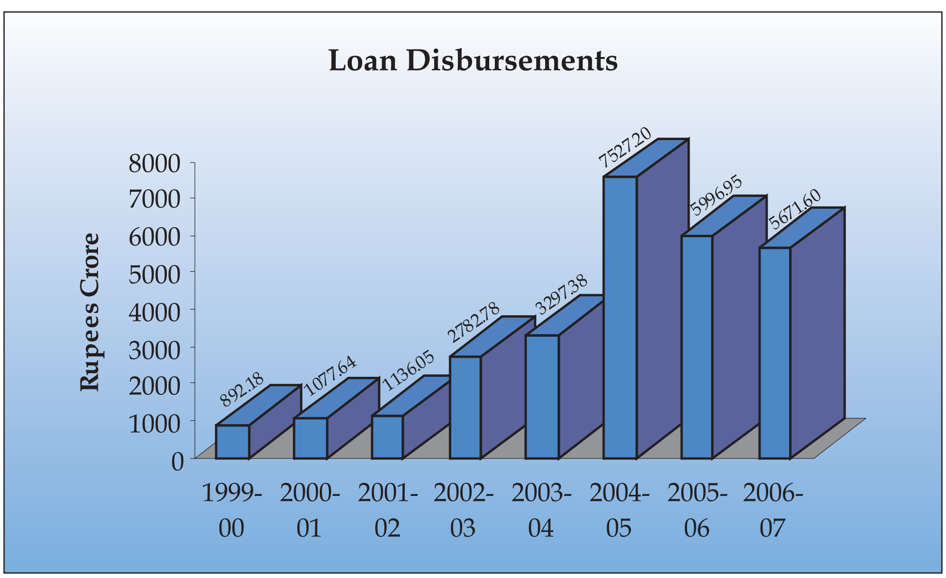
4.5 NHB provides project finance assistance to public agencies (State Housing Boards, State Slum Clearance Boards, Development Authorities, Municipal Corporations etc.), Public Private Partnerships, Joint Ventures, NGOs, Micro Finance Institutions (MFIs), etc. Financial support is provided to NGOs and MFIs for addressing the housing needs of the EWS / LIG category of beneficiaries. Loans have also been provided for slum improvement/ redevelopment and low cost housing under NHB's Special Fund: Voluntary Disclosure Scheme (VDS) to some of the above agencies.

Figure 4.1: Housing Finance System in India



4.6 Details of financial assistance extended by the Bank during 2005-06 by way of refinance and direct finance are given in Chart 4.2 below:

Chart 4.2



4.7 Disbursements during the year under review amounted to Rs. 5,996.95 crore, the details of which is presented in the table below.

Table 4.1 Aggregate Loan Disbursement for the year ended 30 June, 2006

(Rs. in Crore)

[A] Refinance Disbursements	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**Cumulative**
a) Individuals	2709.72	3252.89	8062.24	5632.39	26674.10
b) Projects	0.00	0.00	0.00	0.00	245.79
Sub - Total	**2709.72**	**3252.89**	**8062.24**	**5632.39**	**26919.89**
[B] Direct Finance Disbursements	**73.06**	**44.49**	**27.16**	**364.56**	**777.66**
Total disbursements [A+B]	**2782.78**	**3297.38**	**8089.40**	**5996.95**	**27697.55**

Refinance Operations

4.8 During the year 2005-06, refinance aggregating Rs.5,632.39 crore was disbursed, break up of which is as under**:**

Table 4.2 Disbursement to various categories of PLIs

Institution category	**Amount (Rs. crore)**
HFCs	1617.20
HFCs for short term assistance	222.70
Banks	3790.49
Cooperative Institutions	2.00
Total disbursement	**5632.39**

4.9 The following is the graphical representation of the disbursements during 2005-06:

Chart 4.3

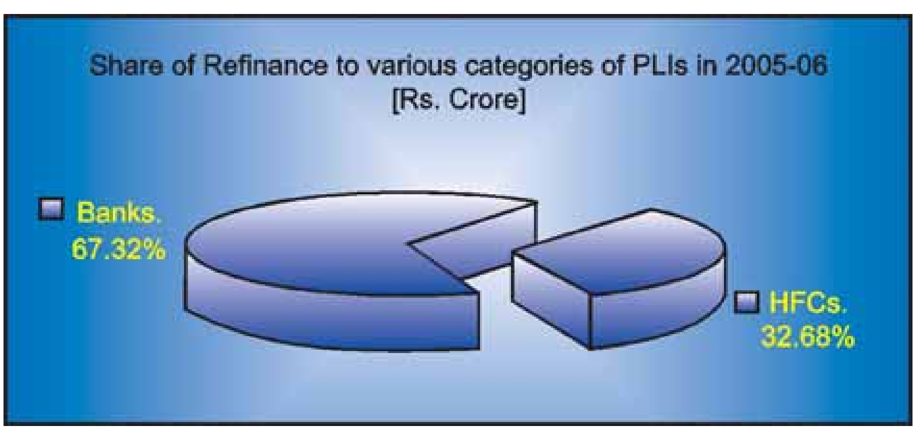
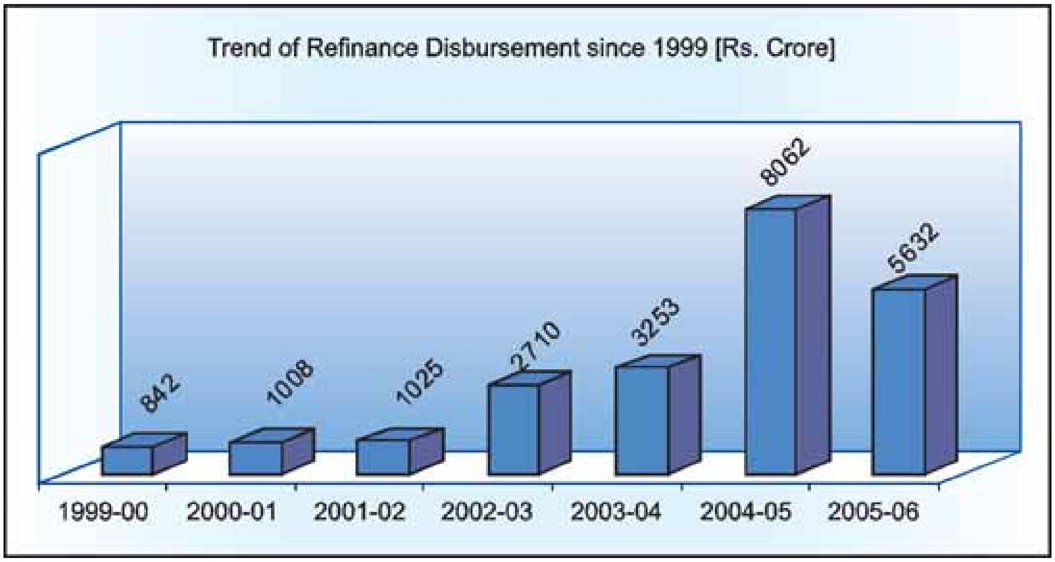


Chart 4.4



Project Finance

4.10 The Bank finances projects by refinancing PLIs and also by way of direct finance to the developer of the project. During the year, the Bank extended financial assistance to public housing and development agencies for undertaking various types of housing projects. These include residential housing projects, land acquisition projects and infrastructure projects relating to housing development. In addition to Public Housing Agencies, the Bank has also extended financial support to the housing schemes formulated by Non-Government Organisations (NGOs) and Micro Finance Institutions (MFIs) to cater to the needs of the economically weaker sections of the society.

4.11 During the year, under its direct lending window, the Bank sanctioned finance for four projects. The disbursals under Project Finance aggregated Rs.364.56 crore. In its endeavour to increase the flow of housing finance to the economically weaker sections and low income groups, 45 per cent of the total dwelling units financed under direct lending window of the Bank has been towards EWS/LIG segments of the population. Further, in order to ameliorate the hardships of the victims of Tsunami, the Bank disbursed Rs. 45 crore under its Scheme for housing for fishermen affected by the Tsunami in Andhra Pradesh. So far 20,000 units have been constructed with this assistance. Another 20,000 housing units are being financed by the Bank under the same Scheme.

4.12 Cumulatively, since inception till the end of June 2006, the Bank has sanctioned 388 projects having project cost of Rs. 3,354.08 crore and loan component of Rs.2,508.87 crore. Of these 388 projects, 228 projects were financed through the refinancing route and the remaining 160 projects were financed through direct finance window. So far, the Bank has disbursed Rs.1,022.85 crore as project finance of which Rs.245.79 crore was disbursed as refinance, and the remaining amount of Rs.777.66 crore as direct finance.

4.13 The details of direct finance provided are as follows:

Table: 4.3 Details of Direct Finance Disbursements

	During the year 2005-06			Cumulative till 30th June 2006		
	Number of projects	Amount Sanctioned [Rs. Cr.]	Amount Disbursed [Rs. Cr.]	Number of projects	Amount Sanctioned [Rs. Cr.]	Amount Disbursed [Rs. Cr.]
General Fund	4	537.29	314.06	65	1675.44	616.47
Special Fund	0	0	50.50	95	290.91	161.19
Total	4	537.29	364.56	160	1966.35	777.66

A. Housing Finance Companies (HFC)

4.14 As on 30th June 2006, there are 46 HFCs to whom Certificate of Registration (CoR) has been granted in terms of the provisions of Section 29A of the National Housing Bank Act, 1987. Of these, 22 HFCs have been given the CoR with permission to accept public deposits. The other HFCs are holding the CoR without permission to accept public deposits and some of these HFCs have outstanding deposits collected prior to the grant of the Certificate of Registration. These HFCs are required to repay these deposits on maturity.

Financial Indicators of HFCs

4.15 The data and the analysis thereof in this chapter is 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, 2006. The data pertains to 44 HFCs registered with NHB. One of the HFCs was registered with NHB subsequent to March 31, 2006 and hence its financial position is not applicable. Also, one HFC has not finalised its annual accounts for the year 2005-06 and thus the returns have not been submitted. The important financial indicators of the HFCs as on March 31, 2006 are given in Table 4.4.

Table 4.4: HFCs – Some Financial Indicators

Type	**Outstanding as on 31st March [Rs. Crore]**				
	2004	**2005**	***Growth per cent***	**2006**	***Growth per cent***
Paid up capital*	2941.31	3148.68	*7.05*	3437.70	*9.18*
Free Reserves	6255.67	7152.17	*14.33*	8645.59	*20.88*
Net Owned Fund (NOF)	8565.27	9304.74	*8.63*	10679.32	*14.77*
Public Deposits	13534.71	12422.00	*(8.22)*	11538.93	*(7.11)*
Housing Loans	59111.44	70533.88	*19.32*	86154.56	*22.14*

Source: Annual returns submitted by 44 HFCs to NHB

NOF of the HFC sector after reducing negative NOF of two HFCs.

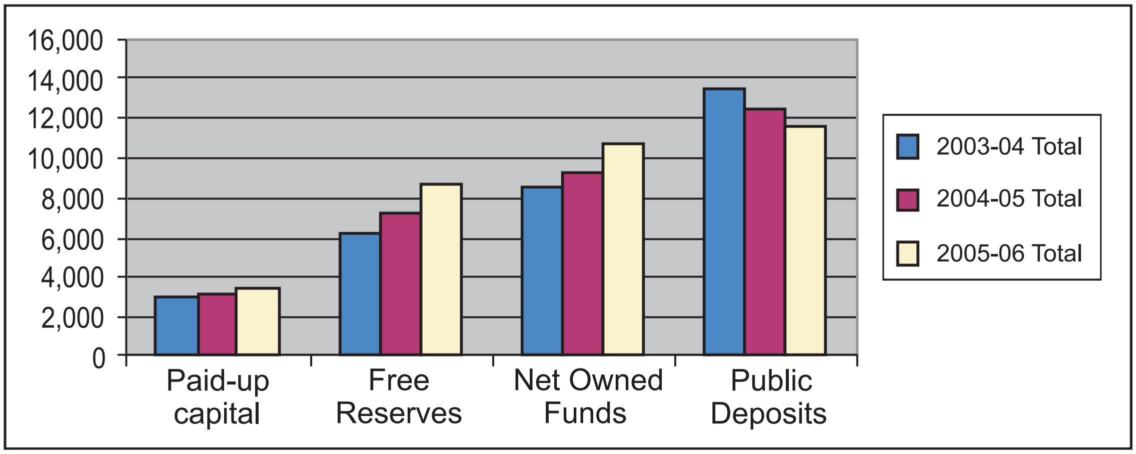
**Including preference shares which are compulsorily convertible into equity.*

NOF = the aggregate of paid up capital and free reserves reduced by accumulated losses, deferred revenue expenditure and other tangible assets,

minus

Amounts representing investments in shares of its subsidiaries, companies of the same group and other housing finance companies, book value of debentures, bonds, outstanding loans, and advances made to and deposits with subsidiaries and with companies of the same group; to the extent such amount exceeds ten per cent

Chart: 4.5 : Graph of yearwise status of select financial indicators



The outstanding housing loans of the top 12 HFCs were around 96.58 per cent of the total housing finance done by HFCs. The public deposits raised by these HFCs were around 99.40 per cent of the total sector. The borrowings raised by these HFCs were around 97.92 per cent of the total sector. Hence, these companies can be taken to be broadly representative of the Housing Finance sector. The HFCs taken into account are HDFC, LIC Housing Finance Ltd, HUDCO, ICICI Home Finance, Dewan Housing Finance Ltd., Can Fin Homes Ltd., GIC Housing Finance Ltd., IDBI Home Finance Ltd., BHW Home Finance Ltd., GRUH Finance Ltd., PNB Housing Finance Ltd., and Sundaram Home Finance Ltd.

4.16 The important financial parameters of HFCs given in table 4.4 above have been classified into three categories :

HFCs in Public and Private Sector

HFCs sponsored by Commercial Banks and Others

HFCs classified based on deposit accepting and non-deposit accepting

a. HFCs in Public and Private Sector.

4.17 Six HFCs have been classified in Public Sector of which three are HUDCO, Orissa Rural Housing and Development Corporation, and, Rajiv Gandhi Rural Housing Corporation Ltd., which are Govt. sponsored. The remaining three are sponsored by financial institutions viz., GIC Housing Finance Ltd., LIC Housing Finance Ltd., and IDBI Home Finance Ltd.

4.18 The paid-up capital is more in the Public Sector HFCs while free reserves are more in Private Sector HFCs. Further, the NOF and public deposits are more in Private Sector HFCs as may be seen from Table 4.4.1.

b. HFCs sponsored by Commercial Banks

4.19 Eight HFCs have been sponsored by Commercial Banks. These are:

i. BOB Housing Finance Ltd., sponsored by Bank of Baroda

Table 4.4.1 Financial Performance of HFCs in Public and Private Sector

(Rs. in Crore)

	2003-04			2004-05				2005-06			
	Public Sector*	Private Sector	Total	Public Sector*	Private Sector	Total	Growth %	Public Sector *	Private Sector	Total	Growth %
Paid-up capital	2,077.94	863.37	2,941.31	2,230.20	918.48	3,148.68	7.05	2,226.80	1,210.90	3,437.70	9.18
Free Reserves	2,554.70	3,700.97	6,255.67	2,843.46	4,308.71	7,152.17	14.33	3,531.16	5,114.43	8,645.59	20.88
Net Owned Funds	4,524.58	4,040.69	8,565.27	4,724.74	4,580.00	9,304.74	8.63	5,102.03	5,577.29	10,679.32	14.77
Public Deposits	4,952.57	8,582.14	13,534.71	4,994.40	7,427.60	12,422.00	(8.22)	5,196.56	6,342.37	11,538.93	(7.11)
Housing loans O/S	22,108.04	37,003.40	59,111.44	24,385.78	46,148.10	70,533.88	19.32	27,049.06	59,105.50	86,154.56	22.14

** Consists of 6 HFCs which are Govt. and Financial Institutions sponsored; figures in parenthesis shows negative growth*

ii. Can fin Homes Ltd., sponsored by Canara Bank

iii. Centbank Home Finance Ltd., sponsored by Central Bank of India

iv. Corpbank Home Finance Ltd., sponsored by Corporation Bank

v. ICICI Home Finance Ltd., sponsored by ICICI Bank

vi. Indbank Home Finance Ltd., sponsored by Indian Bank

vii. PNB Home Finance Ltd., sponsored by Punjab National Bank

viii. REPCO Home Finance Ltd., sponsored by REPCO Bank

4.20 The number of HFCs sponsored by commercial banks is nearly 25% of the total HFCs registered with NHB. The financial performance of the HFCs sponsored by commercial banks is given in table 4.4.2.

Table 4.4.2 Financial Performance of HFCs sponsored by Commercial Banks

(Rs. in Crore)

	2003-04			2004-05				2005-06			
	Comm Bank sponsored HFCs*	Others	Total	Comm Bank sponsored HFCs *	Others	Total	Growth %	Comm Bank sponsored HFCs #	Others	Total	Growth %
Paid-up capital	300.69	2,640.62	2,941.31	284.19	2,864.49	3,148.68	7.05	414.24	3,023.46	3,437.70	9.18
Free Reserves	303.85	5,951.82	6,255.67	338.81	6,813.36	7,152.17	14.33	407.96	8,237.63	8,645.59	20.88
Net Owned Funds	264.08	8,301.19	8,565.27	244.00	9,060.74	9,304.74	8.63	702.15	9,977.17	10,679.32	14.77
Public Deposits	695.65	12,839.06	13,534.71	500.16	11,921.84	12,422.00	(8.22)	426.33	11,112.60	11,538.93	(7.11)
Housing loans O/S	5,836.70	53,274.74	59,111.44	5,799.62	64,734.26	70,533.88	19.32	7,676.58	78,477.98	86,154.56	22.14

** consists of 10 HFCs*
 # consists of 8 HFCs figures in parenthesis shows negative growth

c. Classification based on deposit accepting and non-deposit accepting HFCs.

4.21 There were 25 deposit accepting HFCs during the year 2004 while there were 24 deposit accepting HFCs during the years 2005 and 2006. 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 NOF. The financial position of the deposit taking companies vis a vis those which do not accept deposits are given in table 4.4.3.

Table 4.4.3 Financial Performance of deposit and non deposit accepting HFCs

(Rs. in Crore)

	2003-04			2004-05				2005-06			
	Deposit Accepting HFCs *	Non Deposit Accepting HFCs	Total	Deposit Accepting HFCs #	Non Deposit Accepting HFCs	Total		Deposit Accepting HFCs #	Non Deposit Accepting HFCs	Total	Growth %
Paid-up capital	2,853.91	87.40	2,941.31	3,007.11	141.57	3,148.68	7.05	3,179.69	258.01	3,437.70	9.18
Free Reserves	6,025.81	229.86	6,255.67	6,912.32	239.85	7,152.17	14.33	8,044.74	600.85	8,645.59	20.88
Net Owned Funds	8,270.87	294.40	8,565.27	9,173.52	131.22	9,304.74	8.63	10,526.26	153.06	10,679.32	14.77
Public Deposits	13,529.45	5.26	13,534.71	12,419.63	2.37	12,422.00	(8.22)	11,536.86	2.07	11,538.93	(7.11)
Housing loans O/S	58,131.57	979.87	59,111.44	69,267.35	1,266.53	70,533.88	19.32	84,935.04	1,219.52	86,154.56	22.14

** consists of 25 HFCs*
 # consists of 24 HFCs

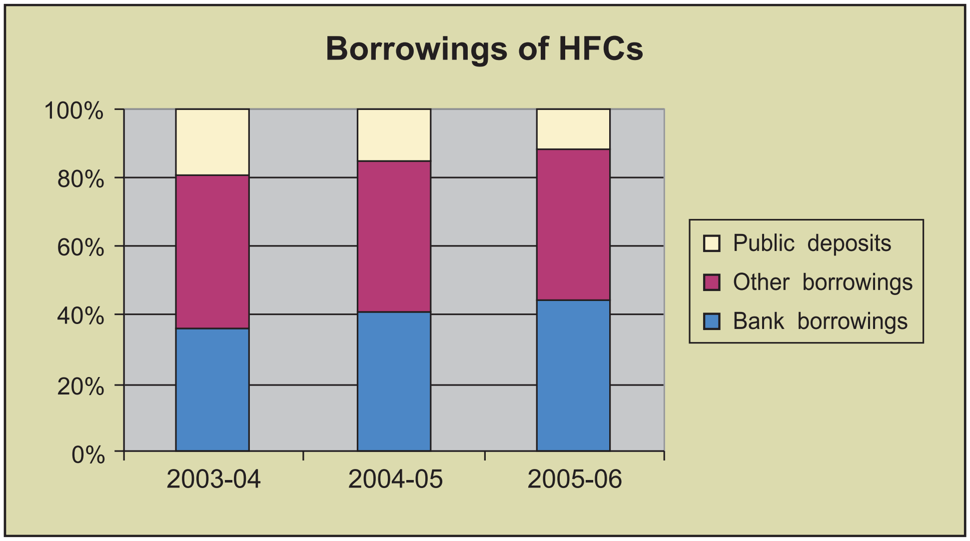
Mobilization of Funds

4.22 The net owned funds of the 44 HFCs surveyed, registered an increase of *14.77* per cent from Rs. 9,304.74 crore as on March 31, 2005 to Rs. 10,679.32 crore as on March 31, 2006. These included two HFCs having negative networth. The paid-up capital of HFCs (including the preference share capital, which is compulsorily convertible into equity) increased by 9.18 per cent from Rs. 3,148.68 crore to Rs. 3,437.70 crore during the same period.

4.23 The total outstanding public deposits with the HFCs surveyed have decreased from Rs. 12,422 crore as on March 31, 2005 to Rs. 11,538.93 crore as on March 31, 2006, recording a negative growth of 7.11 per cent. It is observed that the growth rate of deposits has been on a downward trend since 2003. This has affected the cost of funds of the HFCs and sourcing of funds at competitive rates has become a challenge to them.

4.24 The HFCs primarily depend on loans from banks and financial institutions besides their owned funds-equity and reserves. Borrowing money through bonds and debentures, inter-corporate deposits (ICDs), commercial paper, sub-ordinated debt and fixed deposits from public are other sources of funds for HFCs. A graphical representation of the borrowings of the HFCs on a broad scale for the last three years, upto March 31, 2006, is given below. It may be observed that the dependence on bank borrowings by HFCs is on the rise while the dependence on deposits is on decline.

Chart 4.6: Composition of borrowings by HFCs



Classification of Public Deposits

Classification based on size of deposits

4.25 The size-wise details of public deposits outstanding at the end of last three years are given in Table 4.5. The share of public deposits of over Rs.1,00,000 accounted for 68.62 per cent of the total deposits as on March 31, 2006 as against 71 per cent of the total deposits as on March 31, 2005.

Table 4.5: Size-wise public deposits with all reporting HFCs

	Outstanding public deposits as on 31st March (Rs. Crore)					
Size	**2004**		**2005**		**2006**	
	Amount	**per cent of total**	**Amount**	**per cent of total**	**Amount**	**per cent of total**
Up to Rs. 5,000	37.50	0.28	141.79	1.14 (278.10)	135.67	1.18 (-4.32)
Rs. 5,001 to Rs. 10,000	249.35	1.84	163.04	1.31 (-34.61)	142.26	1.23 (-12.75)
Rs. 10,001 to Rs. 25,000	1052.46	7.78	789.50	6.36 (-24.99)	634.52	5.50 (-19.63)
Rs. 25,001 to Rs. 50,000	1818.06	13.43	1444.97	11.63 (-20.52)	1236.25	10.71 (-14.44)
Rs. 50,001 to Rs. 1,00,000	1184.17	8.75	1064.24	8.56 (-10.13)	1472.17	12.76 (38.33)
Over Rs. 1,00,000	9193.17	67.92	8818.46	71.00 (-4.08)	7918.01	68.62 (-10.21)
Total	**13534.71**	**100.00**	**12422.00**	**100.00 (-8.22)**	**11538.88**	**100.00 (-7.11)**

Source: Annual returns submitted by HFCs; figures in parenthesis indicate growth in per cent over previous year.

The deposits with the HFCs have declined marginally. Some of the factors which contributed to the decline are cancellation of some of the deposit accepting HFCs on account of merger with the parent bank, non-acceptance of deposits by some of the HFCs for various reasons though holding CoR with permission to accept deposits and grant of fresh CoR to HFCs without permission to accept deposits.

Classification Based on Interest Rate

4.26 The interest rate-wise classification of deposits outstanding with all the registered HFCs is given in Table 4.6. It is observed that the major part of the deposits, i.e., 66.52 per cent of the total deposits is held by the HFCs in the interest rate range of 6 to 9 per cent. Further, the HFCs have 18.31 per cent of deposits in the interest rate range of 9 per cent to 11 per cent. The share of deposits at the rate of interest of 9 per cent and above had been fluctuating during the last three years.

Classification Based on Maturity of Deposits

4.27 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 two years also (2004 and 2005). However, the share of these deposits has been showing a declining trend during the last three years i.e. 2004, 2005 and 2006 as may be observed from Table 4.4.

Table 4.6: Interest rate-wise public deposits of all reporting HFCs

Rate of interest (Rate per annum)	Outstanding public deposits as on 31st March (Rs. Crore)					
	2004		2005		2006	
	Amount	per cent of total	Amount	per cent of total	Amount	per cent of total
Below 6 per cent	172.22	1.27	722.37	5.82 (319.45)	407.59	3.53 (43.58)
6 per cent to below 9 per cent	6630.96	48.99	7618.84	61.33 (14.90)	7676.03	66.52 (0.75)
9 per cent to below 11 per cent	4740.91	35.03	2881.39	23.20 (-39.22)	2112.20	18.31 (-26.70)
11 per cent to below 13 per cent	1671.61	12.35	987.43	7.95 (-40.93)	1059.65	9.18 (7.31)
13 per cent or more	319.01	2.36	211.97	1.70 (-33.53)	283.41	2.46 (33.70)
Total	**13534.71**	**100.00**	**12422.00**	**100.00 (-8.22)**	**11538.88**	**100.00 (-7.11)**

Source: Annual returns of 44 HFCs; figures in parenthesis indicate growth in per cent over previous year.

Table 4.7 : Maturity-wise public deposits with all reporting HFCs

Maturity period	Outstanding public deposits as on 31st March (Rs. Crore)					
	2004		2005		2006	
	Amount	per cent of total	Amount	per cent of total	Amount	per cent of total
Less than 12 months	16.91	0.12	111.55	0.90 (559.69)	22.92	0.20 (-79.45)
12 months or more but less than 24 months	872.38	6.45	938.93	7.56 (7.63)	704.15	6.10 (-25.01)
24 months or more but less than 48 months	5455.86	40.31	4742.92	38.19 (-13.07)	3648.33	31.62 (-23.08)
48 months or more but less than 60 months	248.49	1.84	395.01	3.18 (58.96)	211.78	1.83 (-46.39)
60 months	2367.94	17.50	1980.53	15.94 (-16.36)	1608.26	13.94 (-18.78)
More than 60 months but less than 84 months	760.69	5.62	763.35	6.14 (0.35)	682.08	5.91 (-10.65)
84 months	1802.67	13.32	1530.21	12.32 (-15.11)	1698.22	14.72 (10.98)
More than 84 months	2009.77	14.84	1959.50	15.77 (-2.50)	2963.14	25.68 (51.22)
Total	**13534.71**	**100.00**	**12422.00**	**100.00**	**11538.88**	**100.00**

Source: Annual returns of HFCs; figures in parenthesis indicate growth in per cent over previous year.

Note:
- *Matured but not claimed public deposits have been shown under 'less than 12 months'*
- *Bonds for more than 84 months held by public*

Borrowings and other deposits (other than public deposits)

4.28 The aggregate outstanding borrowings (excluding public deposits) of HFCs increased by 26.7 per cent to Rs. 87,254.39 crore as on March 31, 2006 from Rs. 68,865.56 crore as on March 31, 2005 showing an increase of 26.70 per cent over the previous year. Borrowings from the banking system constituted 50.07 per cent amounting to Rs.43,685.08 crore as on March 31, 2006 as against Rs 33,261.24 crore as on March 31, 2005.

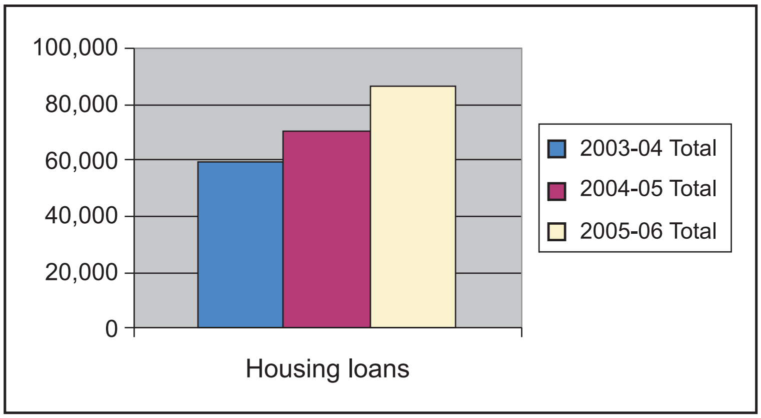
Table 4.8 : Borrowings and other deposits (excluding public deposits) of all reporting HFCs

Type of Borrowings	Outstanding borrowings as on March 31st (Rs. Crore)					
	2004		2005		2006	
	Amount	per cent of total	Amount	per cent of total	Amount	per cent of total
Bank Borrowings	25875.50	44.71	33261.24	48.30	43685.08	50.07
Other Borrowings	31995.64	55.29	35604.32	51.70	43569.31	49.93
Total	57871.14	100.00	68865.56	100.00	87254.39	**100.00**

Housing Loans

4.29 The aggregate outstanding housing loan of HFCs, which were Rs.70,533.88 crore as on March 31, 2005 increased by 22.14 per cent to Rs.86,154.56 crore as on March 31, 2006. The average growth rate during 2004-05 was 19.32 per cent.

Chart 4.7: Growth in Housing Loans over last three years



Housing Loans as percentage of Total Loans

As on 31.03.2004	As on 31.03.2005	As on 31.03.2006
70.63%	71.94%	69.51%

Tenure-wise analysis of Loan Portfolio

4.30 Based on the data received from HFCs and an analysis of trends, it is observed that the loans of tenure above 7 years, which formed 50.68 per cent of the total housing loans outstanding as on March 31 2005, increased to 63.14 per cent as on March 31, 2006. This displays borrowers' preference for long-term loans.

Table 4.9 : Term-wise Housing Loans outstanding by HFCs

Term of Housing Loan	2004		2005		Growth over prev. yr	2006*		Growth over prev. yr
Up to 1 year	4089.14	(6.9%)	9333.94	(13.23%)	128.3%	5798.87	(6.73%)	-37.9%
1 to 3 years	7849.98	(13.3%)	7838.81	(11.11%)	-0.1%	10743.62	(12.47%)	37.1%
3 to 5 years	6839.28	(11.6%)	11506.47	(16.31%)	68.2%	8916.55	(10.35%)	-22.5%
5 to 7 years	4910.42	(8.3%)	6111.98	(8.67%)	24.5%	6299.01	(7.31%)	3.1%
Above 7 years	35422.62	(59.9%)	35742.68	(50.68%)	0.9%	54396.51	(63.14%)	52.2%
Total	**59111.44**	**(100.0%)**	**70533.88**	**(100.0%)**	19.3%	**86154.56**	**(100.00%)**	22.1%

Source: Annual returns submitted by 44 HFCs to NHB; figures in parenthesis indicate percentage share in total.

Size-wise Loan Disbursal

4.31 Housing loans up to Rs. 3 lakh increased from 4,578.49 crore during 2004-05 to Rs. 4,717.84 crore during 2005-06. However in percentage terms, there was minor fall from 26.91 per cent of the total housing loans disbursed during 2004-05 to 21.57 per cent of the total loans disbursed under this category during 2005-06. Housing loans above Rs.10 lakh increased from Rs. 5,804.08 crore during 2004-05 to Rs.9,027.15 crore during 2005-06 and accounted for 41.28 per cent of the loans disbursed during 2005-06 (Table 4.10).

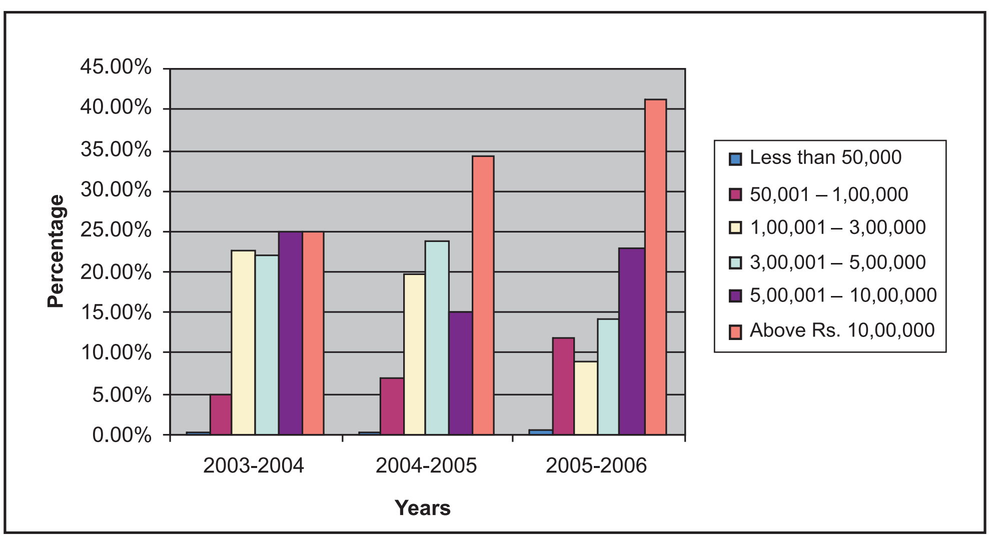
Table 4.10: Size-wise Disbursement of Housing Loans by HFCs

Size of Housing Loan (Rs.)	2003-2004		2004-05		2005-06*	
Less than 50,000	16.26	0.2%	34.81	0.2%	90.78	0.41%
50,001 – 1,00,000	507.82	4.8%	1208.59	7.11%	2632.43	12.03%
1,00,001 – 3,00,000	2409.62	22.7%	3335.09	19.60%	1994.63	9.12%
3,00,001 – 5,00,000	2358.98	22.2%	4064.69	23.89%	3121.50	14.27%
5,00,001 – 10,00,000	2652.84	25.0%	2565.76	15.08%	5002.55	22.88%
Above Rs. 10,00,000	2663.94	25.1%	5804.08	34.12%	9027.15	41.28%
Total	10609.50	100.0	17013.02	100.0	21869.04	100.00

Source: Annual returns submitted by 44 major HFCs to NHB

4.32 The size-wise disbursement of Housing Loans by HFCs in the last three years is presented below.

Chart 4.8 :Size Wise Disbursement of Housing Loans



Other loans and advances

4.33 Other loans and advances outstanding of HFCs were Rs. 17,575.96 crore as on March 31, 2006, as compared to the corresponding figure of Rs.15,691.87 crore as on March 31, 2005.

Asset Quality and Trends in NPAs of select HFCs:

4.34 The ratio of Non-Performing Assets (NPAs) to total gross loans is often used as a major indicator for asset quality. Net Non-Performing Loans to Capital Funds indicate the impact of NPAs on Capital Funds. The trend of NPAs of the HFCs vis-à-vis their assets and capital funds is as under-

4.35 As indicated in the chart above, ratios on Asset Quality show a spurt during the year 2004-05. This spurt may be attributed to the change in Asset Classification Norms from 180 days to 90 days norm with effect from 31st March, 2005. However, in the subsequent year the HFCs seem to have re-adjusted with the revised norms to a large extent.

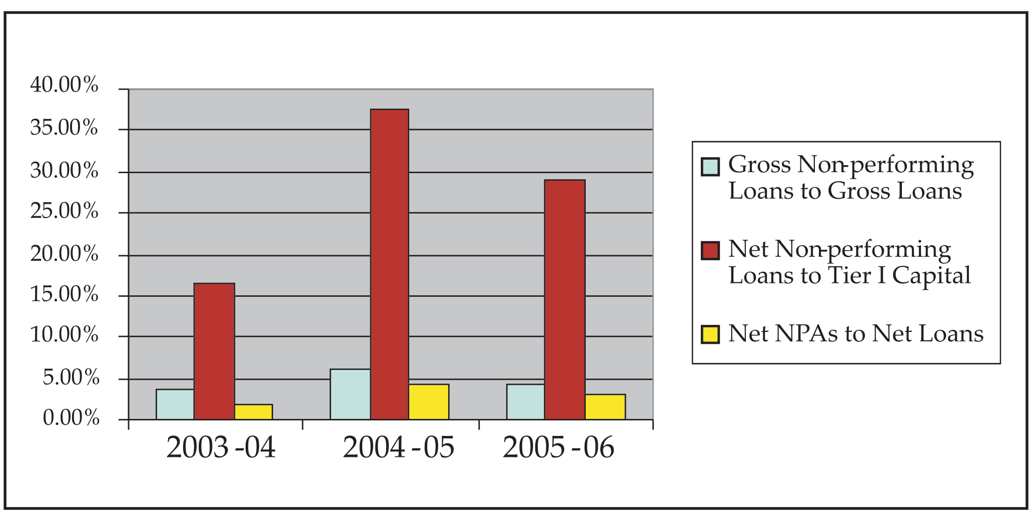
Investments

4.36 Aggregate investments of HFCs stood at Rs. 10,004.44 crore as on March 31, 2006 as against Rs. 6,633.78 crore as on March 31, 2005.

Table 4.11 - Ratios on Asset Quality

Sl. No.	Particulars	As on 31.03.2004	As on 31.03.2005	As on 31.03.2006
1	**Gross Non-performing Assets to Gross Loans**	3.56%	6.24%	4.49%
2	**Net NPAs to Net Loans**	2.03%	4.44%	3.14%
3	**Net Non-performing Assets to Tier-I Capital**	16.51%	37.52%	28.91%

Chart 4.9 Asset Quality Indicators



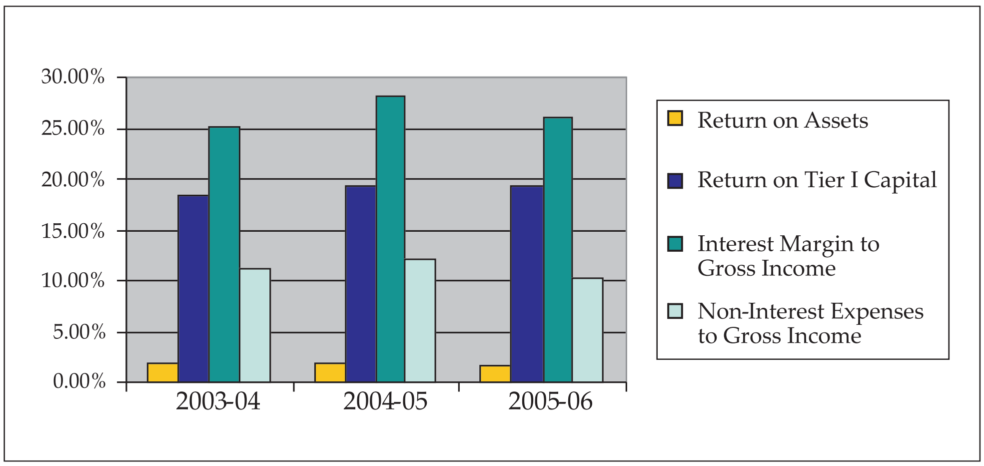
Earnings and Profitability

4.37 During the last three years, the ratios on Earnings and Profitability of the HFCs are given below:

Table 4.12 - Ratios on Earnings and Profitability

Sl. No.	Particulars	As on 31.03.2004	As on 31.03.2005	As on 31.03.2006
1	**Return on Assets**	1.94%	1.93%	1.83%
2	**Return on Tier I Capital**	18.30%	19.17%	19.25%
3	**Interest Margin to Gross Income**	25.12%	28.00%	26.17%
4	**Non-Interest Expenses to Gross Income**	11.10%	12.08%	10.11%

Chart 4.10 - Earnings and Profitability Indicators



Return on Assets- Decreasing trend of Return on Assets indicate that margins have been thinning in the housing finance business in the wake of increased competition and volume.

Return on Tier I Capital- The trend has been upwardly during the last three years. This trend is due to greater leverage (increasing Debt/Equity ratio) being taken by HFCs to generate more assets and consequently more returns.

Interest Margin to Gross Income- The ratio has been consistently above 25% during the last three years suggesting the inherent potential of the sector.

Non-Interest Expenses to Gross Income- The ratio has been above 10% during the last three years. The administrative and employee costs incurred while focussing the growth and business expansion have put stress on this ratio.

Registration of Housing Finance Companies

4.38 During the year 2005-06, three new housing finance companies have been granted the Certificate of Registration without permission to accept deposits from the public. Certificates of Registration previously granted to three housing finance companies were cancelled during the year, as these housing finance companies either went out of the housing finance business or showed non-compliance with the conditions, subject to which the Certificate of Registration was issued. As at the end of June 2006, the total number of housing finance companies possess Certificate of Registration was 46. Of these, 24 housing finance companies were granted Certificates of Registration with permission to accept deposits from the public.

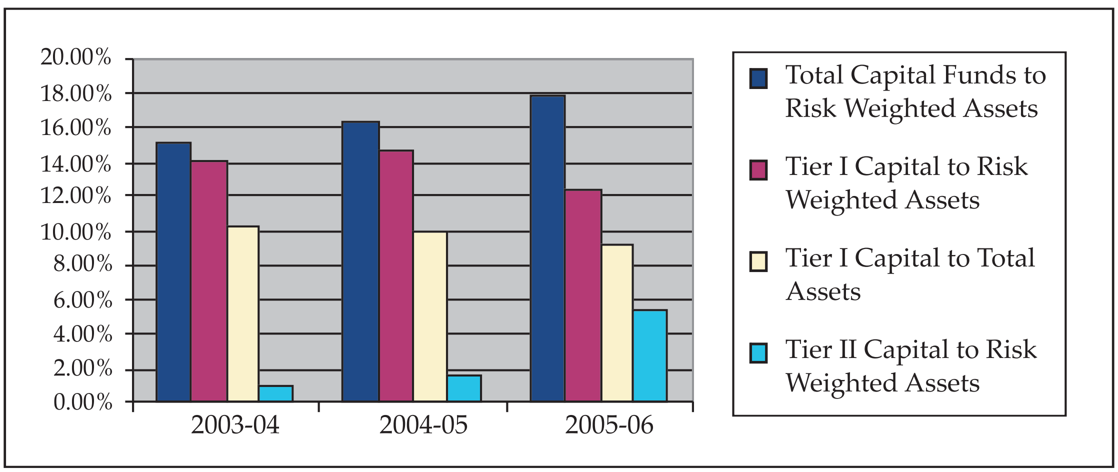
Financial Soundness Indicators

4.39 Given below are the various Ratios on Capital Adequacy of Housing Finance Companies during the last three years till 31st March, 2006.

Table 4.13 - Ratios on Capital Adequacy

Sl. No.	Particulars	As on 31.03.2004	As on 31.03.2005	As on 31.03.2006
1	**Total Capital Funds (Tier-I and Tier-II) to Risk Weighted Assets**	15.04%	16.24%	17.83%
2	**Tier-I Capital to Risk Weighted Assets**	14.04%	14.66%	12.42%
3	**Tier-I Capital to Total Assets**	10.25%	9.89%	9.22%
4	**Tier-II Capital to Risk Weighted Assets**	0.98%	1.58%	5.41%

Chart 4.11 Capital Adequacy Parameters



4.40 For carrying-on the business of a housing finance company, NHB has prescribed minimum requirement of Net Owned Fund (NOF) - Tier I Capital of Rs.200 lakh. Among the HFCs taken for the study, the HFC with least NOF has an NOF which is 43 times the minimum prescribed norm.

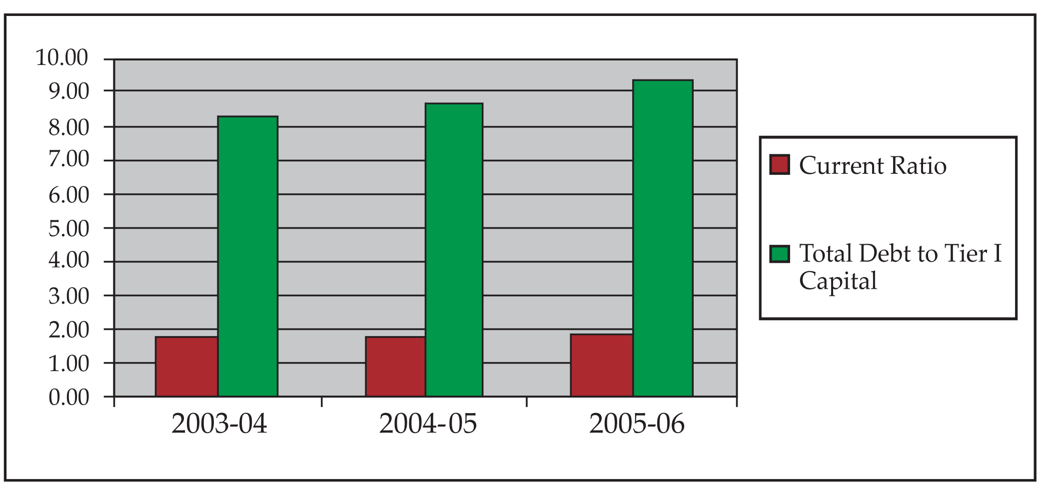
4.41 NHB has also prescribed minimum Capital Adequacy Ratio (CAR) of 12 % to act as a cushion to inherent risks and unforeseen shocks. On an average, the housing finance companies have been able to maintain CAR well above the prescribed level of 12%. The majority of asset portfolio of the HFCs is in housing loans and individual housing loans secured by mortgage bear risk weight of 75 per cent at present. CAR of the HFCs may undergo positive change once risk-weight for such loans below Rs.20 lakh is reduced to 50 per cent. Hence, it may be inferred that the HFCs are adequately capitalized.

4.42 As per the table above, the ratio on Tier-I Capital to Risk Weighted Assets shows an increase during the year 2004-05 while ratio on Tier I Capital to Total Assets shows decrease in the same period. This trend is manifestation of decrease in risk-weight applicable to individual housing loans from 75 per cent to 50 per cent with effect from 10th January, 2005. The table further indicates that the ratios on Tier I Capital to Risk Weighted Assets and Tier-I Capital to Total Assets have come down during the year 2005-06. Decrease in ratio on Tier-I Capital to Total Assets suggests that assets have increased faster in comparison to Tier I Capital during the period. While decrease in ratio on Tier-I Capital to Risk Weighted Assets may also be attributed to increase in risk weight applicable to individual housing loans from 50 per cent to 75 per cent with effect from 1st October, 2005. It can also observed that Tier-II Capital of HFCs has been steadily increasing during the last 3 years till 31st March, 2006.

Current ratio-The current ratio for HFCs decreased from 1.77 as on 31st March, 2004 to 1.73 as on 31st March, 2005. The comparative increase in current liabilities may be due to increased provisioning requirements during the year 2004-05 on account of change in asset classification norms. However, in the subsequent year 2005-06, the ratio showed an increase and stood at 1.83 as on 31st March, 2006.

Debt-Equity Ratio- NHB has prescribed a ceiling on the aggregate borrowings of an HFC which shall not be in excess of sixteen times of its NOF. This ratio has increased steadily from 8.25 as on 31st March, 2004 to 8.62 as on 31st March, 2005 and further to 9.38 as on 31st March, 2006. As illustrated above, increase in Tier II Capital (which is Debt component) of HFCs during the last three years contributed to increase in this ratio.

Chart 4.12 Current and Debt Equity Ratio



NHB's Co-ordination with other Regulatory Authorities

4.43 During the year 2005-06, NHB participated in 10 State Level Co-ordination Committee meetings of financial regulators convened by the RBI at its various regional offices. These meetings are held with the objective of ensuring active co-ordination among the various regulatory authorities concerned with the functioning of the housing finance companies and NBFCs, where policy as well as operational issues of public interest are addressed.

Fraud Management Cell

4.44 NHB has set up a Fraud Management Cell to collect information from HFCs, RBI and IBA regarding frauds committed in housing loans. NHB has begun circulating details of fraudulent home loan borrowers along with the modus operandi and causative factors involved on the lines of similar information being shared by the Reserve Bank of India/Indian Banks Association to member banks. It is expected that NHB's Caution List would help in instituting checks and balances among the various lending institutions, the larger objective being to prevent recurrence of frauds in the housing sector.

Addressing Consumer Grievances

4.45 NHB addresses complaints against HFCs received from individuals. The complaints are usually in respect of deposits accepted by the HFCs and the loans extended by them.

B. Scheduled Commercial Banks (SCBs)

4.46 The scheduled commercial banks (SCBs) which were having smaller share of the housing finance business earlier, now account for the major share of the housing finance market. Housing loan outstandings of SCBs constituted 13 per cent of the gross bank credit as of 31st March 2006 as compared to

The analysis of Banking Statistical Return data for the period 2000-06 indicates the following:

1. Number of loan accounts (proxy for number of houses) increased from 22.53 lakh as on 31.3.2000 to 45.22 lakh as on 31.3.2006 registering CAGR of **13.2 per cent** only.
2. Per account average credit limit increased from Rs.93,000 to Rs.4.63 lakh registering CAGR of **30.7 per cent**.
3. Outstanding Housing Loans increased from Rs. 18,525 crore as on 31.3.2000 to Rs.1,82,167 crore as on 31.3.2006 registering CAGR of **46.4 per cent**.
4. Per account average loan outstanding increased from Rs. 82,000 to Rs.4.03 lakh registering CAGR of 30.4 **per cent**.
5. A significant shift observed towards the loan category of more than Rs. 5 lakh and above during the period 2000-06. As at end March 2006, such accounts stood at 21.5 per cent of the total loan accounts with 64.1 per cent of the total outstanding loan as against 1.0 per cent and 9.9 per cent respectively as at end March 2000.

The above analysis is indicative of growth in housing finance business by Scheduled Commercial Banks as value rather than volume driven during this period.

just 4 per cent as at end March 2000. As on 31.3.2006, 66.9 per cent of the total outstanding housing loans of banks (public sector banks, private sector banks and foreign banks except RRBs), are classified under priority sector i.e. loans below Rs.15 lakhs.

4.47 Despite such a significant growth in number of housing and housing finance, the country's requirement of housing is huge. As per Ministry of Housing and Urban Poverty Alleviation, Govt. of India, the housing shortage in urban areas at the beginning of 2007 is estimated to be 24.71 million units which is likely to increase marginally to 26.53 million units by 2012. Nearly 97 per cent of this housing requirement/shortage is estimated for EWS/LIG segment households. Similarly, Ministry of Rural Development, GOI has estimated housing requirement of 47.43 million units in rural areas during the 11th Plan Period (2007-12) of which more than 80 per cent is envisaged for below poverty line (BPL) families.

4.48 Despite significant CAGR of 76.74 per cent recorded in housing finance portfolio by other SCBs (mainly the private sector banks) during 2000-06, bank group-wise distribution of outstanding housing loans as on 31.3.2006, indicate that nationalized banks retained maximum share of 39.50 per cent in the total outstanding housing loans of all SCBs. The share of SBI Group, as on 31.3.2006, was 23.8 per cent, other SCBs 26.1 per cent as compared to 50.5 per cent and 31.5 per cent respectively. Foreign Banks' share was 9.0 per cent and RRBs 1.5 per cent as compared to 8.1 per cent, and 3.1 per cent respectively as at end March 2000.

4.49 An analysis of the outstanding portfolio of the banks reveal that the share of rural areas in housing finance has declined from 10.3 per cent to 10 per cent during 2000-06. On the other hand, the share of lending to metropolitan areas increased significantly from 37.2 per cent as on 31.3.2000 to 51.7 per cent as on 31.3.2006. Share of Urban areas declined from 30.1 per cent as on 31.3.2000 to 25.2 per cent as on 31.3.2006 while the share of Semi-urban areas declined from 22.4 per cent as on 31.3.2000 to 13.1 per cent as on 31.3.2006.

4.50 Bank data indicates that of the total outstanding housing loan portfolio of banks, the share of rural areas has gone up in case of SBI Group, RRBs and Foreign Banks from 7.40 per cent to 16.96 per cent; 33.95 per cent to 46.17 per cent and 0.24 per cent to 0.71 per cent respectively during 2000-06 while in case of Nationalised Banks and other SCBs, it has recorded a decline from 12.03 per cent to 8.79 per cent and from 9.85 per cent to 6.62 per cent respectively during the same period.

4.51 Regional distribution of outstanding housing loan of Banks as at end March 2006 indicate that Southern Region accounted for maximum share of 35.6 per cent of the total outstanding housing loan of all SCBs despite significant CAGR of 50.6 per cent recorded in housing loan outstanding in Western Region during 2000-06. The share of Western Region, as on 31.3.2006 was 24.2 per cent, Northern Region 20.8 per cent, Central Region 9.6 per cent, Eastern Region 8.4 per cent and N-E Region 1.4 per cent. As at 31.3.2000, the respective share was 38 per cent, 20.4 per

State wise housing loan portfolio of SCBs compared with State-wise housing shortage as per Census 2001 (latest available) indicates that flow of housing finance is not necessarily to States with highest housing shortage.

1. The top five States in terms of housing loans portfolio with respective share of all India loan portfolios are Maharashtra (19.5 per cent), Karnataka (11.3 per cent), Tamil Nadu (10.1 per cent), Andhra Pradesh (8.8 per cent) and Delhi (8.4 per cent).
2. The top five States in terms of housing shortage with respective share of all India housing shortage are Bihar (14.9 per cent), Uttar Pradesh (11.0 per cent), Assam (9.56 per cent), Andhra Pradesh (8.9 per cent) and Maharashtra (8.5 per cent).

cent, 18.2 per cent, 11.4 per cent, 10.64 per cent and 1.4 per cent.

4.52 Regional data further indicates that Delhi in Northern Region, Assam in N-E Region, West Bengal in Eastern Region, Uttar Pradesh in Central Region, Maharashtra in Western Region accounted for the maximum share in the total housing loan outstanding in the region for all SCBs while Karnataka has the highest share in Southern Region.

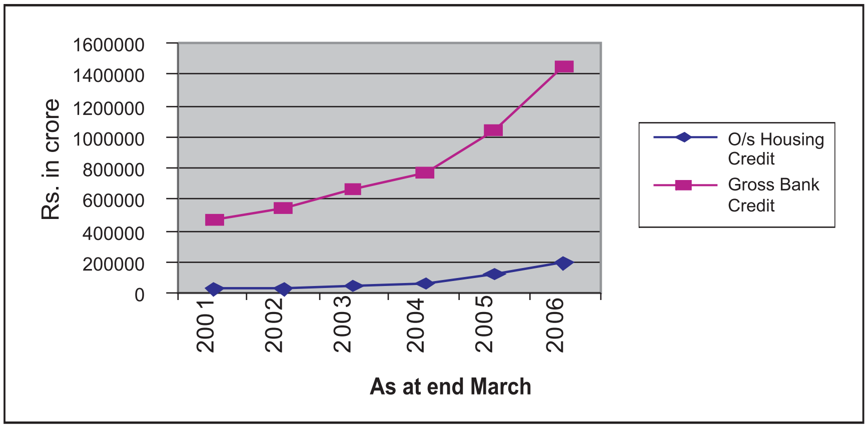
4.53 The box above indicates that the coverage of housing finance system has, by and large been restricted to metropolitan and urban areas as well as to middle and high income groups thereby bypassing low income groups at large both in urban and rural areas. The exponential growth witnessed in housing loans of banks is due to increase in value of houses financed through wider coverage by numbers. Therefore, despite significant growth in the housing finance market, there still remains a huge gap in the housing requirements in the low income categories. The challenge therefore, is to arrange, facilitate, catalyse and manage the required finances for investment in housing focusing on low income segments and improving accessibility of finance to underserved and unserved segments. The challenge is also to raise resources of long term nature at lower rates so as to meet the affordability requirements of the poor and low income segments.

Rural Housing by Scheduled Commercial Banks

4.54 Scheduled Commercial Banks (SCBs) are one of the largest mobilisers of the households' savings and major source of credit for all the sectors of the economy. During the last decade, SCBs have assumed a significant role as the largest institutional source for providing mortgage loans.

4.55 Today, SCBs have taken a driver's seat in Indian housing finance market. SCBs housing loan disbursals witnessed phenomenal growth from Rs. 1,805 crore in 1996-97 to Rs. 50,398 crore in 2004-05 and further to Rs. 58,623 crore in 2005-06 registering a growth of more than 2000 per cent during these years. As a result, the outstanding housing loan portfolio of SCBs stood at Rs. 1,26,797 crore as at end March 2005 and further to Rs. 1,86,429 crore as at end March 2006 as compared to Rs. 18,525 crore as at end March 2000, thereby witnessing a significant CAGR of 39.1 per cent.

Graph 4.13 - Housing Loan Portfolio of SCBs in Outstanding Gross Bank Credit

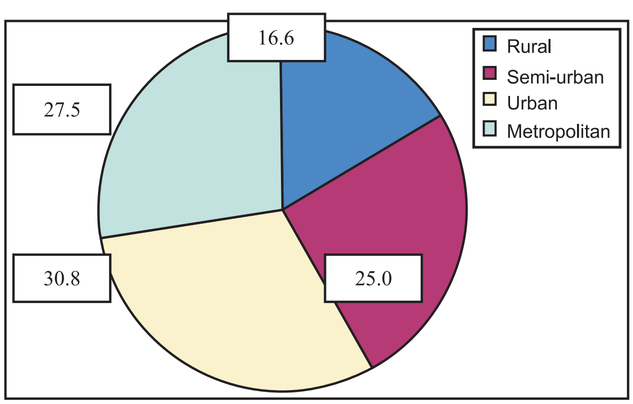


4.56 In sum, the success of lending for housing to all segments of the society and especially the low income households, in urban and rural unorganized sector, a broad range of actions on many fronts is required. SCBs being the largest institutional platform have to play a vital role in adopting new approaches and introduced customized and flexible mortgage products in active partnership with State & Local Governments, other non profit organizations and formal sector institutions both in public and private sector. This also implies that the schemes/programme so evolved must provide not only the affordable housing loan products having inbuilt flexible underwriting criteria but also a complete Housing Solution.

Co-operative Sector

4.57 The concept of Co-operatives as an institutional mechanism for satisfying various needs of the people is premised on the principles of 'self-help' as well as 'collective–effort'. Housing cooperatives have a prominent place in the cooperative movement in the country. The co-operative sector has played an important role in providing housing to their members and has made significant impact across the country. The co-operative sector is expected to play a lead role, particularly in land acquisition, allotment of land and housing sites to encourage group-housing and development of amenities in their projects,

Graph 4.14 - Area-wise Housing Loan Accounts with SCBs (As at March 31, 2005)



as envisaged in the National Housing and Habitat Policy.

The National Co-operative Housing Federation of India

4.58 The National Co-operative Housing Federation (NCHF) was established as an apex organisation for coordinating, guiding and promoting cooperative housing activities in the country. The cooperative housing structure 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 channelise finances for these Federations for onward lending to the ultimate borrowers. In addition, NCHF also helps the member Federations in improving their financial, organisational and technical capabilities.

Apex Co-operative Housing Federations

4.59 The primary housing co-operatives functioning at the grass root level are supported by 23 ACHFs all over the country with a membership of over 6.5 million. These ACHFSs represent about 92,000 housing co-operatives all over the country, of which, about 31,000 housing co-operatives are affiliated to State level ACHFs for getting financial assistance. The rest of the co-operatives are those (i) which obtain finance from other sources, (ii) which have not yet started construction activities, and (iii) which have repaid their loans fully.

4.60 These Federations have so far disbursed Rs.9,702.40 crores to primary housing co-operatives for construction of dwelling units for their members. The co-operatives in turn have constructed 2.32 million houses.

Mobilisation of Resources

4.61 The details of resource mobilisation by the ACHFs during the last four years resting with 2005-06 are presented in Table 4.14.

Table 4.14 : Borrowings of Apex Co-operative Housing Federations (Cumulative)

Lending Agency	2002-03	per cent of Total	2003-04	per cent of Total	2004-05	per cent of Total	2005-06	per cent of Total
LIC	3198.81	41.4	3297.77	40.5	3365.30	38.38	3401.10	36.78
NHB	706.56	9.1	738.21	9.1	841.00	9.59	841.00	9.10
HUDCO	1539.78	19.9	1557.34	19.1	1575.10	17.96	1584.90	17.15
State Govt.	229.97	3.0	247.43	3.0	247.40	2.82	247.40	2.68
Deposits	115.09	1.5	185.33	2.3	2048.70	23.37	2475.80	26.79
Banks	1448.44	18.7	1620.50	19.9	186.90	2.13	189.50	2.05
Debentures	142.60	1.8	142.60	1.7	142.60	1.63	142.60	1.54
Others	346.25	4.5	345.10	4.2	360.70	4.12	360.70	3.90
Total	**7727.50**	**100.0**	**8134.28**	**100.0**	**8767.70**	**100.0**	**9243.00**	**100.00**

Source: National Co-operative Housing Federation of India

4.62 LIC, which has been the major source of funding for ACHFs in the initial years, have been experiencing lower shares in the liability side portfolio of the ACHFSs. The share in borrowings from LIC has shown a declining trend and stood at 36.78 per cent. It decreased from 46.4 per cent in 2000-01 to 40.5 per cent in 2003-04. Borrowings from HUDCO have been approximately Rs.1500 crore during the last three years and its share in total borrowings has been steady during the said years. The share of Banks and State Governments in the total borrowings, which has been increasing in the past five years, has suddenly plummeted in 2004-05 at 2.13 per cent and the trend continued in 2005-06 also. Instead, the share of deposits, which have been nominal in the past years have increased significantly to 26.79 per cent in outstanding cumulative borrowings during the year. Over the period 2000-01 to 2005-06, the contribution of NHB to total borrowings by ACHFs has been steady.

Deployment of Resources

4.63 The sanctions/disbursements of housing loans by ACHFs during the last four years are given in Table 4.15.

Table 4.15: Lending Operations of Apex Co-operative Housing Federations

(Rs. crore)

Type	2002-03	2003-04	2004-05	2005-06
Loan Sanctioned	672.99	595.45	432.10	529.8
Loan Disbursed	641.48	623.08	421.15	520.0

Source: National Co-operative Housing Federation of India

4.64 State/UT-wise break-up of housing loan disbursed and number of units constructed with financial assistance from ACHFs during last four years is presented in Table 4.16.

4.65 Tamil Nadu accounts for about 42 per cent of the housing loans disbursed by all ACHFs during 2005-06 closely followed by Punjab whose share stood at 21 per cent. Kerala's share in total disbursement stood at 14 per cent during the year, financing about 37 per cent of the total housing units financed by the sector. These three States together account for more than 70 per cent of the housing loan disbursements by ACHFs during 2005-06.

4.66 The quantum of cumulative sanction of housing loan by the ACHFs increased to Rs.10,131.60 crore during 2005-06 while cumulative disbursal rose to Rs.9,702.40 crore. Cumulatively, the financial assistance provided by ACHFs till March 31, 2004 enabled construction of 2.30 million dwelling units.

Refinance Assistance from NHB

4.67 NHB's refinance outstanding to this sector stood at Rs.168.67 crore, as on June 30, 2006. Cumulatively, an aggregate amount of Rs. 1,580.77crore was extended.

Table 4.16 : Housing Loans Disbursed and Units Constructed by ACHFs

(Rs. crore)

	2002-03		2003-04		2004-05		2005-06	
State	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**	**Units constructed / financed**
Andhra Pradesh	920	25.37	2078	920	25.37	2078	448	1963.77
Assam	199	24.25	31	199	24.25	31	754	193.56
Bihar	0	0	0	0	0	0	n.a.	n.a.
Chandigarh	4500	0	0	4500	0	0	1000	195.24
Delhi	286	39.99	39	286	39.99	39	136	3207.87
Goa	144	0.36	24	144	0.36	24	17	45.60
Gujarat	0	0	0	0	0	0	0	0
Harayana	50	0.19	377	50	0.19	377	236	340.00
Himachal Pradesh	24	1.43	28	24	1.43	28	13	42.39
Jammu & Kashmir	0	0	11	0	0	11	5	1126.29
Karnataka	185	5.04	502	185	5.04	502	420	1758.00
Kerala	9276	123.38	6478	9276	123.38	6478	9402	7258.49
Madhya Pradesh	0	0	0	0	0	0	0	0
Maharashtra	1066	5.3	761	1066	5.3	761	2	35.05
Manipur	0	0.04	0	0	0.04	0	n.a.	n.a.
Meghalaya	0	0	0	0	0	0	n.a.	n.a.
Orissa	102	5.08	7843	102	5.08	7843	398	162.06
Pondicherry	494	11.36	768	494	11.36	768	621	1458.64
Punjab	2800	74.09	0	2800	74.09	0	5455	10909.86
Rajasthan	253	0	237	253	0	237	100	1348.86
Tamil Nadu	11716	303.68	13293	11716	303.68	13293	5808	21825.00
Uttar Pradesh	466	21.92	75	466	21.92	75	n.a.	n.a.
West Bengal	0	0	614	0	0	614	875	128.31
Total	**32481**	**641.48**	**33165**	**32481**	**641.48**	**33165**	**25690**	**51998.99**

Source: National Co-operative Housing Federation of India

Agriculture and Rural Development Banks

4.68 Keeping in view the housing shortage in rural areas, a few State Governments, after suitable legislative amendments, have permitted the ARDBs to lend for housing. As the ARDBs do not fall under the category of either scheduled bank or specialized housing finance institutions, NHB, in order to extend financial assistance to this category of institutions, formulated a scheme to subscribe to special rural housing debentures floated by ARDBs. These debentures are backed by the mortgages originated by the ARDBs.

4.69 NHB's refinance outstanding to this sector stood at Rs. 277.44 crore, as on June 30, 2006. Cumulatively, an aggregate amount of Rs. 737.72 crore was extended.

State Co-operative Banks

4.70 In order to strengthen the cooperative credit structure of the country which is connected with the decentralized regions and semi-urban and rural areas, NHB has been extending refinance assistance to the State Cooperative Banks in respect of the housing loans given by them either directly or through the District Central Cooperative Banks/primary agricultural credit societies. So far, a few of these banks have been found eligible for availing the refinance facility from NHB. The cumulative refinance assistance extended by NHB to these banks as on June 30, 2006 stood at Rs.49.89 crore.

Primary (Urban) Co-operative Banks

4.71 The Scheduled Primary (Urban) Cooperative Banks are also eligible to avail refinance assistance from NHB provided they meet the prescribed recovery norms. However, not many of these banks have been in a position to avail refinance assistance from NHB. During the year ended June 30, 2006, Rs. 0.50 crore was disbursed by NHB to this category of institutions as against the corresponding figure of Rs. 10 crore during the year 2004-05. The cumulative refinance assistance extended by NHB to these institutions stood at Rs.153.15 crore by June 30, 2006 and the outstanding as on June 30, 2006 was Rs.88.37 crore.

Chapter 5

Rural Housing

5.1 With nearly two thirds of its population living in rural areas, rural India is a predominant component of the Indian economy. Of the estimated population of 1027 million in India, 742 million (72.25 per cent) live in 6 lakh villages in rural India. Given the significance of rural India in the economy, development of rural areas has been recognized as a vital step to economic growth and measure for poverty alleviation. The thrust of the Government on rural development is also visible from the various efforts undertaken from time to time. However, the exponential growth in housing finance witnessed in the last few years has been largely skewed towards the urban middle and upper income groups. Further, urban areas have received the predominant share of housing finance. Rural Housing is estimated to be less than 10 per cent of the total housing finance portfolio of banks.

Initiatives of Government of India

5.2 An area of focus in the composite rural development initiative of the Government is the issue pertaining to inadequate housing. In order to address the housing shortage, the strategic approach has been to enable measures for increasing the housing stock on one hand and improve/maintain existing housing conditions on the other.

5.3 As a part of the earlier initiatives in 1980, construction of houses was included as a major activity under the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP). The Government of India launched the Indira Awaas Yojana (IAY) during 1985-86 under the flagship of RLEGP (subsequently IAY became a sub scheme of Jawahar Rozgar Yojana (JRY)) in order to address housing needs of the rural areas. Thereafter IAY was de-linked from JRY and has been made a standalone scheme.

5.4 In 1998, the Government of India announced its National Housing and Habitat Policy (NHHP) which aimed at providing "Housing for all" and facilitating construction of 20 lakh additional housing units (13 lakh in rural areas and 7 in urban areas) with emphasis on the un-served and under-served segments. With a view to achieve the objectives of the NHHP, the Government has also embarked upon other programmes such as Credit cum Subsidy Scheme for Rural Housing, Innovative Scheme for Rural Housing and Habitat Development, Rural Building Centres, Equity Contribution (by Ministry of Rural Development) to HUDCO and National Mission for Rural Housing and Habitat.

Golden Jubilee Rural Housing Finance Scheme: Performance

5.5 NHB, with the support and approval of the Government of India, launched a Rural Housing Finance Scheme on August 16, 1997 to mark the Golden Jubilee of India's Independence. Under the Golden Jubilee Rural Housing Finance Scheme (GJRHFS), NHB seeks to make available housing finance to individuals in rural areas through the intermediation of banks, housing finance companies. NHB's GJRHFS which was a major milestone in the endeavour to deliver institutional finance for housing in rural areas, has over time increased in volume and value terms.

5.6 Since it's launch in August 1997, NHB has actively sought to position Golden Jubilee Rural Housing Finance Scheme [GJRHFS] as the driver of institutional finance for rural housing. Over the years, GJRHS is the principal rural housing finance measurement of the banking system. NHB extends refinance to the various eligible primary lending institutions in respect of their housing finance disbursements to individuals in rural areas under GJRHFS.

5.7 NHB stepped up its refinance assistance for rural housing progressively in absolute terms as well as in relative terms in respect of the total disbursements.

Performance under GJRHFS

5.8 The total number of houses financed under GJRHFS by the various primary lending institutions is 16,76,229 units during the previous nine years of operation of the Scheme (1997-98 to 2005-06). This represents approximately 10 per cent of the total housing shortage of 14.1 million dwelling units in rural areas.

5.9 While GJRHFS has been considerably successful in terms of achievement of the annual targets, however, the supply side gap remains significant considering the substantial housing shortage in the rural areas. A study to review the GJRHFS, gauge its performance (in terms of quality and extent of coverage) and identify areas that needs attention to

Table 5.1 NHB's Refinance Disbursements under GJRHRS vis-à-vis Total Disbursements

[Rs. in crore]

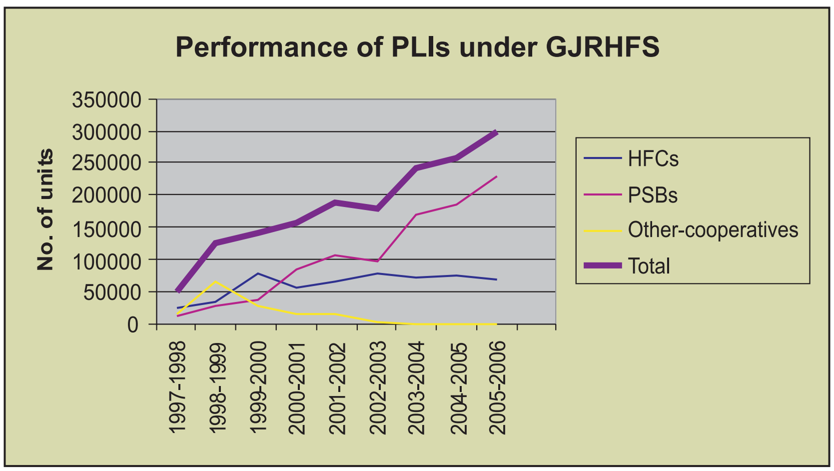
Year	Total Refinance Disbursement (1)	Refinance for Rural Housing (2)	(2) as per cent of (1)
1997-98	524.14	95.40	18.20
1998-99	747.14	229.24	30.72
1999-00	841.68	239.59	28.45
2000-01	1003.13	261.50	26.06
2001-02	1023.80	222.20	21.70
2002-03	2709.72	335.96	12.39
2003-04	3252.89	1730.54	**52.28**
2004-05	7500.00	3536.16	**47.14**
2005-06	5409.69	2609.85	**48.25**

Table 5.2 : Achievement of Targets under the Scheme

[no of units]

Year	Target (1)	Achievement (2)	(2) as per cent of (1)
1997-1998	50,000	51,272	103 per cent
1998-1999	1,00,000	1,25,731	126 per cent
1999-2000	1,25,000	1,41,363	113 per cent
2000-2001	1,50,000	1,58,426	106 per cent
2001-2002	1,75,000	1,78,983	102 per cent
2002-2003	2,25,000	1,98,830	88 per cent
2003-2004	2,50,000	2,57,715	103 per cent
2004-2005	2,50,000	2,60,930	104 per cent
2005-2006	2,75,000	3,02,979	110 per cent
Total	**16,00,000**	**16,76,229**	**105 per cent**

Chart 5.1



improve the reach of the scheme, revealed some noteworthy facts about the scheme which are listed below:

a) In the initial years of operation of the Scheme, HFCs and Co-operative Sector institutions were major contributors to the Scheme. However, since 2002-03, the major share of the achievements has been by the Public Sector Banks (PSBs) accounting for their share in the range of 65-70 per cent. This is in line with the increased thrust of PSBs on housing finance in general.

b) The PSBs have consistently surpassed their annual targets during the last five years. The scale of achievement of HFCs has been in the range of 65-90 per cent of their targets during the same period. The contribution of the Co-operative Sector institutions in the overall achievement of the targets has gradually declined over the last few years.

Table 5.3 Performance of HFCs and PSBs under GJRHFS

[No of Units]

	Public Sector Banks			Housing Finance Companies		
	Target	Achievement	Percentage achieved	Target	Achievement	Percentage achieved
2001-02	83,100	99,949	120 %	88,800	64,104	72 %
2002-03	1,06,300	1,16,569	110 %	1,02,400	80,163	78 %
2003-04	1,19,275	1,77,171	149 %	1,26,000	79,668	63 %
2004-05	1,57,750	1,83,695	116 %	92,250	76,936	83 %
2005-06	1,92,500	2,29,055	119 %	82,500	73,924	89 %

Source: Annual returns submitted by 44 major HFCs to NHB

c) The aggregate disbursement of PSBs and HFCs under the Scheme has been to the order of 10 per cent of their total housing finance disbursements during the last four years. (See Chart 5.2)

Table 5.4 Amounts Disbursed under GJRHFS

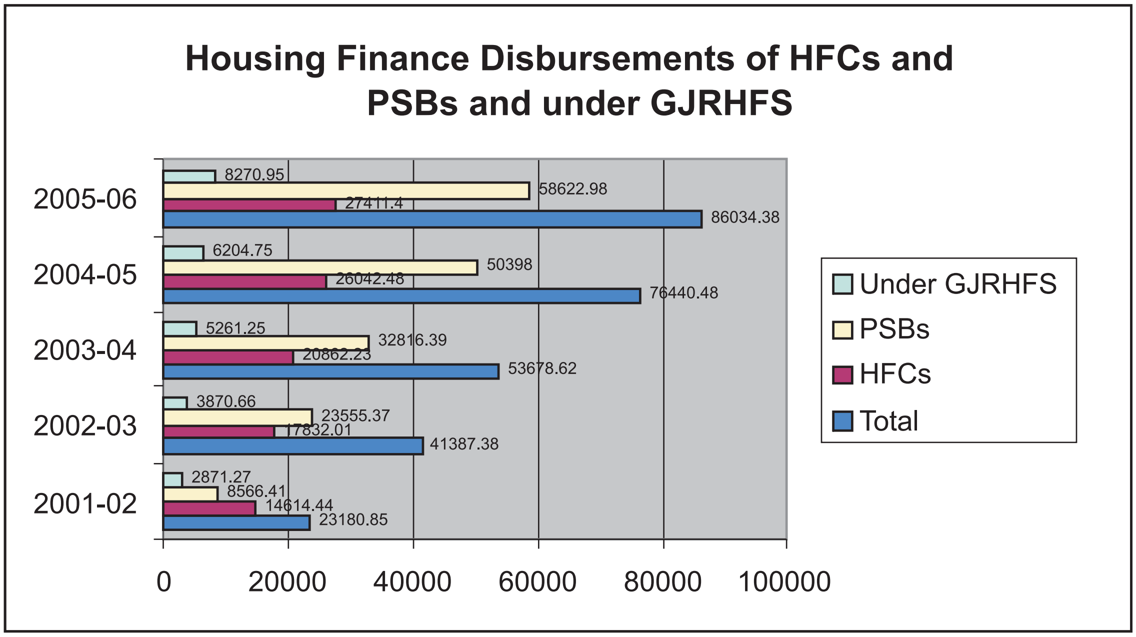
[Amount in Rs. crore]

	Total	PSBs	HFCs
2001-02	2871.27	1612.05	1259.22
2002-03	3870.66	2149.22	1721.44
2003-04	5261.25	3196.83	2064.42
2004-05	6204.75	3892.73	2312.02
2005-06	8270.95	5458.79	2812.16

Table 5.5 Total Housing Finance Disbursements vis-à-vis GJRHFS

	Disbursement by				
	HFCs (1)	PSBs (2)	Out of (1) & (2) Disbursement under GJRHFS (3)	Total Disbursement (1) + (2) = (4)	Percentage under GJRJFS (4)/(3)
2001-02	14614.44	8566.41	2871.27	23180.85	12 per cent
2002-03	17832.01	23555.37	3870.66	41387.38	9 per cent
2003-04	20862.23	32816.39	5261.25	53678.62	9 per cent
2004-05	26042.48	50398.00	6204.75	76440.48	8 per cent
2005-06	27411.4	58622.98	8270.95	86034.38	9 per cent

Chart 5.2



d) The average loan size under the Scheme has increased from Rs.1.75 lakhs in 2001-02 to Rs.2.73 lakhs in 2005-06 registering a rise of 56 per cent. The average loan size of PSBs has increased from 1.61 lakhs to Rs. 2.38 lakhs and for HFCs the increase has been from 1.96 lakhs to 3.8 lakhs during the same period. The rise in loan amount can be attributed mainly to the rise in costs of land and construction.

e) The geographical dispersion of borrowers under the Scheme has both in terms of number of units financed as well as amounts disbursed has mainly been concentrated in four Southern States (approximately 50 per cent).

f) The reach of the PSBs as compared to the HFCs is deeper and more widespread.

g) An increasing trend in terms of number of units financed has been observed in the States of Andhra Pradesh, Uttar Pradesh, Rajasthan, Himachal Pradesh, Uttaranchal, Gujarat, Madhya Pradesh, Chattisgarh, Assam, Bihar and Chandigarh.

Table 5.6: Average Loan Amounts Disbursed under GJRHFS

[Rs. in lakhs]

	Public Sector Banks	Housing Finance Companies	Total
2001-02	1.61	1.96	1.75
2002-03	1.84	2.15	1.97
2003-04	1.8	2.59	2.04
2004-05	2.12	3	2.38
2005-06	2.38	3.8	2.73

Table 5.7 Geographical Dispersion of Borrowers under GJRHFS

In per-centage	2005-06		2004-05		2003-04		2002-03		2001-02	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
South	47	52	48	54	41	46	52	54	48	54
East	17	11	19	14	29	20	11	8	17	12
North	20	19	18	16	13	14	14	15	13	13
West	16	18	15	16	17	20	23	23	22	21
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

h) Majority of the borrowers (80 per cent) of the PSBs are concentrated in the deep rural areas (where the population is less than 10,000) and the remaining 20 per cent are on the urban fringes (where the population does not exceed 50,000). In respect of borrowers of HFCs, it is observed that about 80 per cent of the borrowers are on the urban fringes and the remaining 20 per cent in the deep rural areas.

5.10 Profile of the Borrowers *(based on data from HFCs and PSBs during 2002-03 to 2005-06)*

a) Loan Purpose: Majority of the loans by both PSBs and HFCs are for new construction to the extent of 82 per cent by PSBs and 89 per cent by HFCs, while the remaining is towards upgradation/major repairs.

b) Occupation of Borrowers: The single largest category of borrowers of both PSBs and HFCs is the salaried class (to the extent of 46 per cent in respect of PSBs and 82 per cent in respect of HFCs). Approximately 35 per cent of the PSB borrowers have agriculture based income as against only 1 per cent for HFCs. The balance 17-20 per cent of the borrowers are self employed mainly being traders.

c) Gender: 55-60 per cent of the HFC borrowers or co-applicants are women, as compared to 20-25 per cent in respect of PSBs. Over the period, the percentage share of women applicant has been showing an increasing trend.

d) Loan Size: 53 per cent of the loans extended by PSBs is upto Rs. 2 lakhs. 48 per cent of the loans extended by HFCs are between Rs.2-5 lakhs. The percentage of borrowers availing housing loan of Rs. 5 lakhs and above is 19 per cent and 6 per cent for HFCs and PSBs respectively.

e) Income to Installment Ratio: About 40 per cent and 35 per cent of the borrowers of PSBs and HFCs respectively have family income upto Rs.4,200 p.m. Majority of the borrowers have family income between Rs.4,200-12,500 per month.

5.11 Asset Quality *(based on data from HFCs and PSBs during 2002-03 to 2005-06)*

a) The asset quality under the Scheme is comparatively better in relation to the total housing loan portfolios of PSBs and HFCs. The percentage of gross NPA to gross rural housing

Table 5.8 Rates of Interest per annum

	PSBs		HFCs	
	Fixed	Floating	Fixed	Floating
2002-03	8.75-12.00 %	8.75-12.00 %	8.16-11.75 %	8.61-11.15 %
2003-04	7.75-10.50 %	7.75-10.50 %	7.96-10.50 %	8.60-10.42 %
2004-05	7.75-10.00 %	7.75-10.00 %	7.44-10.35 %	7.36-9.86 %
2005-06	7.75-10.00 %	7.75-10.00 %	8.31-9.85 %	7.60-10 %

loans is in the range of 0.35 per cent to 3.50 per cent for major HFCs and has been showing a declining trend. This varies between 1.1-3.57 per cent in respect of PSBs. The higher gross NPA in respect of rural housing loans of PSBs can be mainly attributed on account of their wider lending reach in deep rural areas.

b) The Income Instalment Ratio (IIR) and Loan to Value Ratio (LTV) in respect of PSBs and HFCs ranges between 29-35 per cent and 62-75 per cent respectively. This reflects fairly conservative selection of borrowers by PSBs and HFCs keeping in view their affordability.

c) The Primary Lending Institutions do not offer differential rate of interest for rural housing loans. The HFCs and the PSBs offer both fixed as well as floating interest rates under the Scheme. The rates offered by PSBs are relatively more competitive.

d) The repayment schedules under the Scheme in respect of borrowers having agriculture income have been synchronized in accordance with the crop cycles by the primary lending institutions.

e) The mortgage of property is stipulated as the primary security for availing of the loan under the Scheme.

5.12 The Golden Jubilee Rural Housing Finance Scheme has been a successful intervention and has been significantly instrumental in catalyzing institutional finance for rural housing. NHB's continued efforts under the Scheme have largely effected a gradual increase in the flow of institutional finance for rural housing in the recent years.

NHB's Initiatives

5.13 As a part of promoting holistic development of the housing sector, NHB's endeavour has been to augment the flow of housing credit in rural areas through the existing framework of institutions such as banks, housing finance companies and cooperative sector organizations. At the same time, NHB's efforts have also been directed towards building institutional capacities to meet the requirements for rural housing. NHB has also been playing a significant role facilitating coordination with State Governments in matters connected with enabling a conducive environment for the flow of institutional finance to rural areas. This includes liaison with concerned State Government authorities for remission of stamp duties, registration charges, enable clarity of land records, etc.

5.14 Besides finance, NHB has attempted to disseminate information on various aspects of housing such as planning, construction, local materials and typical designs along with specifications and information on cost. Various developmental activities associated

Box 5.1 Success Stories of GJRHFS in India

A number of success stories in implementation of GJRHFS were made available. A select few are as under:

a) Ms Radha Mani, age 42, Village Poorvachal, Kerala, has availed a housing loan of Rs. 50,000/- under GJRHFS. Prior to availing the housing loan she was staying in a mud house alongwith her husband (a unskilled brick kiln laborer) and two children. She operates a tailoring unit from her new house and indicates that business has gone up considerably. She now plans to avail a loan for her tailoring unit.

b) Shri Tajuddin Mohammad & Mrs Abida Taj in Karnataka, who were staying in a rented accommodation have availed finance under the Scheme to build their own house. Now they are staying in their own house and saving on the rent.

with the Scheme such as capacity building programmes and liaison with the Central and State Governments for enabling provisions (stamp duty, registration charges, land records etc) was also undertaken by NHB to promote fund flow to the rural areas.

5.15 In 2005-06, NHB embarked on developing new products for rural housing as part of its strategy to focus on new product development to impart renewed thrust on the unserved and underserved business segments. NHB formulated two products viz. Productive Housing in Rural Areas (PHIRA) and Top Up loan Indira Awas Yojna (IAY). PHIRA envisages the provision of a composite loan comprising of housing loan together with a loan for an income generating activity to enable home based workers, mainly women, augment their income by undertaking productive activity at their homes. NHB has entered into Memoranda of Cooperation with State Bank of India, Oriental Bank of Commerce, United Bank of India and Dhan Foundation for taking forward these schemes to the target beneficiaries. The Top Up loan to IAY envisages provision of refinance to commercial banks for grant of loans to beneficiaries under IAY who require additional amount over and above the IAY assistance for constructing these houses.

5.16 NHB's rural finance product range has been widened from the existing Golden Jubilee Rural Housing Refinance programme which is in operation since 1997. NHB's innovative PHIRA is aimed at home based workers enabling them to carry on income generating activities in separate work area with beneficial effect on the family and potential for higher income generation.

Table 5.9 - Summary of Lending Practices and Profile of Borrowers of PSBs and HFCs

Average (2002-2006)		**PSBs**	**HFCs**
Income to Installment Ratio		29-30 per cent	35-36 per cent
Loan to Value Ratio		69-70 per cent	72-75 per cent
Average Loan Size (percentage)			
	Upto Rs. 2 lakhs	53 per cent	33 per cent
	Rs.2-5 lakhs	41 per cent	48 per cent
	Rs 5-15 lakhs	6 per cent	19 per cent
Type of Construction			
	New Construction	82 per cent	89 per cent
	Upgradation	18 per cent	11 per cent
Women Applicants/ Co-applicants (percentage)			
		24 per cent	58 per cent
Loans as per profession			
	Salaried	46 per cent	82 per cent
	Agriculture	34 per cent	1 per cent
	Self employed	20 per cent	17 per cent
Income Classification of Borrowers (family income per month)			
	Upto Rs. 1,600	5 per cent	5 per cent
	Rs.1,601-4,200	38 per cent	32 per cent
	Rs. 4,201-11,600	52 per cent	35 per cent
	Rs.11,601-25,000	5 per cent	21 per cent
	Above Rs.25,000	Less than 0.3 per cent	7 per cent

Rates of Interest				
	PSBs		**HFCs**	
	Fixed	**Floating**	**Fixed**	**Floating**
2002-03	8.75-12.00 per cent	8.75-12.00 per cent	8.16-11.75 per cent	8.61-11.15 per cent
2003-04	7.75-10.50 per cent	7.75-10.50 per cent	7.96-10.50 per cent	8.60-10.42 per cent
2004-05	7.75-10.00 per cent	7.75-10.00 per cent	7.44-10.35 per cent	7.36-9.86 per cent
2005-06	7.75-10.00 per cent	7.75-10.00 per cent	8.31-9.85 per cent	7.6-10 per cent

Security Offered	Mortgage and in certain PSBs no primary security for loans upto Rs. 1.00 lakh	Mortgage of property

Market Segmentation
As can be observed from the above parameters, the PSBs and the HFCs have very distinct market segments in terms of financing for new/upgradation cases, outreach, loan size, profession of the borrowers as well as income of the borrowers.

Box 5.2 Productive Housing in Rural Areas (PHIRA)

The Concept

Houses in rural areas are predominantly used both for residential & livelihood activities and therefore, a house is more than a shelter. Housing can be a potential platform and an income generation asset. With the objective of developing of a single point delivery for housing and productive loans, to the hitherto unserved and underserved segments in rural areas, NHB has designed a composite loan product for housing and income generation *viz.,* Productive Housing in Rural Areas (PHIRA).

The purpose of this composite loan is to provide financial assistance for construction of house/incremental housing and repairs and augmenting income generating activity in any of the following categories so as to enable the borrower to repay the loan.

- Small business/ Trade,
- Tiny/ cottage industry or service activity,
- Artisan activities,
- Agricultural and allied activities
- Diary activities
- Poultry & Piggery activities
- Any other productive activity.

For the purpose of implementation of this Scheme, NHB would partner with Banks, Housing Finance Companies (HFCs), Regional Rural Banks (RRBs), MFIs, NGOs. NHB would provide the housing loan component through the partner institutions having reach in rural areas by way of 100 per cent refinance. The productive loan component is to be provided by the partner institution.

For this purpose, NHB has signed Memorandum of Cooperation with several leading Banks having good network in the rural areas.

Salient Features of PHIRA

- **Loan Amount :** Not exceeding Rs. 75,000 of which
  - » 70 per cent for Housing
  - » 30 per cent for Income generating activity
- **Additional Loan :** After a minimum 2 years of track record for
  - » home upgradation
  - » expansion of productivity activity
- **Interest Rate :** Market related
- **Tenure :** Not exceeding 15 years with moratorium of 1 year on repayment of principal
- **Security :**
  - » Mortgage of property
  - » Hypothecation of current assets
  - » Personal / Group Guarantee
  - » Escrow of income inflows
- Life Insurance cover could also be available from insurance company
- Premium to be borne by borrower

Annexure-I : Indira Awas Yojana - State wise Physical Progress 2005-06

Name of State/UT	Number of Houses	
	Target	Constructed/upgraded
Andhra Pradesh	130130	132521
Arunachal Pradesh	4603	5327
Assam	101790	104353
Bihar	384111	331651
Chattisgarh	20124	26578
Goa	801	615
Gujarat	63819	65602
Haryana	8960	9743
Himachal Pradesh	2873	3031
Jammu & Kashmir	8924	8231
Jharkhand	34261	75403
Karnataka	50136	56944
Kerala	27880	36413
Madhya Pradesh	40022	59420
Maharashtra	78478	94054
Manipur	3996	4962
Meghalaya	6959	6678
Mizoram	1483	2182
Nagaland	4605	7949
Orissa	75465	87070
Punjab	11081	7868
Rajasthan	32070	38471
Sikkim	881	1296
Tamil Nadu	52101	66434
Tripura	8967	11902
Uttar Pradesh	172527	185541
Uttaranchal	7863	21722
West Bengal	104098	99259
Andaman & Nicobar Island	1238	90
Dadra & Nagar Haveli	206	101
Daman and Diu	92	6
Lakshadweep	80	48
Pondicherry	617	238
Total	**1441241**	**1551703**

Source: Ministry of Rural Development, GOI Annual Reports

Annexure-II : State Run Housing Schemes - State wise Physical Progress 2005-06

Name of State/UT	Number of Houses	
	Constructed/upgraded during 2005-06	Cumulative during 2001-06
Andhra Pradesh	434002	1376675
Gujarat	40397	174353
Himachal Pradesh	4541	10714
Jammu & Kashmir	641	4672
Jharkhand	971	14115
Karnataka	93591	702527
Kerala	56174	261207
Maharashtra	-	8400
Punjab	-	15066
Sikkim	950	23050
Tamil Nadu	90437	90437
Uttaranchal	5639	6270
Pondicherry	460	11722
Total	727803	2699208

Source: Ministry of Rural Development, GOI draft Technical Report

Annexure-III : EWS Housing under 20 Point Programme - State wise Physical Progress 2005-06

Name of State/UT	Number of Houses Constructed / upgraded	
	Target	Achievement (upto November 2005)
Andhra Pradesh	14774	46480
Assam	462	38
Bihar	198	14
Chattisgarh	2000	2777
Gujarat	500	856
Haryana	1000	0
Jammu & Kashmir	532	296
Karnataka	5000	5942
Kerala	4657	784
Maharashtra	653	102
Manipur	180	0
Mizoram	120	0
Orissa	269	90
Punjab	2850	0
Rajasthan	1500	551
Sikkim	9	0
Tamil Nadu	5000	2098
Tripura	530	0
Uttar Pradesh	3000	1953
West Bengal	39	0
Daman & Diu	3	0
Pondicherry	140	0
Total	43416	61981

Source: Ministry of Rural Development, GOI draft Technical Report

Annexure-IV : LIG Housing under 20 Point Programme - State wise Physical Progress 2005-06

Name of State/UT	Number of Houses Constructed / upgraded	
	Target	Achievement (upto November 2005)
Andhra Pradesh	10612	3576
Assam	12	0
Bihar	79	0
Chattisgarh	1000	735
Gujarat	150	0
Haryana	332	0
Kerala	1547	1424
Maharashtra	2690	390
Manipur	187	0
Mizoram	160	0
Orissa	16	0
Punjab	1800	0
Rajasthan	100	30
Tamil Nadu	4064	2064
Uttar Pradesh	530	438
West Bengal	959	0
Pondicherry	120	0
Total	**24358**	**8657**

Source: Ministry of Urban Employment & Poverty Alleviation, GOI Annual Report

Annexure-V : Growth of Population and its share in Rural and Urban Areas: 1901-2001

(in million)

Year	Total	Rural	Urban
1901	238.4	212.6 *(89.2%)*	25.8 (10.8%)
1911	252.1	226.2 *(89.7%)*	25.9 (10.3%)
1921	251.3	223.2 *(88.8%)*	28.1 (11.2%)
1931	278.9	245.5 (88.0%)	33.4 (12.0%)
1941	318.6	274.5 (86.2%)	44.1 (13.9%)
1951	361.1	298.7 *(82.7%)*	62.4 (17.3%)
1961	439.2	360.3 *(82.0%)*	78.9 (18.0%)
1971	548.2	439.1 *(80.1%)*	109.1 (19.9%)
1981@	683.3	523.8 *(76.6%)*	159.5 (23.3%)
1991*	846.3	628.7 *(74.3%)*	217.6 (25.7%)
2001	1028.6	742.5 *(72.2%)*	286.1 (27.8%)

Source: Ministry of Urban Employment and Poverty Alleviation - Annual Report 2005-06
Figures in bracket indicates the percentage share in total
@ includes projected population of Assam where 1981 census was not conducted
** Includes projected population of J & K where 1991 census was not conducted*

Annexure-VI : Annual Exponential Growth Rate of Population in Rural and Urban Areas: 1901 - 2001

Census Year	Annual Exponential Growth Rate		
	Total	Rural	Urban
1901-11	0.55%	0.62%	0.03%
1911-21	- 0.03%	- 0.13%	0.79%
1921-31	1.04%	0.95%	1.75%
1931-41	1.33%	1.12%	2.77%
1941-51	1.25%	0.84%	3.47%
1951-61	1.96%	1.88%	2.34%
1961-71	2.22%	1.98%	3.24%
1971-81	2.20%	1.77%	3.81%
1981-91	2.14%	1.82%	3.09%
1991-2001	1.93%	1.67%	2.71%

Source: NBO, MH&UPA, GOI publication 2006

Annexure-VII : Decennial Growth Rate of Population in Rural and Urban Areas: 1901 - 2001

(in million)

Year		Decennial Growth Rate of Population				
	Total	%age Growth	Rural	%age Growth	Urban	%age Growth
1901	238.4	-	212.6	-	25.8	-
1911	252.1	**05.75**	226.2	**06.40**	25.9	**00.39**
1921	251.3	**- 00.32**	223.2	**- 01.33**	28.1	**08.49**
1931	278.9	**10.98**	245.5	**09.99**	33.4	**18.86**
1941	318.6	**14.23**	274.5	**11.81**	44.1	**32.04**
1951	361.1	**13.34**	298.7	**08.82**	62.4	**41.50**
1961	439.2	**21.63**	360.3	**20.62**	78.9	**26.44**
1971	548.2	**24.82**	439.1	**21.87**	109.1	**38.28**
1981@	683.3	**24.64**	523.8	**19.29**	159.5	**46.20**
1991*	846.3	**23.85**	628.7	**20.03**	217.6	**36.43**
2001	1028.6	**21.54**	742.5	**18.10**	286.1	**31.50**

Source: NBO, MH&UPA, GOI publication 2006

@ includes projected population of Assam where 1981 census was not conducted

** Includes projected population of J & K where 1991 census was not conducted*

Annexure-VIII : State/UT wise total and urban population: 1991-2001

(in million)

Name of State/UT	Total Population		Urban Population	
Year	1991	2001	1991	2001
Jammu & Kashmir	7.12	10.14	1.84	2.52
Himachal Pradesh	5.17	6.08	0.45	0.60
Punjab	20.28	24.36	5.99	8.26
Chandigarh	0.64	0.90	0.58	0.81
Uttaranchal*	-	8.49	-	2.18
Haryana	16.46	21.14	4.05	6.12
Delhi	9.42	13.85	8.47	12.91
Rajasthan	44.01	56.51	10.07	13.21
Uttar Pradesh	139.11	166.20	27.61	34.54
Bihar	86.37	83.00	11.35	8.68
Sikkim	0.41	0.54	0.04	0.06
Arunachal Pradesh	0.86	1.10	0.11	0.23
Nagaland	1.21	1.99	0.21	0.34
Manipur	1.88	2.17	0.51	0.58
Mizoram	0.69	0.89	0.32	0.44
Tripura	2.76	3.20	0.42	0.55
Meghalaya	1.77	2.32	0.33	0.45
Assam	22.41	26.66	2.49	3.43
West Bengal	68.08	80.18	18.71	22.42
Jharkhand*	-	26.95	-	5.99
Orissa	31.66	36.80	4.23	5.52
Chattisgarh*	-	20.83	-	4.19
Madhya Pradesh	66.18	60.35	15.34	15.97
Gujarat	41.31	50.57	14.25	18.93
Daman and Diu	0.10	0.16	0.05	0.06
Dadra & Nagar Haveli	0.14	0.22	0.01	0.05
Maharashtra	78.94	96.88	30.54	41.10
Andhra Pradesh	66.51	76.21	17.89	20.81
Karnataka	44.98	52.85	13.91	17.96
Goa	1.17	1.35	0.48	0.67
Lakshadweep	0.05	0.06	0.03	0.03
Kerala	29.10	31.84	7.68	8.27
Tamil Nadu	55.86	62.41	19.08	27.48
Pondicherry	0.81	0.97	0.52	0.65
Andaman & Nicobar Island	0.28	0.36	0.07	0.12
Total	**846.3**	**1028.61**	**217.61**	**286.12**

Source: NBO, MH&UPA, GOI publication 2006
** These states were not in existence in 1991 census.*

Annexure-IX : Housing Stock (Residential): 1961-2001

(in million)

Year	All India	Rural	Urban
1961	79.4	65.2 (*82.1%*)	14.2 (*17.9%*)
1971	93.0	74.5 (*80.1%*)	18.5 (*19.9%*)
1981	116.7	88.7 (*76.0%*)	28.0 (*24.0%*)
1991	148.0	108.7 (*73.4%*)	39.3 (*26.6%*)
2001	187.1	135.1 (*72.2%*)	52.0 (*27.8%*)

Source: NBO, MH&UPA, GOI publication 2006
Figures in bracket represent per cent to total

Annexure-X : Trend in Number of Households and Persons per Dwelling Unit: 1961-2001

Year	Number of Households per DU			Number of Persons per DU		
	Total	Rural	Urban	Total	Rural	Urban
1961	1.05	1.05	1.05	5.54	5.52	5.65
1971	1.04	1.04	1.02	5.89	5.89	5.88
1981	1.06	1.06	1.09	5.87	5.92	5.70
1991	1.03	1.02	1.03	5.72	5.72	5.49
2001	1.03	1.02	1.07	5.50	5.50	5.50

Source: NBO, MH&UPA, GOI publication 2006

Annexure-XI : Housing Shortage: 1961-2001

(in million)

Year	1961	1971	1981	1991	2001
Rural	11.6	11.6	16.3	14.7	14.1
Urban	3.6	3.0	7.0	8.2	10.6
Total	15.2	14.6	23.3	22.9	24.7

Source: NBO, MH&UPA, GOI publication 2006

Annexure-XI : State/UT wise Housing shortage: 2001

(in million)

State/UT	Housing Shortage		
	Rural	Urban	Total
Andhra Pradesh	1.27	0.95	2.22
Arunachal Pradesh	0.12	0.02	0.14
Assam	2.22	0.14	2.36
Bihar	3.95	0.35	4.30
Chattisgarh	0.02	0.08	0.10
Gujarat	0.70	0.99	1.69
Goa	0.02	0.02	0.04
Haryana	0.13	0.21	0.34
Himachal Pradesh	0.00	0.01	0.01
Jammu & Kashmir	0.11	0.07	0.18
Jharkhand	0.04	0.11	0.15
Karnataka	0.48	0.66	1.14
Kerala	0.33	0.31	0.64
Madhya Pradesh	0.05	0.39	0.44
Maharashtra	0.73	1.37	2.10
Manipur	0.05	0.03	0.08
Meghalaya	0.15	0.02	0.17
Mizoram	0.04	0.01	0.05
Nagaland	0.09	0.00	0.09
Orissa	0.49	0.37	0.86
Punjab	0.09	0.21	0.30
Rajasthan	0.14	0.30	0.44
Sikkim	0.01	0.00	0.01
Tamil Nadu	0.44	1.54	1.98
Tripura	0.18	0.03	0.21
Uttar Pradesh	1.08	1.04	2.12
Uttaranchal	0.05	0.08	0.13
West Bengal	1.09	0.64	1.73
A & N Islands	0.02	0.01	0.03
Chandigarh	0.00	0.02	0.02
Dadra & Nagar Haveli	0.00	0.00	0.00
Daman & Diu	0.00	0.00	0.00
Delhi	0.02	0.53	0.55
Lakshadweep	0.00	0.00	0.00
Pondicherry	0.01	0.03	0.04
All India	**14.12**	**10.56**	**24.68**

Source: NBO, MH&UPA, GOI publication 2006

Annexure-XII : State wise Total and Urban Estimated Population: 2007-10

(in million)

State/UT	Total Population				Urban Population			
	2007	2008	2009	2010	2007	2008	2009	2010
Andhra Pradesh	81.32	82.18	83.03	83.86	22.11	22.35	22.60	22.84
Arunachal Pradesh	1.19	1.20	1.22	1.23	0.31	0.33	0.35	0.37
Assam	29.47	29.93	30.38	30.83	4.07	4.19	4.31	4.43
Bihar	92.34	93.82	95.28	96.72	9.71	9.87	10.03	10.19
Chattisgarh	23.26	23.65	24.03	24.41	5.08	5.23	5.39	5.55
Goa	1.58	1.63	1.68	1.73	0.87	0.91	0.95	1.00
Gujarat	55.62	56.41	57.19	57.95	21.75	22.23	22.71	23.18
Haryana	23.41	23.77	24.13	24.48	7.45	7.68	7.92	8.15
Himachal Pradesh	6.49	6.55	6.61	6.67	0.68	0.70	0.71	0.73
Jammu & Kashmir	11.97	12.37	12.78	13.21	3.13	3.26	3.40	3.54
Jharkhand	29.60	30.01	30.41	30.81	6.77	6.90	7.02	7.15
Karnataka	56.78	57.40	58.01	58.61	20.37	20.78	21.19	21.60
Kerala	33.90	34.23	34.56	34.87	8.72	8.79	8.86	8.92
Madhya Pradesh	68.05	69.28	70.50	71.71	18.73	19.17	19.61	20.05
Maharashtra	105.51	106.89	108.26	109.61	47.12	48.14	49.17	50.20
Manipur	2.59	2.63	2.66	2.69	0.57	0.57	0.57	0.56
Meghalaya	2.50	2.54	2.57	2.60	0.51	0.52	0.53	0.54
Mizoram	0.97	0.98	0.99	1.01	0.50	0.51	0.52	0.53
Nagaland	2.16	2.19	2.21	2.24	0.39	0.40	0.40	0.41
Orissa	39.48	39.90	40.30	40.70	6.32	6.46	6.60	6.73
Punjab	26.29	26.59	26.89	27.18	9.66	9.89	10.13	10.37
Rajasthan	63.55	64.64	65.71	66.76	15.06	15.35	15.64	15.92
Sikkim	0.59	0.59	0.60	0.61	0.07	0.08	0.07	0.08
Tamil Nadu	65.84	66.40	66.94	67.46	32.90	33.86	34.82	35.79
Tripura	3.47	3.51	3.55	3.60	0.63	0.64	0.66	0.67
Uttar Pradesh	187.38	190.89	194.39	197.88	40.24	41.22	42.20	43.20
Uttaranchal	9.36	9.50	9.64	9.77	2.54	2.60	2.67	2.73
West Bengal	86.84	87.87	88.89	89.89	24.63	24.98	25.32	25.66
Andaman & Nicobar Island	0.40	0.41	0.42	0.43	0.15	0.15	1.16	1.17
Chandigarh	1.04	1.06	1.09	1.12	0.93	0.95	0.98	1.00
Dadra & Nagar Haveli	0.26	0.26	0.27	0.28	0.10	0.11	0.12	0.13
Daman and Diu	0.18	0.19	0.19	0.20	0.06	0.06	0.06	0.06
Delhi	16.56	17.08	17.60	18.15	15.64	16.16	16.69	17.24
Lakshadweep	0.07	0.07	0.07	0.07	0.03	0.03	0.03	0.03
Pondicherry	1.06	1.07	1.09	1.11	0.72	0.73	0.75	0.76
Total	**1131.04**	**1147.68**	**1164.13**	**1180.41**	**328.49**	**335.79**	**343.10**	**350.45**

Source: NBO, MH&UPA, GOI publication 2006

Annexure-XIII : Progress of VAMBAY Scheme: 2001-06

Year	Total Funds (Rs. crores)		Physical Achievements (in numbers)	
	Allocated	Net Releases	Dwelling Units	Toilets (TS)
2001-02	69.0	68.7	25219	4212
2002-03	256.8	193.3	105444	21398
2003-04	238.5	238.3	108276	3170
2004-05	280.6	269.4	112143	35086
2005-06	249.0	96.4	60335	381
Total	1093.9	866.1	411478	64247

LIST OF ABBREVIATIONS

ACHFS	Apex Co-operative Housing Finance Societies
AML	Anti Money Laundering
ARDB	Agriculture and Rural Development Bank
ASCI	Administrative Staff College of India
BOB	Bank of Baroda
BPL	Below Poverty Line
CAGR	Compounded Annual Growth Rate
CFT	Combating Financing of Terrorism
DRDA	District Rural Development Authority
EWS	Economically Weaker Sections
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GJRHFS	Golden Jubilee Rural Housing Finance Scheme
GJRHRS	Golden Jubilee Rural Housing Refinance Scheme
GOI	Government of India
HDFC	Housing Development Finance Corporation
HFC	Housing Finance Company
HUDCO	Housing & Urban Development Corporation
IAY	Indira Awas Yojna
IHSDP	Integrated Housing and Slum Development Programme
JRY	Jawahar Rojgar Yojna
KYC	Know Your Customer
LIG	Low Income Group
NABARD	National Bank for Agriculture and Rural Development
NBO	National Building Organisation
NHB	National Housing Bank
NHB RESIDEX	NHB Real Estate Price Index
NHHP	National Housing and Habitat Policy
NPA	Non-Performing Asset
PLI	Primary Lending Institutions
PSB	Public Sector Bank
RBI	Reserve Bank of India
REMF	Real Estate Mutual Funds
RLEGP	Rural Landless Employment Guarantee Programme
RMBS	Residential Mortgage Backed Securitisation
RML	Reverse Mortgage Loan
SBI	State Bank of India
SCB	Scheduled Commercial Bank
SCRA	Securities Contract (Regulation) Act, 1956
SEZ	Special Economic Zone
SPV	Special Purpose Vehicle
TAG	Technical Advisory Group
UT	Union Territory
VAMBAY	Valmiki Ambedkar Awas Yojana

राष्ट्रीय आवास बैंक
(भारतीय रिज़र्व बैंक के संपूर्ण स्वामित्व में)

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