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The Housing Finance Industry in India
- The Road Ahead -

July 2022

The Associated Chambers of Commerce and Industry of India

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Deepak Sood
Secretary General
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MESSAGE

With the ongoing urbanization, the demand for housing in India is ever-increasing alongside the growing population. The urbanization process is characterized by a dramatic increase in the size of cities. However, India may be said to be in the midst of a transition from a predominantly rural to a quasi-urban society.

Traditionally, banks have been the most significant player in the housing finance market, holding the bulk of India's total home loan portfolio. Banks are also responsible for disbursing a majority of the housing loans to higher-income bracket customers. Borrowing needs to be categorized under the low-income housing market and provide a significant opportunity for existing and new housing finance companies. The economically weaker section of the population is primarily dependent on informal sources of borrowing to construct houses, as it does not have access to institutional sources.

This presents a substantial opportunity for niche housing finance companies that focus on lending to lower and middle-income segments and those with an uneven income pattern. While it is significant that the government is encouraging affordable housing through various schemes, the inter-dependence of the housing finance segment with the broader financial sector and the economy at large poses a challenge for the segment's growth.

The interdependence of growth in the real estate sector with other segments of the economy necessitates a conducive policy environment, modern infrastructure and an investment-friendly climate. Housing is a multifaceted economic activity with both broad and micro-economic effects. Therefore, the regulators, lenders and other market participants play a significant role in catering to the growing housing needs. With this combined effect, it is expected that the next decade will see further augmentation in the real estate sector's contribution to GDP.

ASSOCHAM, jointly with Resurgent India, has prepared this study to outline factors that would provide impetus to the housing finance sector. We hope this paper will be helpful to policymakers and people engaged in business and academia and help foster informed debate and create the roadmap for future growth and development for the real estate sector in India.

Deepak Sood

Jyoti Prakash Gadia
Managing Director
Resurgent India Ltd.

MESSAGE

India's residential sector, which accounts for more than 80% of the country's real estate market, has witnessed a strong rebound on the heels of the pandemic. The demand has persisted despite the economic challenges brought on by high inflation. Housing demand grew across the country as a result of changing societal standards, improved labour mobility, and government initiatives, reaching its highest half-yearly level in nine years (from January to June 2022) across eight major cities.

India has a sizable untapped market for low-cost homes, which gains from a thriving housing finance sector. The government has earmarked Rs. 48,000 crore for affordable housing in 2022–2023 under PMAY (Pradhan Mantri Awas Yojana), which will go a long way towards meeting India's housing needs. The housing finance sector in India does, however, face several challenges, including inadequate infrastructural development, high cost of land acquisition, and non-availability of long-term capital for investment, all of which must be swiftly overcome.

RBI's adoption of the Co-lending Model has paved the way for a model in which non-banking finance companies (NBFCs), housing finance companies (HFCs), and banks can collaborate and enter into an agreement to perform joint origination and lending in the market. The approach envisions a joint lending process in which each partner has defined tasks and the risks and profits are shared by both co-lenders. This strategy will aid in not only leveraging the liquidity capabilities of banks and other FIs but also in making efficient use of the extensive reach of NBFCs and HFCs, making money accessible to the intended beneficiaries at a reasonable price.

This study highlights various aspects of Housing Finance Industry for ASSOCHAM conference on "HOUSING FINANCE IN INDIA: ISSUES AND SOLUTIONS" on July 13, 2022 which will shine a light on the housing finance sector in the country and would be an occasion for the stakeholders to brainstorm the enormous prospects and challenges facing the industry.

I wish ASSOCHAM all success for this conference.

Jyoti Prakash Gadia

CONTENTS

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BRIEF ON SMART CITIES PROJECTS BY "LANDMARK VICTORYONE (JV)" IN PAN INDIA

We, Landmark Victoryone JV are a rapidly growing infrastructure development Joint Venture Company. In smart cities, our principle domain is sewerage, roads, water, electrical, duct, and hydraulic infrastructure etc. Presently we have been doing Smart City Projects in Indore, Jhansi, Sagar & Trivanthapuram. The value of these Projects is app 1 K Crore.

(1) Smart City Mission - Indore Projects (2) Smart City Mission - Jhansi Projects

(3) Smart City Mission (KRFB) - Thiruvananthapuram

(4) Smart City Mission - Sagar (MP)

CHAPTER 1

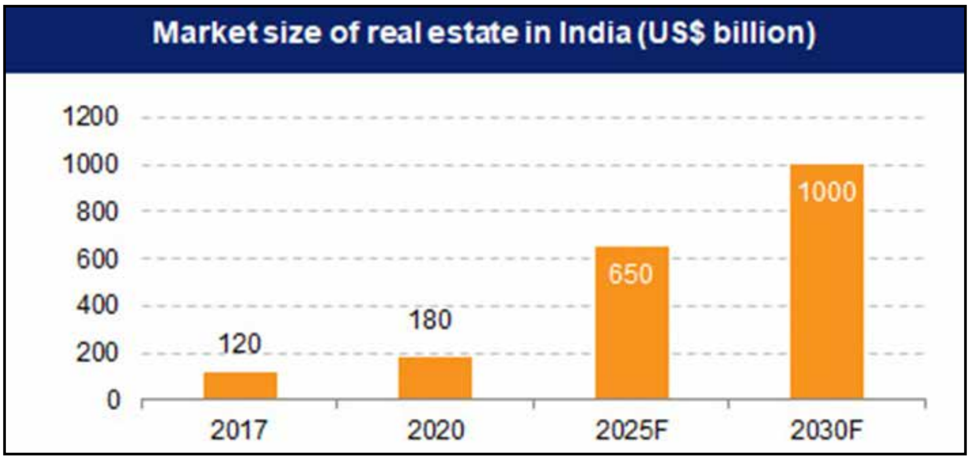
The Housing Finance Industry in India: Evolving Trends

In terms of development and maturity, the Indian financial sector has recently exhibited an encouraging trend. The amount of outstanding mortgage loans has increased by a healthy 16 per cent over the past 5 fiscal years. Rising disposable income, strong demand, and an increase in new competitors joining the market have been the main drivers of this trend.

The sector of home finance is anticipated to grow further during the following five years. The sector will expand as a result of increased accessibility, greater openness, rising urbanisation, and government incentives.

Housing demand has increased across the country as a result of changing lifestyles, societal perspectives, and expanding labour mobility. Future forecasts show that these patterns will persist. Moving into larger residences is more likely as income grows. Younger borrowers of housing loans, increased need for independent homes, government programmes to provide cheap housing, and interest concessions under the Pradhan Mantri Awas Yojana should all contribute to rising housing financing demand.

By 2040, it is predicted that the real estate market will reach Rs. 65,000 crores. This represents a considerable increase over the 2019 real estate market value, which was pegged at Rs. 12,000 crores. 13 percent of India's GDP is projected to be generated by the housing industry by 2025.



According to a recent poll, the top seven Indian cities purchased more than 1700 acres of land in the previous year. Additionally, between 2017 and 2021, foreign investors spent US$10.3 billion on commercial real estate. Other players in the housing finance sector include public and private sector banks and home finance companies. Public Sector Banks (PSBs) and Housing Finance Companies (HFCs) had around 40% and 39% of the market share, respectively, in the 2019 fiscal year.

In comparison to the needed construction pace of five dwellings per 1,000 inhabitants, about three houses are built per thousand people per year. As a result, there is a housing shortage in urban areas that is estimated to be around 10 million units. To handle the country's urban population expansion, an additional 25 million units of affordable housing will be required by 2030.

Given the growing significance of real estate in the recovery of the Indian economy, both the industry and the government have been concentrating on new developments in the house loan category since the epidemic's inception.

Let's examine these changes in more detail:

RBI streamlines the loan-to-value ratio

For all new house loans issued up until March 31, 2022, the RBI streamlined the risk weights and tied them to loan-to-value (LTV) ratios. Linking the risk weight of mortgages to LTV for all new housing loans has proven to be a smart move.

Banks and Their House Loan Book

Home loans (secured loans) have historically had the lowest delinquencies. As a result, banks provide the greatest rates to create a house loan book during times of crisis, rather than focusing on unsecured lending books such as personal loans and credit cards. From the perspective of the banks, home loans are a safer proposition.

Loan Moratorium

A loan moratorium was implemented to give a temporary reprieve from repayments to borrowers who had been hurt by the outbreak. Restructuring, partial pre-payments and switching to fixed rate loans are other options for relieving borrowers of the stress of hefty EMIs.

Digital Banking

Banks quickly took advantage of the growing demand from millennials for home loans by setting up online channels to speed up loan distribution. Many banks and financial institutions have introduced digital initiatives to help customers get loans more quickly and go forward with their plans to buy a home.

Government Initiatives

Working with state governments, the Union government has taken a number of steps to promote industry growth. Real estate firms may make use of the Smart City Project, which aims to build 100 smart cities.

The Pradhan Mantri Awas Yojana received Rs. 48,000 billion from the Union Budget 2022–2023 announced by the finance minister (PMAY). Additionally, it facilitated quicker urban housing approvals.

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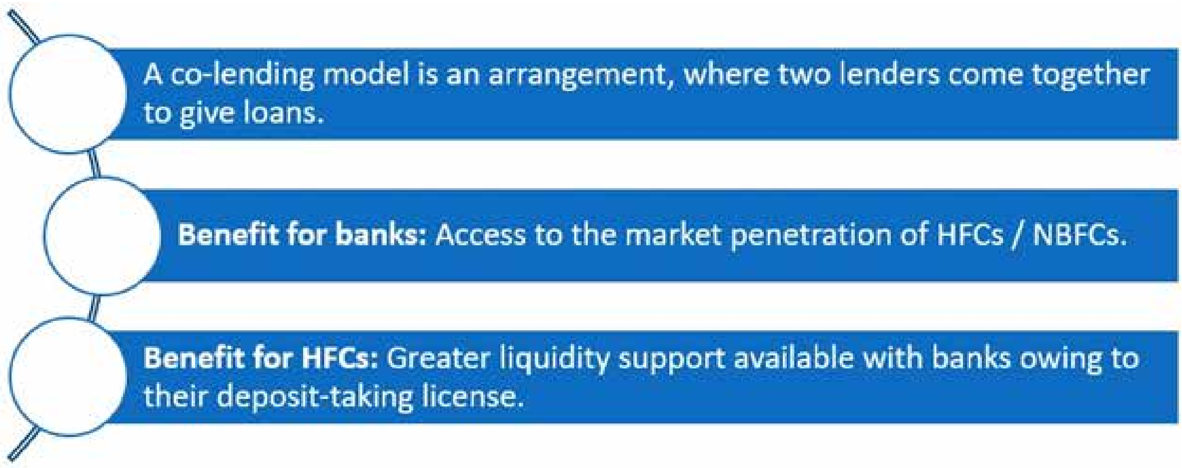
CHAPTER 2

Leveraging The Co-Lending Method

The Reserve Bank of India has undertaken numerous initiatives to enhance and facilitate flow of credit to various sectors and parts of the economy in order to facilitate greater financial inclusion. It has put in a special effort to make sure that financial services and credit flow continue all the way to the last mile. In this regard, RBI's adoption of the Co-lending Model has paved the way for a model in which non-banking finance companies (NBFCs), housing finance companies (HFCs), and banks can collaborate and enter into an agreement to perform joint origination and lending in the market. The approach envisions a joint lending process in which each partner has defined tasks and the risks and profits are shared by both co-lenders. This strategy will aid in not only leveraging the liquidity capabilities of banks and other FIs but also in making efficient use of the extensive reach of NBFCs and HFCs, making money accessible to the intended beneficiaries at a reasonable price.



The following are the key points for co-lending:

- The co-lending initiative for banks and NBFCs has been approved by the RBI. The plan intends to increase the flow of credit to the economy's underserved and neglected sectors while also giving borrowers access to cash at reasonable rates. The co-lending idea seeks to provide the borrower with the best of both worlds: lower interest rates and greater loan availability. Banks keep 80 per cent of the loan on their books, while NBFCs have the remaining 20% on their records.

- Before banks and NBFCs can commence co-lending, they must first sign a master agreement. The terms and conditions of the agreement should include the arrangement's terms and conditions, the criteria for selecting partner institutions, the specific product lines and areas of operation, segregation of responsibility provisions, and consumer interface and protection issues.
- Customers will only need to communicate with one person at the NBFC. With the borrower, the NBFC will enter into an agreement that outlines the conditions of the arrangement and the duties of the banks and NBFCs.
- Lenders must obtain the unqualified consent of borrowers and fully disclose the terms of the contract to them.
- Lenders will charge an all-inclusive rate, which has to be agreed upon by both NBFCs and banks. For loans issued under the agreement, both banks and NBFCs must follow the fair practices guideline.
- Through suitable information-sharing agreements with the bank, the NBFC should generate a single unified customer statement.
- For grievance redress, the co-lenders shall make appropriate arrangements to resolve any complaint filed by a borrower with the NBFC within 30 days.
- If financial institutions fail to address borrowers' complaints, they can file a complaint with the banking ombudsman, the ombudsman for NBFCs, or the RBI's customer education and protection cell.
- The co-lending banks and NBFCs will keep track of each borrower's account for their individual exposures. All financial transactions (disbursements and repayments) between banks and NBFCs for co-lending must go via an escrow account kept with the bank in order to prevent money from being mixed up.
- In the event that the partnership is terminated, both partners must create a business continuity strategy to ensure that their borrowers get ongoing services until the loans are repaid.

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CHAPTER 3

Refinancing and Securitization

Uncertainty in the business climate, ongoing rivalry, rising inflation, and a shortage of available financial and investment resources in the absence of own money encourage economic entities (both financial and real) to look for innovative ways to raise additional finance. Securitization, as a new instrument for structured financing on favourable terms that allow for the issuance and selling of asset-backed securities, becomes immensely essential in this setting.

Refinancing your home loan is the same as a home loan balance transfer. It simply refers to the ability to move to a different lender with a reduced home loan interest rate. You can transfer your home loan balance from one housing finance firm to another utilising a home loan balance transfer. When the entire unpaid main loan amount is transferred to another home loan finance firm for a reduced home loan interest rate or to receive a top-up on the original loan amount, this is known as a home loan transfer. The unpaid money is returned to the financial institution that initially issued the credit to you, and you must now pay your EMIs at the new rate to the financial institution that has taken over the debt.

The Advantages of Refinancing

Lower Interest Rates: One of the main motives for borrowers to change lenders for their home loans is to obtain a better interest rate. A borrower may be recommended to apply for a new loan if they are currently paying a higher interest rate on their existing home loan than another lender.

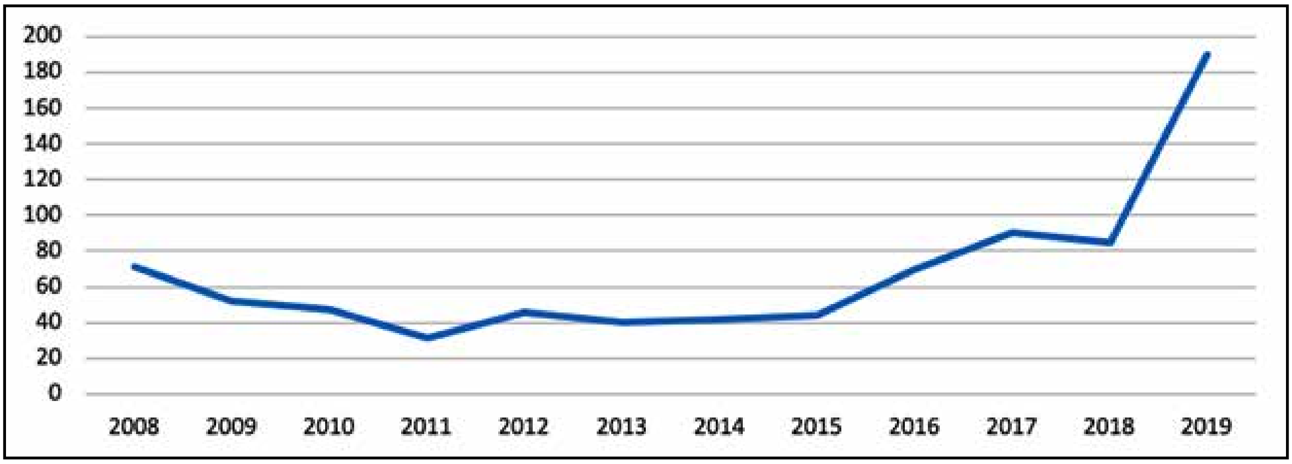
You should aim to shorten the loan period because the number of EMI payments you make is inversely connected to the length of the loan. Lower EMIs are associated with longer loan terms, and the contrary is also true. The total amount of interest paid is also influenced by how long the loan has been in existence. A longer tenure results in overall higher interest payment.

Get a second loan: You may be eligible for a second loan in addition to a mortgage with a lower interest rate for purposes like enlargement, remodelling, or registration. Only when lower rates outweigh the risks should a top-up loan be taken into consideration.

Increase your financial diversification by using a balance transfer on your mortgage to lengthen the loan's duration and reduce your monthly payments. This is a viable option if you discover a better investment and want to transfer some of your payments to it.

The market becomes more liquid and the risk is decreased when a bank pools several illiquid assets and creates a security that can be bought or sold on the financial markets. This is known as securitization.

In India, there are three primary areas where securitization is required: mortgage-backed securities (MBS), infrastructure, and other asset-backed securities (ABS). Financial institutions/banks have made significant headway in financing projects in the housing and infrastructure sectors, according to reports. Securitization and other related mechanisms must therefore be created so that Financial Institutions/Banks can discharge their original risk and make place for future project finance.



The securitization is carried out through a trust arrangement, and the underlying assets are sold to a trustee in India. A trustee has the authority to own a property that is distinct from his own or other trust holdings, even if a trust is not a legally recognized entity. The trust is therefore referred to as an SPV (Special Purpose Vehicle) (SPV). The SPV either issues "Pay Through Securities (PTS)" or "Pass-Through Securities." Pass-Through Securities provide investors a beneficial interest in the underlying assets held by the trustee.

Recent years have seen substantial developments in securitization and direct assignments, which have been supported by commercially astute rules and regulations, such as the IBC, stamp duty reductions, and intermittent changes to the RBI's guidelines.

Securitization continues to pique the interest of banks, NBFCs, and financial institutions looking to achieve their minimum priority sector lending requirements. NBFCs remain the primary originators due to their greater access to these sectors, whilst banks with a smaller branch network frequently prefer to meet their priority sector lending commitments by investing in securitizations rather than originating loans directly to this sector. Securitization gives investors and assignees access to a broader asset base across sectors, allowing risk diversification.

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CHAPTER 4

Product Solutions For Housing Finance

The majority of individuals may only realise their ambition of owning a home thanks to a home loan. This is due to the escalating cost of real estate in India. Lenders in India now provide a variety of housing finance solutions to better satisfy the demands of the borrowers.

People now have a wide range of expectations for a house loan nowadays. Several banks provide particularly designed house loans for women, agriculturalists, and loans just for the acquisition of land, to name a few.

Let's read about the type of home loans available and deeper understand their use in the Indian context.

1. Loan for purchasing a piece of land

Buyers can complete a flexible transaction with the aid of a loaned piece of land. As soon as the buyer has enough money, land can be utilised for a variety of purposes or used to build a house. A number of institutions provide financing for land purchases up to 80% to 85% of the plot's cost. Banks or NBFCs both provide these loans.

2. Loan for constructing a house

This financing is specifically intended for persons who would like to build a home from its foundation rather than purchase one that has already been built. This sort of loan has a distinct approval procedure since it also considers the plot cost along with the cost of the house. A preliminary estimation of the building costs is used to determine the loan amount; before intending the loan, the buyer must purchase the plot as well. The money may be given out entirely at once or in several payments. Popular house building financing programmes include those provided by Canara Bank, UCO Bank, and Bank of Baroda.

3. Loan for purchasing a house

The majority of individuals choose this kind of loan. This loan is also often available and is provided in a variety of ways by several banks. Many banks are providing loans for 85% of the entire amount in this instance as well. Most individuals choose this form of financing because it is simpler to buy a ready-to-move-in property and renovate or decorate it than to build a house from the ground up.

4. Loan for extension of property

This is a straightforward loan that allows homeowners to borrow money if they wish to expand their current property. You could wish to build a garage or add an additional bedroom to the house, for instance. Since they provide building loans and assist you in modifying your present structure, Bank of Baroda and HDFC Home Extension Loan are well-liked options in this area.

5. Loans for improvement of houses

Homeowners who want to improve their homes might also get a loan for it. Your home will appear better after remodelling and repair projects include painting, interior and exterior repair, the building of an above water tank, and electrical work. Banks like Union Bank of India and Vijaya Bank, however, provide specialist home improvement loans if you lack the funds for repairs and renovations.

6. Loans for conversion of homes

Property conversion loans allow people who have previously taken out a mortgage but wish to move into a new home to transfer their existing loan to the new home. Borrowers are not required to pay off their old mortgage when they finance the purchase of a new house. Although it provides ease, this type of house loan is also highly pricey, thus few people choose it. Additionally, a lot of individuals in India choose to stay in their current home for many years before relocating to another. Affordable housing is more important to the lowest classes of society than the desire to move.

7. Loans against the property

People may have to choose personal loans or other loans owing to current circumstances. The majority of the time, people borrow money against their property in order to get the cash they need. It is classified as a secured loan and is disbursed against the security or guarantee of the borrower's legally owned property, sometimes known as a mortgage loan. Even if loans against property may not provide attractive interest rates on par with housing loans, they are unquestionably less expensive than personal loans. When a loan is secured by real estate, the lender retains conditional ownership of the borrower's assets up until the debt is fully repaid. The borrower is eligible for a loan amount equal to the property's worth less the lender's margin. These loans also provide bigger amounts at cheaper interest rates and longer payback terms.

8. Loans for NRIs

The requirements and application process for this sort of loan are distinct from those for other types since it is specifically created to assist non-resident Indians in purchasing residential property in India. NRI loans are often a part of the home loan portfolio offered by the majority of commercial and public sector banks.

Housing is one of the most important essentials in life, as we've already mentioned. Indians generally spend their entire savings on a home. It is best to choose the loan that can be repaid promptly and painlessly after giving it great thought.

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CHAPTER 5

Reaching Out to the Unserved and the Underserved

Real estate and residential properties are in high demand in India. The Indian government has continuously expanded the Pradhan Mantri Awas Yojana, which promises to offer "housing for everyone," despite the fact that funding continues to be a significant hurdle to the sector's overall growth. The government intends to administer funding for the construction of 80 lakh dwellings in 2022–2023, according to this year's Union Budget.

India's housing finance sector has expanded at a 15 percent CAGR over the past six years, despite having a low mortgage loan to GDP ratio of 10.4%. The range for wealthy nations is between 30 and 60%.

The lending ceilings for the home loans with affordable housings have been raised under the priority sector lending programme from Rs. 20 lakh to Rs. 25 lakh and from Rs. 28 lakh to Rs. 35 lakh in metropolitan areas in order to address this.

The rise of the co-lending model (CLM) in housing finance is another positive development. This approach was approved by the RBI in November 2020, enabling banks and HFCs to provide joint loans to end borrowers through co-lending agreements at a low cost. In the co-lending arrangement, both parties can take advantage of one another's advantages to produce profitable results that benefit both parties. Partnerships can be used by banks to create a scalable PSL-compliant retail portfolio and engage the underserved and unserved populations. Due to greater OPEX and higher credit costs, their portfolio would otherwise have experienced declining growth and decreased interest; hence, the collaboration aids in their growth.

The RBI has published guidelines on the co-lending model for HFCs/NBFCs and banks for Priority Sector Lending in order to increase the flow of credit to the unserved and underserved sectors of the economy and make money accessible to borrowers at a reasonable price (PSL). India, however, continues to face significant challenges with the lack of affordable housing, especially for the economically weaker segment (EWS) and the informal portions of the population. The co-lending approach attempts to give the borrower the best interest rate and better reach.

The following figure depicts the household income brackets in India and the share of population in each income bracket:

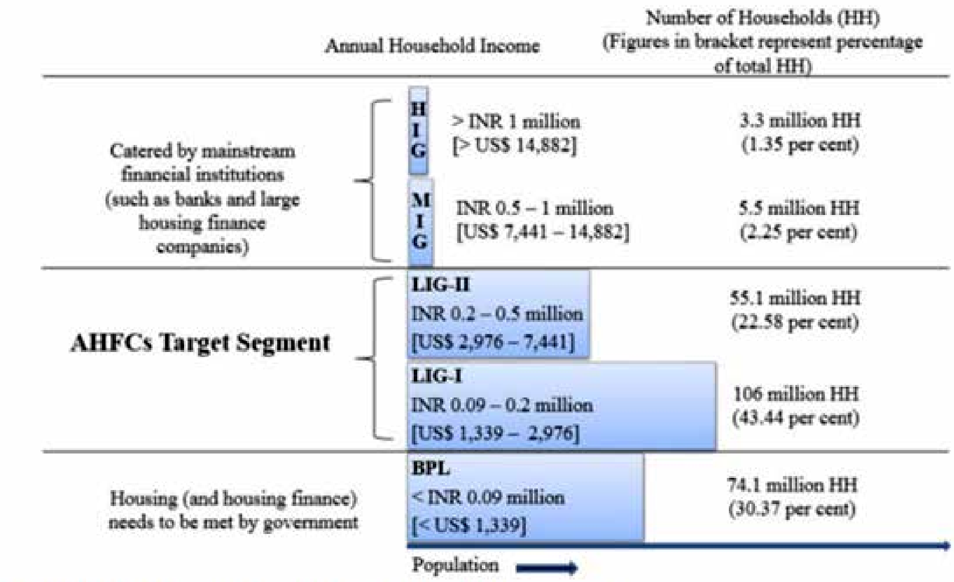

Figure 1. Indian income pyramid and AHFCs' target segment.
Source: Ablett et al. (2007)
Note: BPL: Below Poverty Line; LIG-I: Lower Income Group-I; LIG-II: Lower Income Group-II; MIG: Middle Income Group and HIG: High Income Group.

Although these three sub-segments – Below Poverty Line (BPL), Lower Income Group-I (LIG-I), and Lower Income Group-II (LIG-II) households – combine to form the base of India's income pyramid, each of these groups faces unique challenges and needs with regard to homeownership and access to housing financing. Thus, there is a need for Affordable Housing Finance Companies (AHFCs) to provide access to institutional housing finance for these low-income households.

RBI has issued guidelines to provide the lending institutions more operational flexibility while still requiring them to adhere to the regulatory rules on outsourcing, KYC, etc. in order to better use the different comparative advantages of the banks and HFCs/NBFCs in a cooperative effort. The main goal of the revised programme, now known as the "Co-Lending Model" (CLM), is to increase the flow of credit to the economy's underserved and unserved sectors and make money available to the ultimate beneficiary at a reasonable cost, taking into account the lower cost of bank funds and the wider reach of HFCs.

Based on a prior agreement, banks are allowed to co-lend with all registered NBFCs under the CLM. The co-lending institutions will record their respective portions of the separate loans back-to-back in their files. However, NBFCs must hold onto at least 20% of the individual loans that are on their records.

The banks and NBFCs must create policies that have been approved by their board in order to participate in the CLM, and those approved policies must be posted on their websites. Based on their Board-approved policies, the two partners may enter into a Master Agreement, which will include, among other things, the terms and conditions of the agreement, the criteria for choosing partner institutions, the specific product lines, areas of operation, as well as clauses relating to segregation of responsibilities and customer interface and protection issues.

Consequently, to cater to the underserved and unserved segments of borrowers, HFCs often get into a co-lending arrangement with banks. Under the co-lending model, two different lenders come together to finance the same borrower. Banks leverage their balance sheet strength to house the majority of the loan (around 80%), while HFCs facilitate the origination and collection of the loan. It reduces the interest rates and loan turnaround time for the borrower, lowers the cost of operations for the bank, and facilitates asset-light growth for the NBFCs with minimum capital requirement–creating a win-win situation for all the parties involved.

Recently, five housing finance companies and the nation's largest lender, State Bank of India (SBI), entered into co-lending agreements. These HFCs are:

- PNB Housing Finance
- IIFL Home Finance
- Shriram Housing Finance
- Edelweiss Housing Finance
- Capri Global Housing Finance

Partnerships like these are intended to sanction house loans to the unserved and underserved sector, as per RBI guidelines. SBI is actively looking at co-lending options with numerous HFCs in order to further increase the penetration in this market.

The housing finance industry has fueled the country's quick adoption of the co-lending model. In fact, according to a study, 34.9 percent or thereabouts of CredCo-total lend's disbursements come from issuances in the housing sector. Affordable housing will become a reality in India thanks to co-lending, which will be fueled by strong technology and enhance the flow of credit to previously underserved or unserved areas of the economy. CredAvenue is collaborating with numerous HFCs, including IndiaBulls, PnB Housing Finance, and many more, to make co-lending partnerships in this industry possible as well as to reinvent and strengthen co-lending in India.

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CHAPTER 6

Long-Term Funding Solutions for HFCs

Compared to the traditional banking system, which consists of banks from the public and private sectors and other financial institutions, the Non-Banking Financial Companies (NBFC) sector is only minimally regulated. Although prudential standards discourage NBFCs from collecting deposits (Reserve Bank of India (RBI), 1998) and promote the introduction of non-deposit-taking NBFCs, the regulation in the NBFC sector has developed over time (RBI, 2006). Together, these two impacts have caused a persistent decrease in the proportion of deposits and an increase in wholesale funding among NBFCs' funding sources. Banks (mostly through term loans, with the remainder coming from non-convertible debentures and commercial paper) and debt mutual funds make up the majority of the NBFCs' wholesale funding sources (via non-convertible debentures and commercial paper).

Parameters	Banks	Housing Finance Companies
Types of loan	All types of loans	Only housing-related loans
Interest rate calculation	Marginal Cost of Funds based Lending Rate (MCLR)	Benchmark Prime Lending Rate (BPLR)
Regulating authority	Reserve Bank of India	National Housing Bank
Rigidity on credit score	High	Medium

Following substantial NBFC defaults on their loan obligations, a liquidity crunch in India's shadow banking system developed.

Many first-time homebuyers are torn between applying for a loan from a bank or a housing finance company (HFC). People are concerned about how this liquidity issue affecting non-banking finance firms (NBFCs) may affect their house loans and have major questions about how these organisations operate.

With a larger percentage of home loans compared to banks, housing finance firms (HFCs) have grown in stature over the years and become systemically significant in the Indian financial landscape. Over the years, housing and housing finance operations have expanded significantly in India. Tax breaks for borrowers, the interest subvention program (Pradhan Mantri Jan Aawas Yojna), rising disposable income levels, a change in the age profile of the borrowers, the ease with which loans are available, nuclear families, urbanisation, etc. are some of the factors that have contributed to this growth.

In addition to retail housing loans, HFCs also provide a wide range of additional products, such as loans secured by real estate, lease rental discounting loans, and loans against property (LAP). The National Housing Bank (NHB) has shifted regulatory control for HFCs to the Reserve Bank of India (RBI), which has developed a revamped framework. HFCs will be considered one of the categories of NBFCs, according to the RBI.

Banks and HFCs both have advantages and drawbacks. For instance, a bank could be a better choice if you want to get the best interest rates. An NBFC, however, can be more appropriate for your needs if your credit is damaged or if you want money quickly. It also relies on the kind of services that are being sought. If both housing loans and banking services are required, a bank must be chosen. If it is merely a house loan, you may compare the accompanying fees and services offered by the bank and HFC players to assess your alternatives.

The pandemic was not kind to housing financing businesses (HFCs) though. It took some time for loan disbursements, which had stopped during the lockdown months, to resume. Open market operations, interest rates, and reserve requirements were the three main weapons that central banks throughout the world used to remedy the fallout of COVID-19.

In essence, the government sought to lower the cost of house loans with each of these measures during a recession when job security was a concern for most industries. According to projections, growth for home financing firms might increase from 11% in 2021–2022 to 13% in 2022–2023.

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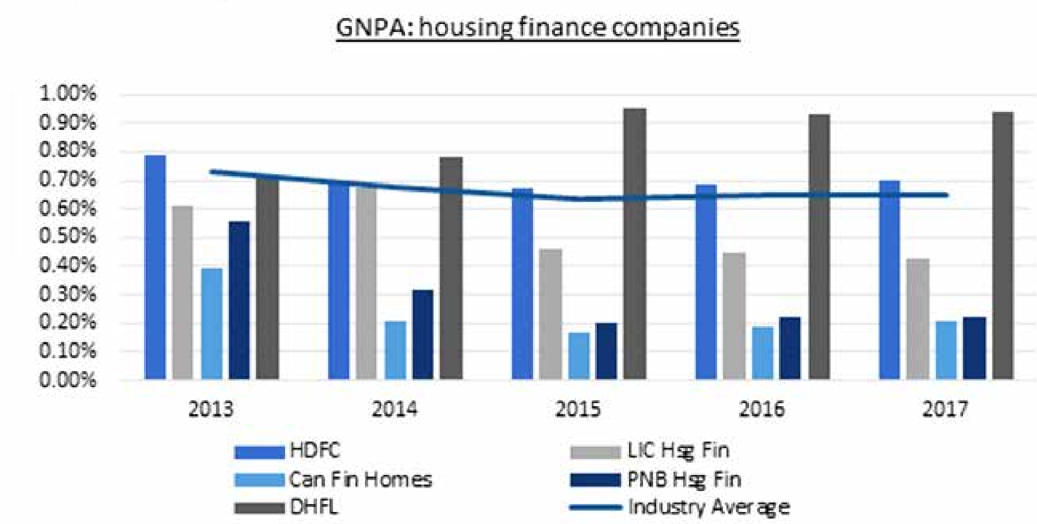
CHAPTER 7

Managing Credit Risks and Asset Quality Challenges

Now let's talk about credit risk management, what it is, and how to handle problems. The issues with asset quality management for banks will also be covered.

Credit risk is the possibility of experiencing a loss as a result of a borrower's failure to make payments on any sort of loan. The practice of minimising losses through credit risk management, a process that has long been challenging for financial institutions also involves assessing the sufficiency of a bank's capital and loan loss reserves at any given time.

There are numerous reasons why financial institutions have encountered issues over the years, however, poor portfolio risk management, lax credit standards for borrowers and counterparties, or failing to pay attention to changes in economic conditions worsen a bank's counterparties' credit standing.



Source: Televisory's Research

While the initial lockdown's impacts on the Indian economy were quickly alleviated, the second wave of the epidemic raised the risk in borrowers' credit profiles, necessitating an urgent need for credit risk management.

Banks must thus create adaptable risk assessment and management procedures to address these issues.

Four main categories of credit risk that can affect banks:

- When liquidating a secured asset does not produce the desired results.
- If a sequence of payments is interrupted by some unanticipated cause.
- Credit risk is brought on by money loss while purchasing securities.
- Risks associated with sending money to foreign companies.

Gaining a thorough knowledge of a bank's total credit risk by looking at risk at the individual, customer, and portfolio levels is the first step in successful credit risk management.

While banks work to have a comprehensive picture of their risk profiles, a lot of data is frequently dispersed throughout business divisions. Regulators and investors closely monitor vulnerable banks, and they also expose them to crippling losses.

By implementing an integrated, quantitative credit risk solution, loan losses may be decreased and capital buffers can be made sure to represent the risk profile. This technology should enable banks to swiftly implement straightforward portfolio measurements. As requirements change, it should also provide a path to more advanced credit risk management techniques. What can be done? Here are a few solutions that can be looked at:

- Improved model management that covers the whole modelling life cycle.
- Monitoring of limitations and real-time scoring.

- Robust capability for stress testing.
- Tools for business intelligence and data visualisation that deliver crucial information to the right people at the right time.

Concerns over asset quality and inflated pricing have repeatedly impacted the lending industry. For HFCs, reducing leverage is the main concern. NPAs began to accumulate as a result of bad placement choices. Moreover, there were problems with asset quality due to the exorbitant value of land banks.

It will be crucial to choose land banks and developers carefully at a time when concerns about asset quality are mounting if you want to keep your balance sheet in good shape. Greater funding costs may result from higher NPAs and a bad credit rating.

In such a case, a thorough evaluation of home loans and a review of risk management are required (Financial, Legal, and Technical).

Banks would become risk-averse and stop lending for overall economic activity if they were forced to hold significant NPA loads for a lengthy period of time. This effect will also result from the PSBs' anticipated shift to loan types including home and personal loans, where banks have historically had the lowest NPA rates. Care would need to be taken not to overdo this and transfer the leverage from the business sector to the housing sector, even though this would assist rebalance the loan portfolio in favour of less volatile sectors.

Any bank that lacks effective risk management would probably have an extremely vulnerable credit portfolio. Risk management is a dynamic process. It gradually changes over time. As the workings of a bank get more complicated, so should its sophistication. To prevent issues, the board of directors and top management must be alert to risks and be proactive in controlling them.

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CHAPTER 8

Climate Change and Pertinent Challenges

Banks might be unprepared to address the climate crisis, particularly when it comes to incorporating climate-related financial risks into routine decision-making and strategy, according to a recent report by Climate Risk Horizons, despite the Reserve Bank of India (RBI) encouraging bank lending towards green initiatives and projects. According to the report, private banks greatly outperform public sector banks (PSBs) in terms of risk management.

Some of the reasons why the Indian banking sector is unable to handle climate-related challenges include a lack of public disclosure and openness, a lack of a well-crafted coal-exclusion and human rights policy, and a lack of an appropriate framework for banks to identify, analyse, and manage climate-related risk.

India is committed to meeting the 2030 carbon footprint reduction goal set by the United Nations for sustainable development. The real estate and construction sectors must suitably modify their business practices in order to fulfil their climate commitments. The cost of building construction and maintenance will rise as a result of the industry's move toward sustainability.

The problems posed by these climatic changes to real estate in India include increasing construction costs as a result of climatic changes, difficulties in building design, and changes in the demand for real estate. These changes are anticipated to have a long-term effect on Indian real estate.

Climate change is predicted to raise building costs, mostly as a result of rising material costs. Sand and gravel, a crucial component needed in the creation of concrete, will cost more as more areas are impacted by droughts and flooding brought on by climate change.

The government can implement specific regulations to mitigate the effects of climate change and safeguard real estate from its risks. The government may gather and analyse data about climate change using its resources. As a result, they will be better able to understand how climate change is affecting real estate and develop strategies to mitigate its consequences.

Given the size of the problem and the various obstacles preventing the identification of an effective and long-lasting solution, all stakeholders, including the business sector, must collaborate in a well-coordinated and comprehensive effort. Investors may choose to use environmentally friendly building materials in their projects to combat the problem of climate change. Developers should use energy-efficient construction techniques to cut down on energy expenses and battle climate change.

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CHAPTER 9

Developers' Perspective

Every economy has an essential requirement for housing, which also serves as a key barometer of progress and social well-being. Because it has an accelerator effect on many businesses, including the building and infrastructure sector, and because it creates demand for supporting industries and job possibilities, housing development is not only crucial to economic growth but also one of the instruments for it.

However, there are issues with the housing finance sector in India that hinder the growth and development of the nation. Some of these issues are general or natural, such as unequally distributed national investment, inadequate infrastructure, higher land acquisition costs, housing policies, static societal norms, a high debt system by banks or HFCs, and a lack of knowledge or awareness among the general public, and hidden costs like processing charges.

Investors and developers have started to focus more on cheap housing recently. The idea of inexpensive housing is not new in and of itself; there has always been a perceived need to offer the underprivileged high-quality, for-sale accommodation. Research claims that by 2030, metropolitan centres in India would be home to 590 million people or 40% of the country's total population. For a nation of our size and scope, housing demand will always be there.

Beyond just economic considerations, offering safe, cheap, and accessible housing fosters the growth of nearby communities and contributes to a more secure and equitable global environment. According to studies, offering inexpensive, high-quality housing increases school attendance, decreases dropout rates, and offers a secure environment for kids to develop. It aids in creating cities that are robust and powerful enough to endure natural calamities and unfavourable environmental circumstances. A quality place to live raises the family's social status in the community and removes the many opportunities hurdles that are frequently connected to homelessness. Finding a long-term economically feasible approach to reduce such effects in the future is preferable for all market players.

According to a study, the following factors are frequently at blame when advancements go off course:

Location: The fundamental factor and the most crucial beginning point in every real estate development are located. To reduce their land purchase costs, developers frequently pick property parcels that are quite remote from the city centre and lack necessary social and trunk infrastructure. In their decision-making process, low-income people inevitably give direct commuter access through public transit to the city, and the availability of adjacent facilities like schools and hospitals a larger weighting.

Land: To obtain adequate risk-adjusted returns, it is crucial to pursue a value-accretive land acquisition strategy while maintaining a disciplined capital structure. Developers should concentrate on buying property lots that are between 4-6 acres in size, which may be finished in 1-2 phases, and which typically take 4-5 years to complete. Since township-like projects require the construction of all internal and external hard infrastructure, such as approach roads, electrical lines, drainage, etc., they are notoriously difficult for local developers to complete on time and under budget. To effectively deliver them under budget demands a certain amount of project management and execution skill.

Affordable housing developments are frequently low-rise G+4/6 buildings since they are easier and quicker to build. By having an obsessive emphasis on operating a manufacturing-like operation with standardised structures, units with little to no individual adjustments, and optimised processes/control functions to speed the project timeframes, a developer may extract increased value out of the project.

Capital Stack: As a result of a changing regulatory environment brought on by the Real Estate (Regulation and Development Act) (RERA), which went into effect in 2016, as well as a shift in consumer preference toward ready-to-move-in properties, residential real estate development has gradually become much more capital intensive over time.

Today, a lot of the discussion around affordable housing is on cost management and execution, with the notion that if the developer can control its costs, it will eventually make money from the project. That could be the case, but it’s not the complete picture.

Understanding your customer’s specific wants and goals is just as critical, if not more so, so that you can find out who they are and then acquire and serve them.

Real estate is a very localised sector that requires on-the-ground workers. Therefore, it is not surprising that over the previous ten years, relatively few national pan-Indian real estate developers have appeared.

The focus must be placed on developing a few local champions in each city to address the issue. To build an environment that would enable the industry to prosper, several players must collaborate. The national and state governments must coordinate their efforts to implement more focused supply-side interventions that will boost private sector engagement. To establish their mettle, real estate developers must show they can accomplish best-in-class corporate governance and built-in controls.

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CHAPTER 10

A Word to the Wise

Affordable housing and affordable rental housing complexes have been included as crucial sub-sectors under the social and commercial infrastructure category. This lends added advantage from a regulatory and income tax point of view.

Real Estate Regulatory Authority (RERA), 2016 was a big regulatory reform that brought about transparency, uniformity and a thoroughly holistic approach to supervision of the all-important housing sector.

The introduction of REITS as an important source of funding has both widened and deepened the market. The mechanism entails a wide coverage of investors and efficient recycling of funds besides being an attractive proposition from a taxation perspective.

With the emergence of remote location working under the hybrid working model (post Covid 19) and the advent of a new breed of gig workers, tier 2 and tier 3 cities have gained relevance and additional initiatives in this direction would augur well for the housing sector.

Central and state governments also have a separate category of housing for their employees. By and large, these constructions are outdated, dilapidated, and indicative of the underutilization of land. By constructing high-rise buildings instead of one- and two-story structures, new avenues for efficient land use can be unlocked under the public-private partnership (PPP) model, which requires providing the developer with appropriate incentives in the form of acceptable land usage rights.

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About ASSOCHAM

The Knowledge Architect of Corporate India

Evolution of Value Creator

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'.

ASSOCHAM is seen as a forceful, proactive, forward-looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/ Regional Chambers/Associations spread all over the country.

Vision

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrierless technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

Mission

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

Members – Our Strength

ASSOCHAM represents the interests of more than 4,50,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference.

Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Aerospace and Defence, Auto and Auto Ancillaries, Arbitration & Legal Affairs, Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Luxury and Lifestyle, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Tourism, MSMEs, Textiles, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Start-ups & Skill Development to Mention a few.

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ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporates, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

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