

Housing Finance in India: Problems and Prospects

Pema Lama ♦



Abstract

Housing in India has been one of the important economic activities which serve to fulfill many of the plan objectives, providing shelter to the needy, raising the quality of life, particularly of the poor, creating an environment conducive for better health and sanitation, creating additional employment and achieving urban, rural and inter-personal equity in terms of standard of living. Housing finance is a specialized form of finance in a country is one of the basic indicators of the growth of its economy. The emergence of a formal institutional system for housing finance has been quite late in India with the formation of National Housing Bank (NHB) in 1988, since then housing is being accorded high priority by the Government. Housing Finance Companies (HFCs) play an important role in the Indian housing finance market and have stepped up their lending over the years contributing to the growth of the housing sector. At the same time, housing for all should not remain a distant dream in India and it should be made a reality without any further delay. In the Indian perspective, the demand for housing finance remains and continues to remain insatiable and it requires more need-based schemes and not greed induced programs as happened in subprime lending in the US. This paper attempts to understand the conceptual framework of affordable housing in Indian scenario, key demand driver, issues and future outlook of Indian housing sector. The paper gives emphasis on institutional performances of key housing finance providers, major problems and future prospects of housing finance sector in India and also on some significant recommendations to improve the affordability in housing and housing finance development in India and thereby pave the way for further study in the area..

Key-words: National Housing Bank (NHB), Housing Finance Companies (HFCs), Performances of key housing finance providers, Subprime lending.

1. Introduction

House is a centre and domestic device for mankind's moral and substance development ever since the dawn of civilization. Housing shortage is a universal phenomenon and it is more acute in developing countries. Adequate housing is an essential component for human survival with dignity that we human beings need. Without a right to housing, other basic

♦ Assistant Professor, Department of Commerce, University of Calcutta, pemalama_caluniv@yahoo.com

human rights will be compromised including the right to family life and privacy, the right to freedom of movement, the right to assembly and association, the right to health and the right to development. Housing in India has been one of the important economic activities which serve to fulfill many of the plan objectives such as providing shelter to the needy, raising the quality of life, particularly of the poor, creating an environment conducive for better health and sanitation, creating additional employment and achieving urban, rural and inter-personal equity in terms of standard of living.

During the recent years, in India housing dimension has been changed due to housing reforms initiatives taken by the Government, as housing is a large investment which requires long term finance in form of reduction in social allocation, cutbacks in public funding and promotion of a real estate culture in close partnership between the state and private actors along with other factors hindering housing development like inflation, interest rate controls, instability of financial markets and the inadequate legal system.

Housing finance is a specialized form of finance and efficiency of housing finance system in a country is one of the basic indicators of the growth of its economy. The emergence of a formal institutional system for housing finance has been quite late in India with the formation of National Housing Bank (NHB) in 1988, since then housing is being accorded high priority by the Government. Housing and Housing finance activities in India has risen to the top of research and policy agenda in recent years as we witnessed a tremendous growth over the years due to some factors like - tax concessions to borrowers, increase in disposable income levels, changing age profile of the borrowers, easy availability of loans, nuclear families and urbanization, etc. Housing Finance Companies (HFCs) play an important role in the Indian housing finance market and have stepped up their lending over the years contributing to the growth of the housing sector.

2. Survey of the Literature

The issue of housing and housing finance has been receiving increased attention over the recent decade and many studies on various observations in this area are on record including few of these namely, **Beyer (1965)** in his analysis titled '*Housing a factual analysis*' states that house is a bulky, durable and permanent product, which has a fixed location being used only in the place where it is built. Once built, it tends to remain in existence for many years long after it has served its usefulness. It becomes almost a part of the land. According to **Krishnamachari (1980)** as stated in the article titled '*Mobilisation of Finance for Rural Housing*', 'shelter is a basic human need and as an intrinsic part of human settlement, is closely linked with the process of overall socio-economic development. Besides providing shelter, it creates employment, generates voluntary saving and creates a conducive condition needed for achieving crucial goals'. **Naik (1981)** opines in his study titled '*Housing Finance Pamphlet*', 'housing is an essential element of life for most human beings. The modern concept of housing does not limit the idea of housing merely to the provision of shelter'. As cited by **Paul S (1983)** in his study titled '*A study of the experience of house builders of the middle income group in the urban and rural areas*', housing constitutes a physical matrix in which human interaction occurs. The house that people live in, touch upon every facet of their lives and the society as a whole'. According to **Satyanarayana (1987)** in his research work titled '*Housing rural poor and their living conditions*', housing is an element of material culture, is one such devices to overcome threats against physical elements or security to lives and serves as an important purpose by making the provision of shelter. It provides a place for the operation of many human activities. Irrespective of place and time man is using a place of accommodation which is called a house. It helps people to interact within the

family and with the outside world. **Solanki (1989)** highlighted the magnitude of the housing problem in our country as so heavy, that it will require considerable passage of time for the country to offer a sweet home to every family in our nation. As stated by **Sweta Misra (1996)** in her article titled '*Housing - changing perceptions - Rural housing problems and strategies*', the importance of housing was universally recognized from the dawn of history. With the advancement of knowledge and civilization man became particular about sanitation, environment, privacy and location of the house. He became conscious of better facilities which make his life easy and comfortable.

3. Objective of the Study

The current work revolves around the following major objectives.

- i) To analyse the conceptual framework of affordable housing scenario in India.
- ii) To assess the key demand driver, issues and future outlook of Indian housing sector.
- iii) To evaluate the role and performance of National Housing Bank, institutional performances of key housing finance providers, major problems and future prospects of housing finance sector in India.
- iv) Finally, to provide some significant recommendations to improve the affordability in housing and housing finance development in India.

4. Research Methodology

The proposed study, 'Housing Finance in India: Problems and Prospects' is based on secondary data. Secondary data pertaining to population, housing stock, housing shortage, investment on housing were collected from government reports, census of India, articles published in reputed journals, National Housing Bank, Census of India, published annual reports of the Housing Development Finance Corporation Ltd., LIC Housing Finance Ltd., Report on Trend and Progress of Housing in India (2011-13) and Report on state of the housing and housing finance sector (2012-13).

5. Housing Sector in India: Key Issues

5.1. Meaning of Affordability and affordable housing

'Affordability' as a concept is very generic and could have different meanings for different people based on differences in income levels. It refers to any housing that meets some form of affordability criterion. In Indian context, KPMG and the CREDAI have jointly developed definitions of affordable housing for Tier I, II and III cities based on three key parameters - **i)** income level, **ii)** size of dwelling unit and **iii)** affordability. While the first two parameters (*income level and size of dwelling unit*) are independent of each other, the third is a dependent parameter (*affordability*) that can be correlated to income and property prices.

Table I: Definitions of affordable housing in India
(as developed by KPMG and CREDAI)

Income categories	Income Level	Size of Dwelling Unit	Affordability
Economically weaker section (EWS)	<INR 1.5 lakhs p.a.	Upto 300 sq. ft.	EMI to Monthly Income - 30% to 40%
Lower income group (LIG)	INR 1.5 - 3 lakhs p.a.	300 - 600 sq. ft.	EMI to Monthly Income - 30% to 40%
Middle income group (MIG)	INR 3 - 10 lakhs p.a.	600 - 1200 sq. ft.	House price to annual income ratio - < 5:1 (Task Force headed by Deepak Parekh)

Source: KPMG

5.2. Population and its growth trends

As per the table II shown below, India after its Independence, rapid growth rate of the population, migration of rural people to urban areas and expansion of industrial and commercial activities of urban area in general and metropolitan centers in particular during 1951- 2011 has grown from 624.44 lakhs to 3771.06 lakhs. The decadal growth of population during last decade was placed at 31.8% in urban areas in 2011 as against 12.2% for the rural areas in 2011. The urban population of India has been growing at a rapid pace. As per the 2011 census, 31.2% of the total population is in the urban areas.

Table II: Growth of Population in India (1951-2011)

Year	Population (in Lakhs)					Decennial Growth rate in total population (%)		
	Total	Rural	% Share of Rural Population	Urban	% Share of Urban Population	Total	Rural	Urban
1951	3610.88	2986.44	82.7	624.44	17.3	13.31	8.79	41.43
1961	4392.35	3602.98	82.0	789.37	18.0	21.64	20.64	26.41
1971	5481.60	4390.46	80.1	1091.14	19.9	24.80	21.86	38.23
1981*	6833.29	5238.67	76.7	1594.63	23.3	24.66	19.32	46.14
1991#	8464.21	6286.92	74.3	2176.11	25.7	23.87	20.01	36.46
2001	10287.37	7424.91	72.2	2861.20	27.8	21.54	18.10	31.48
2011	12101.94	8330.88	68.84	3771.06	31.2	17.64	12.20	31.80

* Includes projected population of Assam where 1981 census was not conducted.
Includes projected population of Jammu and Kashmir where 1991 census was not conducted.
Source: *Census of India 2001 and Provisional data census 2011.*

Rapid growth rate of the population, migration of rural people to urban areas and expansion of industrial and commercial activities result in huge demand for housing units in the urban areas of the country.

5.3. Housing Scenario

Housing is one of the basic needs of every individual as besides providing shelter and security, it also enables easy access to the credit market by working as collateral comfort and security. During the year 2001-2011, the urban population of India grew at a CAGR of 2.8%, resulting in the increase in level of urbanization from 27.81% to 31.16% and growing concentration of people in urban areas has led to problems of land shortage, housing shortfall and congested transit and has also severely stressed the existing basic amenities such as water, power and open spaces of the towns and cities. Notwithstanding recent improvements, as per 11th Five Year Plan (2007-2012) urban India had an estimated shortfall of 45 million units (*7 million backlog plus 38 million additional units*) which requires an investment of around Rs. 10 trillion between the year 2007 – 2012, i.e. Rs. 2 trillion per year. The shortage of housing units for the urban areas for the year 2012 is estimated at 18.78 million units. Most of the housing shortage is obviously for economically weaker section (56%) and low income group (39%) people. Urbanization has resulted in people increasingly living in slums and squatter settlements and has deteriorated the housing conditions of the economically weaker sections of the society. However, the speedy development in housing and various housing activities have understandably led to the growth of Indian housing finance market.

Table III: Distribution of Households by type of structure in India (Figures in %)

Year	Rural Areas			Urban Areas		
	Type of structure			Type of structure		
	Pucca*	Semi-Pucca#	Katcha^	Pucca*	Semi-Pucca#	Katcha^
1981	22.5	36.9	40.5	60.7	21.8	13.5
1991	30.6	35.6	33.7	72.7	17.7	9.6
2001	38.4	31.4	30.2	75.2	17.4	7.4
2011	43.9	30.5	26.6	73.0	16.7	10.3

Source: National Building Organisation, Ministry of Urban Affairs and Employment, Govt. of India.
 * It is one built with permanent materials like oven burnt bricks, concrete, stone blocks, cement, iron or other metal sheets and timber.
 # It is built with both katcha and pucca materials.
 ^ It is built with non-durable materials like unburnt bricks, mud, thatches, leaves and bamboo.

As per table – IV shown below, it can be seen that the proportion of owner occupant households is much higher in rural areas as compared to urban areas. The proportion of owned households is as high as 94.7% in rural areas in 2011 whereas the corresponding figure for urban areas is found to be 69.2%.

Table IV: Tenure status of Household by type of ownership status in India (in %)

Year	Ownership Status					
	Owned		Rented		Others	
	Rural	Urban	Rural	Urban	Rural	Urban
1981	91.2	44.5	3.5	50.8	5.4	4.6
1991	94.6	63.1	2.9	34.1	1.6	2.8
2001	94.1	67.4	3.9	28.5	2.1	4.1
2011	94.7	69.2	3.4	27.5	1.9	3.3

Source: NSSO, Ministry of Planning

According to the national report estimated housing shortage for the year – 1991, 2001, 2011. In term of the minimum housing requirement criteria (one house per household), housing shortage is 6.0 million units and this has slowed down to 1.8 million units in the year 2011.

Table V: Housing Stock and Housing Shortage (in millions)

Parameters	Year								
	1991			2001			2011		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
a) Population	628.6	217.6	846.4	742.4	286.1	1028.7	833.0	377.1	1210.1
b) Households	112.5	40.7	153.2	138.2	53.7	191.9	168.0	79.1	247.1
c) Housing Stock	108.5	38.7	147.2	135.1	52.1	187.2	166.9	78.4	245.3
d) Housing Shortage	14.6	8.2	22.8	13.5	8.9	22.4	17.4	9.1	26.5
e) Minimum Need[b-c]	4.0	2.0	6.0	3.1	1.6	4.7	1.1	0.7	1.8

Source: Estimates from census final household tables, census primary abstract, 2011, GOI (1996)

Housing shortage has been estimated on the basis of households including homeless households, available housing stock, acceptable housing stock, aspects of congestion and overcrowding.

6. Key drivers

The key factors bolstering growth in demand for affordable housing include -

i) Rapid Urbanization - Urbanization is an index of transformation from traditional rural economies to modern industrial one. India's urban population is increasing at a faster rate than its total population. India's urban population is forecasted to grow to 590 million by 2030 at a compounded annual growth rate (CAGR) of 2.4% between 2010 and 2030. Urbanization has twin impact on housing demand - *Firstly*, it reduces the area per household and *secondly*, there is an increasing need for more nuclear families leading to the formation of more number of households.

ii) A culture of home ownership - The local Indian culture has an inclination for home ownership. Even people in lower income groups are determined to purchase a home rather than rent one.

iii) Increasing population and rising demand for affordable homes - Population growth has a direct bearing on the requirement for housing units on the basis of floor space area. High disposable income, lower interest rates and tax incentives (interest and principal repayments deductible) results a steady movement of households into higher income categories. With home prices far outpacing general inflation and wage growth, premium homes in Tier - I cities have become largely unaffordable increasing the demand for affordable homes.

Table VI: Low-cost housing Vs Affordable housing

Parameters	Low-Cost Housing	Affordable Housing
<i>Amenities</i>	Bare minimum to none	Basic
<i>Target Income Class</i>	EWS & LIG	LIG & MIG
<i>Size of Dwelling Unit</i>	<=300 Sq. Ft.	300 – 1200 Sq. Ft.
<i>Location</i>	Generally within city but can also be located on city peripheries due to high cost of land	Within city
<i>Project Developer</i>	Mostly Government agencies	Private Developers and Government
<i>Mostly available source of finance</i>	Micro finance institutions	Traditional banking system
<i>EMI to Monthly Income</i>	Not exceeding 30% of gross monthly income	Not exceeding 40% of gross monthly income

Source: Credit Suisse, Knight Frank, KPMG Analysis

Issues for affordable housing - Developing affordable housing in Indian cities faces significant challenges due to a) lack of availability of urban land, b) rising threshold costs of construction, c) lack of access to home finance for low-income groups, d) financial and regulatory constraints etc.

7. Housing Finance Sector in India – An Outlook

Housing Finance defined as the need to reconcile the three partially conflicting objectives of affordability of households, viability of financial institutions and resource mobilization for the expansion of housing sector and of the national economy. It is the single target force that drives the residential real estate in India.

Housing finance is a relatively new concept comparing to other widely available financial services in India as per 2011 ICRA annual report. However, immense demand, speedy development and pecuniary reforms in housing and various housing activities have understandably led to the growth of Indian housing finance market.

Table VII: Historical background of Housing Finance Market in India

Stages	Major Development
Pre- National Housing Bank (NHB) (Pre- 1970 – 1988)	<ul style="list-style-type: none"> ➤ Pre- 1970 – Centralized direct credit ➤ 1971 – Establishment of HUDCO – Public sector, wholesale lending ➤ 1977 – Establishment of HDFC as 1st private sector retail housing finance institution. 1984 – DHFL commences operations. ➤ 1988 – Formation of National Housing Bank as regulatory and supervisory body/refinancing agency
Post National Housing Bank (NHB) (Early 1990's – till date)	<ul style="list-style-type: none"> ➤ Early 1990's - Public sector banks or insurance companies promote HFC's. ➤ Late 1990's – Commercial banks get active in direct lending for housing finance. ➤ 2008 – Subprime crises, Indian Mortgage market shows resilience. ➤ 2009-2011 – Microfinance Institutions and foreign banks get active in housing finance market. 54 HFC's active in the market.

Source: Compiled by the author.

Presently, the housing finance industry is gradually expanding by not only providing housing credit service but also provide loans being used for another purpose on the basis of collateral of existing housing. As a result, various agencies like HFCs, PSBs, RRBs and state level apex cooperative housing finance societies have barged into the market in order to attract and retain customer by providing customized home loans with a wide range of choices to eligible individuals. The following table viii shows the institutions providing housing finance in India.

Table VIII: Different Institutions providing Housing Finance in India

Housing Finance Institutions	Regulator	Target Group
Banks including RRBs, State Cooperative Banks and Foreign banks	Reserve Bank of India	All segments of society in both urban and rural areas (Public Sector Banks - SBI, Bank of Baroda, Canara Bank, Dena Bank etc. Private Sector Banks - HDFC Bank, ICICI Bank, Axis Bank etc. Foreign Banks - Standard Chartered, HSBC etc.)
Housing Finance Companies	National Housing Bank	Dedicated institutions which lend towards housing (DHFL, HDFC, Indiabulls Housing Finance, Reliance Housing Finance, Sundaram BNP Paribas, Religare Housing Development Corporation etc.)
Insurance Companies	IRDA	LIC Housing Finance, GIC Housing Finance etc.
Micro Finance Institutions/NGOs /SHGs	Unregulated (Act to be introduced for regulating the same)	For the poor and lower income segments (Micro Housing Finance Corporation, MAS rural housing and mortgage finance etc.)
Development Financial Institutions,	Reserve Bank of India	Refinancing Institutions catering to all segments of the society (HUDCO, NABARD, SIDBI)
Co-operative sector Institutions	State Cooperative Acts	Deep presence across the country, particularly in the rural areas (Apex Co-operative Housing Federations, State Co-operative Agriculture and Rural Development Banks etc.)

Source: Compiled by the author

Direct housing finance refers to the finance provided to individuals or groups of individuals including co-operative societies whereas Indirect housing finance is by way of term loans to housing finance institutions, housing boards, other public housing agencies etc.

8. National Housing Bank (NHB) - Role and Performance

The National Housing Bank (NHB), the apex level financial institution for the housing sector in the country, was established on July 9, 1988 under the National Housing Bank Act, 1987 to operate as a principal agency to promote housing finance institutions and to provide financial and other support to such institutions. It is an apex level institution wholly owned by the Reserve Bank of India. It is a statutory body pursuing its charter and vision to shape and develop the housing finance market in India along sustainable lines and promoting financial and institutional depth in the housing finance sector. The Bank is engaged in a range of activities for low and moderate income housing segments which is crucial to the development of market based solutions. Apart from its various promotional activities, NHB also seeks to undertake measures that promote confidence amongst all stakeholders. Under the provisions of the Act, NHB regulates Housing Finance Companies (HFCs) seeking to do business in the country.

In the backdrop of huge housing shortage among lower income segments, NHB as an apex refinance institution has adopted a multi-pronged approach in tackling this problem. These include institution-building initiatives and measures for creating favorable environment for innovative practices in sync with market oriented approach. The bank also introduced refinance schemes for installation of solar water heaters and special refinance schemes for low income housing and also various initiatives were taken by the bank including NHB-Residex, Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) etc.

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

Table IX: Refinance Disbursements and Cumulative Refinance Disbursement of NHB
(Rs. in crores)

Institutions	Disbursements		Cumulative Refinance Disbursement (upto 2012-2013)	
	2011-12	2012-13	Amount (in crores)	% of Total
Housing Finance Companies	5,302.13	7,693.51	41936.02	40.86
Scheduled Commercial Banks	8,851.42	9,459.33	57025.25	55.57
Regional Rural Banks	143.04	388.80	1142.16	01.11
Cooperative Sector	93.32	0.00	2525.18	02.46
Total	14,389.91	17,541.64	102628.61	100.00

Source: Report on Trends and Progress of Housing in India (2011,2012,2013)

Through its refinance schemes, the bank has made cumulative disbursements (from inception till June 30, 2013) of Rs. 1,02,628.61/- crore. During the year 2012-2013, refinance disbursements touched the highest ever figure of Rs. 17,541.64/- crore, registering an increase of 22% over the disbursement of Rs. 14,389.91/- crore made in 2011-2012. 71.72% of the Bank's disbursements during 2012-13 were made in respect of individual housing loan upto Rs. 25 lakh. During the year 2012-13, disbursements aggregating Rs. 4027/- crore were made under Rural Housing Fund (RHF) helping construction of more than 3.50 lakh dwelling unit as shown below in Table X.

Table X - Disbursements of NHB in respect of Housing Loans in Rural and Urban Areas (Rs. in crores)

Year	Total Disbursement	Rural Areas				Urban Areas	
		GJRHFS*		RHF#		Amount	% of Total
		Amount	% of Total	Amount	% of Total		
2007-08	8586.89	3856.19	44.91	-	-	4730.70	55.09
2008-09	10853.62	718.44	6.62	1761.5	16.23	8373.70	77.15
2009-10	8107.76	1680.00	20.72	2015.80	24.86	4411.94	54.42
2010-11	11722.79	3781.92	32.26	2003.70	17.19	5937.21	50.65
2011-12	14389.91	2604.51	18.10	3003.00	20.87	8782.37	61.03
2012-13	17541.64	3690.18	21.03	4027.40	22.95	9824.04	56.00

Source: Report on Trends and Progress of Housing in India (2013)
 *GJRHFS - Golden Jubilee Rural Housing Finance Scheme
 #RHF - Rural Housing Fund

9. Institutional Performance

a) Public Sector Banks - The housing loans outstanding of SCBs stood at Rs. 4,62,200/- crore including priority sector lending as on 31st March, 2013. Housing loans constitute 9.24% of the total advances of scheduled commercial banks in the year 2012-13. Housing loans which forms a part of personal loans increased by 14.59% in the fiscal year 2012-13 compared to 12.9% in the previous year. As evident from the table below at the end of March, 2013, the housing loans as a percentage of total gross bank credit stood at 9.24%.

Table XI: Housing Loans as a percentage of Gross bank Credit for SCB’s in the last two years (Rs. in crores)

Details	Year		Variations (March, 2012 - March, 2013)
	March, 2012	March, 2013	
Gross Bank Credit	43,79,300	49,98,400	14.1
Housing Loans (Priority and Non- Priority)	4,03,400	4,62,200	14.6
Out of which Housing Loans (Priority)	2,66,500	2,68,100	0.6

Source: Report on Trends and Progress of Housing in India (2012,2013)

Table XII: Housing Loans disbursed and Outstanding across various slabs over the last three years and percentage of NPA in respect of various slabs of PSBs (Rs. in crores)

Slab-wise Housing Loan	Financial Year								
	2010-11			2011-12			2012-13 (Provisional)		
	Disbursed	O/s#	NPA (%)	Disbursed	O/s	NPA (%)	Disbursed	O/s	NPA (%)
Upto Rs. 2 lakh	5762	9442	6.07	5254	6786	11.54	2957	6165	11.52
Rs. 2-5 lakh	11334	48307	4.90	5571	38491	4.82	4028	36659	4.48
Rs. 5-10 lakh	13510	58771	3.74	11760	64312	3.37	11281	69436	3.01
Rs. 10-25 lakh	20237	68398	2.57	26614	101189	1.67	29912	119362	1.41
Above Rs. 25lakh	24328	54162	1.55	24632	62234	1.09	23678	80359	1.01
Total	75171	239079	3.23	73831	273012	2.63	71857	311982	2.35

Source: Report on Trends and Progress of Housing in India (2011,2012,2013)
 O/s# - Outstanding

Table XIII: The Credit outstanding by SCBs as on March 31, 2012 towards Urban and Rural Housing areas

Area	Outstanding Rs. in Crores	% to Total
Rural Area	253538.00	6.69
Semi Urban Area	603634.00	15.93
Urban Area	1019677.00	26.92
Metropolitan Area	1910585.00	50.44
Total	3787434.00	100

Source: *Report on Trends and Progress of Housing in India (2012,2013)*

b) Housing Finance Companies (HFCs) - Housing is one of the three basic necessities of a man's life and one large indicator of the social happiness of the population in an economy. Access to finance and making housing affordable has been a key agenda across the globe more so for developing nations.

Table XIV: HFCs - Key financial indicators as on March 31, 2013 (Rs. in crores)

Particulars	Year		Growth (%)	Year 2013	Growth (%)
	2011	2012			
Paid up capital	5168	5403	4.55	5541	2.55
Free Reserves	29658	34658	16.86	48019	38.55
Net Owned Fund (NOF)	32731	37103	13.36	51027	37.33
Public Deposits	28694	35476	23.64	44179	24.53
Outstanding Housing Loans	186438	222225	19.20	290427	30.69
Outstanding Total Loans	247781	301681	21.75	390217	29.35
GNPA as percentage of Total Loans	1.33	1.23	-	1.11	-
NNPA as percentage of Total Loans	0.53	0.48	-	0.45	-

Source: *Report on Trends and Progress of Housing in India (2012,2013)*

Housing finance companies (HFCs) along with banks have been catering to the demand for housing finance in India and National Housing Bank has remained the nodal body for HFCs promoting, regulating and facilitating refinancing facilities for HFCs. While housing finance sector in India has grown at a CAGR of 30%, current housing shortage is estimated to be 18.78 million in urban areas and around 43.67 million in the rural areas. This is a clear indicator that there is a huge demand that continues to remain untapped and unaddressed.

Table XV: The Performance review of the HFCs in 2012-13 (Rs. in crores)

Parameters	Housing Loans	Other Loans	Total
Loans Sanctioned	40314	17564	57878
Loans Disbursed	32713	12650	45362
Loans Outstanding (As on March 31,2013)	2,85,711	1,01,333	3,87,044
Housings loans as percentage to total loans and advances	73.81%		
GNPA percentage as a total of loan outstanding	1.09%		

Source: *State of the Housing and Housing Finance Sector, 2012-13.*

The following table will show the loan disbursements by some of the leading Housing finance Companies in India during the last three financial years:

Table XVI - Volumes of Disbursements of the Top Housing Finance Companies (Rs. in crores)

Name of the Housing Finance company	2010-11	2011-12	2012-13
Housing Development Finance Corporation Limited	60,314	71,113	82,452
Housing Urban Development Corporation	995	1,918	1,391
LIC Housing Finance Limited	75,357	92,984	1,16,433
PNB Housing Finance Limited	1,267	1,508	3,682
Dewan Housing Finance Corporation Limited	13,358	9,065	6,506
GIC Housing Finance Limited	969	992	1,354
Can Fin Homes Limited	473	859	1814
GRUH Finance Limited	1,211	1,487	2,174
L&T Housing Finance Limited	-	-	204
Tata capital Housing Finance Limited	662	1653	2,591
Sundaram BNP Paribas Home Finance Limited	1,207	1,948	2,572
Mahindra Rural Housing Finance Ltd	203.63	266.75	432.85
ICICI Home Finance Company Limited (Figures as reflected in the Balance Sheet of 2012-13)	4,562	3,786	3,569
Source: <i>State of the Housing and Housing Finance Sector, 2012-13.</i>			

10. Policy Environment for Housing and Housing Finance

First National Housing Policy in India was formulated in 1988, followed by a new National Housing Policy in August 1994 which has laid stress on 'Enabling Approach of the State' where in state government outfits are expected to act as 'facilitator'" rather than 'builder or provider' of housing. Housing has been one of the prime concerns for Indian government through all its Five-Year Plans.

Again in July, 1998 another National Housing & Habitat Policy was announced with some landmark initiatives like involvement of multi-stakeholders, repeal of Urban Land Ceiling Act permitting FDI in housing and real estate sector etc. However, all these policies were generic and applicable to both rural and urban areas. Taking into account emerging challenges of required shelter and growth of slums, the first ever urban areas specific National Urban Housing and Habitat Policy, 2007 was announced in December 2007.

This policy aimed towards a housing revolution by reforms in central and state government's role. The Central Government adopted a comprehensive National Housing Policy as a part of the strategy to overcome the colossal housing shortages such as - a) Development of a viable and accessible institutional system for the provision of housing finance, b) Establishing a system where housing boards and development authorities would concentrate on acquisition and development of land and infrastructure and finally c) Creation of conducive environment in which access to institutional finance is made easier and affordable for individuals for construction or buying of houses or flats. This may include outright purchase of houses or flats constructed by or under the aegis of public agencies.

With the opening up of Indian economy, its liberalization and globalization level is bound to increase due to massive investment coming up in the large urban centres. Since Independence, the Government of India has special priority to housing from the First Five Year Plan to till date and it has been seen that there has been significant institutional development in the areas of housing finance in our country.

Table XVII: Percentage of Investment in Housing to Total Investment during Plan Periods (Rs. in Crores)

Plan period	Total Investment in the economy (In Rs.)	Investment in Housing (In Rs.)	% of investment in Housing to total Investment
Ist plan (1951 - 56)	3360	1150	34.2
2nd plan (1956 - 61)	6750	1300	19.2
3rd plan (1961- 66)	10400	1550	14.9
4th plan (1969 - 74)	22635	2800	12.4
5th plan (1974 -79)	47561	4436	9.30
6th plan (1980 - 85)	156000	19491	12.49
7th plan (1985 - 90)	349148	28450	8.15
8th plan (1992 - 97)	767296	97500	12.70
9th plan (1997 - 02)	1212802	151000	12.45
10th plan (2002 - 07)	1525639	726300	47.60
11th plan (2007 - 12)	3644000	1122334	30.79

Source: 1. India's Five year plans, Government of India, New Delhi. 2. Prominent facts on Housing, National Building Organization, 1997 m p.11. 3. Planning Commission of India.

11. Housing Schemes by Government of India

For majority of household, housing has been primarily a self help activity. It has made it necessary of the state government to launch housing schemes for weaker sections of the population. In India, the formulation and implementation of the housing programmes is the responsibility of the State Governments. The Central Government however, supplements to the effects of the State Governments. The government of India has launched various programmes, schemes and projects for urban development and improvement of housing. These programmes/schemes also envisages for providing financial assistance for construction of houses. Some of the important programmes are:

a) The Jawaharlal Nehru National Urban Renewal Mission (JnNURM) was launched by Ministry of Urban Development, Government of India at National level in December 2005. The aim is to encourage reforms and fast track planned development of identified Cities. Focus is to be on efficiency in urban infrastructure and service delivery mechanisms, community participation and accountability of housing agencies towards citizens. Basic services for the urban poor (BSUP) and The integrated housing and slum development programme (IHSDP) are the two sub-missions of JnNURM.

b) The Indira Awaas Yojana (IAY) has been focused on the provision of cash subsidy scheme to rural BPL families for construction of dwelling units using their own design and technology. The funding under the Scheme is provided by the Centre and State in the ratio of 75:25 respectively.

c) Rajiv Awaas Yojana (RAY) aims to create a Mortgage Risk Guarantee Fund to enable provision of credit to Economically Weaker Sections (EWS) and LIG households and to encourage the States to adopt policies that will create a slum free India on 'whole City approach'.

d) Valmiki Ambedkar Awaas Yojana (VAMBAY) is a centrally sponsored scheme by Ministry of Urban Development, Govt. of India for the benefit of Slum Dwellers. The objective is to provide shelter or upgrade the existing shelter for people living Below Poverty Line in Urban Slums, with a view to achieve the goal of 'Shelter for All'.

e) *Interest Subsidy Scheme for Housing the Urban Poor (ISHUP)* has sought to enhance affordability of the urban poor through the provision of an interest subsidy of 5% p.a. on a loan amount of up to 1 lakh for the economically weaker sections and lower income groups in the urban areas for acquisition/construction of houses.

12. Major Issues concerning the Indian Housing Finance Sector

Housing is the major problem being faced by majority of the urban and rural people in India and still today crores of people in country do not have a shelter. As this sector becomes more and more sophisticated day by day, it often tends to conceal the risks involved at various points between the original lender and the borrower. Therefore the issue of stability of the sector becomes utmost important. Increased involvement and integration of the banking and financial institutions, the capital markets and the real estate sector raise caveats that need continuous monitoring and responsive regulatory changes.

Some of the important issues of concern for the housing finance sector in rural and urban housing in India are - a) Increased household indebtedness, b) Increased sub-prime lending, c) Increased levels of risk, d) Increased dependence on capital markets, e) Onerous archaic laws and regulations, f) Central Government's insufficient allocation of housing funds in its policies to meet people's requirement, g) Absence of Innovative financing mechanism, h) Most of the banks operating in rural or weak areas are concentrating on the priority sector like agriculture, farming other than housing finance, i) Non-traceability of Mortgages, j) Due to higher rates of interest or frequent fluctuations in the rate of interest and Finally, k) Most of the people who desire to construct a house do not meet the stipulated layout rules set up by the village panchayat, municipality and corporation thus making housing finance companies to reject housing finance.

13. Key challenges faced by Indian banks

The achievements of the Indian banks in housing finance segment in recent years are indeed remarkable. The rapid growth in housing finance and competition among the banks has benefited the customers significantly. With growing competition, the banks have come up with innovative products and services offering the customers a wide variety to chose. Housing finance is a long-term commitment, involving many risks for lenders, borrowers and even for the economy in general. The banks as lenders need to manage interest rate risk, liquidity risk and credit risk, while dealing with large number of individual borrowers. They are also not free from any legal risks and also have to face many hurdles in enforcing eviction of defaulters and eventual sale of the house through legal recourse. The analysis of performance of banking system in housing finance both at macro and micro levels revealed during the last decade revealed the following as the key challenges to be faced by the Indian banks in respect of housing finance are:

i) High concentration in metropolitan and urban areas, ii) Housing finance exclusion, iii) Stiff competition and declining spread, iv) Asset-Liability mismatch, v) Regional Imbalance, vi) Increasing frauds, vii) Growing NPA and finally, viii) High Loan -to- value ratio.

14. Recommendations

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

- i) Adopting a policy of moderate home loan interest rates would enable many more households to meet their affordability of housing which would lead to expansion of the housing finance sector.
- ii) Interest rate subsidies must be linked to the income class of the borrowers as it can help to build a comprehensive housing finance system that mean lowering the home loan interest rates can be an effective policy tool for meeting housing demand particularly when targeted towards low income households.
- iii) To foster the growth of the housing finance market, India needs to focus on strengthening its mortgage market infrastructure, so that there is steady and substantial flow of long term funds towards the sector.
- iv) Taking cognizance of discriminatory practices of the lending institutions, policy makers need to take corrective measures that make home loan practices more transparent and that require lenders to be equally responsive in the event of both rising and falling interest rates towards existing and new borrowers. Moreover, cumbersome loan application procedures and lengthy processing could be made simplified and more borrower-friendly.
- v) To encourage development of new funding instruments such as covered bonds, securitisation within the framework of RBI guidelines.
- vi) To develop innovative products and institutional mechanism.
- viii) To reflect the responsibilities of local governments related to housing in their organizational structure.
- ix) To organize the sessions or workshops or tailored training activities to provide knowledge and good practices particularly, on existing pilot projects.

15. Conclusion

Housing in India has been one of the important economic activities which serve to fulfill many of the plan objectives, providing shelter to the needy, raising the quality of life, particularly of the poor, creating an environment good for better health and sanitation, creating additional employment and achieving urban, rural and inter-personal equity in terms of standard of living. Housing and Housing finance activities in India has risen to the top of research and policy agendas in recent years witnessed tremendous growth over the years due to some factors like - tax concessions to borrowers, increase in disposable income levels, changing age profile of the borrowers, easy availability of loans, nuclear families and urbanization, etc. In all likelihood, Indian housing finance will undergo a second revolution where specialized lenders will continue to play an important role for a number of years. The housing industry is being viewed as an engine of economic growth with a major role to play in the distributors of economic resources.

At the same time, housing for all should not remain a distant dream in India and it should be made a reality without any further delay. In the Indian perspective, the demand for housing finance remains and continues to remain insatiable and it requires more need-based schemes and not greed induced programs as happened in subprime lending in the US.

References

- [1] Fulwari, A., '*Issues of housing finance in urban India: a symptomatic study*', Thesis Paper, The Maharaja Sayajirao University of Baroda Vadodara, Gujarat, India. August, 2012.
- [2] Kundu, A., '*Report of the Technical Group on urban housing shortage (2012-17)*', Government of India, Ministry of Housing and Urban Poverty Alleviation, NBO.
- [3] Mishra, A. K., '*Growth of housing requirements and housing finance in India*', *Annals of Management Research*, Volume 1, Number 1, Sept. - Oct. 2011.
- [4] Mohanty, D., '*Perspectives on Housing Finance in India*', Conference Proceedings, International Conference on 'Housing: An Engine for Inclusive Growth', NHB (2013).
- [5] Mohil, S., '*Trends of Housing Finance in India*', *SHIV SHAKTI International Journal in Multidisciplinary and Academic Research (SSIJMAR)*, Vol. 2, No. 6, November- December-2013 (ISSN 2278 – 5973).
- [6] Rao, H.G. & Apparao, N. '*An Assessment of the Indian Housing Finance System: Crucial Perspective*', *IOSR Journal of Business and Management (IOSR-JBM)*, ISSN: 2278-487X. Volume 5, Issue 5 (Nov. - Dec. 2012), pp- 11-24.
- [7] Report on Trend and Progress of Housing in India, 2011, National Housing Bank.
- [8] _____, 2012, National Housing Bank.
- [9] _____, 2013, National Housing Bank.
- [10] Report on State of the Housing and Housing Finance Sector, 2012-13.
- [11] Tiwana, J. & Singh, J., '*Regulatory Framework of Housing Finance Companies in India*', *VSRD-IJBMR*, Vol. 2 (9), 2012, Pp- 488-495.
- [12] Thingalaya, N.K., Moodithaya, M. S. & Shetty, N.S., '*Housing Finance: A Study of Experiences of Commercial Banks*', Report of Indian Institute of Banking and Finance, Mumbai.