Report on Trend & Progress of Housing in India, June 2003

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CHAPTER I

THE MACRO-ECONOMIC DEVELOPMENT AND HOUSING FINANCE : 2002-03

The importance of housing sector as the ‘engine of growth’ has been historically acknowledged in most of the developed nations of the world. In India, the housing finance business has assumed significance during the last 4-5 years, spearheaded by the keen interest evinced by the commercial banks in this sector. The growth potential further gathered momentum through continued fiscal and monetary fillips and budgetary provisions. The burgeoning middle class, increasing purchasing power, changing demographics and increasing number of nuclear families, scaling down of the real estate prices and a softer interest rate regime and traditionally low default rate resulting in low non performing assets as compared with the other sectors also enabled the housing finance sector to grow at a phenomenal rate of around 39% on the average during the last 3 years. However, this performance notwithstanding, the mortgage to GDP ratio stood at an abysmal 3% in India in 2001 when compared to 57% in UK, 54% in USA, 40% in EU, 7% in China, 17% in Thailand and 34% in Malaysia.

The Economic Scenario- Fiscal & Monetary stance

The year 2002-03 ushered in an era of turnaround in the Indian economy which successfully combated the global economic slowdown following the 9/11 catastrophe, volatile geo-political situations and challenge of cross-border terrorism. The beginning of 2003-04 also witnessed a good monsoon in most parts of the country providing the much awaited boost for agricultural development. The macroeconomic fundamentals of the Indian economy proved their inherent strength with low inflation, comfortable reserves and stable market conditions. On the monetary front, the economy observed easy liquidity conditions despite a sluggish money supply growth. The increase in foreign exchange assets and cuts in cash reserve ratio (CRR) also added to the liquidity. Besides, the absence of other avenues of investment also led to an increase in bank deposits despite falling deposit rates. The softening of the interest rates continued while the non-food credit showed signs of picking up. A revival in industrial activity is expected to lead to a further increase in the off-take of non-food credit. In the beginning of 2003, the Central Statistical Organisation postulated the gross domestic product (GDP) growth at around 4.3- 4.4 per cent, owing to a decline in the output from agriculture and allied activities. However, the Monetary & Credit Policy of the Reserve Bank of India 2003-04 was announced in April 2003 on the postulation that the secondary and tertiary sectors would continue to grow whereas the primary sector would show signs of revival following a balanced spatial distribution of monsoon resulting in around 6% growth in the real GDP during financial year 2003-04.

Acknowledging the entrepreneurial fervor and creativity of Indians as the cornerstone of basic development, the Government made a conscious effort to make available the budgetary provisions for 2003-04 to the common populace with a renewed progress on the front of agriculture-the nation's life blood. The importance of infrastructural development as the prerequisite for development and the need for private-public participation have also been acknowledged for maximization of social welfare. Upon these foundations, and through strategic encouragement to key sectors, the Government aspires to achieve enhanced growth, improved income level, more employment and exports promotion. For a sustainable growth, fiscal consolidation would be the central pillar. Government also intends to eliminate budgetary drags. An all round growth, with a wider distributive spread of national wealth and greater disposable income to spend would usher a new era of reform in the Indian economy. Although there were no major incremental fiscal or budgetary incentives for housing in the Union Budget 2003-04, the Government, nevertheless, appreciated the prominence of housing as one of the 'life time concerns' of the citizens and included it among the '*Paanch Priorities*'. However, the continuance of the fiscal concessions came as a welcome respite to all home-seekers, extant as well as prospective, particularly in the face of the Kelkar Committee recommendations that opined in favour of removal of such fillips. In his budget speech, the Hon'ble Finance Minister announced that the government would further examine what additional incentives could be given to basic infrastructural developments that must accompany slum up gradation, sewerage system laying and green-field housing projects.

The major monetary policy measures during the year were reduction in cash reserve ratio and bank rate thus infusing additional liquidity in the system. One of the significant announcements was enhancement of limit of direct housing loans for construction of houses by individuals as part of priority sector lending from Rs.5 lakhs to Rs 10 lakhs even for semi-urban and rural areas. This is expected to provide a major thrust in the lending of commercial banks for housing. Another important development was linking banks' prime lending rate (PLR) to actual costs and abolition of the system of tenor linked PLRs which will make the pricing system more transparent and more meaningful. Overall the thrust of the monetary and credit policy has been to support the tepid pick-up in industrial activity, enhance transparency in the banking system and to take the rupee closer to full convertibility.

Housing & Tenth Five Year Plan (2002-2007)

The National Development Council approved the Tenth Five Year Plan in December 2002 which aimed at an ambitious target of 8 per cent annual GDP growth on the average. One of the crucial aims of the Tenth Plan is to promote a balanced and equitable regional development and to advance the necessary policy and administrative reforms at the State level. The allocation for 2003-04 includes several additional initiatives such as promoting infrastructure by leveraging public money through private sector partnership, provision of hand-pumps in water-scarcity areas and schools, rejuvenation of traditional water sources in villages, research and development (R&D) support in pharmaceuticals, wind and solar energy, among others. The Tenth Five Year Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the Tenth Plan period is estimated at 22.44 million dwelling units. With the continuance of the 2 Million Housing Programme, it is estimated that the investment requirement from public sector institutions would be around Rs.415000 crore. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage. The major task is to evolve market friendly reforms relating to tax, infrastructure etc to help in increasing investment flow in housing. Emphasis has been laid on need to supply affordable housing to economically weaker section (EWS) and low income group (LIG) through proper programme of allocation of land, extension of funding assistance and provision of support services. Sums of these magnitudes cannot be entirely allocated from within the budgetary resources of Central, State and Local Governments. It is, therefore, a compulsion to access financial resources from the market and induce the private sector to participate in housing and habitat development initiatives. The table below shows the growth in investment requirement for housing over the Plan period:

Table 1.1 Investment Requirement for Housing during 5 Year Plans

(Amount in Rs. crore)

Five Year Plan	*Public Investment*	*Private Investment*	*Total Investment*
1st (1951-56)	250	900	1,150
2nd (1956-61)	300	1,000	1,300
3rd (1961-66)	425	1,125	1,550
4th (1969-74)	625	2,175	2,800
5th (1974-78)	796	3,640	4,436
6th (1980-85)	1491	18,000	19,491
7th (1985-90)	2,458	29,000	31,458
8th (1992-97)	31,500	66,000	97,500
9th (1997-2002)	52,000	99,000	1,51,000
10th (2002-07)*	4,15,000	3,11,300	7,26,300

** estimated figures as per the Plan Document*

Housing Scenario

Housing being one of the basic needs of human beings assumes multifaceted significance in terms of degree of economic well being and human development as well as socio-cultural progression and political stability. The development of satisfactory housing has always been the priority in both policy formulation and its implementation.

A rapid rise in population results in higher demand of dwelling units for residential purposes. This coupled with the growth in household formation and increased urbanization in search of employment opportunities has resulted in severe pressure on urban infrastructure in recent years. The consequence has been overcrowding and unhealthy living environment, shortages of basic amenities and finally social and economic deprivation. All major urban centers in our country are gradually experiencing such deficiencies in civic amenities. At the same time, the major growth of housing finance disbursal in the recent years was witnessed in urban / semi-urban areas of the country, with housing loan in rural areas accounting for less than 15% of the total housing loan disbursements despite significant net work of commercial banks and regional rural banks (RRBs) in rural areas. The credit disbursals for housing by their rural branches are constrained by various factors e.g. non availability of clear land title, difficulties in assessing repayment capabilities of rural masses due to irregular income pattern etc., resulting in higher credit risk.

As per the latest Census 2001, India has population of over 1027 million, which is second highest after China, with an unfavourable land-man ratio. As the country enters an era of economic growth, economic liberalization and prosperity, cities seem not yet ready to accommodate the growing population and provide work and services and environmental infrastructure for all. The twin problems of affordability and availability continue. The table below shows decadal growth of population and household formation:

Table 1.2: Population Statistics (million)

	POPULATION			***CENSUS HOUSES***			***NUMBER OF HOUSEHOLDS***		
	1981	***1991***	***2001***	***1981***	***1991***	***2001***	***1981***	***1991***	***2001***
TOTAL	683.33	846.30	1027.00	149.44	195.02	249.10	117.67	151.03	191.96
RURAL	523.87	628.70	742.00	113.96	142.98	177.50	89.33	111.54	138.27
URBAN	159.46	217.60	285.00	35.48	52.03	71.60	28.34	39.49	53.69

Source: Census 2001

Table 1.3: Census Houses and Uses to which they are put (million)

	1981			*1991*			*2001*		
	Total	***Rural***	***Urban***	***Total***	***Rural***	***Urban***	***Total***	***Rural***	***Urban***
Total number of Census Houses (A)	149.44	113.96	35.48	195.02	142.98	52.03	249.10	177.54	71.56
Total number of Vaccant Houses (B)	7.91	5.64	2.27	12.41	7.97	4.44	15.81	9.36	6.45
Total No. of Occupied Census Houses (C)=(A)-(B)	141.53	108.32	33.21	182.61	135.01	47.59	233.29	168.18	65.11
Residential Use (D)	106.52	80.93	25.59	140.08	103.06	37.02	179.27	129.05	50.22
Residential Cum Other use (E)	1.43	0.95	0.48	7.13	5.41	1.72	7.89	6.05	1.84
Non Residential Use (F)	33.58	26.44	7.14	35.40	26.54	8.85	46.13	33.08	13.05
Housing Stock =(D)+(E)	107.95	81.88	26.07	147.21	108.47	38.74	187.16	135.10	52.06

Source: Census 2001

This statistics also shows that housing shortage is more acute in rural areas as compared to urban areas. But, it is not ideal to envisage the housing problem as a mere demand-supply gap and leave the onus on market dynamics especially in a country like India. Because of inequitable income distribution in our country, there is bound to be a wide gap between the demand for the houses and the need for house, because the need is translated into demand only when it is backed by the purchasing power. Hence there is a definite need for intervention through the supply side by making available affordable housing to the people belonging to lower economic strata. But only a supply side intervention will not solve the problem, though it can alleviate the same.

The housing finance sector, however, continued to grow during the year 2002-03, with the banking sector evincing keen interest which in turn could have been fueled by the lack of preferable alternative avenues for investment. In order to increase the market share, the lending institutions are competing with each other by offering very attractive terms to customers in the form of lower rate of interest, liberal collateral requirements, longer repayment period or a very high loan-to-value (LTV) ratio which at times goes up to or even beyond 100% of the value of the house including the cost of land. In recent years, the lending institutions also introduced floating rate products besides the fixed rate ones with the option available to the borrower for conversion against a nominal payment. Besides, the speedier processing and disbursement, efficient advisory services, waiver or reductions in associated up-front fees have also become common tactics of market acquisition.

Thus, acute competition has given rise to continuous innovation in product design as well as processes, with the customers having a wide variety to choose from.

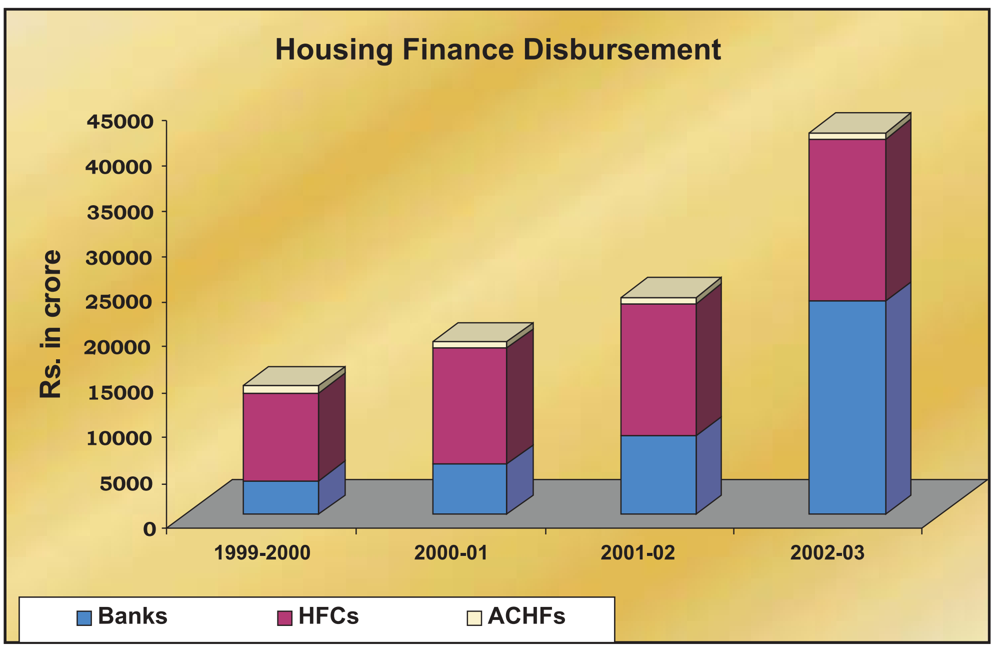
The growth of housing finance in recent years is detailed below:

Table 1.4: Housing Finance Disbursement

(Amount in Rs. Crore)

	1999-2000	*2000-01*	*2001-02*	*2002-03*
Banks**	3597.40	5553.11	8566.41	23553.37
HFCs	9812.03	12637.85	14614.44	17832.01
ACHFs	700.86	867.72	677.58	641.48
Total	*14110.29*	*19058.68*	*23858.43*	*42026.86*
% Growth	-	*35.07*	*25.18*	*76.15*

Source: IECD, RBI; NCHF; NHB
*** Only direct housing finance by banks is taken*
Average annual growth(%)between 2000-01 & 2002-03: 45.47



CHAPTER-II

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: HOUSING FINANCE COMPANIES (HFCs)

The banking institutions have entered the housing finance market with great vigor in the last few years compelling the housing finance companies to reinvent their areas of core competence. This phenomenon has brought into significant qualitative change in the fabric of housing finance system in India. As a result of aggressive competition and gradual softening of the rate of interest, the HFCs are being compelled to operate on a basis of a comparatively thinner spread. The coming years are expected to witness many mergers and consolidations in this segment of financial institutions which would eventually determine the future of HFCs. The key survival factors of a mortgage lender would depend on its ability to successfully manage the interest rate risk and maintain asset quality, to introduce and adopt technology advancement, to improve service range and quality while controlling the operating expenses. In this chapter, we will discuss in detail the operations of the housing finance companies and analyze their performance through certain important parameters during the year 2002-03.

With the Amendment of the National Housing Bank Act 1987 in 2000, HFCs are required to obtain Certificate of Registration (COR) from NHB to be eligible to carry on or commence the business of a Housing Finance Institution (HFI) effective from 12th June, 2000.

NHB has received data from 63 HFCs (including 17 HFCs which are not registered with NHB) under its system of off-site supervision in terms of the Housing Finance Companies (NHB) Directions, 2001. For the purpose of analysis of the data, these 63 HFCs are grouped into three categories as follows:

	Categories of HFCs	*31st March, 2001*	*31st March, 2002*	*31st March, 2003*
A]	Number of HFCs which have furnished the data	85	78	63
A1]	Out of above; Number of HFCs approved for financial assistance from NHB (approved HFCs)	28	29	30
A2]	Number of HFCs having NOF of Rs.50 lakh and above *(*excluding approved HFCs*)*	26	25	22
A3]	Number of HFCs having NOF less than Rs.50 lakh (other HFCs)	31	24	11

Although with the introduction of the Liberalized Refinance Scheme of NHB in February 2003, the concept of approved HFCs has been done away with and substituted with the minimum rating through an internal credit rating model, the concept is used here to facilitate comparison. As the financial year of most of the HFCs is from April to March, the financial data given in this chapter is as on 31st March.

During the year 2002-03, there has been an increase in the paid up capital of the approved HFCs. Paid up capital which was Rs.2243.93 crore as on 31st March, 2002 increased to Rs.2700.53 crore as on 31st March, 2003, an increase of Rs.456.60 crore. As a result of increase in the paid up capital, aggregate NOF of this category of HFCs, which constitute the major part of the housing finance sector, increased by 12.23% (previous year 21.6%) from Rs. 6667.83 crore as on 31st March, 2002 to Rs.7483.11 crore as on 31st March, 2003. The decline in the rate of increase in NOF is mainly because of huge provisioning done by 2 major HFCs on account of their NPAs. Aggregate NOF of HFCs having NOF of Rs.50 lakh and above increased substantially from Rs. 72.32 crore as on 31st March, 2002 to Rs. 271.84 crore as on 31st March, 2003. This increase is due to inclusion of one HFC promoted by a State Government with a NOF of Rs. 213.97 crore under this category. On an overall basis, NOF increased from Rs.6733.23 crore as on 31st March, 2002 to Rs. 7757.93 crore as on 31st March, 2003, a net increase of Rs.1024.70 crore.

The outstanding housing loans as on 31st March, 2003 showed an increase of 18.34 % over the last year. It stood at Rs. 49237.97 crore, an increase of Rs. 7394.32 crore from Rs. 41843.65 crore as on 31st March, 2002. Out of the total outstanding of housing loans of Rs. 49237.97 crore, Rs. 48788.89 crore was on account of approved HFCs (accounting for 99.09%), Rs. 440.28 crore on account of HFCs with NOF more than Rs. 50 lakh. The other HFCs accounted for a meager Rs. 8.81 crore worth of outstanding housing loans.

Table 2.1 : Broad financial information as on 31st March, 2003

(Rs. in crore)

	Category of HFC	Paid up capital*	Free Reserves	Net Owned Fund (NOF)	Public Deposits o/s	Housing Loans o/s
A1]	**HFCs approved for financial assistance from NHB**					
	As on 31st March, 2003	2700.53	5251.21	7483.11	12725.36	48788.89
	As on 31st March, 2002	2243.93	4596.86	6667.83	11216.90	41678.43
	As on 31st March, 2001	1892.55	3921.18	5483.54	8640.90	33100.96
A2]	**HFCs having NOF Rs.50 lakh and above (excluding approved HFCs)**					
	As on 31st March, 2003	57.62	225.16	271.84	31.98	440.28
	As on 31st March, 2002	66.08	14.54	72.32	40.92	137.34
	As on 31st March, 2001	68.39	12.93	71.60	51.98	127.41
A3]	**Other HFCs**					
	As on 31st March, 2003	3.62	0.36	2.98	2.98	8.81
	As on 31st March, 2002	12.03	1.06	(6.92)	10.36	27.88
	As on 31st March, 2001	10.01	0.59	0.67	26.41	21.43
A]	**Total**					
	As on 31st March, 2003	2761.77	5476.73	7757.93	12760.32	49237.97
	As on 31st March, 2002	2322.04	4612.46	6733.23	11268.18	41843.65
	As on 31st March, 2001	1970.95	3934.70	5555.81	8719.29	33249.80

Source: Annual returns [1]

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

1 All data used in this chapter have been sourced from Annual Returns submitted by HFCs to NHB

A. Public deposits

The aggregate outstanding public deposits with all reporting HFCs increased by 13.24 % to Rs.12760.32 crore as on 31st March 2003 as against the previous year's figures of Rs. 11268.18 crore.

a1] HFCs approved for financial assistance from NHB

The outstanding public deposits as on 31st March, 2003 of approved HFCs was Rs. 12725.36 crore as against Rs. 11216.90 crore during the previous year. The HFCs in this category accounted for 99.73% of the outstanding public deposits with all HFCs.

a2] HFCs having NOF of Rs.50 lakh and above (excluding approved HFCs)

The outstanding public deposits with HFCs having NOF Rs.50 lakh and above were Rs. 31.98 crore as against Rs. 40.92 crore as on 31st March, 2002, a decrease of Rs. 8.94 crore. This is largely due to the fact that certain HFCs in this category became ineligible to hold / accept fresh deposits on account of non-compliance with the provisions of the NHB Directions / National Housing Bank Act.

a3] Other HFCs

The outstanding public deposits with other HFCs, which were Rs.10.36 crore as on 31st March 2002 substantially reduced to Rs.2.98 crore as on 31st March 2003. Reduction in the public deposits of this category of HFCs is due to the same reasons as mentioned under a2 above.

A.1. Size-wise Classification of Public Deposits

The share of public deposits of over Rs.1,00,000 accounted for 58.53% of the total deposits as on 31st March, 2003 whereas it was 56.67% as on 31st March, 2002.

Table 2.2: Size-wise public deposits with all reporting HFCs

(Rs. in crore)

Size	Outstanding public deposits as on 31st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Upto Rs.5,000	84.14	*0.97*	53.55	*0.47*	45.64	*0.36*
Rs.5,001 to Rs.10,000	353.15	*4.05*	467.13	*4.15*	291.64	*2.29*
Rs.10,001 to Rs.25,000	1042.04	*11.95*	1240.28	*11.01*	1184.96	*9.29*
Rs.25,001 to Rs.50,000	1393.31	*15.98*	1808.71	*16.05*	1936.18	*15.17*
Rs.50,001 to Rs.1,00,000	1281.89	*14.70*	1313.09	*11.65*	1832.59	*14.36*
Over Rs.1,00,000	4564.76	*52.35*	6385.42	*56.67*	7469.31	*58.53*
Total	**8719.29**	***100.00***	**11268.18**	***100.00***	**12760.32**	***100.00***

A.2 Maturity-wise Classification of Public Deposits

An analysis of maturity wise classification of public deposits indicates the depositors' preference for public deposits having maturity period of 24 months or more but less than 48 months. In as much as 45.45% (previous year 49.28%) of the deposits outstanding with the HFCs were concentrated in this category.

The public deposits with maturity period of 12 months or more but less than 24 months decreased from Rs. 871.37 crore as on 31st March, 2002 to Rs. 785.10 crore as on 31st March, 2003. But, public deposits with a maturity period of 24 months or more but less than 48 months increased from Rs. 5553.14 crore as on 31st March, 2002 to Rs. 5799.53 crore as on 31st March, 2003, but in percentage term, it reduced from 49.28% to 45.45% of the total outstanding deposits as on 31st March, 2002 and 31st March, 2003, respectively. Considering the fact that the housing loans are long-term in nature, it is observed that outstanding deposits with more than 48 months maturity accounted for 48.39% of the total outstanding deposits.

Table 2.3: Maturity-wise public deposits with all reporting HFCs

(Rs. in crore)

Maturity period	Outstanding public deposits as on 31st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Less than 12 months	9.98	*0.11*	9.55	*0.09*	1.68	*0.01*
12 months or more but less than 24 months	736.44	*8.45*	871.37	*7.73*	785.10	*6.15*
24 months or more but less than 48 months	4904.80	*56.25*	5553.14	*49.28*	5799.53	*45.45*
48 months or more but less than 60 months	344.91	*3.96*	192.06	*1.70*	499.37	*3.91*
60 months	1727.86	*19.82*	2510.03	*22.28*	2520.14	*19.75*
More than 60 months but less than 84 months	413.49	*4.74*	617.53	*5.48*	743.83	*5.83*
84 months	331.52	*3.80*	926.27	*8.22*	1224.66	*9.60*
More than 84 months	250.29	*2.87*	588.23	*5.22*	1186.01	*9.30*
Total	**8719.29**	***100.00***	**11268.18**	***100.00***	**12760.32**	***100.00***

A.3 Interest rate-wise Classification of Public Deposits

Keeping pace with the declining trend in the interest rates observed in the financial sector, the maximum amount of deposits clustered around the interest rate of 9% to 11%, which accounted for 51.19%(previous year 62.03%) followed by interest rate of 6% to 9% which accounted for 28.59% of the public deposits outstanding as on 31st March, 2003. The share of deposits carrying interest rates of 11% or more came down sharply from 59.88% as on March 31, 2001 to 20.15% as on 31st March, 2003.

Table 2.4: Interest rate-wise public deposits of all reporting HFCs

(Rs. in crore)

Rate of interest (Rate per annum)	Outstanding public deposits as on 31st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Below 6%	9.84	*0.11*	8.74	*0.08*	8.94	*0.07*
6% to below 9%	18.75	*0.21*	548.38	*4.87*	3648.43	*28.59*
9 % to below 11%	3470.14	*39.80*	6990.08	*62.03*	6531.46	*51.19*
11% to below 13%	3825.00	*43.87*	2994.91	*26.58*	2108.32	*16.52*
13% or more	1395.56	*16.01*	726.07	*6.44*	463.17	*3.63*
Total	**8719.29**	***100.00***	**11268.18**	***100.00***	**12760.32**	***100.00***

B. Borrowings and other deposits (excluding public deposits)

The aggregate outstanding borrowings of HFCs as on 31st March, 2003 were Rs. 46980.51 crore as compared to Rs.38183.88 crore as on 31st March, 2002, showing an increase of around 23% over previous year.

C. Housing Loans

Table 2.5: Housing Loan Sanctioned & Disbursed by HFCs

(Amount in Rs. crore)

	2000-2001	2001-2002	2002-2003
SANCTIONED	14289.16	17633.27	22338.34
DISBURSED	12637.85	14614.44	17832.01

Data provisional; Based on the periodic information received from approved HFCs

The aggregate outstanding housing loans of all reporting HFCs, which were Rs.41843.65 crore as on 31st March, 2002 increased by 17.67% and stood at Rs. 49237.97 crore as on 31st March, 2003. Here again, the HFCs receiving financial assistance from NHB accounted for a little more than 99% of the outstanding housing loans. The outstanding housing loans with these HFCs which was Rs.41678.43 crore as on 31st March, 2002 increased to Rs.48788.89 crore as on 31st March, 2003.

A trend based on the data received from 20 major HFCs indicated that the loans in the term period above 7 years which formed 63% of the total housing loans outstanding as on 31st March, 2002 reduced to 48% as on 31st March, 2003.

Table 2.6: Term-wise Housing Loans outstanding of Approved HFCs

(Data received from 20 major HFCs approved for refinance from NHB)*

(figures in percentage)

Term of Housing Loan	2001-2002 (%)	2002-2003 (%)
Upto 1 year	9.81	9.23
1 to 3 years	9.13	15.88
3 to 5 years	9.48	14.00
5 to 7 years	8.56	12.70
Above 7 years	63.02	48.19
TOTAL	**100.00**	**100.00**

* *Excluding HUDCO*

The housing loans upto Rs. 3 lakh which formed 40.22% of the total loans disbursed by this category of HFCs during 2002 reduced to 32.34% of the total loans disbursed during 2003. The share of housing loans in the category above Rs.5 lakhs increased from 37.78% to 42.99% during the same period.

Table 2.7: Size-wise disbursements of Housing Loans by Approved HFCs

(Data received from 20 major HFCs approved for refinance from NHB)*

(figures in percentage)

Size of Housing Loan (Rs.)	2001-2002 (%)	2002-2003 (%)
Less than 50,000	11.38	0.18
50,001 – 1,00,000	1.52	1.68
1,00,001 – 3,00,000	27.32	30.48
3,00,001 – 5,00,000	22.00	24.67
5,00,001 – 10,00,000	21.33	23.06
Above Rs. 10,00,000	16.45	19.93
TOTAL	100.00	100.00

* *Excluding HUDCO*

D. Other loans and advances

Other loans and advances outstanding of all reporting HFCs were Rs. 13357.94 crore as on 31st March, 2003 (corresponding figure as on March 31, 2002 were Rs.9666.35 crore) These loans and advances mainly included urban infrastructure loans disbursed by HUDCO.

E. Investments

Aggregate investments of all reporting HFCs has recorded an increase of 14.29% over the previous year and stood at Rs. 6516.66 as on 31st March, 2003 from Rs. 5702.07 crore as on 31st March, 2002.

A comprehensive table with important financial parameters pertaining to major HFCs is given in the annexure.

CHAPTER III

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: BANKS

One of the significant aspects of budding housing finance business in India in the last 2-3 years has been the increasing participation of the commercial banks. In the year 2002-03, the return on assets of the banking sector witnessed a marked improvement driven by increases in all major income categories. The spurt in the retail and housing segments mainly boosted both lending and fee incomes. According to the reports of the Reserve Bank of India, fiscal 2002-03 witnessed a sharp pickup in housing loans, which witnessed a quantum rise to 6.1 per cent of non-food gross bank credit as at end-March 2003, up from 4.6 per cent as at end-March 2002, reflecting several policy initiatives in this regard. In fact, banks have consistently exceeded the targets prescribed for providing housing loans during the last few years. The details of housing finance allocation (i.e. stipulated 3% of the incremental deposits) and achievement by the commercial banks during the last 4 years in given below:

Table 3.1 Housing Finance by Commercial Banks

(Amount in Rs. crore)

	1999-2000	2000-2001	2001-2002	2002-2003
Allocation	3051.52	3409.95	5159.22	8574.10
Achievement	9911.35	9787.24	14744.85	33840.53

Source: IECD, RBI (Achievement includes direct & indirect housing finance and investment in NHB/HUDCO bonds)

The overall exposure of scheduled commercial banks (SCBs) to sensitive sectors comprising capital market, real estate and commodities, underwent a compositional shift during 2002-03. Owing to a major increase in housing finance the overall exposure to sensitive sectors of most bank groups has gone up. The public sector banks (PSBs) continued to account for about two-thirds of the total exposure of SCBs to sensitive sectors.

Table 3.2 Lending to Sensitive Sectors by Scheduled Commercial Banks

(Amount in Rs. Crore)

Advances to	**Outstanding as at end March**		**Per cent to total**	
	2002	2003	31.03.2002	31.03.2003
Capital market	3,082	2,504	14.8	10.5
Real estate	9,012	12,464	43.3	52.0
Commodities	8,727	8,979	41.9	37.5
TOTAL	20,821	23,947	100.0	100.0

Source: Trend & Progress of Banking in India, 2003

As per the RBI reports, most bank groups, excluding the foreign bank category, unwound their exposure to the capital market during 2002-03, partly on account of the subdued performance of the capital market with limited activity being witnessed during 2002-03 and partly on account of the new growth driver: housing finance. Most commercial banks are engaged in offering retail credit for housing on highly competitive prices and customer-friendly terms, supported by strong marketing efforts to enhance their customer appeal. Consequently, real estate lending by most bank groups experienced moderate to significant increases, a decline being evidenced only in case of old private banks which, in fact, experienced a cutback in their overall lending to sensitive sectors.

The spurt in housing finance by banking sector can be attributed to the facilitating role of the Reserve Bank of India through various policy pronouncements in pursuance of National Housing Policy of Central Government, which helped augmenting the flow of credit to housing sector. During last two years, the housing sector has emerged as one of the sectors attracting a large quantum of bank finance. The current focus of RBI's regulation is to ensure orderly growth of housing loan portfolio of banks.

A. Direct Housing Finance

As per the RBI, direct housing finance refers to the finance provided to individuals or groups of individuals including co-operative societies. Regarding direct housing finance, the banks are free to evolve their own guidelines with the approval of their Boards on aspects such as security, margin, age of dwelling units, repayment schedule, etc. The RBI, however, stipulates that the following types of bank finance may be included under direct housing finance:

- *Bank finance extended to a person who already owns a house in town/village where he resides, for buying/ constructing a second house in the same or other town/ village for the purpose of self occupation.*
- *Bank finance extended for purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.*
- *Bank finance extended to a person who proposes to buy an old house where he is presently residing as a tenant.*
- *Bank finance granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within a period of two years from the availment of the said finance.*

Supplementary finance

The RBI guidelines stipulate that banks are free to consider requests for additional finance within the overall ceiling for carrying out alterations/ additions/repairs to the house/flat already financed by them. In the case of individuals who might have raised funds for construction/ acquisition of accommodation from other sources and need supplementary finance, banks may extend such finance after obtaining *pari passu* or second mortgage charge over the property mortgaged in favour of other lenders and/or against such other security, as they may deem appropriate.

Under direct housing finance, loans up to Rs. 10 lakh in rural, semi-urban, urban and metropolitan areas for construction of houses by individuals and loans up to Rs.1 lakh in rural and semi urban areas and Rs. 2 lakhs in urban areas for repairs to damaged houses by individuals will be considered as part of priority sector lending by banks provided such lending has the approval of their Boards.

Table 3.3 Bank-group-wise direct housing finance disbursal

(Amount in Rs. Crore)

	1999-2000	2000-2001	2001-2002	2002-2003
SBI & Associates	1205.06	1950.09	2636.34	4782.88
Nationalised Banks	1710.10	2800.90	4963.62	9129.47
Indian Pvt. Banks	522.30	645.06	696.79	8864.03
Foreign Banks	159.94	157.06	269.66	776.99
TOTAL	**3597.40**	**5553.11**	**8566.41**	**23553.37**

Source: IECD, RBI

The above table indicates the steady growth of direct housing finance disbursal by all categories of banks during the last four years. However, the quantum increase in 2002-03 as compared to 2001-02 is largely on account of huge disbursal by private sector banks, which accounted for 37.63% of total direct housing finance of the banking sector in 2002-03 as compared to 8.13% share in 2001-02.

B. Indirect Housing Finance

The RBI stipulates that banks should ensure that their indirect housing finance is channelled by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc., primarily for augmenting the supply of serviced land and constructed units. It should also be ensured that the supply of plots/ houses is time bound and public agencies do not utilise the bank loans merely for acquisition of land. Similarly, serviced plots should be sold by these agencies to co-operative societies, professional developers and individuals with a stipulation that the houses should be constructed thereon within a reasonable time, not exceeding three years. For this purpose, the banks may take advantage of various guidelines issued by NHB for augmenting the supply of serviced land and constructed units.

Lending to Housing Intermediary Agencies: Housing Finance Institutions

Banks are allowed to grant term loans to housing finance institutions taking in to account (long-term) debt-equity ratio, track record, recovery performance and other relevant factors. In terms of NHB guidelines, housing finance companies' total borrowings, whether by way of deposits, issue of debentures / bonds, loans and advances from banks or from financial institutions including any loans obtained from NHB, should not exceed 16 times of their net owned funds (i.e. paid-up capital and free reserves less accumulated balance of loss, / deferred revenue expenditure and intangible assets).

Lending to Housing Intermediary Agencies: Housing Boards and Other Agencies

Banks are also free to extend term loans to state level housing boards and other public agencies. However, the RBI prescribes that in order to develop a healthy housing finance system, while doing so, the banks must not only keep in view the past performance of these agencies in the matter of recovery from the beneficiaries but they should also stipulate that the Boards will ensure prompt and regular recovery of loan installments from the beneficiaries

Financing of Land Acquisition

In view of the need to increase the availability of land and house sites for increasing the housing stock in the country, the RBI permits that banks may extend finance to public agencies for acquisition and development of land, provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. Such credit may be extended by way of term loans. The project should be completed as early as possible and, in any case, within three years, so as to ensure quick re-cycling of bank funds for optimum results. If the project covers construction of houses, credit extended therefore in respect of individual beneficiaries should be on the same terms and conditions as stipulated for direct finance.

Terms and Conditions for Lending to Housing Intermediary Agencies

In order to enhance the flow of resources to housing sector, term loans may be granted by banks to housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by the latter, irrespective of the per borrower size of the loan extended by these agencies and such term loans would be reckoned for the purpose of achievement of their housing finance allocation.

Banks can grant term loans to eligible housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by them to Non-Resident Indians (NRIs) also. However, such finance granted by banks to housing finance intermediary agencies against their on-lending to NRIs will not be treated as housing finance for the purpose of yearly allocation of housing finance applicable to banks. Banks have freedom to charge interest rates to housing intermediary agencies without reference to Prime Lending Rate (PLR).

Term Loans to Private Builders

In view of the important role played by professional builders as providers of construction services in the housing field, especially where land is acquired and developed by State Housing Boards and other public agencies, commercial banks may extend credit to private builders of repute on commercial terms by way of loans linked to each specific project. It should be ensured, through close monitoring, that no part of such funds is used for any speculation in land.

Under indirect housing finance assistance given to any governmental agency for construction of houses, or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs. 5 lakh of loan amount per housing unit and assistance given to a non-governmental agency approved by the National Housing Bank for the purpose of refinance for construction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs. 5 lakh of loan amount per housing unit will be considered eligible to qualify as priority sector lending.

Table 3.4 Bank-group-wise indirect housing finance disbursal

(Amount in Rs. Crore)

	1999-2000	2000-2001	2001-2002	2002-2003
SBI & Associates	128.78	91.20	174.40	152.00
Nationalised Banks	2975.97	1815.77	3838.60	4916.63
Indian Pvt. Banks	805.96	859.87	1192.85	1159.73
Foreign Banks	135.73	105.01	494.42	568.12
TOTAL	**4046.44**	**2871.85**	**5700.27**	**6796.48**

Source: IECD, RBI

C. Investments in Bonds

Investment by banks in bonds issued by NHB/HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit will be reckoned for inclusion under priority sector advances.

Table 3.5 Bank-group-wise disbursal in NHB/HUDCO bonds

(Amount in Rs. Crore)

	1999-2000	2000-2001	2001-2002	2002-2003
SBI & Associates	49.63	46.54	40.80	0.00
Nationalised Banks	1294.98	665.79	112.67	1224.46
Indian Pvt. Banks	881.04	556.54	263.10	2184.77
Foreign Banks	41.86	93.41	61.60	81.45
TOTAL	**2267.51**	**1362.28**	**478.17**	**3490.68**

Source: IECD, RBI

A close analysis of Table 3.3-3.5 would reveal the gradual increase in direct housing finance portfolio of all categories of banks over the last 3-4 years. This indicates the growing concentration of banks in retail housing finance and also throws lights on increased magnitude of competition that such huge foray by banks would entail. Among the different bank-groups, SBI and Associates show maximum concentration for direct housing finance.

Banks are, however, not allowed to grant finance for construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices. However, banks may grant loans for activities, which will be refinanced by institutions like the National Bank for Agriculture and Rural Development (NABARD). Projects undertaken by public sector entities which are not corporate bodies and not run on commercial lines may not be financed by banks.

Opening of Specialised Housing Finance Branches

In view of the priority accorded to the development of housing as also to achieve greater professionalism, the Reserve Bank opined that there was a need for establishment of specialised branches at certain centres exclusively to cater to housing finance. It has been the intention of RBI that over time a housing finance branch should be established in each district through policies and perceptions for greater involvement of commercial banks in the housing sector.

Since the housing finance is a new concept to banks, initially the opening of such specialised branches would be restricted to semi-urban/urban areas and the number of such branches to be allowed would depend on the size and spread of the bank.

In this regard, banks are also advised by RBI to consider opening a specialised branch in districts where they have a large presence and avoid opening such housing finance branches at metropolitan centres which are served by quite a few specialised housing finance companies and give preference to smaller urban and semi-urban centres where there is enough potential for opening of such branches. They should also propose to cover all the states to ensure a wider geographical dispersion of housing finance branches.

The RBI also advises NHB to be prepared to take up the task of training the staff to be posted in the specialised housing finance branches so that they are equipped with the necessary skills for the work.

Risk Weight on Housing Finance

With a view to further improving the flow of credit to the housing sector the RBI decided to liberalise the prudential requirement on risk weight for housing finance by banks and encourage investments by banks in Mortgage Backed Securities (MBS) of housing finance companies which are registered and supervised by NHB. Accordingly, banks extending housing loans to individuals against the mortgage of residential housing properties are permitted to assign risk weight of 50% instead of the existing 100%. Loans against the security of commercial real estate would continue to attract 100% risk weight as hitherto. The investments in MBS of residential assets of HFCs are eligible for risk weight of 50% for the purpose of Capital Adequacy.

Terms and Conditions for Banks' Investment in Mortgage Backed Securities (MBS)

The RBI has stipulated that banks' investments in MBS should satisfy the following terms and conditions:

- *The right, title, and interest of an HFC in securitised housing loans and receivables there under should irrevocably be assigned in favour of a Special Purpose Vehicle (SPV) / Trust.*
- *Mortgaged securities underlying the securitised housing loans should be held exclusively on behalf of and for the benefit of the investors by the SPV/Trust.*
- *The SPV or Trust should be entitled to the receivables under the securitised loans with an arrangement for distribution of the same to the investors as per the terms of the issue of MBS. Such an arrangement may provide for appointment of the originating HFC as the servicing and paying agent.*

However, the originating HFC participating in a securitisation transaction as a seller, manager, servicer or provider of credit enhancement of liquidity facilities shall not

- *Own any share capital in the SPV or be the beneficiary of the Trust used as a vehicle for the purchase and securitisation of assets. Share capital for this purpose shall include all classes of common and preferred share capital.*
- *Name the SPV in such manner as to imply any connection with the originator.*
- *Have any directors, officers, or employees on the board of the SPV unless the board is made of at least three members and where there is a majority of independent directors. In addition, the official (s) representing the originator will not have veto powers.*
- *Support any losses arising from the securitisation transaction or by investors involved in it or bear any of the recurring expenses of the transaction.*

Besides,

- *The loans to be securitised should be loans advanced to individuals for acquiring / constructing residential houses which should have been mortgaged to the HFC by way of exclusive first charge.*
- *The loans to be securitised should be accorded an investment grade credit rating by any of the credit rating agencies at the time of assignment to the SPV.*
- *The investors should be entitled to call upon the issuer-SPV-to take steps for recovery in the event of default and distribute the net proceeds to the investors as per the terms of issue of MBS.*
- *The SPV undertaking the issue of MBS should not be engaged in any business other than the business of issue and administration of MBS of individual housing loans.*
- *The SPV or Trustees appointed to manage the issue of MBS should have to be governed by the provisions of Indian Trust Act, 1882.*

If the issue of MBS is in accordance with the above terms and conditions stated includes irrevocable transfer of risk and reward of housing loan assets to the Special Purpose Vehicle (SPV) / Trust, investment in such MBS by any bank would not be reckoned as an exposure on the HFC originating the securitised housing loan. However, it would be treated as an exposure on the underlying assets of the SPV/ Trust.

The details of region-wise classification, size-wise classification and population & bank group wise classification of outstanding housing loans of scheduled commercial banks are given below:

Table 3.6: Region-wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

Region/State/UT	2001		2002		2003	
	No. of A/cs	Amount outstanding	No. of A/cs	Amount outstanding	No. of A/cs	Amount outstanding
Northern Region						
Haryana	55668	585.48	42965	672.20	47339	1140.20
Himachal Pradesh	21885	199.58	14863	198.79	17880	291.91
Jammu & Kashmir	18737	168.13	18367	218.46	19797	268.76
Punjab	98732	868.14	83064	1191.16	92254	1713.71
Rajasthan	105365	1095.39	83060	1342.50	87617	1768.72
Chandigarh	9380	135.69	7147	160.46	7703	280.59
Delhi	54524	1468.33	42908	1720.92	52155	3383.53
Region Total	***364291***	***4520.74 (34.11)***	***292374***	***5504.49 (21.76)***	**324745**	**8847.42** ***(60.73)***
North-Eastern Region						
Arunachal Pradesh	145	2.95	299	10.02	193	6.43
Assam	22307	242.67	18535	314.91	42811	703.51
Manipur	1441	12.14	1028	18.41	1255	26.54
Meghalaya	1235	15.28	1152	25.48	1226	29.95
Mizoram	2203	21.91	1618	34.18	2982	64.41
Nagaland	484	5.24	344	5.63	379	6.40
Tripura	2848	20.23	1841	26.52	2322	35.59
Region Total	***30663***	***320.42 (32.89)***	***24817***	***435.15 (35.81)***	**51168**	**872.83** ***(101.00)***
Eastern Region						
Bihar	58222	493.07	37270	499.12	52919	708.78
Jharkhand	24534	202.24	17184	270.40	20478	371.81
Orissa	67628	539.74	87950	1018.92	140319	1320.32
Sikkim	1494	14.56	1260	25.20	1756	35.49
West Bengal	171963	1352.29	118175	1889.65	135074	2714.59
Andaman & Nicobar Islands	323	4.67	308	7.46	335	9.09
Region Total	***324164***	***2606.57 (32.16)***	***262147***	***3710.75 (42.36)***	**350881**	**5160.08** ***(39.06)***

Central Region						
Chhatisgarh	24323	176.99	14534	235.48	29566	412.10
Madhya Pradesh	118825	994.67	81737	1131.74	114243	1610.60
Uttar Pradesh	194461	1383.04	123446	2012.95	153108	2848.90
Uttaranchal	22822	178.28	16123	247.69	30911	437.12
Region Total	***360431***	***2732.98 (29.28)***	***235840***	***3627.86 (32.74)***	**327828**	**5308.72 *(46.33)***
Western Region						
Goa	9548	105.13	5781	109.30	10315	199.66
Gujarat	157055	1225.62	100943	1298.33	98876	1663.45
Maharashtra	323287	4299.68	209787	5772.99	305979	8180.36
Dadra & Nagar Haveli	83	0.91	167	2.88	309	6.24
Daman & Diu	283	1.95	185	2.52	252	3.73
Region Total	***490256***	***5633.29 (48.94)***	***316863***	***7186.02 (27.56)***	**415731**	**10053.44 *(39.90)***
Southern Region						
Andhra Pradesh	228431	2194.03	163476	2814.56	294235	4746.90
Karnataka	196310	2425.59	163726	3204.43	223695	5294.18
Kerala	269673	1948.01	173325	2473.00	195958	3402.46
Tamil Nadu	214050	2995.12	180539	3821.58	257529	5304.67
Lakshadweep	17	0.17	19	0.39	16	0.23
Pondicherry	4511	35.50	3189	47.69	4295	75.98
Region Total	***912992***	***9598.42 (36.26)***	***684274***	***12361.65 (28.79)***	**975728**	**18824.42 *(52.28)***
Total All India	**2482797**	**25412.42 *(37.18)***	**1816315**	**32825.92 *(29.17)***	**2446081**	**49066.91 *(49.48)***

Source: Basic Statistical Returns, RBI (figures in parenthesis indicate percentage growth)

The year 2002-03 witnessed remarkable growth in the housing loan segment of the commercial banks which is also reflected in more than 49% growth in the outstanding housing loans during the year. All regions except the eastern region witnessed higher growth rate in 2002-03 as compared to 2001-02. Most significantly, the north-eastern region also witnessed a more than 100% growth during 2002-03.

Table 3.7:Size-wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

Loan Slab	2001		2002		2003	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
Rs.25,000 and Below	536572	552.09	244376	280.10	442944	555.62
Above Rs.25,000 and Upto Rs.2 Lakh	1620279	9543.99	1133744	10840.76	1316608	12874.06
Above Rs.2 Lakh and Upto Rs.5Lakh	285328	9232.89	350284	10979.69	513798	15973.65
Above Rs.5 Lakh and Upto Rs.10 Lakh	30933	1996.41	67146	4305.70	127959	8242.24
Above Rs. 10 Lakh and Upto Rs.25 Lakh	7639	1053.29	16870	2197.86	36202	4624.93
Above Rs. 25 Lakh and Upto Rs.50 Lakh	1278	322.53	2773	772.71	5466	1384.91
Above Rs. 50 Lakh and Upto Rs.1Crore	380	208.27	610	314.19	1414	605.42
Above Rs. 1 Crore and Upto Rs. 4 Crore	252	432.40	344	482.56	1163	630.34
Above Rs. 4 Crore and Upto Rs. 6 Crore	49	198.42	55	182.28	226	274.69
Above Rs. 6 Crore and Upto Rs.10 Crore	25	183.60	40	219.55	132	404.75
Above Rs. 10 Crore and Crore Upto Rs. 25	41	642.79	37	496.48	111	844.39
Above Rs. 25 Crore	21	1045.74	36	1754.04	58	2651.91
Total	**2482797**	**25412.42**	**1816315**	**32825.92**	**2446081**	**49066.91**

Source: Basic Statistical Returns, RBI

While the outstanding housing loans increased across the slabs, the growth rates were most significant in case of the slab Rs. 5 lakhs to Rs.10 lakhs (91.43%) and in the slab above Rs.10 lakhs and up to Rs.25 lakhs (110.00%).

Table 3.8: Population-group and Bank-group wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

	2001		2002		2003	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
RURAL						
- SBI & Associates	87817	681.09	76727	1079.28	234852	2388.75
-Nationalised Banks	193457	1405.43	137200	1480.97	146284	2123.52
-Foreign Banks	7	0.26	79	4.54	117	4.56
-RRBs	70941	274.24	63566	430.77	75060	586.98
-Other SCBs	20152	172.81	14634	164.31	15177	282.96
TOTAL	**372374**	**2533.83**	**292206**	**3159.87**	**471490**	**5386.77**
SEMI-URBAN						
- SBI & Associates	266044	2298.08	199183	3124.50	393938	4800.25
-Nationalised Banks	266158	2289.99	191234	2523.65	218241	3582.15
-Foreign Banks	0	0	0	0	0	0
-RRBs	64334	279.54	42065	364.21	37151	419.37
-Other SCBs	102965	638.56	47815	681.86	45922	768.57
TOTAL	**699501**	**5506.17**	**480297**	**6694.22**	**695252**	**9570.34**
URBAN						
- SBI & Associates	298573	3000.58	213726	4105.66	320200	5810.74
-Nationalised Banks	390640	3738.76	290572	4840.53	339196	7217.38
-Foreign Banks	576	32.01	452	27.45	2085	110.17
-RRBs	58126	257.50	48762	313.67	34390	336.74
-Other SCBs	47014	397.01	35129	503.10	33934	689.61
TOTAL	**794929**	**7425.86**	**588641**	**9790.41**	**729805**	**14164.64**
METROPOLITAN						
- SBI & Associates	155555	1999.05	110507	2833.09	174095	4650.70
-Nationalised Banks	386982	5250.45	272989	6618.93	296487	9455.62
-Foreign Banks	34793	1979.67	38221	2886.44	49544	4120.71
-RRBs	795	13.45	1211	19.65	1537	21.92
-Other SCBs	37868	703.94	32243	823.31	27871	1696.21
TOTAL	**615993**	**9946.56**	**455171**	**13181.42**	**549534**	**19945.16**

All-INDIA						
- SBI & Associates	807989	7978.80	600143	11142.53	1123085	17650.44
-Nationalised Banks	1237237	12684.63	891995	15464.08	1000208	22378.67
-Foreign Banks	35376	2011.94	38752	2918.43	51746	4235.44
-RRBs	194196	824.73	155604	1128.30	148138	1365.01
-Other SCBs	207999	1912.32	129821	2172.58	122904	3437.35
TOTAL	**2482797**	**25412.42**	**1816315**	**32825.92**	**2446081**	**49066.91**

Source: Basic Statistical Returns, RBI

The SBI & Associated surpassed the nationalized banks in the rural segment during 2002-03, and grew significantly in other areas as well. At the all-India level, SBI & Associated showed a growth of 58.41%, the nationalized banks 44.71%, foreign banks 45.13%, RRBs 21.00% and other SCBs 58.22%.

CHAPTER-IV

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: COOPERATIVE SECTOR

The cooperative housing movement has made significant progress over the years and housing cooperatives have acquired a position of prominence as being effective organizational form best suited for the supply, maintenance and management of housing stock in the country. The National Housing & Habitat Policy (NHHP) 1998 also envisaged forging strong partnerships between private, public and cooperative sectors to enhance the capacity of the construction industry to participate in every sphere of housing and habitat. The corporate, private and cooperative sectors need to take the lead role in terms of land assembly; construction of houses and development of amenities within the projects. NHHP also advocated that cooperative sector should be given preference in allotment of land and house sites to encourage group housing by this sector. The laws relating to housing cooperatives need amendment to facilitate housing cooperatives to take up more housing projects and the Policy proposed that a special chapter on housing cooperatives be added to the Cooperative laws in the States.

The National Co-operative Housing Federation of India (NCHF)

The National Co-operative Housing Federation of India (NCHF) has been promoting, guiding and coordinating the activities of housing cooperatives at the national level since its inception in 1969. At present there are 26 Apex Cooperative Housing Federations (ACHFs) which are currently members of NCHF.

During the year 2002-03, NCHF took a number of initiatives for increasing the flow of funds in this sector at affordable rates. Besides, it drafted a model law on housing cooperatives which was approved by the Government of India and was circulated among the States for adoption. NCHF also finalized the Study reports on Capacity Building of ACHFs and Social and Economic Benefits of Cooperative Housing and also initiated another Study Report on Housing Indicators for Selected Cities.

Apex Cooperative Housing Federations (ACHFs)

At present there are 92,000 housing cooperatives at the base level with a membership of about 65 lakh all over the country represented by 26 Apex Co-operative Housing Federations at the state / union territory level. The ACHFs act as central financing agencies for cooperative housing sector in various States. These ACHFs obtain loans from the financial institutions for onward lending to their affiliated primary housing cooperatives for construction of dwelling units for their members and some of them are also providing direct loans to individuals. So far, an amount of around Rs. 8100 crore has been disbursed by these ACHFs to enable construction of more than 22.30 lakh dwelling units in the country. Presently, the ACHFs are advancing an amount of approximately Rs. 640 crore a year.

The composition of resource mobilization by the ACHFs during the last 5 years is detailed below:

Table 4.1: Borrowings of Apex Co-operative Housing Federations (cumulative)

(Rs. In crore)

Year	LIC	NHB	HUDCO	State Govt.	Deposits	Banks	Debentures	Others	Total
1998-99	2702.48	330.52	922.33	49.07	157.90	565.15	142.60	87.09	4957.14
1999-00	2835.71	440.12	1176.71	48.97	185.77	748.60	142.60	112.28	5690.76
2000-01	2985.65	483.06	1449.42	50.13	156.63	982.00	145.26	179.57	6431.72
2001-02	3121.81	595.06	1514.84	50.13	130.59	1184.17	142.60	283.40	7022.60
2002-03	3198.81	706.56	1539.78	229.97	115.09	1448.44	142.60	346.25	7727.50

Source: National Cooperative Housing Federation of India; NHB data as at the end of June

The above table indicates that over the years LIC had been the major source of funding for ACHFs. However during the last few years the Banks and State government have contributed significantly for these institutions. The share of LIC in the cumulative borrowings by ACHFs has declined from 44.45% in 2001-02 to 41.40% in 2002-03 whereas the corresponding share of Banks has increased from 16.86% to 18.74% during the same period. Similarly, the contribution from State Governments in the over all borrowings of ACHFs has increased from 0.7% in 2001-02 to 2.98% in 2002-03.

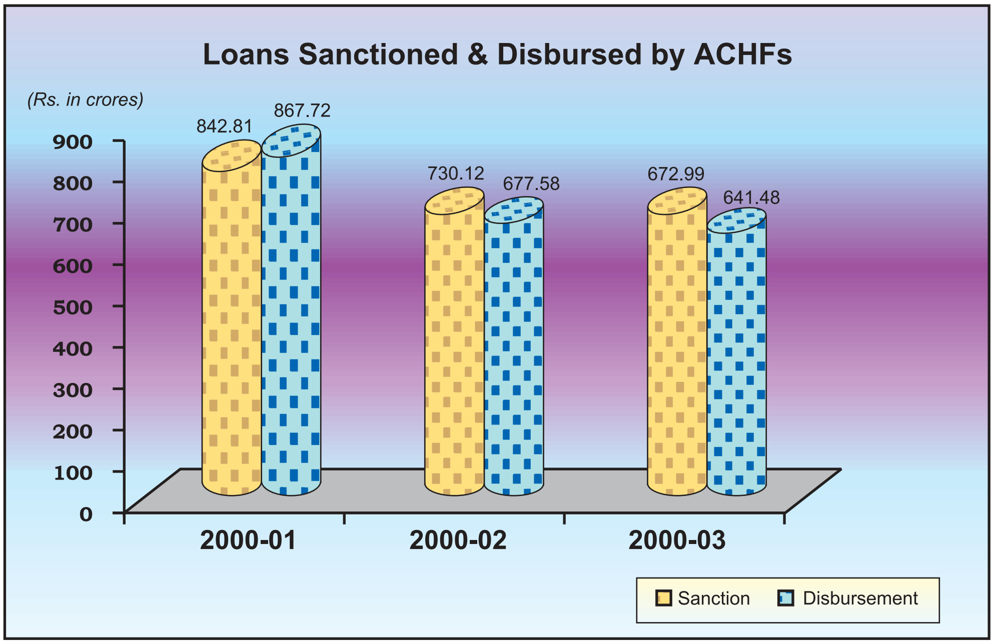
The quantum of cumulative sanction of housing loan by the ACHFs increased to Rs.8574.22 crore during 2002-03 while cumulative disbursal rose to Rs. 8138.17 crore. During the last three years, the ACHFs were lending, on an average, an amount of Rs. 729 crore per year.

Table 4.2: Lending Operations of Apex Cooperative Housing Federations

(Rs. In crore)

Year	Loan Sanctioned	Loan Disbursed
2000-01	842.81	867.72
2001-02	730.12	677.58
2002-03	672.99	641.48

Source: National Cooperative Housing Federation of India



Cumulatively, the financial assistance provided by ACHFs till the end of March, 2003 enabled construction of 2209208 dwelling units.

State / UT-wise break-up of housing loan disbursed and number of units constructed with financial assistance from ACHFs during last three years are as under :

Table 4.3: Housing Loans Disbursed and Housing Units Constructed By Apex-Cooperative Housing Federations*

(Rs. in crore)

S. No.	Apex-Federatios	2000-01		2001-02		2002-03	
		Units constructed /financed	Loans Disbursed	Units constructed /financed	Loans Disbursed	Units constructed /financed	Loans Disbursed
1	Andhra Pradesh	300	21.68	75	13.76	920	25.37
2	Assam	0	0	2146	1.42	199	24.25
3	Bihar	2325	25.65	0	18.46	0	0
4	Chandigarh	0	0	4184	4.62	4500	0
5	Delhi	317	50.47	99	31.47	286	39.99
6	Goa	107	2.44	35	0.98	144	0.36
7	Gujarat	0	0	0	0	0	0
8	Haryana	143	3.32	0	0	50	0.19
9	Himachal Pradesh	42	1.09	38	0.85	24	1.43
10	Jammu & Kashmir	14	3.21	16	7.04	0	0

11	Karnataka	383	6.17	151	8.86	185	5.04
12	Kerala	9351	92.23	8239	70.61	9276	123.38
13	Madhya Pradesh	0	0	294	21.08	0	0
14	Maharashtra	331	1.98	444	3.21	1066	5.30
15	Manipur	0	0	0	0	0	0.04
16	Meghalaya	0	0	0	0	0	0
17	Orissa	812	2.44	132	1.29	102	5.08
18	Pondicherry	74	3.51	83	7.00	494	11.36
19	Punjab	3729	58.21	5670	90.38	2800	74.09
20	Rajasthan	44	1.27	655	5.76	253	0
21	Tamil Nadu	36611	574.21	14905	351.25	11716	303.68
22	Uttar Pradesh	687	17.60	602	37.13	466	21.92
23	West Bengal	98	2.24	109	2.41	0	0
	TOTAL	**55368**	**867.72**	**37877**	**677.58**	**32481**	**641.48**

Source: National Cooperative Housing Federation of India

* *Excluding Chhattisgarh, Mizoram and Andaman & Nicobar; Boxes with nil information indicate information not available*

The above table shows the steady increase in per unit loan size over the years by the ACHFs. Besides, the concentration of disbursal in the state of Tamil Nadu continued which alone accounted for 47% of total disbursal by ACHFs in 2002-03.

Till the end of June 2003, 5 ACHFs [viz., Kerala ACHFs, Maharashtra ACHFs, Punjab ACHFs, Pondicherry ACHFs and Tamilnadu ACHFs] availed of NHB refinance. Of these, 4 ACHFs (except Maharashtra ACHFs) availed of refinance assistance of Rs. 111.50 crore from NHB during the year 2002-03 as against Rs.112.00 crore in the previous year.

Table 4.4: NHB's refinance assistance to ACHFs during last 5 years

(Rs. In crore)

Year ended 30th June	Yearly Refinance	Cumulative Refinance
1999	50.35	330.52
2000	109.60	440.12
2001	42.94	483.06
2002	112.00	595.06
2003	111.50	705.56

Agriculture and Rural Development Banks (ARDBs)

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

During the year 2002-03, NHB disbursed Rs. 28.27 crore to ARDBs as compared to Rs. 107.16 crore in the previous year. Thus, during the year ended June 30, 2003, NHB extended a total refinance assistance of Rs. 139.77 crore to co-operative sector institutions as against Rs. 219.16 crore in 2001-02. At the end of June 30, 2003, NHB's cumulative refinance assistance to co-operative sector institutions stood at Rs.1425.66 crore out of the cumulative refinance assistance of Rs.9961.08 crore.

State Co-operative Banks

In order to strengthen the cooperative credit structure of the country which has been performing a commendable task in providing credit to the housing sector, NHB has been extending refinance assistance to the State Cooperative Banks in respect of the housing loans given by them either directly or through the District Central Cooperative Banks/primary agricultural credit societies. So far, a few of these banks have been found eligible for availing the refinance facility from NHB. The cumulative refinance assistance extended by NHB to these banks as at the end of June, 2003 stood at Rs.49.89 crore.

Primary (Urban) Co-operative Banks

The scheduled Primary (Urban) Cooperative Banks are also eligible to avail refinance assistance from NHB provided they meet the recovery norms prescribed by NHB. However, not many of these banks have been in a position to avail refinance assistance from NHB. During the year ended June 30, 2003, Rs. 40.00 crore was disbursed by NHB to this category of institutions (corresponding figure in the previous year was Rs. 32.00 crore). The cumulative refinance assistance extended by NHB to these institutions stood at Rs.102.15 crore by the end of June, 2003.

Recovery Performance of ARDBs/ACHFs

As per the information available from these institutions, the recovery position has declined in case of Punjab ACHFs and Kerala ARDB, during the year 2002-03 as compared to the previous year, while it has improved in case of Kerala ACHFs and Pondicherry ACHFs.

Table 4.5: Recovery Performance of Cooperative Sector Institutions

Institution	2000-01	2001-02	2002-03
Punjab ACHFs	84.56	84.60	80.61
Tamil Nadu ACHFs	65.95	61.43	NA
Kerala ACHFs	90.30	85.59	86.62
Pondicherry ACHFs	59.00	66.00	70.00
Kerala ARDB (state level rec.)	92.35	84.54	79.83

Figures in percentage

CHAPTER V

ACTIVITIES OF THE NATIONAL HOUSING BANK : 2002-03

The National Housing Bank (NHB) completed its fifteenth year of operation in 2002-03 working on the mandate to function as the principal agency to promote housing finance system and to provide financial and other support to housing finance institutions. The objectives of NHB are to promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population by augmenting resources for the sector and channelising them for housing in order to make housing credit more affordable. NHB's promotional endeavours are also directed towards capacity building for the housing finance system besides enlarging the credit absorption capacity. The Bank has also been entrusted with the task of introducing new product / service features in the Indian mortgage market in line with international developments such as creation of a secondary mortgage market for residential mortgage backed securitization and mortgage credit guarantee. The major functional developments during 2002-03 are detailed below:

A. Regulatory Issues

Change in Regulation

With a view to imparting a more vibrant regulatory regime for the HFCs, NHB had been making suitable amendments to Housing finance Companies (NHB) Directions from time to time to keep pace with the changing market dynamics. The following amendments have been made to the Housing Finance Companies (NHB) Directions, 2001 during the year 2002-03:

i) New provisions for exposure to stock market including stipulation on engaging brokers and policy / prudential norms applicable to demand / call loans have been introduced. HFCs are now required to put in place clear cut policy for demand / call loans. Prudential norms relating to asset classification and provisioning have been made applicable to such loans as well. Besides, the 'past due' concept has been dispensed with. The period of default for asset-classification has also been made more stringent with effect from March 31, 2005 onwards.

ii) The ceiling on borrowing and deposits that can be accepted by HFCs has been increased from 10 times to 16 times of their net owned fund in order to offer them a level playing field in the face of stiff competition.

iii) The ceiling on rate of interest payable by HFCs for public deposits has been reduced from 12.5% per annum to 11% per annum

iv) NHB has also permitted all HFCs registered with the Bank under section 29A of the National Housing Bank Act, 1987 to enter into ready forward transactions in Government Securities and issued necessary circular specifying the terms and conditions to be complied by such HFCs.

Supervision

Twenty-nine HFCs were inspected during the year 2002-03 to assess their financial position and verify their compliance with the Directions issued by NHB. Besides, the Bank also recovered penal interest amounting to Rs.77.15 lakhs from 14 HFCs during 2002-03 as recourse against their failure to maintain the prescribed level of liquid assets in terms of Section 29B of the National Housing Bank Act.

Registration of housing finance companies

In terms of Section 29A of the National Housing Bank Act, 1987 (as amended in 2000) HFCs are required to obtain a Certificate of Registration (COR) from the National Housing Bank so as to commence or carry on the business of a housing finance institution. During the year under review, 17 HFCs were granted COR without permission to accept public deposits, of which COR issued to one HFC has been cancelled. Further, applications for COR were rejected in 46 cases.

Out of the 161 applications received by the Bank for Certificate of Registration, 48 HFCs have been granted the COR, 51 companies' applications were rejected by NHB till June 30, 2003 and 30 applications are at various stages of processing. 31 Companies with NOF below the minimum threshold limit of Rs.25 lakhs had time till June 11, 2003 to fulfill the minimum NOF requirement and they have been given time till September 11, 2003 to report such compliance to NHB. As stated earlier, one COR granted was cancelled during the year.

HFCs which have not applied for registration have become ineligible to carry on the business of housing finance institutions and action would be initiated against such companies, if they are found to be carrying on the business of an HFI or accepting deposits from public.

The Bank is keeping in touch with the latest developments through market intelligence and coordination with other regulatory bodies so as to protect the sector from any systemic failure.

B. Promotional Issues

Equity Support

During the year 2002-03 NHB revised its Guidelines for extending Equity Support to HFCs w.e.f March 1, 2003, enhancing the requirement of minimum paid up capital of the HFC to Rs. 10.00 and restricting NHB's participation in equity to 10% of paid up capital. Besides, HFCs are required to get their shares listed on any recognised stock exchange(s) in India as also to enter into a shareholder's agreement with NHB which, inter-alia, contains the clause of buy-back of equity shares.

During the year, Bank disinvested its entire equity holding in Andhrabank Housing Finance Limited and Vysya Bank Housing Finance Limited. NHB also subscribed

Rs.1.60 crores towards 1.6 lacs equity shares of Cent Bank Home Finance Limited of Rs. 100 each at par under the Rights Issue.

The details regarding NHB's equity participation in HFCs at the end of June 2003 are given below:

(Rs. in Crore)

Name of the HFC	Face Value	Investment as on 30.06.2003
1. BOB Housing Finance Ltd.	4.94	4.94
2. Can Fin Homes Ltd.	0.50	1.75
3. Centbank Home Finance Ltd.	3.20	3.20
4. GRUH Finance Ltd.	0.45	0.85
5. Vibank Housing Finance Ltd	1.20	1.20
TOTAL	—	**11.94**

The Bank has been organizing meetings with CEOs of HFCs for better understanding and resolving of issues of mutual importance. During the current financial year one such meeting was organized and cumulatively, NHB has so far organized 17 such meetings.

Training

In order to endow the housing finance sector with dynamic and effective human resource capable of facing the challenge of changing market scenario, the Bank has been providing training assistance to all the primary lending institutions through specialized programmes, seminars and symposia on matters related to housing and housing finance.

During the year, NHB conducted six training programmes all over the country involving participation from HFCs, state housing boards and development authorities. The programmes addressed issues related to general awareness on housing finance as well as certain specialised topics such as regulatory framework for housing, securitization, project finance etc. In one programme, officials from leading housing finance institutions in Bangladesh also participated.

NHB also extended financial and design support to NCHF for conducting four training programmes for the personnel of housing co-operatives. The National Centre for Management Development for ARDBs (NCMDARDB) was also provided financial assistance for training programmes for officials of co-operative institutions and banks operating in the rural areas. NHB also provided design and faculty support to banks, HFCs and Human Settlement Management Institute (HSMI).

C. Financing Issues

Mobilization

During 2002-03, NHB mobilized Rs.3083.80 crore from various sources including additional share capital of Rs.100 crore from RBI and Rs.1947.90 crore from capital gains bonds 2002 issue that provided tax exemption to capital gains under Section 54 EC of the Income Tax Act 1961. With the additional infusion of share capital from RBI, the total paid up capital of NHB stood at Rs.450.00 crore as at the end of June 30, 2003, fully contributed by RBI. The Life Insurance Corporation of India also subscribed a sum of Rs.400.00 crore under Tier-II capital having a tenor of 63 months at a coupon rate of 5.77% payable annually. The rest was mobilized through taxable and tax-free bonds and line of credit from RBI.

NHB has for the first time obtained rating of its debt instruments and the Fitch Ratings India Private Limited and Credit Analysis and Research Limited have rated the same as AAA (ind) and "CARE AAA" respectively, denoting highest quality carrying negligible investment risk.

Refinancing

The prevalent refinance schemes of NHB applicable to primary lending institutions (PLIs) was introduced in 1989 with uniform pricing and security requirement irrespective of risk perception or varying capability and credibility of the PLIs. This uniform policy, though justifiable from the promotional point of view, especially in the nascent years of housing finance sector, would result in distortion in a more competitive environment as it is tantamount to intervention. Thus, the better PLIs would feel discriminated and disincentivised. With growing competition in the housing finance sector witnessing takeovers and re-pricing of loans, requirement of many primary lending institutions for varying maturities of loans, a choice of fixed and floating interest rate and finance against prospective loans based on their growth projections became evident. The felt need was to make a more meaningful market foray making NHB the "most preferred destination" for housing finance institutions in the long run. Towards this objective NHB has introduced a Liberalised Refinance Scheme (LRS) applicable to Scheduled Banks and Housing Finance Companies in February 2003.

The important policy changes effected through the LRS are as under:

i. *Introduction of internal credit rating for HFCs and risk based pricing.*

ii. *Introduction of floating rates of interest and maturity based rates of interest.*

iii. *Refinance assistance could be used for covering prospective disbursements to be made by HFCs*

The rating under internal credit rating model (ICRM) consists of 6 scales and would be done once a year to determine the rate of interest, exposure, sanction limit, security etc. The ICRM is based on various parameters covering business risk, market risk and financial risk.

The introduction of LRS resulted in growth of refinance disbursal which reached the figure of Rs. 2709.72 crore, as compared to the previous year's figure of Rs. 1024.80 crore resulting in a growth of around 164% over the previous year. The comparative chart showing disbursements to various categories of PLIs vis-à-vis the corresponding figures last year is as under :

(Rs. in crore)

	2002-03			2001-02
	Fixed	**Floating**	**Total**	
Releases to HFCs	**550.01**	**1216.68**	**1766.69**	**705.33**
Old Scheme (Jul 2002 - Feb 2003)	219.61	0.00	219.61	
New Scheme (Mar 2003 - Jun 2003)	330.40	1216.68	1547.08	
Releases to Banks	**770.00**	**20.00**	**790.00**	**76.99**
Old Scheme (Jul 2002 - Feb 2003)	0.00	0.00	0.00	
New Scheme (Mar 2003 - Jun 2003)	770.00	20.00	790.00	
Releases to Cooperative Institutions	**139.77**	**0.00**	**139.77**	**219.15**
Releases Under Gujarat Earthquake Scheme	**13.26**	**0.00**	**13.26**	**23.33**
TOTAL	**1473.04**	**1236.68**	**2709.72**	**1024.80**

Cumulative Refinance Disbursements up to 30th June, 2003

Institution Category	**Amount (Rs. in crore)**
Housing Finance Companies	7303.00
Scheduled Banks	1232.42
Cooperative Sector Institutions	1425.66
TOTAL	**9961.08**

Keeping in tune with the overall softening of the interest rate regime, NHB rationalized its refinance rates in the past on an ongoing basis. Under the earlier Scheme, with the change effected in June 2002 the refinance rate ranged between 7.25%-9.50% in rural areas and 8.25%-9.50% in urban areas. Under LRS, HFCs/ Banks have the option to choose either floating or fixed interest rate. In order to safeguard both NHB and primary lending institutions from extreme volatility in interest rate movements in the case of fixed rates NHB will have the option to review and revise the rates on outstanding loans on completion of 3 years. As on June 30, 2003 the interest rate range under LRS was 6.90%-8.55% (fixed option) and 6.70%-7.95% (floating option). There was a further 25 basis point relaxation for rural housing loans.

There is also option available for conversion from fixed to floating rate and vice versa on payment of a fee. Refinance availed can also be prepaid after giving 2 months notice to NHB and on payment of a nominal levy.

Project Financing

The Bank also extended financial assistance the tune of Rs. 73.06 crore in 2002-03 (including the amount lent from the Special Fund and the assistance under Gujarat earthquake scheme) to public housing and development agencies all over the country for undertaking various types of housing projects and sanctioned projects with a cost component of Rs.117.66 crore and loan amount of Rs.84.46 crore. Under the General Fund, a total of 6 Land Development & Shelter Projects (LDSP) have been sanctioned during 2002-03 having a cost component of Rs.85.27 crore and loan amount of Rs.64.05 crore and NHB disbursed a sum of Rs.58.00 crore under this window in addition to finance for projects under Gujarat earthquake scheme. Under the Special Fund, NHB sanctioned 6 Projects during 2002-03 having project cost of Rs.28.77 crore and loan amount of Rs.17.36 crore and disbursed a sum of Rs.14.79 crore. Around Rs. 0.27 crore was disbursed as assistance to Gujarat Earthquake Victims.

Cumulatively, till the end of June, 2003, NHB has disbursed Rs.586.63 crore under its project financing window. NHB has so far sanctioned 353 projects (including projects sanctioned to support Gujarat earthquake victims) where financial assistance has been made available through the direct as well as the refinance route.

The interest rates applicable to the refinance and direct finance schemes of Project Finance have also been revised downwards during the year 2002-03.

D. Other Initiatives

Golden Jubilee Rural Housing Finance Scheme

The scheme was launched in August 1997 to commemorate the Golden Jubilee year of India's independence. This is a pure housing loan scheme without any subsidy element for areas with a population less than 50,000 as per 1991 Census and the primary lending institutions are free to decide the terms and conditions of lending. The targets under the Golden Jubilee Rural Housing Finance Scheme for the year 2002-2003 were enhanced to 2.25 lakh dwelling units from 1.75 lakh dwelling units in the previous year. The target was further sub-allocated amongst the various participating institutions.

The details of the targets and the achievements under the scheme for various categories of institutions during 2002-03 are as under:

(Number of dwelling units)

Category of Institutions	Target	Achievement
Banks	1,06,300	97,295
Housing Finance Companies	1,02,400	78,807
Others including Co-operative sector institutions	16,300	2,098
TOTAL	**2,25,000**	**1,78,200**

The low credit disbursals for rural housing by primary lending institutions can be attributed to several factors such as non availability of clear land title in rural areas, difficulties in assessing repayment capabilities of rural masses due to irregular income behaviour resulting in higher credit risk etc. Besides, the higher incidence of stamp duty and non-permissibility of agricultural land for mortgaging for non-agricultural purposes in many states also hinder the growth of rural housing finance business.

Residential Mortgage Backed Securitization (RMBS)

During the year 2002-03, Reserve Bank of India issued notification assigning a risk weight of 50% for investments by Banks and Financial Institutions in Mortgage Backed Securities (MBS) originated by Housing Finance Companies registered and supervised by NHB, subject to fulfillment of specified conditions.

Recognizing the potential of RMBS as a financial instrument and its role in linking the housing sector with the Capital Market, NHB has been working towards establishing systems and procedures for standardization of primary housing finance activities and documents in order enable a sophisticated secondary RMBS market. NHB has also been continuing its efforts to sensitize the various State Governments for rationalization of Structure of Stamp Duties and Registration Charges. While five states have reduced the stamp duty structure to 0.1% so far, during the year the Government of Gujarat revised its Stamp Duty Structure in respect of MBS Instruments in terms of which the maximum stamp duty is Rs. 1.00 lakh.

The market has also witnessed a gradual expansion in the investor base of the MBS paper with Mutual Funds and Primary Dealers (besides banks and Insurance companies) having evinced interest in investing in RMBS. NHB is exploring the possibility of issuing RMBS paper with Banks both in the public and private sectors as originators. The Pass Through Certificates (PTCs) which represents the undivided interests of the pool assets is now being issued in the dematerialized form.

During 2002-03, two more RMBS issues were launched by NHB-one originated by BOB Housing Finance Limited and the other by Canfin Homes Limited. The BOB HFL Issue involved 3548 loans amounting to Rs. 77.16 crore. The issue size was Rs. 59.65 crore of a tenor of 108 months with a coupon of 6.89% p.a. payable monthly. This was the first RMBS issue of BOB HFL and was rated LAAA (SO) by ICRA. The Canfin issue comprised of a pool of 2007 mortgages involving Rs.64.13 crore with door-to-door maturity of 105 months and average maturity of 53 months at a coupon of 6.25% p.a. The issue was rated LAAA(SO) by ICRA. As a measure to boost the confidence of the investors in the RMBS papers, NHB had, for the first time, subscribed to the issue, picking up a stake of 5.45% in the deal. With these two issues NHB has so far completed securitization of 7 pools involving housing loan assets aggregating Rs.500.12 crore.

Mortgage Credit Guarantee Company

The National Housing Bank has taken a lead role in promoting and introducing the concept of mortgage default guarantee in the country. Pursuant to the announcement in the Union Budget of 2001-02, NHB undertook the venture and is collaborating with Canada Mortgage and Housing Corporation (CMHC), United Guarantee (UG), a wholly-owned subsidiary of American International Group Inc. (AIG), International Finance Corporation (IFC) and Asian Development Bank (ADB) in pursuing the implementation of the project.

Mortgage Credit Guarantee will allow lenders to penetrate broader market segments by expanding their reach by offering easier and standard mortgage terms and conditions. The guarantee support will protect lenders against risk of default by the borrowers. This will enhance confidence and help the lending institutions in reaching out to all segments of population and improving home ownership in the country. The guarantee support will improve credit flow into housing and will also result in lower interest rates due to risk cover. The mechanism will also provide a new impetus to mortgage backed securitization and will bring about improvement in lending practices in the industry. NHB has been coordinating the efforts of all the partnering institutions for investment in the project and setting up of the Company.

CHAPTER VI

ASSET QUALITY IN HOUSING FINANCE

The Banking sector was led to accord significant attention towards the quality of assets due to increasing level of Non Performing Assets (NPAs). However, the level of NPAs in housing finance is comparatively low. This has been the major factor for more and more players to enter the housing finance business. The fact that housing finance is a compartively safe business can be observed from the fact that during the last few years, the proportion of NPAs to total assets of the HFCs registered with NHB and having asset base of more than Rs. 10 crores, (these HFCs account for more than 99% of the total business of all HFCs) has been declining. However, this trend has reversed during the year 2002-03 and the proportion of gross NPAs to total assets of these companies increased from a level of 2.23% as at the end of March, 2002 to 2.39% as at the end of March,2003.

There were 27 HFCs(excluding HUDCO) registered with NHB and having asset base more than Rs. 10 crores as at the end of March, 2003. For the purpose of analysis, these companies have been grouped according to their asset size as given below:

Table 6.1: Asset Base of Approved HFCs

Asset Size	No. of Companies
Between Rs 10 crore and Rs.150 crore (Group A)	10
Between Rs.150 crore and Rs. 500 crore (Group B)	7
Above Rs.500 crore (Group C)	10

Total assets of these companies increased from Rs. 36145.86 crore as at the end of March, 2002 to Rs. 43053.20 crore by 31st March, 2003. During the same period gross non-performing assets increased from the level of Rs.807.32 crore to Rs.1029.98 crore. In the percentage terms, the proportion of gross NPAs to total assets has increased from 2.23% as at the end of March, 2002 to 2.39% as on 31st March, 2003.

Similarly, the net NPAs which were Rs. 619.47 crore as on 31st March, 2002, increased to Rs. 815.68 crore by the end of March, 2003 and the proportion of net NPAs to total assets increased from 1.71 % on 31st March, 2002 to 1.89% as on 31st March, 2003.

In the case of HFCs with asset size of more than Rs. 10 crores and up to Rs.150 crore the gross NPAs are increasing over the years. Gross NPAs in this category of HFCs increased from Rs. 50.35 crore as at the end of March, 2001 to Rs. 57.22 crore as on 31st March, 2002 and further to Rs.61.55 crore by the end of March, 2003. Similarly, the proportion of gross NPAs to total assets for this category witnessed an increase from the level of 11.43% as on 31st March, 2001 to 13.55% by the end of March, 2002 but marginally declined to 13.5% by the end of March, 2003. A similar trend was observed in the case of net NPAs. The proportion of net NPAs to total assets of these companies increased from 8.66% as on 31st March, 2001 to 9.54% by the end of March, 2002 but declined to 9.43% by end of March, 2003. This indicates the increasing level of awareness about asset quality among the small HFCs.

In respect of HFCs having asset size above Rs.150 crore and up to Rs.500 crore the gross NPAs have declined from the level of Rs.186.97 crore as on 31st March, 2002 to Rs.175.68 crore by the end of March, 2003. In the percentage terms, the proportion of gross NPAs to total assets of these companies is on the decline and this percentage share declined from 15.16% as at the end of March, 2001 to 10.61% by the end of March, 2002 and further to 8.02% by the end of March, 2003. The variation in the proportion of net NPAs to the total assets has been similar to the variation observed in the case of proportion of gross NPAs to total assets. It decreased from 14.82% to 10.24% during 2001-2002 and further to 5.30% during 2002-2003.

For companies having an asset size above Rs.500 crore, it is observed that the declining trend of NPAs as a percentage of total assets during the last few years has reversed and this proportion has increased during the year 2002-03. This proportion decreased from 1.81% at the end of March, 2001 to 1.66% as at the end of March, 2002 but it has increased to 2.39% by the end of March, 2003. Similarly, the proportion of net NPAs to total assets for these companies decreased from 1.52% to 1.17% during 2001-2002 but increased to 1.89% during 2002-2003. This trend clearly indicates the compromise on the part of big HFCs on account of asset quality in order to maintain/increase their market share in the highly competitive environment due to more and more players taking active interest in housing finance.

Table 6.2: NPAs for Various Groups of HFCs Classified according to Asset Size

(Rs in Crore)

	Total Assets	Gross NPAs	Gross NPAs as % of Total assets	Net NPAs	Net NPAs as % of Total assets
Group A					
2001	440.41	50.35	11.43	38.16	8.66
2002	422.17	57.22	13.55	40.28	9.54
2003	455.92	61.55	13.50	42.97	9.43
Group B					
2001	1160.03	175.86	15.16	171.89	14.82
2002	1762.47	186.97	10.61	180.51	10.24
2003	2190.31	175.68	8.02	116.10	5.30

Group C					
2001	27366.55	495.24	1.81	417.22	1.52
2002	33961.22	563.13	1.66	398.69	1.17
2003	40406.97	792.75	1.96	656.61	1.63
Total					
2001	28966.99	721.45	2.49	627.26	2.17
2002	36145.86	807.32	2.23	619.47	1.71
2003	43053.20	1029.98	2.39	815.68	1.89

Note: It may not be possible to draw a direct comparison with the figures published in the last report due to regrouping of HFCs on the basis of their asset size as on 31.3.2003

In terms of the classification of NPAs as per the prudential norms, the sub-standard assets accounted for about 53% of the total NPAs during the year 2001 and by the year 2002 this share increased to 59.32%. However during 2002-03 the percentage of sub-standard assets to total NPAs declined to 58.36%. During the year 2001-02, the share of doubtful assets in the total NPAs has declined from 47.06% to 40.29%. This decrease in the share of doubtful assets is approximately equal to the increase in the proportion of sub-standard assets in the total NPAs. From this it may be inferred that the accounts, which have become doubtful during the last couple of years have shown some improvement during the year. However, the increase in percentage share of loss assets over the last two years is a matter of concern.

Table 6.3: Break-up of Non-Performing Assets

(per cent)

Category/Year	2001	2002	2003
Sub-standard	52.88	59.32	58.36
Doubtful	47.06	40.29	40.87
Loss	0.06	0.39	0.77

CHAPTER –VII

GOVERNMENT HOUSING INITIATIVES

The progress of any nation can be appreciated by the quality of life attained by its people. Besides the basic requirement of food and clothing, availability of decent and safe shelter is also and important component of quality living. With a view to freeing millions of Indians from the shackles of human indignity, the National Housing and Habitat Policy 1998 was formulated with a promise to serve the underprivileged through institutional assistance.

One of the major obstacles facing the public initiative for housing is the unrestrained population explosion. Further, the constant migration of people from rural areas to cities in search of jobs puts housing and basic services in the urban areas under considerable strain. The NHHP 1998 has therefore envisaged addressing the need for conserving our resource as well as the most effective utilization of available resources in tune with global concerns in this regard. The Government adopts the role of a facilitator instead of a provider. The other partners, private and cooperative sectors, are being encouraged through suitable fiscal incentives. As per the Tenth Five year Plan estimates, housing sector's investment requirement would be to the tune of Rs. 7,26,300 crore, with Rs.3,11,000 crore coming from the public sector. Thus, the private sector participation will assume enormous significance in the coming years.

The National Agenda for Governance envisages construction of 2 million dwelling units every year and also emphasizes that housing activity would be an engine for substantial generation of employment in the country. To this end, all legal and administrative impediments that stand in the way would be removed forthwith. Building upon past experience, the NHHP 1998 aims at correcting the imbalance caused by excessive dependence on the public agencies. The central theme of this Policy is creating strong Public - Private partnerships for tackling the housing and habitat issues. The Government's intervention will be limited through fiscal concessions, legal and regulatory reforms and creating an enabling environment while the private sector as the other partner would be encouraged to take up land assembly, housing construction and invest in infrastructure services.

URBAN HOUSING

Urbanization is an inevitable menace of progress of civilization. With unplanned urbanization comes the associated evils of congestion, creation of slums, health and sanitation hazards, social safety and security concerns. The integrated approach towards urbanization, therefore, must cater to all these aspects. The Government of India is currently implementing a gamut of housing and habitat development programmes through the Ministry of Urban Development and Poverty Alleviation to redress the problems related to urban housing and basic infrastructure facilities especially being faced by urban poor. Some of the major initiatives are discussed below:

A. Valmiki Ambedkar Awas Yojana (VAMBAY)

The Scheme was launched in December, 2001 to provide shelter and upgrade the existing shelter for the urban slum dwellers living below poverty line. The Scheme involves a Government of India subsidy of 50% while the balance 50% is expected to be arranged by the State Governments with funds from any source in the form of subsidy or loan from HUDCO or any other agency. The Scheme also aims at providing health and enabling urban environment facilities through community toilets under Nirmal Bharat Abhiyan. Reputed NGOs can also be associated with the Scheme, especially in regard to the Nirmal Bharat Abhiyan.

The Scheme received very encouraging response from the State / UT Governments. Against the Government of India's allocation of Rs.69 crore during 2001-02, huge demands from 16 States/ UTs necessitated release of additional amount of Rs.4.56 crore, with the final figure reaching Rs.73.56 crore. During 2002-03, a budgetary provision of Rs.256.86 crore was made out of which Central subsidy of Rs.217.60 crore was released. The budgetary provision for 2003-04 is Rs.238.50 crore.

Yearly performance under VAMBAY

Year	Central Release	Target		Achievement	
	(Amt.)	Dwelling Units	Toilet Seats	Dwelling Units	Toilet Seats
2001-2002	Rs.73.56 crore	Not Fixed		27271	4605
2002-2003	Rs.217.60 crore	100000		110263	21488

Data received from Ministry of Urban Development & Poverty Alleviation

B. National Slum Development Programme (NSDP)

This programme was launched in 1996 for providing additional central assistance to States / UTs for the development of urban slums by providing physical amenities like water supply, storm water drains, community bath, widening and paving of existing lanes, sewers, community latrines and street lights etc. Besides, funds under NSDP can be used for provision of community infrastructure and social amenities like pre-school education, non-formal education, adult education, maternity, child health, primary health care including immunization etc. The programme also has a component of shelter upgradation or construction of new houses. The allocation of additional central assistance is made by the Planning Commission annually on the basis of the slum population of the State. During 1996-97 to 2001-02, a total amount of Rs.1807.33 crore was released under this programme. During 2002-03, Rs.365.00 crore was allocated for NSDP out of which Rs.202.54 crore was released till February 2003. The programme has reportedly benefited 3.48 crore slum dwellers so far.

C. Urban Reforms Incentives Fund (URIF)

An Urban Reforms Incentive Fund (URIF) has been set up with an initial outlay of Rs. 500 crore to provide reforms linked assistance to States in the housing and real estate sector. Out of the total corpus for a State, 10% will be allocated for repeal of the Urban Land Ceiling and Regulation Act, 20% for rationalization of stamp duty, 20% for reforms of rent control laws to stimulate private investment in rental housing, 10% for computerizing the process of registration, 10% for reform of property tax to enhance the collection efficiency to at least 85 per cent, 20% for levying reasonable user charges by Urban Local Bodies and the rest 10% for introduction of double entry accounting system in Urban Local bodies. The State-wise allocation of funds is made on the basis of share of each State in urban population. The States are required to enter into a commitment for reforms by signing a Memorandum of Agreement.

D. Technology Extension

It has been felt that a strong policy support is essential for shelter construction with appropriate building materials and better availability of alternate materials at affordable prices and by minimizing commercial exploitation of biomass. The Ministry of Urban Development & Poverty Alleviation has initiated the following actions in this regard:

i) ***Building Centres*:** The National Network of Nirman Kendras (Building Centres) has been established with central assistance through HUDCO to impart training to artisans in low cost construction skills and produce building materials and components by utilizing agro-industrial wastes. Till December 2002, 589 centres have been sanctioned out of which 469 centres have become functional. These centres have imparted training to more than 2.10 lakh construction workers and artisans. Government of India has provided grant amounting to Rs. 15.51 crore to such centres.

ii) ***BMTPC:*** The Building Materials and Technology Promotion Council (BMTPC) was established to provide for an appropriate platform for technology promotion, transfer and application in the housing sector and commercial production of innovative building materials. BMTPC has taken several initiatives for utilization of fly ash and other waste based products, introduction of new specifications and promotion of entrepreneur's interface with financial institutions and research agencies.

E. Night shelter and Sanitation facility for Urban Footpath Dwellers

The objective of this centrally sponsored scheme is to provide adequate shelter to the footpath dwellers in the urban areas. It had per capita cost limit of Rs. 20,000/

- with 50% coming as subsidy from Central Government and rest 50% flowing in from implementing agencies or through HUDCO. Till October 2002, HUDCO had sanctioned 115 schemes for providing 16959 beds, 28980 WC, 2147 baths and 1928 urinals while 23 schemes were completed with 8,340 beds, 3,937 WC, 435 baths and 313 urinals. The guidelines under the scheme were revised in October 2002. Now only composite night shelters with in-built sanitary system can be sanctioned under the scheme whereas the independent sanitation component is now covered under VAMBAY.

A 20-point programme was launched in 1986 to eradicate poverty, reduce income disparity and socio-economic inequalities, and also to ensure availability of basic amenities including housing for overall improvement of quality of life of the poor and other weaker sections of the society. There are three component points related to housing under the 20-point programme being monitored by the Ministry of Urban Development & Poverty Alleviation, which are detailed below:

F. Housing Scheme for Economically Weaker Sections (EWS)

This programme was launched to provide housing to the economically weaker segment of the urban populace. Apart from investments made by State and UT Governments through Plan provisions, this programme is supported by institutional finance. Refinance is also provided by National Housing Bank to the State Govt. agencies, Co-operatives and other organizations involved in EWS housing.

Yearly performance under EWS Housing Scheme

Year	Target	Achievement
1998-99	1,18,000	1,17,000
1999-00	69,000	1,02,000
2000-01	1,96,000	2,39,000
2001-02	2,48,000	19,000*
2002-03	96571	28541**

**Provisional; ** Till September 2002 Source : Ministry of Urban Development & Poverty Alleviation*

The annual target for 2003-04 is 58760 dwelling units.

G. Housing Scheme for Low Income Group (LIG)

This is primarily a long-term scheme which is being executed by the State Governments / UTs through Housing Boards and Housing Departments. The Budget provisions are made under Plans of States / UTs and are supplemented by institutional finance.

Yearly performances under LIG Housing Scheme

Year	Target	Achievement
1998-99	57,828	41,244
1999-00	44,000	27,000
2000-01	27,000	17,000
2001-02	44,630	2277*
2002-03	27,443	1,528**

** Provisional; ** Till September 2002 Source: Ministry of Urban Development & Poverty Alleviation*

The annual target for the year 2003-04 is 6918 dwelling units.

H. Environmental Improvement of Urban Slums (EIUS)

This scheme was formulated to ensure environmental improvement of urban slum areas. The aim of this scheme is to provide and improve the infrastructural amenities, viz., water supply, sewerage and other drains, community baths & latrines, street lighting, widening & paving pathways and other community facilities for slum dwellers. The number of individual beneficiaries against the target during the last 5 years is given below:

Yearly performance under EIUS Scheme

Year	Target	Achievement
1998-99	43,30,000	33,44,000
1999-00	47,05,000	55,73,000
2000-01	50,97,000	60,88,000
2001-02	60,83,000	12,92,000*
2002-03	54,28,332	15,56,436**

** Provisional; ** Till September 2002; Source: Ministry of Urban Development & Poverty Alleviation*

The target number of individuals to be covered by this scheme in the year 2003-04 is 4506368.

Besides above programmes, various other initiatives are being undertaken by the Central Government solely or with international assistance for development of slums and housing and urban infrastructure as well as for poverty alleviation.

RURAL HOUSING

The Census 2001 figures show that 72% of the total population of India still lives in the rural areas where the problem of housing shortage and the lack of civic amenities have become a serious cause for concern. House ownership does not only reflect the economic well-being of an individual, it also provides him with a sense of belonging, an identity and more than anything, a social entity. This perception of social integration ultimately helps every member of the household to attain the zenith of his / her potential. There is undoubtedly a positive correlation between the poverty and shelterlessness.

With a view to ameliorating the rural housing shortage, the National Housing and Habitat Policy was announced in 1998 which aims at providing *"Housing for All"* and envisages construction of 20 lakh additional housing units (13 lakh in Rural Areas and 7 lakh in Urban Areas) annually with an emphasis on extending benefits to the poor and the deprived. The Union Government is committed to the goal of ending all shelterlessness by the end of the Twelfth Five Year Plan Period.

For achieving these objectives, the Ministry of Rural Development has chalked out a comprehensive Action Plan for Rural Housing that consists of the following elements:

a. *Provision for upgradation of unserviceable kutcha houses under the Indira Awaas Yojana (IAY) in addition to the new construction*
b. *Credit-cum- Subsidy Scheme for Rural Housing*
c. *Innovative Stream for Rural Housing & Habitat Development*
d. *Setting up of Rural Building Centres*
e. *Samagra Awaas Yojana*
f. *Enhancement of equity contribution by the Ministry of Rural Development to HUDCO*
g. *National Mission for Rural Housing & Habitat*

A. Indira Awaas Yojana (IAY)

The Government of India is implementing the Indira Awaas Yojana since the year 1985-86 with the objective of providing assistance primarily to the below poverty line (BPL) rural households belonging primarily to the Scheduled Castes, Scheduled Tribes and freed bonded labour categories. From the year 1993-94, its scope has been expanded to cover non- scheduled castes and non-scheduled tribes rural BPL poor subject to the condition that non SC / ST households shall not receive more than 40% of the IAY allocation. Benefits of the scheme have also been extended to the families of the ex-servicemen of the armed and paramilitary forces killed in action. 3% of the houses are reserved for the BPL physically and mentally challenged persons living in rural areas. The ceiling on construction assistance under the Indira Awaas Yojana currently is Rs. 20,000 / - per unit for plain areas and Rs. 22,000 / - for hilly / difficult areas. The ceiling on upgradation of a kutcha house to semi-pucca / pucca house is Rs. 10,000 / -. Under the IAY, Gram Sabha is empowered to select the beneficiaries. Further, the allotment of dwelling units should be in the name of female member of the beneficiary household. Alternatively, it can be allotted in the name of both husband and wife. Sanitary latrine and smokless chullah are the integral part of an IAY house. The construction of the house is the responsibility of the beneficiary. The IAY house is not to be constructed and delivered by any external agency such as Government Departments, NGOs, contractors, etc. Since inception of the scheme till December, 2002 about 92 lakh houses have been constructed under the IAY by incurring an expenditure of Rs. 15839.83 crore approximately.

Criteria of Allocation under Indira Awaas Yojana

Allocation of funds under Indira Awaas Yojana to the States/UTs is made based on the poverty ratios as approved by the Planning Commission and the rural housing shortage as per the Census 1991. Both parameters are given equal weightage.

Physical and Financial Achievements under the IAY since inception till date

Year	Expenditure (Rs. In Crore)	Number of houses built
1985-1986	57.93	51252
1986-1987	149.18	160197
1987-1988	235.37	169302
1988-1989	149.65	139192
1989-1990	188.50	186023
1990-1991	213.07	181800
1991-1992	263.01	207299
1992-1993	238.81	192585
1993-1994	481.00	372535
1994-1995	500.38	390482
1995-1996	1166.36	863889
1996-1997	1385.92	806290
1997-1998	1591.48	770936
1998-1999	1803. 88	835770
1999-2000	1907.63	925679
2000-2001	2185.80	1170926
2001-2002*	2149.55	1171081
2002-2003**	1172.31	640829
TOTAL	**15839.83**	**9236067**

*Source: Annual Report 2002-03, Ministry of Rural Development * provisional ** up to 31.12.2002*

B. Credit-Cum-Subsidy Scheme (CCSS) for Rural Housing

The Credit-Cum-Subsidy Scheme for Rural Housing was launched with effect from 1st April, 1999. The Scheme targets rural families having annual income up to Rs.32,000/-. While subsidy is restricted to Rs.10,000/-, the maximum loan amount that can be availed is Rs.40,000/-. The subsidy portion is shared by the Centre and the State in 75:25 ratio. The loan portion is be disbursed by the commercial banks/ regional rural banks/housing finance institutions etc. Since inception of the Scheme upto 2001-2002, against the Central allocation of Rs. 288.00 crore, about 85564 houses were constructed by incurring an expenditure of Rs. 77.79 crore. From the year 2002-2003, the Central allocation under IAY and CCSS have been combined.

C. Innovative Stream for Rural Housing and Habitat Development

During 1999-2000, a rural housing scheme namely Innovative Stream for Rural Housing & Habitat Development was launched as a project based demand-driven scheme with an objective of promoting and propagating the cost effective and environmental friendly construction technologies, materials, designs, etc. for suitable rural human settlements consistent with agro-climatic variation and natural disaster proneness. The potential beneficiaries under the Scheme include recognized educational/technical institutions, corporate bodies, autonomous societies, State Governments, Development Institutions and credible Non-Governmental Organisations (NGOs) with proven track record and experience in the field of rural housing. The maximum permissible assistance in case of an NGO/autonomous society is Rs. 20.00 lakh and for Government Agencies Rs. 50.00 lakh. During 2002-2003, an amount of Rs. 10.00 crore has been allocated and Rs. 5.11 crore has been released so far to implement the projects. Since inception of the Scheme till date, 125 project proposals have been approved.

D. Setting up of Rural Building Centres (RBCs)

This is also a project based demand-driven scheme. The objectives of establishment of the Rural Building Centres are:

(a) Technology transfer and information dissemination

(b) Skill upgradation through training and

(c) Production of cost effective and environment friendly materials/components.

For setting up a Building Centre, a one time grant of Rs.15 lakh is provided. During 2002-2003, Rs. 3.00 crore has been allocated and 22 RBC proposals have been approved. So far, 77 project proposals have been sanctioned.

E. Samagra Awaas Yojana (SAY)

Samagra Awaas Yojana is a comprehensive housing scheme launched in 1999-2000, with a view to ensuring integrated provision of shelter, sanitation and drinking water. During the first phase of its implementation, it has been decided to take up Samagra Awaas Yojana in one block each of 25 districts of 24 States and one Union Territory which have been identified for implementing participatory approach under the Accelerated Rural Water Supply Programme. The existing schemes of housing, drinking water and sanitation follow the normal funding pattern. However, a special central assistance of Rs.25 lakh is provided for each block for undertaking the overall habitat development and Information, Education and Communication (IEC) activities with 10% contribution coming from the people. During 2002-2003, an amount of Rs. 0.43 crore has been released. Since inception of the Scheme, 33 proposals have been approved.

F. Pradhan Mantri Gramodaya Yojana:Gramin Awaas (PMGY:GA)

Pradhan Mantri Gramodaya Yojana: Gramin Awaas (PMGY: GA) was launched from the year 2000-2001. The implementation of PMGY has been reviewed by the Planning Commission. As a follow up action of this review as well as the feed back received from the States, from the year 2002-2003, Planning Commission has decided to directly manage the Programme once again as was being done under the earlier Basic Minimum Services (BMS) programme.

G. Equity Support to HUDCO

To meet the housing requirement of economically weaker households in rural areas and to improve the outreach of housing finance in rural areas, equity support to HUDCO was hiked from Rs.5 crore in the Eighth Plan Period to Rs.350 crore during the Ninth Five Year Plan period and the entire amount has been released to HUDCO. As per information received, HUDCO has sanctioned 23.54 lakh dwelling units under 2 million housing programme in last 4 years i.e. an average of 5.89 lakh dwellings per year. Above sanctions were in addition to a sanction of Rs.1136.39 crore as against HUDCO's allocation for normal rural housing in last 4 years of Rs. 873.70 crore. This loan has helped to sanction a further 26.65 lakh dwelling units. On an average HUDCO has sanctioned approx. 12.54 lakh rural dwellings per year in the last 4 years, as against approx. 9-10 lakh dwellings to be sanctioned based on the MoU signed with the Ministry. During 2002-2003, an amount of Rs. 50 crore has been allocated for Equity support to HUDCO.

H. National Mission for Rural Housing and Habitat

A National Mission for Rural Housing and Habitat has been set up by the Ministry of Rural Development to facilitate the induction of science and technology inputs, on a continuous basis in the sector and to provide convergence to technology, habitat and energy-related issues in order to provide affordable shelter for all in the rural areas, within a specified time-frame, and through community participation. Towards this end, an Executive Council and an Empowered Committee has been constituted. A Working Group was constituted by the Empowered Committee to specify the aims and objectives of the Mission, firm up specific time framework to achieve these aims and objectives, formulate a road map to facilitate the entry of private capital in housing development in the rural areas, shortlist the agencies which could undertake the task of preparing a techno-legal regime for rural planning for consideration by this Ministry etc. The Action Plan prepared by the Working Group is under consideration.

Besides the above initiatives, the Ministry of Rural Development has been organizing various specialized training programmes through HSMI with the objective of promoting State specific technologies, materials, designs etc. for cost effective rural housing. A National Workshop on Rural Housing and Habitat Development was also organized in collaboration with CAPART in October 2002 to sensitize the Government and the Non-Government bodies about the nuances of rural housing problems.

OTHER INITIATIVES

National Agenda for Governance- 2 Million Housing Programme

The National Agenda for Governance has taken up housing as priority area. The Agenda envisages giving major thrust on housing for vulnerable and deprived sections. In order to meet this objective Government has launched the 2 Million Housing Programme (2 MHP) in 1998. Under this programme, target taken up is of 20 lakh additional housing units every year with a focus on EWS & LIG housing. Out of these 20 lakh units, 7 lakh are reserved for urban areas and 13 lakh units are to be constructed in rural areas. The National Housing Bank monitors the performance of housing finance companies and public sector banks under this programme.

Yearly Performance (PSBs & HFCs) under NAG-2MHP

(Amount in Rs. crore)

	Rural		Urban		Total	
Year	**Units**	**Amount**	**Units**	**Amount**	**Units**	**Amount**
2000-01	115839	1917.48	333736	8871.66	449575	10789.14
2001-02	127941	2325.03	458615	12870.12	586556	15195.15
2002-03	178467	3594.33	637107	19188.77	815574	22783.10

* *Excluding HUDCO; Data provisional; As per information provided by the primary lending institutions*

CHAPTER VIII

RECENT DEVELOPMENTS

Securitization is a tested market oriented resource raising mechanism with enormous potential to integrate sectoral markets with the capital market. In the process, it has the capacity to enhance the ability of Banks & Financial Institutions for not only channelizing long term funds to housing sector but also in increasing competitive strengths in terms of improved efficiencies in both resource raising and deployment. During the year 2002-03, certain important developments took place in the field of securitization in terms of legislation as well as operational aspects which are discussed in this chapter.

SARFAESI Act, 2002

During the Winter Session 2002, Parliament enacted a law to regulate securitization and reconstruction of financial assets and enforcement of security interest of the banks and financial institutions known as "the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002)" (SARFAESI Act). The Act specifies the regulatory framework for a Securitization Company and Asset Reconstruction Company.

Definition of a Securitization Company

As per this Act a "Securitization Company means any Company formed and registered under the Companies Act, 1956 for the purpose of Securitization " whereas "Securitization" is defined as "…acquisition of financial assets by any Securitization Company or Reconstruction Company from the originator, whether by raising of funds by such Securitization Company or Reconstruction Company from qualified institutional buyers by issue of security receipts representing undivided interest in such financial assets or otherwise"

The Act also defines a "Reconstruction Company" as "a Company formed and registered under the Companies Act, 1956 for the purpose of asset Reconstruction" whereas "asset Reconstruction means acquisition by any Securitization Company or Reconstruction Company of any right or interest of any bank or financial institution in any financial assistance for the purpose of realization of such financial assistance".

Registration of Securitization Company

The Act has made registration of a Securitization Company / Reconstruction Company compulsory with the Reserve Bank of India (RBI) and specific requirement of NOF. The RBI, before granting the certificate of registration, will have to ensure that the Company has not incurred losses in any of the three preceding financial years, that it has made adequate arrangements for realization of financial assets required for the purpose of Securitization / Asset Reconstruction and will be able to pay periodical returns to the investors, that the Company is not having more than half of its directors nominated by or associated with the sponsor, that the Company will be complying with the Prudential Norms specified by the RBI.

The RBI, if it so decides on the basis of actual functioning of the Company within the periphery of certain specified parameters, may cancel a certificate of registration after giving adequate opportunity to such Company to fulfill the desired requirements. The Company, after cancellation of certificate of registration may file an appeal to the Central Government and shall be given a reasonable opportunity of being heard. An existing Company, even after rejection / cancellation of Certificate of Registration, will be deemed to be a Securitization / Reconstruction Company till the time it fulfils its obligations towards the investors.

The RBI, in the public interest or in the name of financial sector regulation, may frame policies / issue directions to all or any Securitization / Reconstruction Company.

Exemption from registration of Security receipts

Notwithstanding the provisions under the Registration Act, 1908, any security receipts issued by the Securitization / Reconstruction Company entitling the holder of the security receipt to an undivided interest afforded by a registered instrument or any transfer of such security receipts shall not require compulsory registration. This particular provision may go a long way in developing the secondary mortgage market in the country.

Other functions of Securitization Company

Any Securitization Company / Reconstruction Company registered with the RBI may, with the prior approval of the RBI, act as a recovery agent on behalf of any bank / financial institution on payment of fees / charges, or as a receiver if appointed by a court or tribunal.

Difference between securitisation under the SARFAESI Act, 2002 & General Law

	SARFAESI Act, 2002	General Law
Who Can transact securitisation business	Only Securitisation Companies	Any person
Registration	With RBI	No such requirement
What can be securitised	Financial assets of banks & FIs only.	No such restrictions
Who can be the investor	Only qualified institutional buyers	No such restriction

Nature of instrument which can be issued	Only security receipt	Normally PTCs are issued which represent undivided right of the holder in the financial asset.
Stamp Duty applicable on transfer of Mortgage Debt	Only as an agreement. The duty is nominal.	Depends on the place of transfer. To be charged as conveyance. Duty nominal in some States.
Stamp Duty on issue of security	To be stamped as receipt.	Depends on the place of transfer. To be charged as memorandum or record of the transaction.
Stamp Duty on transfer of security	Declared as security under SCRA – Can be dematerialised.	Not a security under SCRA – to be charged as conveyance.
Registration of issue and transfer of PTC	Not necessary	Not necessary in the case of securitisation by NHB.
Acquisition of rights in mortgage debts	Deemed vesting of rights on acquisition.	As per contract between the parties.
Notice to the obliger	Not necessary	Depends on the agreement between the parties.
Resolution of dispute	Arbitration Act applies	Depends on the agreement between the parties.
Enforcement of security interest	Under the Act, by the securitisation company itself.	Only by NHB under the NHB Act.
Trading	Being security can be traded in Stock Exchange	Can not be traded in Stock Exchange

As the procedure envisaged under the said Act for securitization of loans and for enforcement of security interest was cost effective and less cumbersome, NHB requested the Central Government to consider notifying housing finance companies registered with NHB as financial institutions for the purposes of the said Act, pending implementation of the provisions of NHB Act in the matter of enforcement of security through Recovery Officers.

Residential Mortgage Backed Securities: Trends in India

Mortgage securitization is by far the most complex form of securitization transaction as it is mainly dependent on the legal, tax, regulatory and market related environment. With each of the above aspects having direct linkage in structuring the transaction, the process is driven by a chain of factors and considerations involving the commercial, financial and the economic interests of the parties involved in the transaction. The process is thus largely dependent on policy environment for enabling its development on sound lines.

The process was embarked in India after detailed study of the successful securitization models world over, and research in the areas relating to legal, financial, regulatory and market environments. With the amendments to the National Housing Bank Act, 1987, (w.e. from June 12, 2000), NHB launched the first two RMBS in the Indian capital market during August 2000. With the issues, NHB enabled a platform for the HFCs, banks and other financial intermediaries to securitize their home loan portfolio. Following the launch, NHB completed seven RMBS transactions till 2002-03 involving home loan assets of 4 HFCs.

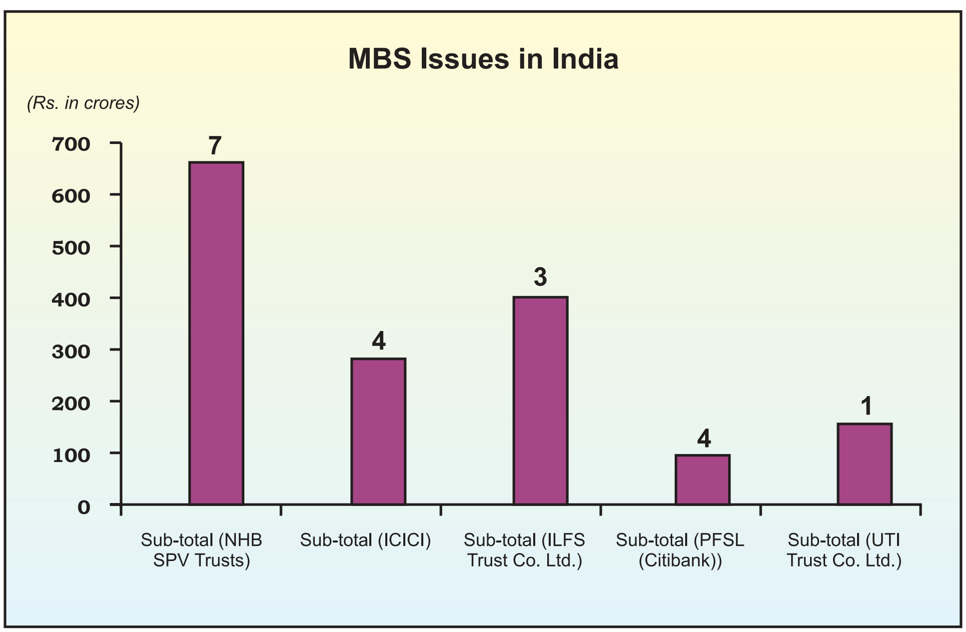
MBS Issues by NHB

Sr. No.	SPV	Date of Issue		Pool Size		Issue Size (Rs. crore)	MBS Pricing Structure (Premium /Par/ Discount)	MBS Coupon	Credit Enhance-ment	Raiting (with Agnecy Name)
		Issue Open Date	Issue Close Date	No. of Loans	Principal Outstand-ing (Rs. crore)					
1	NHB Trust (NP1)	22-Aug-00	29-Aug-00	8329	88.32	59.7	Par	11.85% p.a.	A-B Structure & Guarantee of Rs.1.10 cr	AAA (So) by CRISIL
2	NHBSPV Trust (LP1)	22-Aug-00	29-Aug-00	2777	47.54	43.84	Par	11.85% p.a.	A-B Structure & Cash Collateral	AAA(So) by CRISIL
3	NHBSPV (LP2)	23-Apr-01	11-May-01	4292	74.22	46.84	Par	10.25% p.a.	A-B Strucutre & Collateral	AAA(So) by CRISIL
4	NHBSPV (CP1)	23-Apr-01	11-May-01	4257	63.4	44.85	Par	10.25% p.a.	A-B Structure & Cash Collateral	AAA(So) by CRISIL
5	NHBSPV (CP2)	12-Jun-02	28-Jun-02	4256	85.35	58.19	Par	8.90% p.a.	A-B Structure & Cash Collateral	AAA(So) by ICRA
6	NHBSPV (BP1)	21-Apr-03	29-Apr-03	3548	77.16	59.65	Par	6.89% p.a.	A-B Structure & Cash Collateral	AAA(So) by ICRA
7	NHBSPV (CP3)	24-Jun-03	2-Jul-03	2007	64.13	54.45	Par	6.25% p.a	A-B Structure & Cash Collateral	AAA(So) by ICRA
	Sub Total (NHB SPV Trusts)			**29466**	**500.12**	**367.52**				

There have also been initiatives in the field by other institutions such as ICICI Bank Ltd., Citibank, Housing Development Finance Corporation Ltd. and LIC Housing Finance Ltd. for securitizing their home loan receivables. Details of these transactions as available with NHB are given below:

Sr. No.	SPV	Date of Issue		Pool Size		Issue Size (Rs. crore)	MBS Pricing Structure	MBS Coupon	Credit Enhancement	Rating (with Agency Name)
		Issue Open	Issue Close	No. of Loans	Principal Outstand-ing (Rs. crore)					
1	ICICI HFC - Trustee	14-Jun-02	5-Jul-02	1354	30.13	35.04	Premium	9.05% p.a	Cash Reserve: Rs. 4.57 crore; Overdue Receivable: Rs. 4.5 lakhs	AAA(So) by CRISL & FITCH
2	ICICI HFC-Trustee	14-Jun-02	5-Jul-02	285	20.93	24.29	Premium	9.05% p.a.	Cash Reserve : Rs. 3.02 crore Overdue Receivable: Rs. 6 lakhs	AAA(So) by CRISIL & FITCH
3	ICICI HFC-Trustee	26-Nov-02	28 Nov-02	2836	91.05	106.60	Premium	8.00% p.a.	Cash Reserve : Rs. 15.97 cr Overdue Receivable: Rs. 37 lakhs	AAA(So) by CRISIL & FITCH
4	ICICI HFC-Trustee	6-Dec-02	9-Dec-02	3176	124.40	162.60	Premium	8.00% p.a.	Cash Reserve : Rs. 40.46 cr Overdue Receivable: Rs. 37 lakhs	AAA(So) by CRISIL & FITCH
Sub-total (ICICI)				**7651**	**266.51**	**328.53**				
5	ILFS Trust Company Ltd. Originator: HDFC	2-Sep-02	13-Sep-02	3294	75.2	55.15	Par		A-B Strucutre Union Bank of India Guarantee for Rs. 1.15 crore	AAA(So) by CARE & FITCH
6	ILFS Trust Company Ltd. Originator: LICHFL	16-Dec-02	20-Dec-02	1773	186.93	229.03	Premium	6.5% to 7.6% p.a.	Cash Collateral: Rs.40.25 crores	AAA(So) by CRISIL &

7	ILFS Trust Company Ltd. Originator: Dewan HFC	21-May-02	7-Jun-02	6713	146.78	158.40	Premium		Sub-pool of Rs. 28 cr Rs. 1.78 cr Corporate Undertaking	AAA(So) by ICRA
Sub-total ILFS Trust Co. Ltd.				**11780**	**408.91**	**442.58**				
8	PFSL-Citibank Originator: Citibank		1-Apr-01	125	14.27	14.27	Premium		Subordinate Cashflows & Cash Collateral	AAA(So)
9	PFSL-Citibank Originator: Citibank		1-Jul-01	200	25.36	25.36	Premium		Subordinate Cashflows & Cash Collateral	AAA(So)
10	PFSL-Citibank Originator: Citibank		1-Nov-01	160	18.36	18.36	Premium		Subordinate Cashflows & Cash Collateral	AAA(So)
11	PFSL-Citibank Originator: Citibank		1-Dec-01	300	33.74	33.74	Premium		Subordinate Cashflows & Cash Collateral	AAA(So)
Sub-total (PFSL (Citibank))				**785**	**91.73**	**91.73**				
12	UTI Trust Company Ltd. Orginator: LICHFL	21-Mar-03	24-Mar-03	4667	151.86	202.96	Premium	7.50% p.a.	Cash Collateral: Rs. 50.38 cr	AAA(So) by CRISIL
Sub-total (UTI Trust)				**4667**	**151.86**	**202.96**				



Constraints for RMBS in the present Indian economic scenario

The case for evolving securitization as a mechanism to multiply resources for the housing sector in India is strong. In view of the complexities involved in RMBS transactions and in the process of an emerging policy environment, the task of development of secondary market for mortgages is a challenging one.

- Legal Issues pertaining to true sale complicating structuring of RMBS transactions
- High Stamp duty structures and registration charges in states
- Unclear tax environment.
- Absence of Accounting Standards for securitization (though ICAI has come out with Guidance Note)
- Lack of standardization in loan origination, underwriting, appraisals and documentation systems.
- Lack of depth in secondary market.
- Regulatory issues still emerging.

NHB's Efforts

As a nodal body, NHB has been engaged in sensitizing the policy environment for better appreciation of the issues associated with RMBS transactions.

- The high stamp duty structures in the various states except in Karnataka, Tamil Nadu, Gujarat, Maharashtra and West Bengal are a major deterrent in the RMBS markets presently, as the pool of housing loans to be securitized have to be chosen from these five states to prevent the risk of high stamp duties during registration. The revenue secretaries of the different states have been made aware that a reduction in the stamp duties will enable a wider coverage in the selection of the pool of housing loans for the purpose of securitization.
- NHB has commissioned a study to understand the behaviour of mortgages in the housing finance sector in India with the Administrative Staff College of India (ASCI). Further, a Working Group with representatives from the housing finance companies has also been formed to recommend measures for standardization in the residential mortgage finance sector. The reports are in the process of finalization.
- The Central Government (DEA) and Securities Exchange Board of India (SEBI) have been sensitized to consider classification of Pass Through Certificates (PTCs) as eligible securities under the Securities Contracts (Regulations) Act, 1956 to enable listing of the PTCs at the Stock Exchanges. Besides, NHB has also requested them to consider classification of Pass Through Certificates (PTCs) as eligible securities in the Investment Pattern of Pension / Provident / Superannuation Funds. This will help in the development of a secondary mortgage market in the country.

- NHB has initiated market making efforts to educate the originators and create investor awareness in the country. This will lead to the development of the necessary depth in the secondary mortgage market.

While the success of the MBS issues has significantly provided means to better understand and address various legal, regulatory, fiscal, accounting and other capital market related issues, the development of a secondary mortgage market in India will largely depend on the ability to design and launch market friendly products. NHB has been endeavoring to ensure proper direction for the development of secondary mortgage market.

Scope for Future Development

The process of development of secondary mortgage market has significant potential to benefit the banks and financial institutions in their capacities as both originators of home loans as also as investors in RMBS. While the banks and financial institutions are increasingly becoming active in the housing finance business in the present scenario, this mechanism seeks to enable the institutions to systematically enhance their volumes and compete effectively.

CHAPTER IX

ASSESSMENT & PROSPECTS

The recent growth in housing finance business and the increasing competition has benefited the customers significantly. Besides product and process improvisations, the major players in the market are also strengthening their distribution channels and are increasing their advertising expenditure. But the growth has not been without spatial imbalance. While certain states/ regions of the country obtained greater share of the housing finance as compared to their less fortunate counterparts, the growth also remained largely focused to the middle and upper income strata mostly concentrated in metropolitan/ urban areas or at least in major towns.

The low credit disbursals for housing by their rural branches are constrained by various factors e.g. non availability of clear land title, difficulties in assessing repayment capabilities of rural masses due to irregular income pattern etc., resulting in higher credit risk. There is, thus, a felt need for formulation of an appropriate mechanism and the modification required in the existing regulatory framework to enable the primary lending institutions to increase the flow of funds to meet the housing credit needs of the home loan seekers in rural areas. This requires designing of an appropriate integrated loan product having built-in flexibilities in repayment schedule, rate of interest, margin requirement, security etc., specific modification in prudential norms especially relating to NPA norms and classification of assets, evolving uniform appraisal standards and documentations, resource mobilization strategies for reducing the cost of funds, etc. In order to develop an integrated product design with an appropriate framework for the lending institutions, a well coordinated approach and effort of all stake-holders is also necessary.

There is a definite need to encourage and enthuse the lending institutions through appropriate incentives by way of fiscal benefits. The lending institutions should be encouraged to transfer part of the fiscal benefits to the borrowers by way of lower interest rates. The fiscal concessions presently being extended to promote home ownership in the country are almost entirely availed of by the urban / metro population and the rural segment is presently left out as most of the home loan borrowers in rural areas are not income tax payers. Hence, one way of equalizing the fiscal incentives across the country could be through this route.

Besides the growing concern for rural housing shortage and appropriate mitigation of the same, the time has come for the Indian housing finance sector to engage itself in evaluation of the possibility of systemic failure and safeguarding from that. The cut-throat price competition in the form of continuous lowering of interest rate that has become a matter of concern. The interest rate range of 11.50-18.50%

prevailing in April 2000 in the HFC segment came down to 8.75-13.75% in May 2003 and further to 7.50-12.00% in December 2003 under fixed rate option and the floating rate range was 7.00-10.00% in December 2003. In case of the banking sector, the interest rate range offered by the public sector banks came down from 11.50-16.25% in December 2000 to 7.50-11.00% in December 2003 under fixed rate option with floating rate options offering 50-100 basis point lower rates. The intense price competition resulted in sub-PLR lending rate in most of the cases. The interest rate war also resulted in taking over of loans between primary lenders. Although the Reserve Bank of India has prohibited the inter-bank taking over of loans to be considered under 'housing finance achievement' under the yearly stipulated allocation, no such restriction is in place for taking over from HFCs by banks. Besides, in a situation where interest rates start rising, the default-risk is also likely to rise as the equated monthly installment starts rising under the floating rate contracts.

With the growing competition, the lenders are coming up with innovative products and services offering the customers a wide variety to choose from. The speedier processing loans, efficient advisory service and waiver of associated charges & requirements also resulted in a customer friendly environment. But it has not been a case of unmixed blessing always. The dilution in appraisal norms, lack of due diligence may also affect the asset quality of housing finance sector.

At present, the housing finance business is operating through a very thin spread. Many small private HFCs without strong parent backing are gradually losing market share in the medium to long term. HFCs have higher cost of funds as compared with banks as they depend on priority sector sub-PLR loans from banks, fixed deposits, NHB refinance and in some cases low cost loans from multilateral agencies. Most private HFCs (excluding HDFC) do not enjoy the highest investment grade rating by credit rating agencies, which further increases their cost of funds. As a result, HFCs, in general, either have lower spread as compared with a bank or are not able to match rates with banks. In the face of a fierce competition and desperation for survival, these HFCs resort to sub-standard appraisal norms at origination of loans. Thus, in future, there is a serious possibility of degradation in asset quality of the small and medium sized HFCs if they are not able to price their home loan products competitively. On the other hand, the banking sector, being a relatively new entrant in housing finance market, needs to upgrade housing credit management and home loan processing skills.

It has been reported to NHB that unscrupulous borrowers in connivance with builders / property developers have defrauded a number of primary lending institutions mainly the housing finance companies, commercial banks etc. by obtaining multiple finance against the same property / or through submission of fake/ forged/ stolen documents including fake title deeds.

Keeping in view the above, the HFCs were advised to take extra precautions while accepting / verifying the documents, handing over the loan disbursement cheques, verifying the credentials and bonafides of the borrowers / vendors etc. Accordingly, branch level functionaries have to be vigilant in this regard. HFCs are required to review the existing system and controls and plug the lacunae therein to prevent occurrence of such frauds. The Board of Directors may be kept apprised, on a periodical basis, of the irregularities revealed and the likely loss on this account.

As the commercial banks have become very active in the retail housing loan market, RBI is also intiating suitable measures to curb the banks resorting to undesirable practices to increase their market share.

With the risk-weights on housing loans being reduced to 50% from 100% irrespective of the loan-to-value (LTV) ratio, the lending institutions are poised towards more aggressive practices, softening of collateral requirements, competitive pricing (under-cutting) and high LTV loans. Till date the default rate in the housing finance industry is extremely low as compared to the default rate in case of corporate loans. A study by FICCI in 2003 shows that this rate stands at as low of 1.47% in case of home loans. However, all over the world, it has been empirically verified that loan default rates are more in the case of home loans with higher LTV ratios. Studies have also revealed that the probability of default and loss severity of these loans is also higher.

In India, it is observed that when the risk weight was 100% the lenders exercised greater caution and diligence which had the effect of controlling the risk and protecting the assets from any potential impairment. In the aftermath of the lower risk-weight prescription, there has reportedly been a marked dilution in the quality of assets, appraisal standards, collateral requirements etc.. The changed scenario is clearly a regulatory concern, which needs to be addressed in order to mitigate or de-risk the housing finance sector. Lending operations need to be standardized through appropriate and pro-active regulatory prescriptions that reduce the likelihood of systemic crisis, as part of responsive regulation operating in an interactive mode.

With decline in the value of the property, high LTV loans can easily convert into negative equity with borrower most likely to default (low willingness to pay even though he has the ability). In such situations, the borrower would most likely prefer to default on the loan even though he has to surrender the property, which now would command a much reduced value in the market.

A prudent financial system should account for the greater risk of high LTV loans by adopting a higher capital risk-weighting for these loans. Prudential regulations in financial systems require that when financial institutions issue a loan, they set aside a portion of their capital base as a reserve against the event that the loan should default. International banking standards, as recommended by the Basle Committee, indicate that this capital ratio requirement should be determined by the risk basis of the asset. With the Basle II recommendation suggesting 'granularity of portfolio', there is a need to assess the risk of each asset separately and assign appropriate risk weight instead of imposing a uniform risk weight across the asset class.

Another key concern area for housing finance markets is increase in the interest rates and the asset-liability mismatch. With the average tenure of loans in the case of housing finance, being more than 10 years (at origination) in majority of the portfolio, and the option of fixed rates loans offered, lenders could face problems of running an asset-liability mismatch, given the shorter tenure of their liabilities (mainly consisting of term deposits, comprising around 52 per cent of the total liabilities for banks and more than 30 percent for HFCs).

However, the industry analysts do not forecast a significant increase in the interest rates in the short to medium term, given the liquidity and inflation scenario. Banks have been pushing the variable rate of interest products in order to overcome this risk by offering lower interest rates. Banks can partly utilize and attribute core long-term funds, such as savings and current account funds (comprising around 33 per cent of the deposits in the banking system) to finance this segment. Also, banks can participate in the emerging RMBS market in order to transfer these risks to the entities that have a longer tenure on their liability profile (such as insurance companies).

A higher proportion of fixed rate to adjustable rate portfolio increases the interest rate risk while in case of adjustable rate portfolio, the interest rate risk gets passed on to the customer. In case, the interest rates move up, the probability of defaults may go up if adequate income margin for adjusting the increased EMI outgo is not made. (The maximum EMI affordable has been considered at around 40 per cent of the monthly household income).

NHB has taken a few measures to reduce the impact of interest rate risk in the housing finance companies. For instance, the ceiling on interest rate payable by HFCs on public deposits has been brought down to 11 per cent per annum. Further HFCs having an asset size of Rs100 crore or public deposits of Rs20 crore or more have been advised to put in place an effective asset liability management system. Under this, HFCs are required to furnish half yearly returns to NHB. NHB has also been drawing the attention of the HFCs to the incidence of unhealthy practices as and when brought to its notice and advising them to take appropriate measures to prevent such instances taking place in their organizations.

A recent CRIS-INFAC study shows that in 2001-02 estimates that take-over loans are around 50 per cent of the incremental direct disbursement by banks and around

18-20 per cent of the total direct disbursements of housing loans. While most banks admit that loan migration is on the rise, they feel that it is still not huge enough to precipitate a liquidity crisis.

There are varying standards and practices in the industry among the lending community in origination, underwriting and documentation, monitoring and supervision. Variation in standards across the industry imposes systemic risks which can be a potential threat to the sector. Due care has to be exercised in originating loans as well as in monitoring and supervision to ensure the sustained quality of assets, more so, as the housing loans are of long tenor. Distortions in reporting the property value (often under reported) and the income of the borrower can further complicate the credit appraisal. The gaps can easily show in times of economic distress, Housing loans being long term in nature, are exposed to several economic/business cycles which can bring the asset under stress. The decline in property value can easily influence the behaviour of the borrower with his declining equity in the property. Competition and the drive for business coupled with opportunities have led to dilution of standards which can pose systemic risk with growing ‘contagion’ effect.

Considering that the housing sector in our country will be increasingly exposed to an integrated and largely unified financial sector – domestic and international the “endogenous” risks will tend to get externalized which in turn can upset the equation between the “value” and “risk”. This in turn will also externalize the internal ratings-based (IRB) calculations – as under Basle II recommendations – and will significantly alter the risk profile of the sector while increasing its risk content and risk sensitivity.

In the above context, the regulatory norms relating to risk management should have to dynamic and pragmatic enough to address the changing risk profile of housing finance business in an on-going and evolving manner.

GLOSSARY

APEX CO-OPERATIVE HOUSING FEDERATIONS	ACHFs
AGRICULTURE AND RURAL DEVELOPMENT BANK	ARDB
BELOW POVERTY LINE	BPL
BUILDING MATERIAL AND TECHNOLOGY PROMOTION COUNCIL	BMTPC
CAPITAL ADEQUACY RATIO	CAR
ECONOMICALLY WEAKER SECTION	EWS
HIGH INCOME GROUP	HIG
HOUSING FINANCE COMPANIES	HFCs
HOUSING FINANCE INSTITUTION	HFI
HOUSING & URBAN DEVELOPMENT CORPORATION LIMITED	HUDCO
INDIRA AWAS YOJANA	IAY
JAWAHAR ROZGAR YOJANA	JRY
LAND DEVELOPMENT & SHELTER PROJECT	LDSP
LOW INCOME GROUP	LIG
MIDDLE INCOME GROUP	MIG
NATIONAL BUILDINGS ORGANISATION	NBO
NON-GOVERNMENT ORGANISATION	NGO
NET OWNED FUNDS	NOF
NON PERFORMING ASSET	NPA
REGIONAL RURAL BANK	RRB
RESERVE BANK OF INDIA	RBI
SPECIAL RURAL HOUSING DEBENTURE	SRHD
STATE CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK	SCARDB
URBAN CO-OPERATIVE BANK	UCB

ANNEXURE

Financial Highlights of Major Housing Finance Companies*

(Amount in Rs. lakhs)

	31-03-03		31-03-02		31-03-01
		% growth		% growth	
Paid up Capital	249442.01	11.51%	223686.97	16.25%	192415.19
Reserves & Surplus (less misc. exp. not written off)	491008.53	17.17%	419050.91	10.09%	380630.93
Net Worth	**740450.53**	**15.20%**	**642737.89**	**12.16%**	**573046.12**
NHB Refinance	342081.66	0.86%	339178.77	12.01%	302809.20
Secured loans from other sources	2225739.30	23.64%	1800115.08	24.99%	1440166.80
Unsecured loans including deposits	3240865.45	16.20%	2789099.93	19.01%	2343628.02
Total Loan Funds	**5770025.91**	**17.84%**	**4896697.85**	**20.66%**	**4058400.31**
Total Funds Available	**6510476.45**	**17.53%**	**5539435.73**	**19.60%**	**4631446.43**
Represented by :					
Housing loans	**5864333.55**	**18.71%**	**4940207.43**	**23.52%**	**3999666.73**
Fixed Assets	110364.12	4.29%	105828.62	15.80%	91389.73
Investments	446072.48	31.50%	339222.85	-2.41%	347596.82
Net Current Assets	172925.79	-2.16%	176744.47	-20.55%	222473.35
Total Uses of Funds	**5577255.63**	**17.05%**	**4764678.02**	**19.83%**	**3976337.65**
Income	708873.71	13.13%	626589.07	10.59%	566595.56
Expenditure	633767.33	7.17%	591372.21	13.99%	518787.33
Profit before Interest & Tax (PBIT)	648511.33	10.10%	589035.58	13.94%	516969.66
Profit before Tax (PBT)	235304.55	29.58%	181596.62	13.47%	160037.85
Profit after Tax (PAT)	**113175.94**	**57.96%**	**71646.57**	**17.18%**	**61142.78**
Housing loans to net worth (times)	7.92		7.69		6.98
Return on Equity (PAT / Net worth)	0.15		0.11		0.11
Interest Coverage Ratio (Int / PBIT)	1.21		1.14		1.15

* *Based on information available for select HFCs*

राष्ट्रीय आवास बैंक अधिनियम, 1987 की धारा 42 के अनुसार केन्द्रीय सरकार / भारतीय रिज़र्व बैंक को प्रस्तुत 30 जून 2003 को समाप्त अवधि के लिए भारत में आवास की प्रवृत्ति एवं प्रगति संबंधी रिपोर्ट

Report on Trend and Progress of Housing in India for the period ended June 30, 2003 submitted to the Central Government / Reserve Bank of India in terms of Section 42 of the National Housing Bank Act, 1987

राष्ट्रीय आवास बैंक

(भारतीय रिज़र्व बैंक के संपूर्ण स्वामित्व में)

National Housing Bank

(Wholly owned by the Reserve Bank of India)

भारत में आवास की प्रवृत्ति एवं प्रगति संबंधी रिपोर्ट, जून, 2003

REPORT ON TREND & PROGRESS OF HOUSING IN INDIA, JUNE, 2003