

CHAPTER - 1

ECONOMIC DEVELOPMENT AND HOUSING FINANCE

Development in Housing Finance

1.1 Investment in housing is an important driver of economic development. The growth in housing and housing finance activities in recent years reflect the buoyant state of housing finance market in the country. The multiplier effect of investment in housing has grown over the past years as the proportion of outstanding housing loans as percentage of GDP increased from 3.4% in 2001 to 6.1% by 2004. The growth in the housing sector notwithstanding, there is enormous scope of improvement as the present level of investment in housing in our country is meagre as compared to the figures of more than 50% in some of the developed countries like US, UK and Netherlands.

1.2 Housing is an important component and a measure of socio-economic status of the people. It is regarded as a critical sector in terms of policy initiatives and interventions. The relevance of housing as a social need is long recognized and has therefore influenced the policy making at different levels, viz. national, state and local levels. This is reflected in the efforts of the Government undertaken to improve the housing and habitat conditions by way of financial allocations in the Five Year Plans and fiscal measures related to housing announced in the Union Budgets.

1.3 The reach of the financial market has been extended to serve the housing sector in different regions and different components of the population. The accessibility to housing finance for the people at large has improved over the years. The financing institutions have come to see good value in funding this component of the economy. With growing number of players and increased competition, the housing sector has become increasingly market-driven. The sector has offered good business opportunities for the lending agencies and attractive terms for the borrowers. Overall, the affordability of housing loans clearly appears to have improved with growing number of borrowers willing to take loans rather than postponing their decisions. This has also partly resulted from higher levels of disposable income seen among the earners and the changing age profile among the home loan borrowers who prefer to own their home early in life. While the sector has been thronged by the borrowers community, the market has also witnessed change in lending practices in certain segments to accommodate the customer needs, as an offshoot of increased competition and a buyers' market. There have also been growing instances of fraud in the housing loan market, which if not checked, can impact the lending sentiments in the sector. There is definite need for standardisation and uniformity in practices in order to improve transparency in the market and bring greater efficiency.



1.4 The impact of these positive growth indicators and sentiments have not been uniform in the rural and urban areas. The reasons are infrastructural limitations and legal inadequacies coupled with geographical divergences. There has been growing concern about reaching credit for rural housing on market terms and conditions. The concerns have been articulated in various policy pronouncements and the sector has to gear up to find market related solutions to these concerns. Investment in housing in the rural areas on a large scale, besides ameliorating the living conditions, also impact the economic profile of the region and can result in all-round development. There is a strong case for a supportive and an enabling policy framework for bringing in large investments in rural housing. This can well change the economic landscape of rural India.

The market

1.5 Census of India, 2001 has estimated the Indian population at 1029 million, next only to China, with an unfavourable land-man ratio reflecting high density in pockets. The demographic profile has been marked by disproportionate urbanisation caused by steady migration of people from rural to urban areas at the aggregate level. This has resulted in huge demand on the infrastructure of the cities, besides causing pressure on the land. For the average masses, the price-to-income ratio is still high for acquiring a house. Innovative loan products from financing institutions are facilitating them in their efforts to own a house. The housing finance institutions and the banks have made significant strides in this direction.

1.6 As per the Tenth Plan (2002 to 2007), the total number of houses that would be required cumulatively during the plan period is estimated at 22.44 million dwelling units. It is estimated that the investment required from public sector institutions would be of the order of Rs.415000 crore. This will have to supplement the contribution from private players to tackle the growing demand for housing finance during the Plan period.

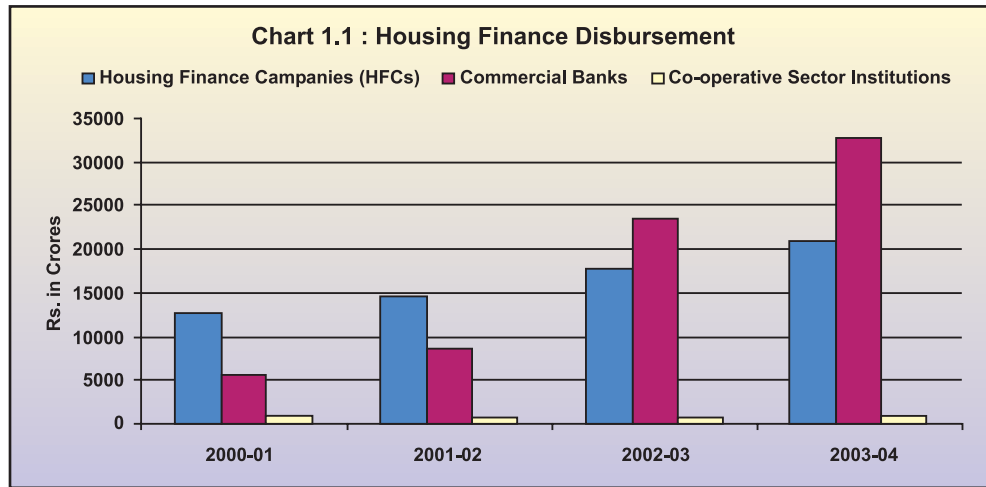
Table 1.1: Housing Finance Disbursement

(Rs. crore)

Institution Category	Disbursements			
	2000-01	2001-02	2002-03	2003-04
Housing Finance Companies (HFCs)	12637.85	14614.44 (15.64)	17832.01 (22.02)	20862.23 (16.99)
Commercial Banks	5553.11	8566.41 (54.26)	23555.37 (174.97)	32816.39 (39.33)
Co-operative Sector Institutions	867.72	677.58 (-21.91)	641.48 (- 5.33)	623.08 (-2.87)
Total	19058.68	23858.43 (25.18)	42026.86 (76.15)	54301.70 (29.21)

Figures in parentheses indicate percentage growth over the previous year

1.7 Over the past few years, the steady growth registered in housing finance disbursements indicates continued buoyancy in the industry. Table 1.1 reveals that the housing finance disbursements have shown significant increase during the year 2003-04, the commercial banks recording an impressive growth of 39.33 per cent. The total disbursements of housing finance stood at Rs. 54301.70 crore registering an overall growth of 29.21 per cent (Chart 1.1).



1.8 Aggressive competition, lower cost of funds for banks and thinner margins of non banking housing finance institutions have offered good opportunities for the individual home loan seekers. This is also reflected in the increasing trend in disbursement towards housing activities by these financial intermediaries.

The road ahead

1.9 The age old concept of a house as a “shelter” has transformed with time to mean a popular “investment” for significant segment of the population who consider this as a good source of return on capital. In the past few years, the housing finance industry has also been experiencing, in some measure, the process of integration with the capital market through the securitization route. This integration has established functional links between savers, home loan borrowers, financiers and capital market investors. This market has huge growth potential to serve as an important funding source for the housing sector and this should be possible to realize in the coming years.

1.10 The emergence of housing on the national map as a critical sector continues to engage the policy makers, regulators and the players on the ground. While the Government has continued its commitment towards housing by way of supportive fiscal measures, the Reserve Bank of India (RBI) has cautioned the industry about the potential problems arising out of the overheating of the sector and the need to maintain a watchful surveillance on the developments. There has also been a word of caution on the likelihood of NPAs in the sector. The provisions of the SARFAESI

Act can be invoked by the lenders to realize their unpaid/defaulted loans. The Act also serves as a deterrent for the potential defaulters and can arrest the growth of potential NPAs. These provisions are expected to result in more efficient lending and recovery practices in the industry and will generate more resources for the sector with higher confidence among the lending institutions.

1.11 The spurt in housing finance activities which was witnessed two years ago due to recession in non-food credit offtake of commercial banks has since stabilized. However, the intense competition in the housing finance segment is leading to consolidation in a number of cases with the banks deciding to merge back their housing finance subsidiaries and smaller housing finance companies being taken over by bigger ones. The quality of loan originations, the quality of assets, and the quality of service are becoming the hallmarks of efficiency and sustainability for the lending institutions which will eventually determine their staying capacity in business amidst growing competition.

