

REPORT ON TREND & PROGRESS OF HOUSING IN INDIA, JUNE 2000

CONTENTS

Chapter Heading	Pages
1. ECONOMIC SCENARIO : 1999-2000	2-3
2. HOUSING SCENARIO:1999-2000	4-9
3. INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE : HOUSING FINANCE COMPANIES	10-25
4. INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: BANKS	26-33
5. INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE : COOPERATIVE SECTOR	34-39
6. NATIONAL HOUSING BANK (NHB)	40-49
7. ASSET QUALITY IN HOUSING FINANCE	50-52
8. GOVERNMENT HOUSING INITIATIVES	53-59
9. NATIONAL HOUSING BANK (AMENDMENT) ACT, 2000	60-63
10. MORTGAGE BACKED SECURITISATION (MBS)	64-69
11. ANNEXURE	70
12. GLOSSARY	71-72

CHAPTER - I

ECONOMIC SCENARIO 1999-2000

1.1 Over the years it has become increasingly obvious that the housing sector is closely connected to the overall economy. In any country, the macro-economic environment has a direct bearing on the housing market and housing finance and vice versa. It is also becoming evident that the economic uplift of the developing nations cannot be achieved solely by foreign capital and import of technological know how. Economic and social developments critically depend on the broader actions enabling people to develop a sense of responsibility and belonging whereby individual performance can be used in the interest of material and social improvement of the community. Acquisition of homeownership renders the essential confidence and social status to an individual by virtue of which he/she can reach the zenith of his/ her potential. In the broader perspective, homeownership stabilizes the aggregate demand conditions in the macro-economic sense, improves the housing situation, generates effective employment and adds to fixed capital formation and assuages the pressure on the social-welfare system. Hence, the socioeconomic significance of housing is far-reaching in any country and shall never be undermined particularly in the context of a developing nation like India.

1.2 The Indian economy witnessed a marginal decline in the real GDP during the year 1999-2000 with the real GDP growing at a rate of 6.4% during the year. There was, fortunately, no inflationary pressure during most part of the year and the foreign exchange reserves position also remained comfortable. All these combined together had a positive impact facilitating further growth. In the recent years the growth prospect of any market economy has been highly dependent on the global economic and financial market conditions. During 1999-2000, with the improvement of global growth and trade opportunities, the world by and large experienced a stabilization in the troubled economies, particularly in the south-east Asian region. In India, a favourable global as well as national macro-economic environment contributed effectively to the growth in the housing finance segment despite the pressure caused by the continuing fiscal deficit alongwith varying liquidity conditions and interest rate structures.

1.3 The experiences of new-economies of the world revealed the potential of the housing sector to act as an engine of growth. At home, the Government of India also started meting out considerable priority to the housing sector and made its commitment evident to the development of the housing sector and housing finance system. During the past three years, successive Union Budgets have announced measures resulting in significant growth in the housing sector. The budgetary measures have sought to improve investments in housing activities through fiscal incentives announced for various stake holders in the

housing sector viz. borrowers, investors, lending institutions and construction agencies. Besides the annual budgets, the Government has also undertaken a number of sector specific policy interventions as a part of the National Agenda for Governance. The Union Budget for the fiscal 2000-01 proposed to emphasize the following aspects of growth:

- revitalize the rural economy-agriculture and allied activities
- nurture the potential of knowledge-based industries
- strengthen and modernize traditional industries
- combat infrastructure bottlenecks in a sustained manner
- prioritize human resource development specially the weaker section of the economy
- impart sufficient credibility to the fiscal management to support the aggregate growth strategy

1.4 A more liberalized external regime combined with a high level of food stocks and a high level of foreign exchange reserves was expected to strengthen the supply side mechanism during the year 2000-01. On the demand side, the budget stance of reining in the overall fiscal deficit was also expected to contribute favourably to augment the aggregate effective demand.

1.5 In the backdrop of the congenial economic environment, the Reserve Bank of India (RBI) reduced the Bank Rate by 100 basis points during the year besides reducing the cash reserve ratio from 9% to 8% in April, 2000. Following the policy measures of the Reserve Bank of India, most public sector banks announced a reduction in their lending as also their deposit rates. All these are expected to have repercussions on the housing finance market as well.

CHAPTER - II

HOUSING SCENARIO 1999-2000

2.1 Over the years housing and housing finance activities have assumed a prominent role in the economic development of a country through their numerous backward and forward linkages with the rest of the economy. Hence, any development in this sector would have a multiplier effect on the equilibrium level of income of a country. As the past experience indicates that housing finance activities in most parts of the world have been a low-risk, consistent business proposition, it can be effectively used as a built-in-stabilizer in the macro system where the other financial activities are comparatively more volatile in nature. In other words, investment in housing is expected to bring about a steady and sustainable growth in the economy even if not spectacular. It is a reality that till date many countries in the world have not been able address the problem of providing adequate shelter to every citizen of the country. It is more so in the case of developing / underdeveloped countries. The housing situation and particularly the housing shortage in India has been a matter of grave concern for the decision makers as well as common populace for quite some time. In developing nations like India, housing can contribute effectively in fixed capital formation as well as creation of productive employment. In an increasingly inter-linked global economic environment, any major financial activity is bound to have certain international exposure and housing finance is no exception to this rule. For example, the economic growth and price stability of any country depends, to a considerable extent, on the international conditions. This, in turn, affects the domestic rate of interest and eventually the quantum of saving-investment and the economic equilibrium. Over the past few years, housing finance has become an increasingly attractive business proposition especially for financial institutions in India owing to its low-risk characteristics. At the same time, due to the industrial recession in the past couple of years, there has been a dearth of alternative avenues for deployment of funds by these institutions, which might have also contributed positively to enhance their interest in housing. The sector has also received special fillip with the facilitating fiscal incentives announced in the last two Union Budgets.

2.2 The ideal strategy to tackle the housing problem, however, needs to be based on simultaneous intervention in the financial sector as well as the real sector which postulates the need for increased supply of loanable funds for creation of housing stock, efforts to augment the supply of developed land and building materials, containing the costs of construction and enhancing the levels of affordability. Rationalization of the various laws and regulations governing the housing sector and simplification of the rules and procedures relating to land records maintenance and title verification, municipal laws governing the supply of infrastructure services and provision of housing are expected to enhance the

transactions in the formal sector and increase efficiencies, thereby resulting in better performance of the sector.

2.3 The information regarding actual magnitude of the housing shortage in the country is collated during every census. The results of Census of 2001 are yet to be finalised and the actual magnitude of the shortage will be known only then. However, based on the 1991 census, the National Buildings Organisation (NBO) has estimated that the housing shortage by the year 2001 will be 19.40 million units. Of these 12.8 million dwelling units (65.98 per cent) would be in rural areas and 6.6 million dwelling units (34.02 per cent) in urban areas. The Government of India has envisaged construction of two million houses additionally every year under the National Agenda for Governance out of which 1.3 million dwelling units are proposed to be constructed in the rural areas and 0.7 million dwelling units in urban areas. Inspired by the thrust given by the Central Government to the housing and the housing finance sector in the last couple of Union Budgets, the disbursements of housing finance by the various financial institutions has recorded significant growth. During the first three years of the Ninth Five Year Plan [1997-2002], the housing finance companies approved by the National Housing Bank (NHB) for its refinance assistance [which account for nearly 98% of the total housing finance business carried out by these category of institutions] disbursed an amount of Rs. 22977.27 crore as against a total target of Rs. 12000 crore during the 9th Plan period with an average annual growth rate of 28.51 % . As per the information available with NHB, the banking sector also disbursed a sum of Rs. 15147.34 crore between the year 1997 and year 2000, exceeding the stipulated housing finance allocation of RBI in each financial year. The state level apex cooperative housing federations disbursed an amount of Rs. 1886.31 crore as loans to primary housing cooperatives during the first three years of the 9th Five Year Plan with an annual average growth of 16.71%.

2.4 One of the main bottlenecks facing the housing finance sector is the non-availability of long-term capital for investment. Traditionally, the funds for the housing sector have come from the individuals themselves by way of their own savings or from the financial institutions who are primarily engaged in the intermediation process of channelising funds from the savers to the borrowers. However, the funds so mobilised through the formal sector financial institutions have been much lower than what is required to tackle the housing problem. In the absence of long-term market for resources, the Government has to play a significant role in making available long-term resources. In our neighbourhood, in countries like Korea, Philippines, Singapore, Thailand etc. the Government has been making available substantial funds for housing at subsidised rates. One way of raising long term resources needed for the housing sector could be securitisation of mortgages. Securitisation offers a viable, sustainable and market oriented sourcing mechanism for funds. However, in order to make the

instrument acceptable to the investors, a few measures are required. For example, the issues related to sale of mortgage loans (transferability of assets, method of transfer), insolvency of the originator, issuance and transferability of MBS, foreclosure of mortgages, provisions concerning investments by institutions, fiscal issues relating to borrowers, originators, issuers & investors, accounting issues and regulatory issues need to be resolved. Hence, the Government supports to ensure an efficient foreclosure mechanism, rationalisation of inter-state variances in stamp-duty & registration charges, mandatory identification of risks and rating of MBS, standardisation in accounting procedure and a friendly taxation treatment would go a long way in enhancing the long-term flow of funds for the sector. These issues are discussed at length in a later chapter in this Report.

2.5 The inelastic supply of land has also resulted in a spurious increase in the real estate cost and has priced out many potential house owners. The Central Government had taken a bold initiative in repealing the Urban Land (Ceiling & Regulation) Act. However, many major State Governments are yet to do so. The very high cost of stamp duty payable at the time of purchase of the property has also been acting as disincentive for owning a house. This has also resulted in the properties being undervalued. It is, therefore desirable to reduce the stamp duty on conveyancing. Besides, it is also desirable to have a uniform stamp duty structure throughout the country. Housing finance companies extend loans on the mortgage of the property and the borrowers are required to execute documents for creation of mortgage in favour of the housing finance companies. Most of the housing finance companies obtain security of mortgage by deposit of title deeds and the Memorandum of deposit of title deeds to be executed by the borrower in this regard is required to be stamped. In some states, it does not attract stamp duty whereas some other State Governments are charging stamp duty on Memorandum. Once all the State Governments allow exemption from stamp duty, the cost of borrowing of housing loan will go down for the individuals.

2.6 In our country where a proportion of the population cannot afford a house, the alternative is to provide houses on rent. With the Rent Control Act as is existing today in many States being in the favour of tenants, people who can afford to build houses to be let out on rent are not coming forward. It is because of this reason, many houses which are otherwise eligible for being rented out have been kept vacant. The Central Government has already enacted a Model Rent Control Act. Housing being a State subject, the State Governments need to follow suit.

2.7 In terms of the estimates of the National Buildings Organization (NBO), the housing shortage in the country is more in the rural areas. The primary lending

institutions have expressed that they are unable to lend more in the rural areas mainly because of absence of clear title to the land on which the house is to be constructed and non-acceptability of agricultural land as collateral security for housing. The respective State Governments will have to play a facilitating role so that the lending institutions can lend with comfort to the people in these areas.

2.8 The recent thrust given by the Government to the housing and housing finance sector and the various fiscal concessions offered by the Government to the people have had the desired effect. The demand for housing has picked up. This is evident from the growth of housing finance disbursed by the housing finance companies.

2.9 The Union Budget for the year 2000-01 contains the following measures to encourage housing activities:

- The provision of deduction of interest, on account of borrowed capital in the acquisition or construction of a house for self occupation, available under section 24(1)(vi) of the Income Tax Act,1961, has been increased from Rs.75,000 to Rs.1,00,000, provided the property was acquired or constructed with capital borrowed on or after 1.4.99 and the acquisition or construction completed before 31.3.2003.
- The ceiling on the amount eligible for rebate under Section 88 of the Act *ibid*, on the repayment of principal of housing loan, has been increased to Rs.20,000 from the earlier level of Rs.10,000.
- Exemption from Income Tax under section 54 F in respect of long term capital gains arising from the transfer of capital assets (not being a residential house) and invested in the manner prescribed is now available to an assessee, even if he already owns one house.

Besides the above, the Union Budget includes several measures in respect of rural housing. A goal of providing 25 lakh dwelling units in rural areas has been fixed. The following measures have been included in this regard:

- (i) To provide more than 12 lakh houses under the Indira Awas Yojana for people below poverty line.
- (ii) To construct of 1 lakh houses for families with income below Rs.32, 000 per annum, under a credit-cum-subsidy Scheme.
- (iii) To construct 1.5 lakh houses under Golden Jubilee Rural Housing Finance Scheme with refinance assistance from the National Housing Bank to banks and housing finance companies

- (iv) To increase the equity capital of HUDCO by Rs.100 crores to facilitate construction of about 9 lakh houses in rural areas
- (v) To support construction of another 1.5 lakh houses through cooperative sector and voluntary agencies etc.

2.10 Amendment to the NHB Act

2.10.1 In the context of the larger outlay envisaged in the 9th five year plan and since accessibility of credit by the economically weaker sections and affordability continue to be the critical aspect of the housing sector and in the light of experience gained so far, there was a felt need to instill requisite thrust to the sector so as to enable it to respond better to the demands of a dynamic environment. In addition, in the context of establishment of a sound housing finance system, NHB has also been entrusted with responsibilities to regulate the deposit acceptance activities of housing finance companies (HFCs) under the NHB Act. The provisions of the NHB Act pertaining to regulation of the deposit acceptance activities of HFCs were analogous to the provisions contained in the Reserve Bank of India Act, 1934 concerning the regulation of non-banking financial companies (NBFCs). The RBI Act was amended in January 1997 strengthening the regulatory and control provisions. The NHB Act was, therefore, required to be amended on lines of amendment to the RBI Act. The National Housing & Habitat Policy and both the 8th and the 9th five year plans have focussed on the need to augment larger resources for the housing sector through asset securitisation. Further, the Housing & Habitat Policy has ascribed a lead role to NHB in initiating the process of mortgage securitisation and development of a secondary mortgage market. In order to enable NHB to set up appropriate institutional mechanism for this purpose, certain amendments to the existing Act were required. A Bill to amend the NHB Act was introduced in the Rajya Sabha on March 16, 2000 and after it was considered and passed by both the houses of the Parliament, it received the assent of the President on May 24, 2000. The National Housing Bank (Amendment) Act has come into force from June 12, 2000.

2.10.2 The *salient features* of the amendment to the NHB Act are as under:

- *Regulation of Deposit Acceptance activities* : Amendments have been carried out with a view to safeguard public interest by introducing registration of HFCs, maintenance of liquid assets, creation of Reserve Fund etc. ;
- *Asset securitisation* and development of a *secondary mortgage market* by NHB in the country;

- A simple, speedy and cost effective method of recovery of overdues by the housing finance institutions by providing for the sale of property charged as security for the loan assistance granted by such institutions ;
- *Enhancement of the authorised capital* of the National Housing Bank to rupees two thousand crores. The amendment also provides for broader share-holding in the equity of NHB by public sector institutions and other institutions owned or controlled by the Central Government with the provision that the aggregate share holding by these institutions shall, at any time, be not less than fifty-one percent.
- Restructuring of the Board of Directors of NHB; and
- Authorising *NHB to undertake certain additional business* of financing agriculture and rural development banks or any other institution or group of institutions as may be notified by the Central Government, making of loans and advances for residential township-cum-housing development projects, undertaking securitisation of loans, setting up of mutual funds and undertaking or participating in housing mortgage insurance business, and promoting mortgage banks.

In concurrence with financial sector reforms, the amendments to the NHB Act, 1987 are expected to encourage healthy competition among various players of the housing sector, to result in easier availability of better quality products at affordable prices to the borrower.

Details pertaining to provisions under the amended Act are discussed at a later chapter in this report.

CHAPTER-III

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: HOUSING FINANCE COMPANIES

3.1 The total number of HFCs in the mailing list of NHB as on 31st March, 2000 was 341 as against 368 in the preceding year. Of these, NHB has received data as per the statutory return from 83 HFCs under its system of off-site supervision in terms of the Housing Finance Companies (NHB) Directions, 1989. Since the accounting year for the HFCs is April-March, the statistical data given in this chapter are as at the end of March, 2000. For the purpose of analysis of the data, these 83 HFCs are grouped into three categories as follows :

Categories of HFCs	31 st March, 1998	31 st March, 1999	31 st March, 2000
A]HFCs which have furnished the data	119	100	83
B] Out of A],HFCs approved for financial assistance from NHB (approved HFCs)	26	29	26 [©]
C] Out of A], HFCs having NOF Rs.50 lakh and above(excluding approved HFCs)	38	30	29
D] Out of A], HFCs having NOF less than Rs.50 lakh	55	41	28

3.2 During the year 1999-00, no HFCs have been included in the list of HFCs approved for financial assistance from NHB. Thus, the number of approved HFCs as on 31st March, 2000 is 29.

Table 3.1 : Broad financial information as on 31st March, 2000

(Rs. in crore)

Category of the HFC	Paid up capital	Free Reserves	NOF	Public Deposits o/s	Housing Loans o/s
A] HFCs approved for financial assistance from NHB					
As on 31st March, 2000	1393.88	3426.00	4701.62	7180.98	25140.13
As on 31st March, 1999	1128.57	3126.89	4121.80	6088.95	24975.10
B] HFCs having NOF Rs.50 lakh and above					

[©] Of the 29 approved HFCs, 3 HFCs viz. Happy Home Profin Ltd., GIC Housing Finance Ltd. & Orissa Rural Housing Development Corporation have not furnished data.

As on 31st March, 2000	121.82	11.62	124.71	44.98	175.95
As on 31st March, 1999	81.94	17.97	95.17	47.77	98.69
C] Other HFCs					
As on 31st March, 2000	5.94	0.53	3.75	7.47	9.93
As on 31st March, 1999	6.27	0.58	4.40	14.50	10.01
Total					
As on 31st March, 2000	1521.64	3438.15	4830.08	7233.43	25326.01
As on 31st March, 1999	1216.78	3145.44	4221.37	6151.22	25083.80

Source: Annual Statutory Returns

3.3 The above analysis indicates that the NOF of approved HFCs, which amongst themselves account for around 98% business in the housing finance sector by this category of institutions in the country, increased by 14.07% from Rs.4121.80 crore as on 31st March, 1999 to Rs.4701.62 crore as on 31st March, 2000. Significantly, the category of HFCs having NOF Rs.50 lakh and above has also registered a growth of 31.04% during the year as it increased from the earlier level of Rs.95.17 crore as on 31st March, 1999 to Rs.124.71 crore as on 31st March, 2000. The NOF of all the HFCs reporting to NHB increased from Rs.4221.37 crore as on 31st March, 1999 to Rs.4830.08 crore as on 31st March, 2000, thus registering a net increase of Rs.608.71 crore with a growth percentage of 14.42% .

3.4 It may also be observed that of the total outstanding housing loans of Rs.25326.01 crore as on 31st March, 2000, the outstanding housing loans of approved HFCs account for Rs.25140.13 crore, representing 99.27% of the total housing loan portfolio. Similarly, the amount of outstanding public deposits with the approved HFCs as on 31st March, 2000 was Rs.7180.98 crore as against the total of Rs.7233.43 crore in respect of all the reporting HFCs.

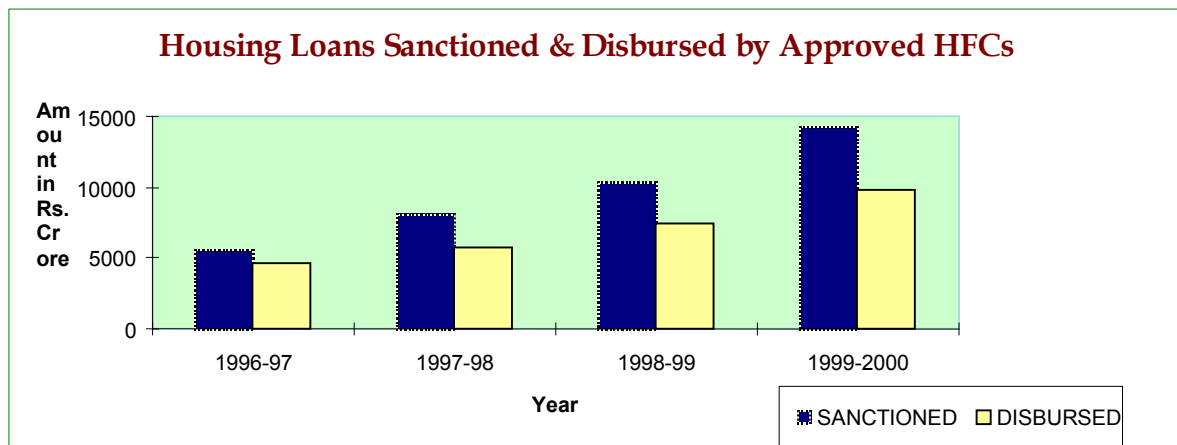
3.5 The amount of housing loans sanctioned and disbursed by approved HFCs have shown steady growth over the last four years :

Table 3.2 Housing loans sanctioned and disbursed by approved HFCs*

(Rs. in crore)

	1996-97	1997-98	1998-99	1999-2000
SANCTIONED	5546.02	8155.99	10319.18	14351.20
DISBURSED	4627.74	5767.55	7399.69	9812.03

**figures given in this table are enumerated from the balance sheet of approved HFCs and not from HFC.DIR.I & HUDCO figures are inclusive of infrastructural assistance*



Public deposits with all reporting HFCs

3.6 The outstanding public deposits with all 83 reporting HFCs increased by 17.59% to Rs.7233.43 crore as on 31st March 2000 as against the previous year's figures of Rs.6151.22 crore.

A] HFCs approved for financial assistance from NHB

3.6.1 The outstanding public deposits with the approved HFCs which stood at Rs.6088.95 crore as on 31st March, 1999 rose by Rs.1092.03 crore to stand at Rs.7180.98 crore as on 31st March, 2000, thereby registering an increase of 17.93%.

B] HFCs having NOF Rs.50 lakh and above

3.6.2 The outstanding public deposits with HFCs having NOF Rs.50 lakh and above continued to decline for second consecutive year to stand at Rs.44.98 crore as on 31st March, 2000 as against Rs.47.77 crore as on 31st March 1999, a decline of Rs.2.79 crore. This decline can be largely attributed to the fact that many HFCs in this category became ineligible to accept public deposits due to non-compliance with the requirements of directions/prudential norms prescribed by NHB.

C] Other HFCs

3.6.3 The outstanding public deposits with other HFCs which were Rs.14.50 crore as on 31st March, 1999 decreased to Rs.7.47 crore as on 31st March, 2000 owing mainly to the reason stated above for the decline in the deposits of HFCs having NOF Rs. 50 lakh and above.

Table 3.3 : Category-wise public deposits

(Rs. in crore)

Category of the HFC	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
a) HFC approved for financial assistance from NHB	1540887	5876.19	1622399	6088.95	1537531	7180.98
b) HFCs having NOF Rs.50 lakh and above	70698	88.56	33391	47.77	28048	44.98
c) Other HFCs	62863	18.83	56217	14.50	13695	7.47
Total	1674448	5983.58	1712007	6151.22	1579274	7233.43

3.7 Classification of public deposits

The classification of public deposits as per size, maturity and interest rate for different categories of HFCs is given below:

3.7.1 Size-wise classification

Table 3.4 : Size-wise public deposits with all reporting HFCs

(Rs. in crore)

Size-wise public deposits	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	Amount	%	Amount	%	Amount	%
Upto Rs.5,000	53.36	0.89	128.73	2.09	104.47	1.44
Rs.5,001 to Rs.10,000	184.38	3.08	431.27	7.01	343.69	4.75
Rs.10,001 to Rs.25,000	390.54	6.53	905.74	14.72	877.88	12.14
Rs.25,001 to Rs.50,000	340.59	5.69	1087.84	17.69	1208.55	16.71
Rs.50,001 to Rs.1,00,000	261.89	4.38	971.15	15.79	1042.24	14.41
Over Rs.1,00,000	4752.82	79.43	2626.49	42.70	3656.60	50.55
Total	5983.58	100.00	6151.22	100.00	7233.43	100.00

It is observed that the share of public deposits of over Rs.1,00,000 which accounted for more than 79% of the total deposits in 1998 and subsequently fell sharply to less than 43% as at the end of March,1999, again increased to account for 50.55% of the total deposits as on 31st March, 2000.

A] HFCs approved for financial assistance from NHB

3.7.1.a) The approved HFCs which represents 99.27% of the public deposits outstanding with all reporting HFCs as on 31st March, 2000 have their deposits predominantly concentrated (50.78%) in the deposit-size of over Rs.1,00,000 while the deposits of upto Rs.25,000 account for only 18.06%. However, as can be verified from the table below, in the slab of Rs.1,00,000 and above, a greater concentration of deposits was observed in 1997-98 (80.55%) which came down substantially during 1998-99 (42.96%).

Table 3.5 : Size-wise public deposits with approved HFCs

(Rs. in crore)

Size-wise public deposits	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
Upto Rs.5,000	105786	42.91	276242	122.46	234406	100.88
		(0.73)		(2.01)		(1.40)
Rs.5,001 to Rs.10,000	1070423	167.03	445493	420.39	366176	335.68
		(2.84)		(6.91)		(4.67)
Rs.10,001 to Rs.25,000	191315	349.25	475340	885.56	460970	861.00
		(5.95)		(14.54)		(11.99)
Rs.25,001 to Rs.50,000	82821	329.25	261470	1078.88	295162	1199.70
		(5.60)		(17.72)		(16.71)
Rs.50,001 to Rs.1,00,000	37409	254.47	121680	965.77	133295	1037.60
		(4.33)		(15.86)		(14.45)
Over Rs.1,00,000	53133	4733.28	42174	2615.89	47522	3646.12
		(80.55)		(42.96)		(50.78)
Total	1540887	5876.19	1622399	6088.95	1537531	7180.98

figures in parenthesis indicate % share

B] HFCs having NOF of Rs.50 lakh and above

3.7.1.b) For this category of HFCs, the public deposits outstanding is however continued to cluster in the category of Rs.10,001 to Rs.25,000 although the share of this category to total deposits decreased marginally from 33.47% as on 31st March, 1999 to 31.90% as on 31st March, 2000.

C] Other HFCs

3.7.1 c) In this category of HFCs, the concentration of public deposits was highest in the size-group of Rs.10,001 to Rs.25,000 representing 33.73% of the total

deposits followed by the size-group of Rs.25,001 to Rs.50,000 representing 21.96% of the total deposits outstanding as on 31st March, 2000.

The above analysis clearly indicates that the approved HFCs are concentrating on relatively big depositors vis-à-vis the other ones. Hence it can be concluded that these category of HFCs still have a strong potential untapped in the form of the relatively small depositors and if they can mobilise the savings of this segment of depositors more successfully, it would help increase their resource base substantially.

3.8 Maturity period-wise Classification

The analysis of maturity period wise classification of public deposits indicates that during the year a shift in preference has taken place in favour of having maturity period of 24 months or more but less than 48 months, with 55.40% of the deposits outstanding with the HFCs concentrated in this slab whereas in the last year the maximum concentration was observed in the slab having maturity period 12-24 months. Keeping in view the long term nature of housing loans, this shift towards deposits having relatively longer maturity period can be considered a welcome sign from the perspective of asset-liability management.

Table 3.6 : Maturity-wise public deposits with all reporting HFCs

(Rs. in crore)

Maturity-wise public deposits	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	Amount	%	Amount	%	Amount	%
Less than 12 months	115.97	1.94	546.38	8.88	13.81	0.19
12 months or more but less than 24 months	1615.35	27.00	3094.58	50.31	915.22	12.65
24 months or more but less than 48 months	2684.37	44.86	1191.08	19.36	4007.01	55.40
48 months or more but less than 60 months	464.59	7.76	449.86	7.31	420.17	5.81
60 months	709.70	11.86	558.30	9.08	1244.68	17.21
More than 60 months but less than 84 months	216.43	3.62	172.63	2.81	315.88	4.37
84 months	174.37	2.91	138.39	2.25	316.65	4.37
More than 84 months	2.80	0.05	0.00	0.00	0.01	0.00
Total	5983.58	100.00	6151.22	100.00	7233.43	100.00

In this context, it may also be observed that the public deposits with a comparatively shorter maturity period decreased sharply during the year

whereas a significant positive trend can be observed in favour of deposits having maturity period of 60 months or more to 84 months.

A] HFCs approved for financial assistance from NHB

3.8.1.a) In this category of HFCs, maturity period-wise the largest component of outstanding public deposits was in the slab of 24 months or more but less than 48 months. Public deposits which were Rs.1163.28 crore [19.10% of total] as on 31st March, 1999 have substantially increased to Rs.3980.61 crore as on 31st March, 2000, accounting for 55.43 % of total outstanding public deposits. On the other hand, public deposits having maturity period of 12 months or more but less than 24 months have decreased sharply from Rs.3078.66 crore [50.56% of total] on 31st March, 1999 to Rs.907.64 crore [12.64% of the total] as on 31st March, 2000.

Table 3.7 : Maturity-wise public deposits with approved HFCs

(Rs. in crore)

Maturity-wise public deposits	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
Less than 12 months	582	112.26	99239	545.79	4014	13.68
		(1.91)		(8.96)		(0.19)
12 months or more but less than 24 months	211026	1565.62	635548	3078.66	156514	907.64
		(26.64)		(50.56)		(12.64)
24 months or more but less than 48 months	647766	2644.69	447880	1163.28	678941	3980.61
		(45.01)		(19.10)		(55.43)
48 months or more but less than 60 months	280665	462.20	116620	446.14	256452	416.73
		(7.87)		(7.33)		(5.80)
60 months	214087	702.79	232554	550.51	236064	1233.24
		(11.96)		(9.04)		(17.18)
More than 60 months but less than 84 months	104418	214.41	19772	169.65	149582	315.16
		(3.65)		(2.79)		(4.39)
84 months	82310	171.46	70786	134.92	55964	313.92
		(2.92)		(2.22)		(4.37)
More than 84 months	33	2.76	0.00	0.00	0.00	0.00
		(0.04)		(0.00)		(0.00)
Total	1540887	5876.19	1622399	6088.95	1537531	7180.98

figures in parenthesis indicate % share

B] HFCs having NOF of Rs.50 lakh and above

3.8.1 b) For this category of HFCs, the concentration of public deposits in the slab of 24 months or more but less than 48 months continued for the third consecutive year. Although the absolute magnitude of public deposits in this slab declined marginally from Rs.22.70 crore as on 31st March, 1999 to Rs.22.61 crore as on 31st March, 2000, it still accounted for 50.27% of the total outstanding public deposits.

C] Other HFCs

3.8.1 c) The public deposits of this category of HFCs continued to show a decreasing trend as most of the HFCs belonging to this category have become ineligible to accept public deposits. As on 31st March, 2000, the maximum amount of deposits were in the slab with the maturity period of 24 months or more but less than 48 months.

3.9 Interest rate-wise Classification

The maximum concentration of deposits continued to be around the interest slab of 11% to below 13% which accounts for 54.32% of the public deposits outstanding as on 31st March, 2000. The share of deposits in the interest rate slab of 9% to below 11% increased from 6.36% to 18.48% during the year ended March, 2000. On the other hand, share of deposits carrying interest rates of 13% or more has fallen sharply from 51.39% to 26.95% as on 31st March, 1999 and 31st March, 2000 respectively. This is fairly indicative of the fact that the downward movement of interest rates in the aggregate economy can be observed in the housing finance sector as well.

Table 3.8: Interest rate-wise public deposits of all reporting HFCs

(Rs. in crore)

Interest rate -wise public deposits (rate per annum)	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	Amount	%	Amount	%	Amount	%
Below 6%	4.10	0.07	3.95	0.06	8.61	0.12
6% to below 9%	3.72	0.06	10.13	0.17	9.46	0.13
9% to below 11%	443.17	7.41	391.07	6.36	1336.57	18.48
11% to below 13%	1484.82	24.81	2584.85	42.02	3929.20	54.32
13% or more	4047.77	67.65	3161.22	51.39	1949.59	26.95
Total	5983.58	100.00	6151.22	100.00	7233.43	100.00

A] HFCs approved for financial assistance from NHB

3.9.1 a) For this category of HFCs, the public deposits in the interest bracket of 11% to below 13%, increased from Rs.2580.34 crore as on 31st March, 1999 to Rs.3919.02 crore as on 31st March, 2000, representing 54.58% of the total deposits

held by them. In the interest bracket of 13% or more, the deposits which were Rs.3107.19 crore as on 31st March, 1999 have fallen sharply to Rs.1908.93 crore as on 31st March, 2000.

Table 3.9: Interest rate-wise public deposits with approved HFCs

(Rs. in crore)

Interest rate -wise public deposits (rate per annum)	Outstanding public deposits as on 31 st March					
	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
Below 6%	0	0.00 (0.00)	531	2.28 (0.04)	2928	8.05 (0.11)
6% to below 9%	4935	2.80 (0.05)	16176	10.08 (0.17)	11347	9.42 (0.13)
9 % to below 11%	43010	441.68 (7.52)	91524	389.06 (6.38)	252127	1335.56 (18.60)
11% to below 13%	226848	1479.18 (25.17)	492662	2580.34 (42.38)	618279	3919.02 (54.58)
13% or more	1266094	3952.53 (67.26)	1021506	3107.19 (51.03)	652850	1908.93 (26.58)
Total	1540887	5876.19	1622399	6088.95	1537531	7180.98

figures in parenthesis indicate % share

B] HFCs having NOF of Rs.50 lakh and above

3.9.1 b) This category of HFCs, however, continued to rely on the high cost funds. Though these HFCs are offering higher rates of interest than the approved HFCs, the deposits bearing interest rates 13% or more, which were Rs.43.85 crore as on 31st March, 1999 have come down to Rs.34.71 crore as on 31st March, 2000. The deposits bearing interest rates of 11% to below 13% have, however, increased from Rs.2.79 crore to Rs.9.57 crore during the period under review.

C] Other HFCs

3.9.1 c) In this category of HFCs, public deposits as on 31st March, 2000 declined by around 48% as compared to the previous year. The deposits, which were Rs.14.50 crore as on 31st March, 1999 decreased to Rs.7.47 crore as on 31st March, 2000. Public deposits bearing an interest rate of 13% or more constitute around 80% of the public deposits outstanding with these HFCs as on 31st March, 2000.

3.10 Unclaimed Deposits

Table 3.10: Year-wise break-up of Unclaimed deposits with approved HFCs

	No. of Accounts	Amount (Rupees)	% Growth
1997-98	20755	602,037,487	-----
1998-99	27991	872,945,000	44.99%
1999-2000	26829	755,515,000	(-)13.45%

3.10.1 The above table indicates that the unclaimed deposits with the approved HFCs increased by 44.99% during 1998-99 with the number of accounts remaining unclaimed also showing an absolute increase by 7236 accounts. However, the trend was reversed in the year 1999-2000 with the amount unclaimed showing a 13.45% decline. These HFCs have reported that on maturity the depositors are duly informed by the company to either withdraw or renew the deposits.

3.11 Depositor's Protection

3.11.1 In order to protect the interests of the depositors, Government of India has been taking significant steps to ensure refund of the deposits accepted by the NBFCs on due dates. The first important measure in this direction was taken in 1974 when limits upto which the NBFCs can accept deposits, the manner in which and the conditions subject to which such deposits could be accepted or invited were prescribed by an amendment to the Companies Act. Further in 1996, through an amendment to the Companies Act, a company which is in default in the repayment of any deposit or part thereof and any interest thereupon in accordance with the terms and conditions of such deposit was prohibited from inviting deposits. If a company has failed to repay any deposit or part thereof in accordance with the terms and conditions governing such deposits, the Company Law Board, if satisfied, may on its own or on the application of a depositor direct by an order the company to make repayment of such deposit or part thereof forthwith or within such time as may be prescribed. Whoever fails to comply with the order of the Company Law Board shall be punishable with imprisonment and also a fine. Special provisions have also been incorporated under the Companies Act in respect of small depositors i.e. depositors who has deposited a sum not exceeding Rs. 20,000 with a company in any financial year. In addition, every offence connected with or arising out of acceptance of deposits is a cognizable offence under the code of criminal procedure. The State Governments on their part to protect the interest of the depositors have also initiated certain measures. The Government of Bihar had constituted a Non Banking Financial Companies Inquiry Commission under the Commission of Inquiry Act 1952. The mushroom growth of Non Banking Financial Companies (NBFCs) in the state of Bihar and the inducements and allurements offered by them to deceive the depositors caught the attention of the State Government in 1995. The Government subsequently set up a Commission that started operation in 1998. The Commission submitted its interim report in

November, 1999 suggesting certain measures to curb the malpractice of the fly-by-night operators and extend protection to the depositors. The major recommendations of the Commission included passing of a State legislation enabling the Government to take action against the unscrupulous promoters and directors of financial establishments who have fraudulently defaulted in repaying the money taken from public, setting up of one or more Designated Courts to try expeditiously the offences under the said legislation and setting up of a Directorate of Financial Establishments in the Department of Institutional Finance and Programme Implementation equipped with officers to take action against all corporate and unincorporated bodies violating the laws.

3.11.2 If an HFC fails to repay any deposit or part thereof in accordance with the terms and conditions of such deposit, an officer of the National Housing Bank authorized by the Central Government for the purpose can order the HFC to repay the deposit or part thereof forthwith or within such time and subject to such conditions as may be specified in the order. Whoever fails to comply with any order is punishable with imprisonment for a term which may extend to three years and shall also be liable to a fine of not less than rupees fifty for everyday during which such non compliance continues.

3.11.3 Some State Governments like Tamilnadu State Government has already enacted a legislation to take action against the promoters of financial companies which have failed to repay the depositors.

3.12 Borrowings of HFCs

The total outstanding borrowings of HFCs as on 31st March, 2000 was Rs.21729.99 crore as on 31st March, 2000 as compared to Rs.13405.68 crore as on 31st March, 1999, thereby showing an increase of 62.10%.

A] HFCs approved for financial assistance from NHB

3.12.1.a) The outstanding borrowings of approved HFCs from Banks, Financial Institutions, refinance from NHB, financial assistance from foreign Governments/authorities, money received by way of subscription to debentures floated by the HFCs, etc., excluding public deposits, stood at Rs.21673.87 crore as on 31st March, 2000 as compared to Rs.13388.79 crore as on 31st March, 1999.

B] HFCs other than those mentioned under A] above

3.12.1b) The outstanding borrowings of these HFCs excluding public deposits stood at Rs.56.12 crore as on 31st March, 2000 as compared to Rs. Rs.16.89 crore as on 31st March, 1999

3.13 Outstanding housing Loans

The total outstanding housing loans of HFCs as on 31st March, 2000 were Rs.25326.01 crore¹ as on 31st March, 2000 as compared to Rs.25083.80 crore as on 31st March, 1999.

A] HFCs approved for financial assistance from NHB

The outstanding housing loans of approved HFCs stood at Rs.25140.13 crore as on 31st March, 2000 as compared to Rs.24975.10 crore as on 31st March, 1999.

B] HFCs having NOF of Rs.50 lakh and above

The amount of outstanding housing loans in respect of this segment of HFCs stood at Rs. 175.95 crore as on 31st March, 2000 as compared to Rs.98.69 crore as on 31st March, 1999.

C] Other HFCs

The outstanding housing loans of other HFCs which were Rs.10.01 crore as on 31st March, 1999 marginally declined to Rs.9.93 crore as on 31st March, 2000.

3.14 Investments

A] HFCs approved for financial assistance from NHB

The investments of this segment of HFCs have increased to Rs.5433.84 crore as on 31st March, 2000 from Rs.4060.03 crore as on 31st March, 1999, showing a quantum jump of 33.84%.

B] HFCs other than those mentioned under A] above

The investments of these HFCs which stood at Rs.16.49 crore as on 31st March, 1999 increased to Rs.31.93 crore as on 31st March, 2000.

3.15 HFC Branch Network

During the year under review the number of branches of HFCs approved for NHB refinance increased from 482 to 524 as at the end of June, 2000. However, a

¹ In the earlier years the outstanding housing loans pertaining to HUDCO included the outstanding in respect of urban infrastructure as well. However, this year onwards, HUDCO outstanding figure would include only core housing loans.

marked tendency of clustering branches in the southern region and the western-central region of the country has been observed whereas the northern and especially the eastern / north-eastern region remained more or less outside the branch networking purview of these HFCs. Tables showing the statewise and region-wise spread of branch network of approved HFCs are given below :

Table 3.11: State-wise Branch Network of Approved HFCs as on

	June 30,2000	June 30,1999	
Name of the State/UT	No. Of Branches	No. of Branches	Trend
Andaman & Nicobar	1	1	↔
Andhra Pradesh	51	50	↑
Arunachal Pradesh	0	0	↔
Assam	9	10	↓
Bihar	11	10	↑
Chandigarh	8	8	↔
Dadra& Nagar Haveli	1	1	↔
Daman & Diu	0	0	↔
Delhi	17	17	↔
Goa	6	5	↑
Gujarat	49	39	↑
Haryana	5	5	↔
Himachal Pradesh	2	2	↔
Jammu & Kashmir	1	1	↔
Karnataka	64	65	↓
Kerala	30	29	↑
Lakshadweep	0	0	↔
Madhya Pradesh	24	23	↑
Maharashtra	101	80	↑
Manipur	1	1	↔
Meghalaya	1	1	↔
Mizoram	0	0	↔
Nagaland	0	0	↔
Orissa	10	11	↓
Pondicherry	3	3	↔
Punjab	7	6	↑
Rajasthan	20	20	↔
Sikkim	1	1	↔
Tamil Nadu	51	44	↑
Tripura	2	1	↑
Uttar Pradesh	30	31	↓

CHAPTER IV

Institutional Framework for Housing Finance: Banks

Scheduled Commercial Banks

4.1 In order to facilitate augmented flow of resources to the housing sector, the Reserve Bank of India, during the year 1999-2000, extended permission to the commercial banks for granting term loans to housing intermediary agencies against the direct loans sanctioned/proposed to be sanctioned (including advances to NRIs) by the latter, irrespective of the size of the loan per borrower extended by these intermediaries, thus, removing the earlier ceiling of Rs. 5 lakhs and Rs. 10 lakhs in rural/semi-urban and urban/metropolitan areas respectively. Besides, the same [excluding NRI advances] is now to be treated as achievement of commercial banks under their housing finance allocation for the year. The Reserve Bank of India also stipulated that henceforth direct housing loans upto Rs. 10 lakhs by banks for construction of houses by individuals in urban / metropolitan areas as well as subscription to NHB/HUDCO bonds would be eligible for inclusion under priority sector. All these coupled with the earlier year's policy pronouncement of earmarking 3% of the incremental deposits of commercial banks for housing, resulted in a considerable spurt in banks' lending for housing. Besides, the low-risk nature of housing finance business and lack of alternative avenues for deployment of funds have also induced the banking sector to take a keen interest in the sector in the recent times. Thus, while credit extended to small scale sector by the commercial banks witnessed a decline in the year 1999-2000, loans to housing, consumer goods and services sector registered a considerable increase.

4.2 The housing finance allocation for commercial banks during the last five years, has been as under :

Table 4.1: Housing Finance by Commercial Banks

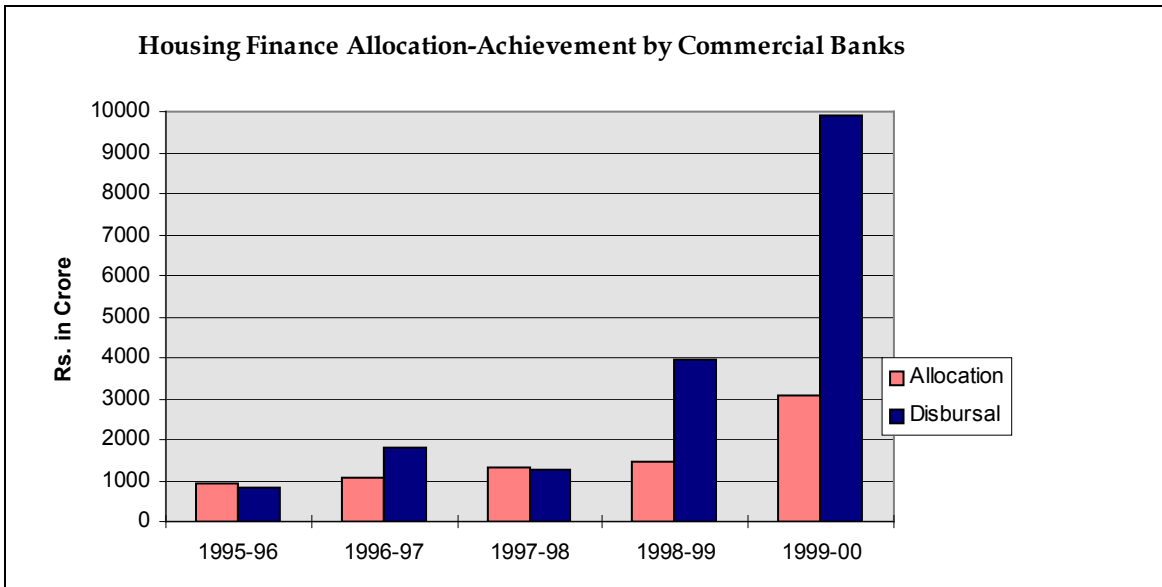
(Rs. in crore)

	1995-96	1996-97	1997-98	1998-99	1999-00
Allocation	927.03	1071.45	1295.19	1480.83 ¹	3051.52
%age increase	28.08	15.58	20.88	14.33	106.07
Disbursal	842.03	1805.62	1454.77	3951.99 ²	9911.35
%age increase	12.48	114.44	(-)19.43	82.79	150.79
%age achieved	90.83	168.52	112.32	158.49	324.80

Note 1: Calculated at the rate of 3% of incremental deposits for 1998-99

Note 2: Based on the information received by the Bank from PSBs

Hence, it can be observed from the above table that thrice in the past 5 years the housing finance disbursed by commercial banks surpassed the target allocated to them.

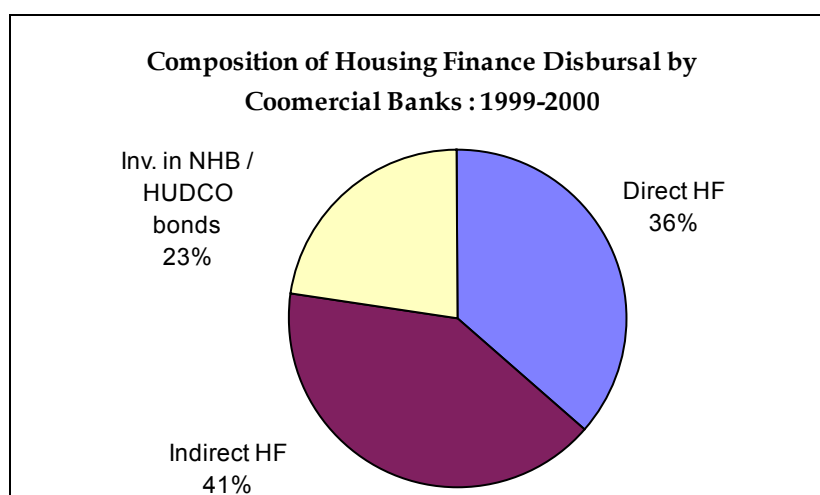
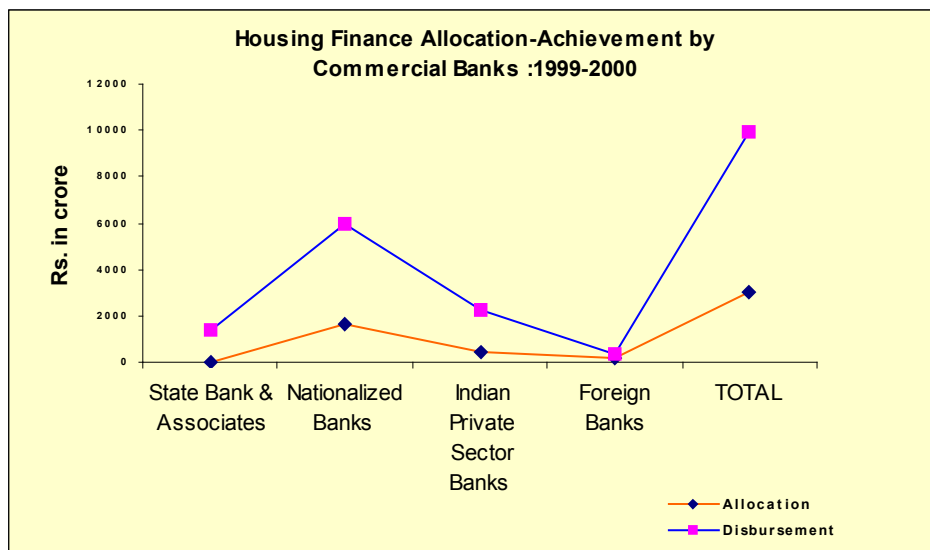


4.3 The bank group-wise statistics of housing finance allocation - achievement by commercials banks during the year 1999-2000 are given below :

Table 4.2 Bank Group-wise Housing Finance Allocation-achievement : 99-00
(Rs. in crore)

Bank -Group	Allocation for the year	Disbursement	Direct HF	Indirect HF	Inv. in NHB/HUDCO Bonds
State Bank & Associates	725.29	1383.47	1205.06	128.78	49.63
Nationalized Banks	1668.10	5981.05	1710.10	2975.97	1294.98
Indian Private Sector Banks	468.10	2209.30	522.30	805.96	881.04
Foreign Banks	190.03	337.53	159.94	135.73	41.86
TOTAL	3051.52	9911.35	3597.40	4046.44	2267.51

Source : IECD, RBI



4.2 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 4.3 : Region-wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

Region / State/UT	1998		1999		2000	
	No. of A/c s	Amount	No. of A/c s	Amount	No. of A/c s	Amount
Northern Region						
Haryana	23197	199.90	29757	277.14	55819	451.01
Himachal Pradesh	7132	53.13	8621	72.27	18314	137.00
Jammu & Kashmir	7671	70.30	9599	93.41	16958	116.26
Punjab	51098	412.59	50354	446.57	92151	635.99
Rajasthan	55550	324.59	53354	550.48	92965	795.02
Chandigarh	4105	55.35	4520	70.29	7829	84.15
Delhi	26936	378.16	35670	530.94	54749	1151.45
Region Total	175689	1494.02	191875	2041.10	338785	3370.88
North-Eastern Region						
Arunachal Pradesh	122	1.59	148	1.63	153	1.75
Assam	12220	95.91	13408	148.74	26043	188.05
Manipur	565	5.14	758	7.01	1482	9.38
Meghalaya	1017	7.40	812	11.74	1541	11.62
Mizoram	309	3.91	429	7.20	1646	10.66
Nagaland	192	1.76	408	3.89	729	4.03
Tripura	1289	8.83	2803	10.15	4124	15.63
Region Total	15714	124.54	18766	190.36	35718	241.12
Eastern Region						
Bihar	49890	304.59	52481	408.59	86500	509.29
Orissa	29649	204.87	24961	265.53	50438	359.47
Sikkim	245	1.31	178	2.48	1025	4.85
West Bengal	98017	806.03	107012	948.14	170664	1094.05
Andaman & Nicobar Islands	155	0.77	129	1.14	392	4.58
Region Total	177956	1317.57	184761	1625.88	309019	1972.24
Central Region						
Madhya Pradesh	48064	359.91	61907	480.09	115143	790.93
Uttar Pradesh	82828	675.69	115739	886.40	189154	1323.14
Region Total	130892	1035.60	177646	1366.49	304297	2114.07
Western Region						
Goa	4220	39.80	5585	54.16	9948	81.69
Gujarat	70392	544.39	91020	693.85	136991	972.67
Maharashtra	130190	1482.81	152705	1567.04	273926	2725.73

Dadra & Nagar Haveli	34	0.36	64	0.50	61	0.52
Daman & Diu	157	1.19	169	1.65	343	1.75
Region Total	204993	2068.55	249543	2317.2	421269	3782.36
Southern Region						
Andhra Pradesh	107521	1049.77	131337	1323.24	216264	1736.22
Karnataka	78856	828.56	94849	1192.79	193582	1788.32
Kerala	92848	816.86	109747	1036.56	212651	1481.80
Tamil Nadu	94070	882.27	114708	1247.09	217586	2008.26
Lakshadweep	32	0.23	15	0.15	19	0.13
Pondicherry	1593	13.54	1902	35.86	4200	29.48
Region Total	374920	3591.23	452558	4835.69	844302	7044.21
Total All India	1080164	9631.51	1275149	12376.72	2253390	18524.88

Source: Basic Statistical Returns, RBI

The above analysis indicates that there has been a concentration of financial assistance mainly in southern and western part of the country whereas the north-eastern region remains relatively untouched by the housing credit network of commercial banks. In the year 1998-99, 19 States and 2 Union Territories in the northern, north-eastern, eastern and central regions of the country accounted for Rs.5223.83 crore [42.21% of the total] of outstanding housing loans by commercial banks, whereas 4 States and 2 Union Territories in the southern region accounted for Rs. 4835.69 crore [39.07% of the total] of outstanding housing loans. Similarly, in the year 1999-2000, the share of those 19 States and 2 Union Territories in the northern, north-eastern, eastern and central regions increased to Rs. 7698.31crore [41.56% of the total] whereas that of the 4 southern States and 2 UTs went up to Rs. 7044.21 crore[38.03% of the total] . Overall there has been a commendable 49.68 % growth in the outstanding housing loan of the banking sector.

Table 4.4 : Size-wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

Loan Slab	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
Rs.25,000 and Below	416832	638.80	444593	466.12	417271	454.36
Above Rs.25,000 and Upto Rs.2 Lakh	589593	5336.03	702483	6526.71	1627721	8919.06
Above Rs.2 Lakh and Upto Rs.5Lakh	65546	1758.43	115608	3268.61	185519	5497.72
Above Rs.5 Lakh and Upto Rs.10 Lakh	5344	319.13	9272	571.58	17735	1140.31
Above Rs. 10 Lakh and Upto	1902	197.41	2162	277.97	3873	496.60

Rs.25 Lakh						
Above Rs. 25 Lakh and Upto Rs.50 Lakh	435	116.83	529	141.44	712	183.62
Above Rs. 50 Lakh and Upto Rs.1Crore	255	147.60	258	141.54	280	141.52
Above Rs. 1 Crore and Upto Rs. 4 Crore	180	316.63	163	296.38	171	298.29
Above Rs. 4 Crore and Upto Rs. 6 Crore	37	165.07	34	142.42	49	192.92
Above Rs. 6 Crore and Upto Rs.10 Crore	20	157.08	30	207.59	25	192.12
Above Rs. 1 0Crore and Upto Rs. 25 Crore	20*	478.50*	14	206.45	19	335.95
Above Rs. 25 Crore	-----	-----	3	129.91	15	672.41
Total	1080164	9631.51	1275149	12376.72	2253390	18524.88

Source: Basic Statistical Returns, RBI

*In 1997 & 1998 the highest slab was Above Rs10 crore

The above table shows that the trend of cluster of borrowers around the slab above Rs. 25,000 and up to Rs. 2 lakhs continued even in the year 1999-2000. Overall the number of accounts also increased significantly during the last one year.

Table 4.4 : Population-group and Bank-group wise classification of Outstanding Housing Loans of Scheduled Commercial Banks as on March 31

(Rs. in crore)

	1998		1999		2000	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
RURAL						
- SBI & Associates	41779	295.73	34431	311.01	71286	431.22
-Nationalised Banks	118937	698.98	115234	816.44	220578	1125.83
-Foreign Banks	14	0.21	6	0.20	13	3.03
-RRBs	24015	95.19	36475	132.84	64549	198.45
-Other SCBs	11969	95.21	9114	99.90	18761	148.41
TOTAL	196714	1185.32	195260	1360.39	375187	1906.94
SEMI-URBAN	-----	-----	-----	-----	-----	-----
-	-	-	-	-	-	-
- SBI & Associates	110905	916.71	105665	1163.83	241312	1728.17
-Nationalised Banks	128035	904.56	147059	1220.16	276716	1771.59
-Foreign Banks	8	0.19	1	0.08	0	0
-RRBs	20129	112.42	41400	130.89	39174	184.90
-Other SCBs	32047	263.20	33009	355.09	66465	461.12
TOTAL	291124	2197.08	327134	2870.05	623667	4145.78
URBAN	-----	-----	-----	-----	-----	-----

	-		-			
- SBI & Associates	112680	1212.85	125487	1560.02	238862	2233.81
-Nationalised Banks	170031	1401.97	232907	2063.17	395436	2857.76
-Foreign Banks	410	4.99	57	3.19	43	2.53
-RRBs	19862	132.24	39159	151.46	35240	189.09
-Other SCBs	19958	226.23	21577	243.13	37693	298.50
TOTAL	322941	2978.28	419187	4020.97	707274	5581.69
METROPOLITAN	-----	-----	-----	-----	-----	-----
	-		-			
- SBI & Associates	67205	769.27	84148	1047.24	121686	1434.70
-Nationalised Banks	181287	2025.47	225531	2431.22	337978	3601.09
-Foreign Banks	6283	223.21	9280	347.57	57753	1244.63
-RRBs	410	5.48	342	5.01	904	12.04
-Other SCBs	14200	247.38	14267	294.28	28941	597.97
TOTAL	269385	3270.81	333568	4125.32	547262	6890.43
All-INDIA	-----	-----	-----	-----	-----	-----
	-		-			
- SBI & Associates	332569	3194.57	349731	4082.09	673146	5827.89
-Nationalised Banks	598290	5030.98	720731	6531.00	1230708	9356.27
-Foreign Banks	6715	228.61	9344	351.04	57809	1250.22
-RRBs	64416	345.33	117376	420.20	139867	584.48
-Other SCBs	78174	832.02	77967	992.39	151860	1506.02
TOTAL	1080164	9631.51	1275149	12376.72	2253390	18524.88

Source: Basic Statistical Returns, RBI

The above analysis indicates that while the nationalised banks head the list in every segment, their presence is more predominantly felt in rural and metropolitan areas vis`-a-vis` SBI & Associates who compete with nationalised banks in semi-urban and urban areas almost on the same scale. The foreign banks are also observed to be making gradually stronger foothold in metropolitan India.

State Co-operative Banks

4.4 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. Owing to stringent recovery norms stipulated by NHB for extending refinance assistance to SCBs, very few are found to be eligible for availing the facility. The cumulative refinance assistance extended by NHB to the State Cooperative Banks as at the end of June, 2000 stood at Rs.49.89 crore.

Primary (Urban) Co-operative Banks

4.5 The scheduled Primary Urban Cooperative Banks are also eligible to avail refinance assistance from NHB provided they meet the recovery norms prescribed by NHB. Like the case of State Cooperative banks, not many primary(urban) cooperative banks have been in a position to avail refinance assistance from NHB. During the year ended June 30, 2000, Rs. 2.40 crore was disbursed by NHB to this category of institutions. The cumulative refinance assistance extended by NHB to these institutions stood at Rs.20.15 crore by the end of June,2000 and the outstanding was Rs.16.15 crore.

CHAPTER V

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: COOPERATIVE SECTOR

Apex Cooperative Housing Federations (ACHFs)

5.1 The Apex Cooperative Housing Federations (ACHFs) constitute the second category of dedicated institutions [other than the HFCs] which is responsible for providing considerable amount of credit to the housing sector in the country. In the context of integrated approach to shelter development and the subsequent need for a vibrant and viable credit delivery mechanism, these ACHFs have acquired a multi-dimensional role in providing financial assistance for housing. This category of specialised housing finance institutions provides housing loans mainly through the Primary Cooperative Societies which are affiliated to them. However, keeping in pace with changing needs of the recent times, some of the ACHFs have also started providing housing loans directly to individuals. At present there are over 90,000 housing cooperatives at the grass-root level with a membership of approximately 62 lakhs all around the country. These housing cooperatives are represented by 25 ACHFs at the State / Union Territory level which are all member of the National Cooperative Housing Federation of India (NCHF). Since its inception in 1969, the NCHF is entrusted with the task of improving the operational efficiency of its member federations as well as ensuring the augmented flow of funds to the cooperative housing sector. The ACHFs mainly act as the intermediary mechanism for channelising long term funds for housing from the financial institutions to their primary housing cooperatives and individual members. So far, an amount of over Rs. 5900 crore has been disbursed by these ACHFs to enable construction of over 20 lakh dwelling units in the country. Presently, the ACHFs are advancing an amount of approximately Rs. 700 crore a year. Recognising the positive approach and interest shown by the housing cooperatives towards solving the housing shortage of the country, the Government of India have assigned them a target of building one lakh dwelling units every year under the Two Million Housing Programme.

5.2 In the earlier years, the ACHFs used to depend mainly on the Life Insurance Corporation for financial assistance. This trend, however, reversed in the year 1997-98, and since then HUDCO has become the largest source of resources to ACHFs which has been providing steadily increasing flow of funds for the sector since 1993-94. In the recent years, the financial assistance from the banking sector has also assumed importance being next only to HUDCO in terms of magnitude of loans. The cumulative sum of borrowings of the ACHFs as at the end of March, 2000 were Rs.5690.76 crore of which Rs.2835.71 crore (49.83%) came from LIC. The rest of the amount was contributed by HUDCO (Rs. 1176.71 crore, 20.68%), the banking sector (Rs. 748.60 crore, 13.12%), the National Housing Bank (Rs. 440.12 crore, 7.73%), deposits from the primary societies (Rs.185.77 crore, 3.26%),

flotation of debentures (Rs. 142.60 crore, 2.51%), the State Government (Rs.48.97 crore, 0.86%) and borrowing from other sources (Rs. 112.28 crore, 1.97%).

Table 5.1: Borrowings of Apex Co-operative Housing Federations (cumulative)

(Rs. in crore)

Year	LIC	NHB	HUDCO	State Govt.	Deposits	Banks	Debentures	Others	Total
1993-94	2087.46	104.66	285.36	137.50	122.01	308.01	137.60	7.37	3189.97
1994-95	2215.98	116.77	359.46	148.55	129.83	276.94	142.60	37.39	3427.52
1995-96	2348.98	141.88	442.88	166.04	46.19	410.56	142.60	110.27	3809.40
1996-97	2480.48	215.10	569.03	169.34	186.74	225.13	141.50	58.31	4045.63
1997-98	2606.48	280.17	721.91	185.29	162.71	349.73	142.60	58.31	4507.20
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

Source : National Cooperative Housing Federation of India

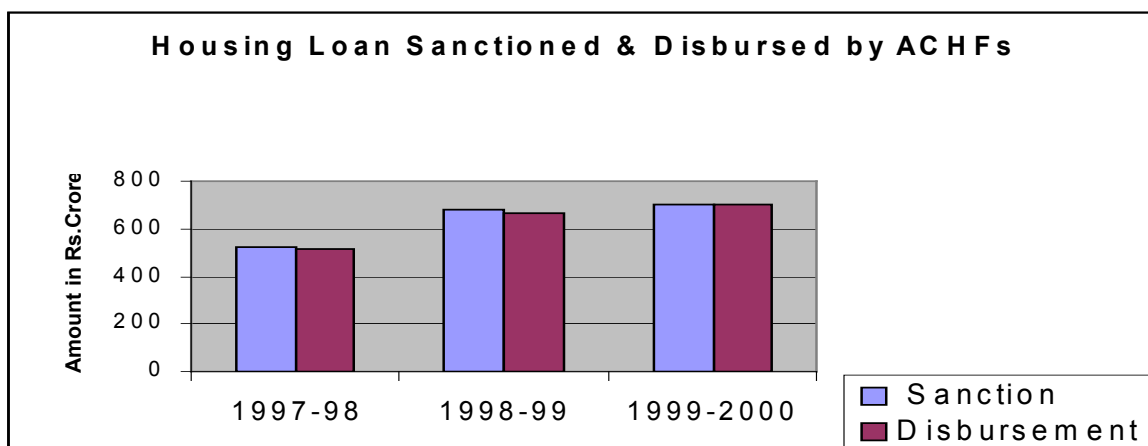
5.3 The loans sanctioned by the ACHFS increased from Rs.525.29 crore during 1997-98 to Rs. 705.33 crore during 1999-00 registering an average growth of around 17% per annum over the last couple of years. The disbursements also increased at the rate of 28.16% between 1997-98 and 1998-99.. During 1999-00, the ACHF's disbursed Rs.700.86 crore with a growth rate of 5.25%. The financial assistance provided by ACHFS during the year 1999-00 enabled construction of 61,308 dwelling units.

Table 5.2: Operations of Apex Cooperative Housing Federations

(Rs. in crore)

Year	Borrowings	Repayments	Outstanding	Loan Sanctioned	Loan Disbursed
1997-98	473.70	127.79	345.92	525.29	519.57
1998-99	448.82	236.13	212.69	680.88	665.88
1999-00	733.62	327.38	406.24	705.33	700.86

Source: National Cooperative Housing Federation of India

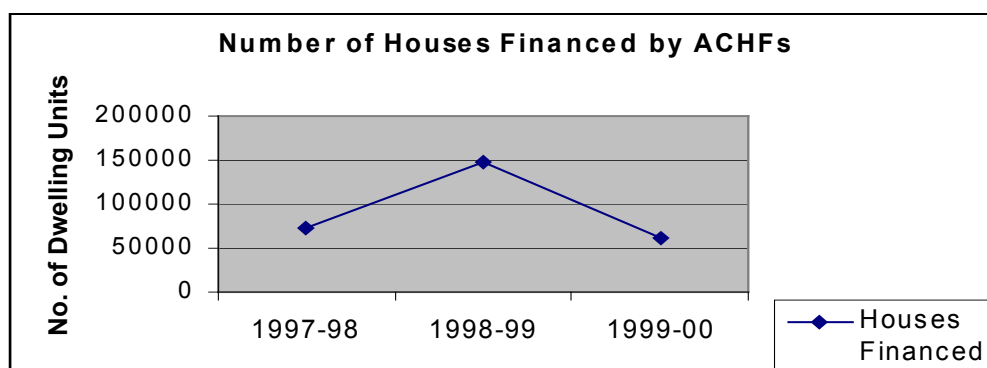


5.4 Cumulatively, ACHFs sanctioned housing loans amounting to Rs. 6328.29 crore as on March 31, 2000 with disbursements of Rs. 5951.38 crore as on March 31, 2000. The financial assistance provided by ACHFs till the end of March, 2000 enabled construction of 20,83,482 dwelling units.

Table 5.3: Housing Units Financed by ACHFS

Year	Houses Completed	Houses Under construction	Total
1997-98	70215	2477	72692
1998-99	145153	2691	147844
1999-00	55669	5639	61308

Source: National Co-operative Housing Federation of India



5.5 State/UT-wise break-up of housing loan disbursed and number of units constructed with financial assistance from ACHFs during 1998-99 and 1999-00 are as under :

Table 5.4: HOUSING LOANS DISBURSED AND HOUSING UNITS CONSTRUCTED BY APEX-CO-OPERATIVE HOUSING FEDERATIONS*

(Rs. in crore)

S. No	Apex-Federations	1998-99		1999-00	
		Units constructed /financed	Loans Disbursed	Units constructed /financed	Loans Disbursed
1	Andhra Pradesh	717	NA	NA	9.63
2	Assam	1316	2.71	2340	1.53
3	Bihar	1985	13.50	0	0
4	Chandigarh	9	0.36	67	0.62
5	Delhi	546	28.94	306	21.29
6	Goa	223	5.79	198	3.01
7	Gujarat	0	0	0	0
8	Haryana	160	1.65	419	5.37
9	Himachal Pradesh	133	0.24	52	0.49
10	Jammu & Kashmir	22	3.96	24	6.59
11	Karnataka	549	9.19	0	0
12	Kerala	7348	58.80	10463	75.41
13	Madhya Pradesh	2100	NA	224	23.94
14	Maharashtra	693	5.09	305	2.95
15	Manipur	69	0.48	148	0.94
16	Meghalaya	0	0	3	0.02
17	Orissa	431	NA	680	7.90
18	Pondicherry	167	3.56	177	3.67
19	Punjab	4025	52.65	3567	52.60
20	Rajasthan	411	2.24	92	0.90
21	Tamil Nadu	120311	456.61	42126	481.95
22	Uttar Pradesh	6500	17.53	0	0
23	West Bengal	129	2.57	117	2.05
	TOTAL	147844	665.87	61308	700.86

* Excluding Mizoram and Andaman & Nicobar

Although the absolute number of housing units constructed/financed by ACHFS decreased during the year 1999-00 to 61308 dwelling units from the earlier year's figure of 147844 dwelling units, the amount disbursed increased by Rs.34.99 crore during that period, indicating a significant increase in the average cost of houses financed by them.

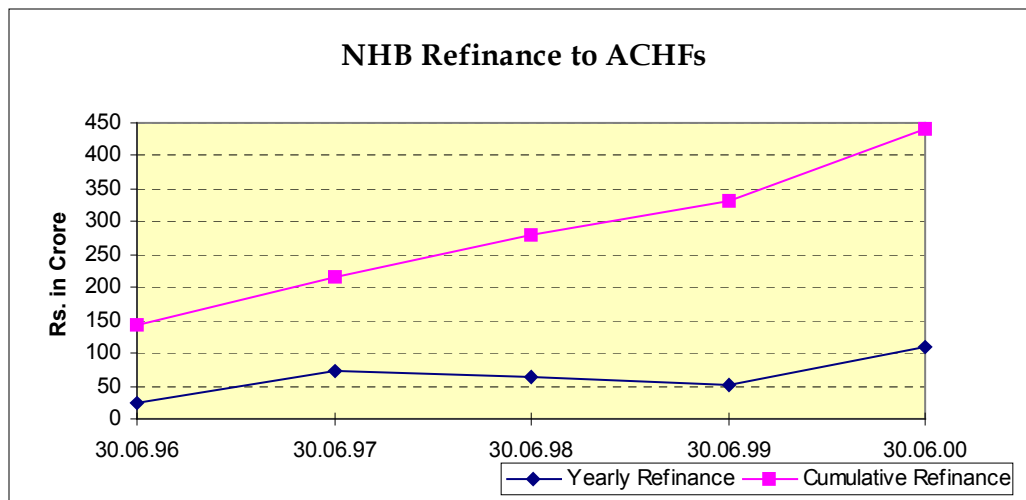
5.6 In terms of refinance guidelines of NHB only 4 ACHFS [viz., Kerala ACHFs, Maharashtra ACHFs, Punjab ACHFs and Tamilnadu ACHFs] were eligible for refinance assistance as at the end of June, 2000. Together, these 4 ACHFs availed of refinance assistance of Rs. 109.60 crore from NHB during the year 1999-2000 as against Rs.50.35 crore in the previous year.

5.7 Data pertaining to NHB's refinance assistance to ACHFS during last 5 years is given below:

NHB's Refinance Assistance to ACHFS

(Rs. in crore)

Year ended 30 th June	Yearly Refinance	Cumulative Refinance
1996	25.11	141.88
1997	73.22	215.10
1998	65.07	280.17
1999	50.35	330.52
2000	109.60	440.12



State Co-operative Agriculture and Rural Development Banks (SCARDBs)

5.8 Keeping in view the housing shortage in rural areas, a few State Governments, after suitable legislative reforms, have permitted the Agriculture and Rural Development Banks (ARDBs) to lend for housing. As the ARDBs do not fall under the category of either scheduled bank or specialised 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.

5.9 During the year 1999-2000, NHB disbursed Rs. 78.22 crore to 5 ARDBs in the states of Karnataka, Kerala, Maharashtra, Uttar Pradesh & West Bengal. Thus, during the year ended June 30, 2000, NHB extended a total refinance assistance of Rs. 187.82 crore to cooperative sector institutions (constituting 22.31% of the total refinance disbursals of Rs. 841.68 crore for the year 1999-2000) to enable construction of 15346 dwelling units by this category of institutions. The share of the cooperative sector institutions in NHB's cumulative refinance till 30th June, 2000 comes to 17.76 %, i.e. Rs.926.18 crore out of total cumulative refinance support of Rs. 5215.69 crore.

CHAPTER VI

NATIONAL HOUSING BANK (NHB)

NHB's ACTIVITIES

Promotion and Development

6.1 One of the fundamental ideas behind the inception of NHB in 1988 as the apex institution for the housing finance sector of the country was to facilitate development of a sound, healthy and sustainable housing finance system. Since its initiation NHB took very determined steps towards achieving this goal. As a consequence, the number of housing finance companies approved for NHB's refinance assistance increased by almost 10 fold during a decade of NHB's effective operation with 29 such HFCs operating all over the country with a network of 524 branches as at the end of June, 2000.

6.2 During the course of the year 1999-2000, NHB revised its guidelines for extending refinance support to HFCs to the effect that in order to avail this refinance facility no HFC should be engaged in construction activities of any kind, directly or indirectly, except for its own office premises or staff quarters but without any commercial use and in cases where any immovable property is to be managed by / devolves on HFC in settlement of its dues from developers / builders. Besides, the HFCs are also required to comply with Housing Finance Companies (NHB) Directions, 1989 as amended from time to time.

6.3 The guidelines pertaining to eligibility for equity support, however, did not undergo any change during 1999-2000. The Bank subscribed to additional equity of Andhrabank Housing Finance Limited, Hyderabad and BOB Housing Finance Limited, Jaipur. The details regarding NHB's equity participation in HFCs till June 30, 2000 are given below :

Table 6.1: NHB's participation in equity of HFCs

(Rs. in Crore)

Name of the HFC	Face Value	Investment as on 30.06.2000
1.Andhrabank Housing Finance Ltd.	4.23	4.23
2.BOB Housing Finance Ltd.	4.93	4.93
3.Can Fin Homes Ltd.	0.50	1.75
4.Centbank Home Finance Ltd.	1.60	1.60
5.GRUH Finance Ltd.	0.45	0.85
6. Vysya Bank Housing Finance Ltd.	0.38	0.56
7. Vibank Housing Finance Ltd	1.20	1.20
TOTAL	-----	15.12

6.4 Working on its mandate to promote a resonant housing finance system in the country, the Bank continued with its endeavour to interact with the HFCs at various forums regarding a diverse cluster of contemporary issues having both micro and macro level significance. During the year, a meeting was held with the chief executives of HFCs approved by NHB for its refinance with a view to achieve better coordination between the housing finance companies and the regulatory body. In the meeting, deliberations regarding certain relevant aspects of housing finance business took place.

6.5 During the year NHB signed an agreement of cooperation with Canada Mortgage & Housing Corporation (a crown corporation established and owned by the Government of Canada) related to housing and housing finance which would include mortgage credit guarantee and development of innovative debt instruments for funding housing activities. The general areas of cooperation will include mortgage insurance, mortgage backed securities, regulatory and supervisory framework for housing finance system, rating/registration of builders, role of mortgage banks, development of secondary mortgage market, product development & marketing, capacity building and development of market-oriented initiatives for the housing finance system. Besides, the International Finance Corporation (IFC), an affiliate of the World Bank had approached NHB seeking assistance in the execution of their Technical Assistance (TA) programme in Bangladesh and Sri Lanka. The objective of the study was to prepare a Report suggesting measures and recommendations that could lead to development of a supervisory and regulatory framework for promoting a competitive, integrated and market based housing finance system in these countries. The proposal emanated from an arrangement between the IFC and the Export -Import (EXIM) Bank of India under which the EXIM bank promotes utilisation of Indian consultants for various IFC supported facilities/programmes. The Bangladesh study has since been completed.

Regulation of HFCs

6.6 During the year, 8 new companies were added and 21 HFCs were deleted from the mailing list of HFCs maintained by NHB. As on June 30, 2000, there were 340 HFCs on the mailing list of NHB.

Guidelines on Prudential Norms applicable to HFCs

During the year, NHB modified some of the provisions of the Guidelines. A brief summary of the amendments is given below:

a. Income recognition and provisioning norms in respect of lease and hire-purchase assets

Lease and hire purchase assets would be treated as NPA where lease rentals/hire purchase installments are 'past due' for twelve months (instead of six months). Also, separate provisioning norms have been prescribed for lease/hire purchase assets.

b. Accounting for Investments

Valuation norms for different kinds of investments, viz. quoted current investments, unquoted current investments, quoted long-term investments, and unquoted long term investments have been prescribed. In particular, valuation norms for unquoted equity shares and preference shares and also for ICDs have been prescribed.

c. Asset Classification: Reschedulement

The waiting period for upgrading an asset in respect of which terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled has been reduced from two years to one year. Board of Directors of HFCs have been advised to issue necessary policy guidelines for reschedulement of loans specifying the circumstances in which reschedulement is permissible and the conditions to be stipulated while permitting reschedulement. The relaxation to the effect that an asset may be treated as standard if the installments of the principal amount are rescheduled with due consent of the board of the concerned HFC, has been withdrawn.

d. Capital Adequacy Norms: Tier I Capital

Definition of Tier I capital has been modified to include preference shares which are compulsorily convertible into equity. Preference shares other than those compulsorily convertible into equity would come under Tier II capital.

e. Minimum Requirement of Capital Funds

The HFCs have been "advised to achieve a capital adequacy ratio of 10 percent on or before March 31, 2001 and 12 percent on or before March 31, 2002.

f. Risk Weighted Assets

Risk weights assigned to investments made in bonds of public sector banks and fixed deposits/certificates of deposits/bonds of public financial institutions and units of UTI have been reduced from 100% to 20%.

g. Concentration of Credit/Investment

Ceiling of 15% of owned funds for investment in shares of another company and 25% for investment in shares of a single group of companies has been prescribed. In addition, ceilings for credit and investment taken together have also been prescribed which are 25% and 40% respectively.

h. Disclosure in Balance Sheet

HFCs are required to disclose in the balance sheet the provisions made for depreciation in investments and for sub.-standard, doubtful and loss assets separately in respect of housing loans and non-housing loans.

i. Loans against Own Shares

A new provision asking the HFCs not to lend against their own shares has been introduced. As a consequence of amendment of NHB Act, NHB has been empowered to issue directions on these matters which shall have a statutory effect.

Relaxation in credit rating requirement for acceptance of Deposits by HFCs

6.7 HFCs have been permitted following relaxation under paragraph 17 of the Directions:

An HFC not having the minimum required credit rating can also accept public deposits but upto 2 times of its net owned fund or Rs. 10 Crores, whichever is lower, (including any amount remaining outstanding in its books as on the date of acceptance or renewal of such deposits), subject to the following conditions:

- i. It shall comply with all the prudential norms as contained in the Guidelines on Prudential Norms issued by NHB and as amended from time to time.
- ii. The capital adequacy ratio as per the last audited balance sheet of the HFC shall not be less than 15%
- iii. The HFC has been issued certificate of registration in terms of paragraph 3A of the Directions which has not been cancelled by NHB or HFCs existing as on September 17, 1997 have applied for registration and the application is pending consideration with NHB.

Supervision of HFCs

6.8 During the year, three HFCs were issued show cause notice for the contravention of various provisions of the Housing Finance Companies (NHB)

Directions, 1989 [list at Annexure-I]. The total number of HFCs prohibited by NHB from accepting / renewing public deposits till June 30, 2000 stood at 32.

6.9 The powers to deal with cases of HFCs contravening provisions under guidelines/ Directions have also been strengthened with the passing of the National Housing Bank (Amendment) Act, 2000. Under Section 36 A of the Act, an "authorised officer" of NHB, who may be notified in this behalf by the Central Government, can order repayment of deposits in case of default by HFCs. Besides, under Section 33 B of the Act, if continuance of a housing finance company is detrimental to the public interest or to the interests of the depositors, the National Housing Bank can file an application for winding up of the company. The other details pertaining to National Housing Bank (Amendment) Act, 2000 would be discussed at length in a later chapter.

- **Refinance**

Policy

6.10 Keeping in view the interest rate movement in the national economy, the interest rate structure on NHB refinance assistance was revised twice during the course of the year. The interest rates structure effective from 1 April, 2000 is as under :

Table 6.2 Interest rate on NHB Refinance

Housing Loans	Rural	Urban
[Rate of Interest per cent per annum to be charged by NHB to Primary Lending Institutions]		
For construction or acquisition of new dwelling units		
Up to Rs.50,000	10.00	11.00
Rs. 50,001-Rs.2,00,000	11.75	12.00
Rs.2,00,001 to Rs.10,00,000	12.00	12.00
For upgradation/major repairs		
Up to Rs.50,000	10.00	11.00
Rs.50,001 to Rs.1,00,000	12.00	13.00

6.11 In order to maintain the parity with the increased cost of construction in both rural and urban areas and the revision of ceiling of housing loans under priority sector to Rs.5.00 lakhs in the rural areas and Rs.10.00 lakhs in urban areas, the loan size for refinance under the Golden Jubilee Rural Housing Refinance Scheme was also revised upwards from Rs.2 lakhs to Rs.5 lakhs for all eligible institutions. The maximum individual loan size eligible for refinance in respect of Regional Rural Banks has also been revised from the existing limit of Rs.1.00 lakh to Rs.5.00 lakhs. In respect of individual housing loans for Primary [Urban] Cooperative Banks and Scheduled State Cooperative Banks, the

maximum loan size eligible for refinance has been revised to Rs.10.00 lakhs per individual.

6.11 Keeping in view the monsoon orientation of Indian agriculture and the seasonality thereof, and consequently the constraints faced by the ARDBs regarding recovery of dues from their borrowers who are predominantly from the agrarian community, the maturity period of Special Rural Housing Debentures (SRHDs) floated by ARDBs for subscription to SRHDs of State Cooperative Land Development Banks was extended by 1 year in excess of the weighted average period of housing loans, subject to a maximum maturity period of 15 years.

6.12 It has been envisaged that overdue level, though indicative of collection efficiency, does not truly reflect the quality of income generating assets. In order to ensure the proper assessment of income generating assets, an additional norm of net non performing assets (NNPAs) to risk weighted assets with respect to the HFCs has been introduced. The maximum stipulated overdue level for more than 3 months as a percentage of the aggregate demand for the year has correspondingly been revised to 10% from the existing level of 5%. Besides the overdue norm, it is also stipulated that the NNPA as a percentage of risk weighted assets should not be more than 5%.

Refinance Disbursals

6.13 During 1999-2000, NHB's refinance assistance to all eligible primary lending institutions exhibited a growth rate of 12.67% to achieve a total deployment figure of 841.68 crore. Accordingly, the cumulative refinance assistance provided by NHB increased to Rs.5215.69 crore as at the end of June, 2000. The details of refinance disbursement during 1999-2000[July-June] are given below :

Table 6.3: Refinance assistance provided by NHB

(Rs. in crore)

Institutions	Amount disbursed during the previous year (July'98 to June'99)	Amount disbursed during the current year (July'99 to June'00)	Cumulative disbursements upto June 30, 2000
Scheduled Banks	38.76	2.40	239.98
Cooperative Sector Institutions	163.09	187.81	926.18
Housing Finance Companies	545.16	651.47	4049.53
Cumulative	747.01	841.68	5215.69

The above table indicates that HFCs continue to absorb the lion's share of NHB refinance as they account for 77.40% of refinance disbursement during the year (77.64% of the cumulative disbursement). The cooperative sector institutions availed 22.31% of the refinance disbursed by NHB during the year 1999-00 (17.76% of the

cumulative) whereas the banking sector's share was only 0.29% of the yearly disbursal (4.60% of the cumulative).

6.14 The recovery of all dues of NHB was 100 percent during the year and accordingly the overdue position as on 30th June, 2000 was "nil".

- **Project Finance**

Policy

6.15 Since its inception in 1988, NHB had been extending financial assistance to public agencies through the refinance window. With the creation of VDS Fund in the year 1992 under the Voluntary Deposit (Immunities and Exemptions) Act, 1991, the Bank was also permitted to extend direct financial assistance to public agencies with respect to slum redevelopment programmes in accordance with certain guidelines formulated for this purpose. These guidelines are reviewed from time to time with a view to adapting these to the changing needs of the market. Based on the feed back received from various agencies, guidelines for financial assistance, both under refinance as well as direct finance windows, in respect of Land Development and Shelter Projects (LDSP), Housing Infrastructure Projects (HIP) and Slum Redevelopment Projects (SRP) pertaining to public agencies were revised during the year. In case of SRP, loans at 8% rate of interest shall now be available for loan slab upto Rs.50,000 per dwelling unit and at 11% rate of interest between Rs. 50,001 and Rs. 1 lakh per dwelling unit.

6.16 NHB has been extending financial assistance for projects out of the General Fund as well as from the Special Fund created out of the proceeds of the Voluntary Disclosure Scheme, either directly or by way of refinance. NHB has so far sanctioned 282 projects under its various project finance schemes both direct as well as through the refinance window. During the year NHB disbursed Rs.50.50 crore(including the amount lent from the special fund) in respect of 14 projects. Cumulatively, till the end of June'2000 NHB has disbursed Rs.332.90 crore under this scheme. Brief details of the funding under the general fund and the special fund are given below:

A. General Fund

6.16.1 During the year, out of the General Fund NHB disbursed a sum of Rs.40.74 crore in respect of 10 projects directly to the eligible institutions. The cumulative disbursement under this head was Rs. 62.63 crore in respect of 19 projects.

B. Special Fund

6.16.2 NHB sanctioned 4 projects during the year out of this fund and released a sum of Rs.9.76 crore. Till the end of June'2000 NHB has sanctioned 35 projects under this fund and has disbursed a total of Rs.24.50 crore.

- **Training**

6.17 With an aim to impart better understanding of the institutional structure and networking for an efficient housing finance system among the personnel of housing finance institutions and for contributing towards human capacity building, the Bank since its inception had engaged itself in providing training assistance to officials of HFCs, public sector banks, cooperative sector institutions and housing boards. The Bank always endeavoured to keep the Indian housing finance institutions abreast with the recent developments taking place in the international arena and these efforts of NHB have always been well appreciated in the concerned quarters. In continuance with this endeavour, NHB designed and conducted six training programmes during the year 1999-2000 which ranged from orientation programmes on housing finance to specialised programmes on new developments in the housing sector. Besides, NHB provided financial support to the National Cooperative Housing Federation of India (NCHF) for conducting four training programmes and one seminar on housing finance for the officials of the various Apex Cooperative Housing Federations (ACHFs). Financial support was also provided to the National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB) for conducting two training programmes for the officials of cooperative sector institutions and banks operating in the rural areas. NHB also extended support by way of programme design and faculty assistance to such institutions in respect of their own training efforts in the field of housing finance.

- **Golden Jubilee Rural Housing Finance Scheme**

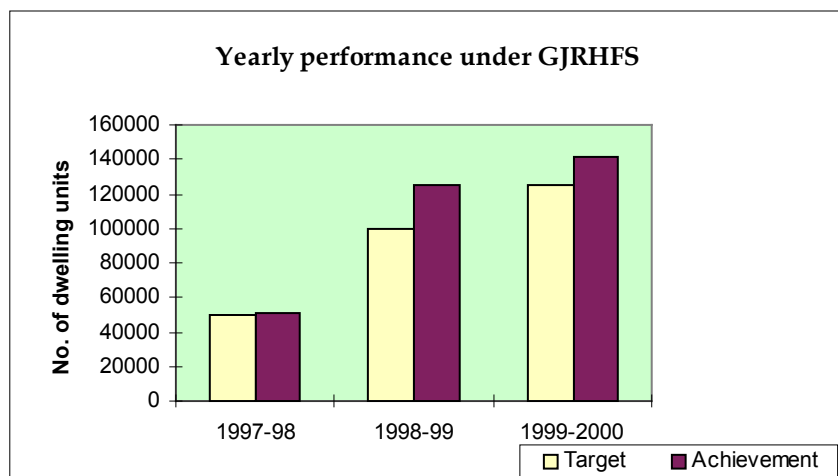
6.18 The housing shortage, especially the rural shelterlessness became a matter of serious concern in recent years and this has drawn the due attention from Government of India. Consequently, the Government of India entrusted the National Housing Bank with the task of formulating a rural housing scheme to be implemented through the primary lending institutions with the financial support from and under the supervisory guidance of NHB. Accordingly, the Golden Jubilee Rural Housing Finance Scheme (GJRHFS) was launched on the occasion of the fiftieth anniversary of India's independence. The scheme aims to address the problem of housing shortage in the rural areas through improved access to institutional housing finance which enables an individual to build a modest house or improve or add to his existing dwelling unit in rural areas. This is a pure loan Scheme without any subsidy element involved. The lending institutions are free to choose their clientele with respect to GJRHFS as per the terms and conditions stipulated by them keeping in view the commercial viability of their lending operations.

6.19 The Government has been allocating yearly targets to be achieved by all the participating institutions under the Scheme. The targets have been steadily stepped up by the Government over the year. NHB has been monitoring the performance of all the participating institutions under the Scheme and the targets set for each year have been successfully achieved. The details of the same are as below:

Table 6.4 : Yearly performance under GJRHFS

[No of units]

	1997-98		1998-99		1999-2000	
	Target	Achieved	Target	Achieved	Target	Achieved
HFCs	18900	23289	38900	35266	60000	77389
Banks	30000	11146	50000	25951	50000	37786
Cooperatives	1100	16837	11100	64514	15000	26188
TOTAL	50000	51272	100000	125731	125000	141363



6.20 To increase awareness of the Scheme, NHB has made available to the primary lending institutions, brochures and posters regarding the Scheme in various languages, for prominent display and distribution to the public. The Bank has been advertising the scheme through advertisements in the local papers at periodic intervals besides releasing posters / pamphlets, and documentary films through Films Division (Information & Broad casting Ministry) .The pamphlets outlining the salient features of the Scheme in various regional languages have been distributed through village panchayats and branches of nationalized banks.

6.21 NHB also organises a series of zonal level review meeting on a periodic basis. Through the State Level Bankers Committee (SLBC) Forums, NHB apart from monitoring the Scheme also aids in creating awareness of the Scheme. The officers of NHB have been participating in the various SLBC meetings. Training facilities have also been extended to HFCs/banks to build up their capacity to deliver rural housing credit. Seminars/workshops are also conducted to ensure full continued involvement of the retail lending agencies.

6.22 NHB also launched the Golden Jubilee Rural Housing Refinance Scheme to provides refinance to eligible primary lending institutions in respect of their lending to individuals for construction/acquisition of new dwelling units and repair / up-gradation of existing dwelling units in rural areas as per the terms and conditions specified by the Refinance Scheme of NHB time to time. Under the scheme, the details of year-wise [July-June] disbursements made by NHB are given below:

Table 6.5 NHB's Refinance Disbursal under GJRHFS

[Rs. in crore]

Institution	1997-98	1998-99	1999-2000
HFCs	82.75	104.30	156.14
ARDBs	9.96	88.28	58.45
ACHFS	2.69	21.59	25.00
Banks	0.00	15.33	0.00
TOTAL	95.40	229.50	239.59

CHAPTER VII

ASSET QUALITY IN HOUSING FINANCE

7.1 Over the last couple of years, housing finance activity has succeeded in attracting many new entrants and most of them have shown their interest in housing finance due to the very low level of non performing assets(NPAs) witnessed in this business. The fact that housing finance is a comparatively safe business can be observed from the fact that during last four years, the proportion of NPAs to total assets of the HFCs approved by NHB for its refinance assistance (these HFCs account for more than 98% of the total business of all HFCs) has been around 2% to 3%. The proportion of gross NPAs to total assets of these companies increased from a level of 2.00% as at the end of March,1997 to 2.09% as at the end of March,1998 and further to 3.01% as at the end of March,1999. However, this proportion declined to 2.83% by the end of March, 2000.

7.2 There were 28 HFCs(excluding HUDCO) approved by NHB for its refinance assistance as at the end of March, 2000. For the purpose of analysis, these companies have been grouped according to their asset size as given below:

Table 7.1: Asset Base of Approved HFCs

Asset Size	No. of Companies
Up to Rs.50 crore (Group A)	10
Between Rs.50 crore and Rs.150 crore (Group B)	8
Above Rs.150 crore (Group C)	10

(Asset size as on March 31, 2000)

Total assets of these companies increased from Rs. 20088.63 crore as at the end of March, 1999 to Rs. 23825.75 crore by 31st March, 2000. During the same period gross non-performing assets increased from the level of Rs.605.13 crore to Rs.675.46 crore. Thus registering a decrease in the proportion of gross NPAs to total assets from 3.01% as at the end of March, 1999 to 2.83% by the end of March, 2000.

Similarly, the net NPAs which were Rs. 511.16 crore as on 31st March, 1999, increased to Rs. 564.30 crore by the end of March, 2000. However, the proportion of net NPAs to total assets followed the same trend as noticed in the case of gross NPAs and it declined from 2.54 % on 31st March, 1999 to 2.37% as on 31st March, 2000.

7.3 A significant increase has been observed in NPAs in the case of HFCs with asset size up to Rs.50 crore during 1999-2000. Gross NPAs in this category of HFCs increased from Rs. 9.51 crore as at the end of March, 1999 to Rs. 19.13 crore as on 31st March, 2000. The proportion of gross NPAs to total assets for this category witnessed a decline from the level of 7.43% as on 31st March, 1997 to 6.02% by the end of March,

1998 and further declined to 5.03% by the end of March,1999. However, this proportion increased to 9.73% as on 31st March, 2000. A similar trend was observed in the case of net NPAs. The proportion of net NPAs to total assets of these companies declined from 5.68% as on 31st March, 1997 to 4.54% by the end of March, 1998 and further declined to 3.82% by end of March, 1999 but this proportion increased to 7.13% by 31st March, 2000. It may be safely inferred that these relatively smaller HFCs had a difficult time facing steep competitions from the bigger players in the market and in order to survive they had to dilute their underwriting/appraisal norms to a certain extent that resulted in an increase of their non-performing assets.

Table 7.2: 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					
1997	108.58	8.06	7.43	6.16	5.68
1998	148.08	8.91	6.02	6.72	4.54
1999	189.09	9.51	5.03	7.23	3.82
2000	196.61	19.13	9.73	14.02	7.13
Group B					
1997	464.27	15.98	3.44	15.57	3.35
1998	575.27	28.90	5.02	26.48	4.60
1999	698.90	39.74	5.69	34.08	4.88
2000	856.30	37.11	4.33	29.32	3.42
Group C					
1997	11389.84	215.34	1.89	185.10	1.63
1998	15965.67	310.21	1.94	265.62	1.66
1999	19200.64	555.89	2.90	469.86	2.45
2000	22772.84	619.22	2.72	520.96	2.29
Total					
1997	11962.69	239.38	2.00	206.83	1.73
1998	16689.02	348.01	2.09	298.82	1.79
1999	20088.63	605.13	3.01	511.16	2.54
2000	23825.75	675.46	2.83	564.30	2.37

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 31.3.2000

7.4 In respect of HFCs having asset size above Rs.50 crore and up to Rs.150 crore the gross NPAs have declined from the level of Rs.39.74 crore as on 31st

March, 1999 to Rs.37.11 crore by the end of March, 2000. The increasing trend in the proportion of gross NPAs to total assets of these companies observed during the period 1997 to 1999 from the level of 3.44% to 5.69% has reversed and this proportion has decreased to 4.33% by the end of March, 2000. The variation in the proportion of net NPAs to the total assets have been similar to the variation observed in the case of proportion of gross NPAs to total assets. It increased from 3.35% to 4.60% during 1997-98 and further to 4.88% during 1998-99 but declined to 3.42% during 1999-2000.

7.5 For companies having an asset size above Rs.150 crore, a trend similar to companies with asset size more than Rs.50 crore and up to Rs.150 crore is observed in respect of NPAs as a percentage of total assets. This proportion increased from 1.89% at the end of March, 1997 to 1.94% as at the end of March,1998 and further increased to 2.90% by the end of March,1999 but declined to 2.72% as on 31st March, 2000. Similarly, the proportion of net NPAs to total assets for these companies increased from 1.63% to 1.66% during 1997-98 and further increased to 2.45% during 1998-99 but slightly declined to the level of 2.29% by the end of March, 2000.

7.6 In terms of the classification of NPAs as per the prudential norms, the sub-standard assets accounted for more than three-fourths of the total NPAs during the period 1997-99 but during the year 2000 this share declined to 65.74%. During the years 1997-99, the share of doubtful assets in the total NPAs was around 20% but this increased to 33.87% by the end of March, 2000. This decrease in the share of sub-standard assets is approximately equal the increase in the proportion of doubtful assets in the total NPAs. This indicates that the accounts, which have become sub-standard during the last couple of years have shown no improvement and as a result many of those accounts have become doubtful over the period of time.

Table 7.3: Break-up of Non-Performing Assets

Category/Year	1997	1998	1999	2000
Sub-standard	79.02	78.29	79.16	65.74
Doubtful	20.35	21.62	18.76	33.87
Loss	0.63	0.09	2.07	0.39

The increase in the percentage of doubtful assets however, calls for exercise of caution on parts of the HFCs as far as their appraising of borrowers is concerned. This also reveals that the HFCs need to closely monitor the recovery process.

CHAPTER -VIII

GOVERNMENT HOUSING INITIATIVES

8.1 In India the housing shortage has assumed a significant proportion during the recent years thereby urging the Government to take a series of housing initiatives especially for the weaker segment of the population whose prospect of owning a shelter is considerably hampered by the lack of affordability on their part. The basic constraint facing the formal financing sector regarding financial assistance to economically weaker section (EWS) has always been the question of affordability as it has a significant implication in the context of commercial viability of housing finance business in the country. As the sector is already suffering from considerable resource crunch, the question of distributive efficiency as well as effective and optimal utilisation of scarce resources vis-a-vis the social needs assumes importance. Since the housing finance institutions mainly function within the specified dictate of commercial feasibility, they are best left free to choose their clientele as well as the eligibility criteria for lending as per the prevailing market situation. Hence the most productive endeavour on the part of the Government is to intervene in the capacity of a facilitator by ensuring cross subsidization in prices, improved technology and offering a better legal and institutional environment to enhance the affordability prospect. Besides providing sustained fiscal incentives, the Government of India is currently operating numerous housing and housing support programmes all over the country through the Ministry of Urban Development and Poverty Alleviation and the Ministry of Rural Development.

- **Urban Housing**

8.2 The major contributors for the emergence of a modern urban habitat are demographic explosion, growing complexities in economic relations in the form of division of labour and specialisation and market orientation. In India, the problem of urban housing shortage has been even more aggravated by continuous migration from rural centres in search of better opportunities and the promise of a better life. Although the urban centres are traditionally the focal points of global finance, industry and communications, they have also become breeding grounds for poverty, violence, pollution and congestion. In most cities of the developing world, up to half of the urban population lives in “informal” slum and squatter settlements. Hence, the thrust of any Government policy pronouncement is to provide relief to that segment of urban population whose living is worst affected by poverty and exclusion.

Night Shelter/Sanitation facility for urban footpath dwellers

8.3 This is a partly subsidized central scheme with a subsidy element of 20% with the rest coming from the implementing agencies or HUDCO. This scheme seeks to provide night shelter and sanitation facilities to footpath dwellers at a cost of Rs.5000 per beneficiary. The scheme is being implemented through HUDCO. At the end of the fiscal 1999-2000, HUDCO had released loan amounting to Rs. 6.42 crore and Government subsidy of Rs. 7.20 crore was also released pertaining to a total number of 100 schemes to provide 18550 beds, 23455 pay & use toilet seats, 1613 baths and 1831 urinals.

Housing Scheme for Economically Weaker Section (EWS)

8.4 Under the 20 Point Programme of the Ministry of Urban Development & Poverty Alleviation, the captioned scheme was launched with a view to provide housing to the economically weaker section of the urban population. Under this programme direct public sector investment is supplemented by the HUDCO loans upto the extent of 15 % of its resources. National Housing Bank also provides refinance assistance to State, Co-operative and other organizations involved in EWS housing. For the 8th Five Year Plan, the income ceiling for EWS household under the scheme was raised to Rs.1250 per month. For the schemes financed by HUDCO, income limit is upto Rs.2100 per month and loan ceiling is Rs.25000 for construction of EWS houses in urban areas, Rs.20000 for addition and repairs and Rs.15000 for improvement of shelter less service under population scheme. During the year 1999-2000, about 1.02 lakhs dwelling units were constructed against the annual target of 0.69 lakhs dwelling units. The performance of the Scheme against the target allocated during the last five years is given below:

Table 8.1 Yearly performance under EWS Housing Scheme

Year	Target	Achievement
1995-96	72,778	1,13,646
1996-97	1,16,950	92,000
1997-98	1,68,075	81,592
1998-99	1,18,000	1,17,000
1999-00	69,000	1,02,000

Source : Ministry of Urban Development & Poverty Alleviation

Housing Scheme for Low Income Group (LIG)

8.5 This scheme does not have any subsidy element in it and it is basically a “Loan” scheme being executed by the State Governments through Housing Boards and Housing Departments. The gap between the budget provisions for the scheme and actual implementation cost is supplemented by the institutional finance. For the 8th Five Year Plan the income eligibility for LIG household under the scheme was raised to Rs.1251-2650 per month. Monthly income limit for HUDCO sponsored Schemes is over Rs.2500 and upto Rs.5500 per month and loan component for this category of houses is Rs. 125000/- for construction and Rs. 62,500/- for additions and repairs. During the year 1999-2000, 27000 dwelling units have been constructed against the annual target of 44000. The State Government/UT Administrations were advised to step up their effort to achieve the yearly targets. The performance of the Scheme against the target allocated during the last five years is given below:

Table 8.2 Yearly performance under LIG Housing Scheme

Year	Target	Achievement
1995-96	34,273	34,007
1996-97	62,000	26,000
1997-98	37,541	16,967
1998-99	57,828	41,244
1999-00	44,000	27,000

Source : Ministry of Urban Development & Poverty Alleviation

Environmental Improvement of Urban Slums [EIUS]

8.6 The scheme envisages provision of seven basic amenities viz., water supply, sewerage, open drains with normal outflow avoiding accumulation of stagnant waste water, storm water drains, community baths & latrines, widening and paving of pathways, , street lighting and other community facilities to the slum dwellers in order to improve their living conditions rather than massive slum clearance and relocation. This erstwhile centrally sponsored scheme became a state programme in 1974. During the 1999-2000, 55.73 lakh slum dwellers have been benefited through this scheme against the annual target of 47.05 lakh slum dwellers. The performance of the Scheme against the target allocated during the last five years is given below:

Table 8.3 Yearly performance under EIUS Scheme

Year	Target	Achievement
1995-96	15,88,871	17,40,819
1996-97	15,70,532	20,10,000
1997-98	11,89,898	8,84,822
1998-99	43,30,000	33,44,000
1999-00	47,05,000	55,73,000

Source : Ministry of Urban Development & Poverty Alleviation

- **Rural Housing**

8.7 The steady flow of rural-urban migration notwithstanding, rural India is still the abode of almost 75% of our countrymen. Hence, the overall development of the country presupposes the prosperity of its rural masses. The National Agenda for Governance aimed at providing 20 lakh additional dwelling units annually of which 13 lakh houses are to come up in the rural areas. With a view to meet the housing requirements in rural areas, an Action Plan for Rural Housing comprising a series of recommendations for policy, institutional and schematic interventions was put in place. As an important initiative, the Ministry has set up a National Rural Housing & Habitat Mission to achieve the targets of rural Housing in a time bound manner employing cost effective and environment friendly building technologies. The rural housing and housing support schemes, which are currently in operation, are discussed in details below.

Indira Awas Yojana (IAY)

8.8.1 The Government of India is implementing Indira Awas Yojana since the year 1985-86 with an objective of providing dwelling units free of cost to the members of Scheduled Castes, Scheduled Tribes and freed bonded labourers living below the poverty line in rural areas. From the year 1993-94, the scope of the scheme has been extended to cover non-scheduled caste and non-scheduled tribe rural poor, subject to the condition that the benefits to non SCs/STs shall not be more than 40 percent of IAY allocation. Benefits of the scheme have also been extended to the families of ex-servicemen of the armed and paramilitary forces killed in action. Three percent of the houses are reserved for the below poverty line disabled persons living in rural areas. The achievements under the IAY during the last 5 years is shown below:

Table 8.4: Achievements under Indira Awas Yojana

Year	No. of Houses		Amount (Rs. Crore)	
	Target	Constructed	Allocated	Utilised
1995-96	1000000	816393	1250.00	1058.14
1996-97	1123560	356855	1424.60	574.02
1997-98	718326	770936	1440.85	1591.48
1998-99	987466	835770	1854.62	1803.88
1999-00	1271619	925679	2132.34	1907.63

(Source: Annual Report, Ministry of Rural Development)

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 Gram Sabha is empowered to select the beneficiaries under the scheme. In order to achieve the dual objective of women empowerment and housing shortage alleviation, it is stipulated that the allotment of dwelling units should be in the name of the female member of the beneficiary household. Alternatively, it can be allotted in the name of both husband and wife.

Conversion of Unserviceable Houses into Pucca/Semi-Pucca Houses

8.8.2 There are 103.1 lakh unserviceable kutcha houses, which require upgradation in the rural areas. As the need for upgradation was acutely felt, with effect from April 1, 1999, 20 percent of the IAY allocation has been earmarked for conversion of unserviceable kutcha houses into pucca/semi-pucca houses. A maximum assistance of Rs. 10,000/- per unit is provided for conversion of unserviceable kutcha houses into pucca/semi pucca.

Change in Criteria of Allocation under Indira Awaas Yojana

8.8.3 During 1999-2000, allocation of funds under the Indira Awaas Yojana to the States/UTs has been made on the basis of the poverty ratios as approved by the Planning Commission and rural housing shortage figures drawn from Census 1991 assigning equal weightage to both the parameters, whereas earlier funds were allocated to the States/UTs on the basis of poverty ratios, as approved by the Planning Commission. Similarly, allocations from the States to Districts have been made on the basis of proportion of SC/ST population and housing shortage. Earlier it was based on purely SC/ST population.

Credit-cum-Subsidy Scheme for Rural Housing

8.9 The Credit-cum-Subsidy Scheme for Rural Housing was launched with effect from April 1, 1999. The scheme targets rural families having annual income upto Rs. 32,000. While subsidy is restricted to Rs. 10,000, the maximum loan amount that can be availed of is Rs. 40,000. The subsidy portion is shared by the Centre and the State in the ratio of 75:25. The loan portion is disbursed by the commercial banks, housing finance institutions etc. During the financial year 1999-2000, a provision of Rs. 100 crore was kept under this scheme for the construction of 1.33 lakh houses in 19 states alongwith an allocation of Rs. 33.33 crore from the states. During the year, 23242 houses were constructed and 9722 houses were under construction as at the end of the financial year 1999-2000. A total release of Rs. 80.91 crore was made during the year out of which Rs. 60.69 crore came from the Central Government and the rest Rs. 20.23 crore was contributed by the states.

Innovative Stream for Rural Housing and Habitat Development

8.10 With a view to encouraging innovative, cost effective and environment friendly techniques in the building/housing sectors in rural areas, the Innovative Stream for Rural Housing and Habitat Development was launched with effect from April 1, 1999. During the financial year 1999-2000, an amount of Rs. 10 crore was made available under this scheme by the Central Government out of which an amount of Rs. 2.53 crore was released in the states of Himachal Pradesh and Tamil Nadu.

Setting up of Rural Building Centres

8.11 The objectives of the 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. Two Building Centres in each State are to be set up during the financial year 1999-2000 on pilot basis. One centre is to be set up by a governmental institution and the other by an NGO. For setting up of a Building Centre, a one-time grant of Rs. 15 lakh is provided.

Samagra Awaas Yojana

8.12 This is a comprehensive housing scheme launched recently with a view to ensure integrated provision of shelter, sanitation and drinking water. It has been decided to take up Samagra Awaas Yojana on pilot basis in one block each of 25 districts of 24 States and one Union Territory which have been identified for implementing the participatory approach under the Accelerated Rural Water Supply Programme. The existing schemes of housing, drinking water and

sanitation would follow the normal funding pattern. However, a special central assistance of Rs. 25 lakh would be provided for each block for undertaking overall habitat development and information, education and communication (IEC) work with 10 percent contribution coming from the people. During the year 1999-2000, an amount of Rs. 266.90 lakh was released i.e. Rs. 25 lakh each to Haryana, Himachal Pradesh, Karnataka, Kerala, West Bengal, Rajasthan and Madhya Pradesh, and Rs. 20 lakh to Gujarat, Rs. 21.90 lakh to Tripura and Rs. 50 lakh to Tamil Nadu.

- **Other Initiatives**

National Agenda for Governance - 2 Million Housing Programme (NAG-2MHP)

8.13 The National Agenda for Governance envisages construction of two million houses additionally every year out of which 1.3 million dwelling units are proposed to be constructed in the rural areas and 0.7 million dwelling units in urban areas. Targets have been allocated among various institutions/agencies engaged in the field of housing/housing finance in this endeavour. The performance of these primary lending institutions in implementing the housing schemes is reviewed by the Government of India periodically, at various levels. In the above context, target for HFCs (excluding HUDCO) and Schedule Commercial Banks is 1.5 lakh dwelling units per annum.

8.14 The performance of public sector banks and the housing finance companies (excluding HUDCO) during the years 1998-99 and 1999-2000 is furnished below:

Table 8.5 Yearly Performance under NAG-2MHP

Year	No. of dwelling units	
	Approved HFCs*	Public Sector Banks
	Units Disbursed	Units Disbursed
1998-99	185817	60633
1999-2000	182424	128080

* excluding HUDCO

HUDCO had reportedly sanctioned an amount of Rs. 1890.57 crore during the year 1998-99 in respect of 1065037 dwelling units out of which Rs. 635.11 crore was released during the year. During 1999-2000, HUDCO sanctioned Rs.2092.99 crore in respect of 1114268 dwelling units and released an amount of Rs.1040.26 crore.

CHAPTER-IX

NATIONAL HOUSING BANK (AMENDMENT) ACT, 2000

9.1 The National Housing Bank (Amendment) Act, 2000 was passed by the Parliament during the year and after receiving President's assent it came into effect from the 12th June, 2000. The amendments provide NHB with greater regulatory powers over the HFCs, increased scope for mobilisation of additional resources for the housing sector through introduction of mortgage backed securities and creation of a secondary mortgage market. As a significant measure the amendments also provide speedier mechanism for recovery of loans of defaulting borrowers. The additional regulatory powers given to NHB are akin to those vested with Reserve Bank of India relating to non-banking financial companies.

9.2 The Amendments to the NHB Act can be broadly classified under four broad heads and these are discussed below:

A. Regulation of Deposit Acceptance activities:

9.2.1 Regulation of deposit-taking activities of housing finance companies (HFCs) is a statutory responsibility of the National Housing Bank (NHB). The NHB (Amendment) Act has given additional powers to NHB in respect of its regulatory functions. Relevant features of the Act having a bearing on the regulatory role of NHB are as follows :

a. Requirement of registration and net owned fund (Section 29A)

9.2.2 No HFC with NOF of 25 lakhs and above, shall commence or carry on the business of a housing finance institution without obtaining a certificate of registration from NHB. Existing companies shall make an application within six months and may continue the business until the application is rejected. Existing HFCs having NOF below Rs. 25 lakhs have been allowed to carry on the business for three years for the purpose of enabling them to fulfill the requirement of the NOF.

b. Maintenance of percentage of assets (Section 29B)

9.2.3 The requirement of maintaining liquid assets as a percent of the outstanding deposits has been made a part of the Act.

c. Reserve fund (Section 29C)

9.2.4 The newly inserted section stipulates that every HFC shall create a reserve fund and transfer at least 20% of its net profit to the fund every year. No appropriation from the reserve fund can be made except for the purpose as may be specified by NHB and every such appropriation should be reported to NHB within 21 days.

d. Power to determine policy and issue directions (Section 30A)

9.2.5 NHB has been given power to determine the policy and give directions to housing finance institutions relating to income recognition, accounting standards, provision for bad and doubtful debts, capital adequacy and also deployment of funds. Issue of directions on prudential norms in supercession of the existing guidelines is being contemplated.

e. Powers and duties of auditors (Section 33)

9.2.6 NHB may issue directions to any HFI or to the auditors of HFIs relating to balance sheet, profit and loss account, disclosure of liabilities in the books of accounts, etc. NHB may direct that a special audit of a HFI in relation to any transaction/any period shall be conducted and may appoint an auditor for such special audit.

f. Power to prohibit acceptance of deposit and alienation of assets (Section 33A)

9.2.7 NHB may prohibit any housing finance institution from accepting deposit if it violates the provisions of any section or fails to comply with any direction or order given under any provision of chapter V of the NHB Act. NHB may also direct an HFC against which an order prohibiting from accepting deposit has been issued not to sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior permission of the Bank for a period not exceeding six months.

g. Power to file winding up petition (Section 33B)

9.2.8 NHB may file an application for winding up of a housing finance company under the Companies Act, if it is satisfied that the company is unable to pay its debt, or has become disqualified to carry on business by virtue of section 29A, or has been prohibited from accepting deposits and the prohibitory order has been in force for at least three months, or the continuance of the company is detrimental to public interest or to the interest of the depositors.

h. Power to order repayment of deposit (Section 36A)

9.2.9 If an HFC fails to repay a deposit in accordance with the terms and conditions of the deposit, an authorised officer of NHB may, either on his own motion or on any application of the depositor, direct the HFC to make repayment of the deposit.

i. Nomination by depositors (Section 36B)

9.2.10 A depositor of a housing finance institution may nominate one person to whom the amount of deposit may be returned by the institution in the event of the death of the depositor. The nomination shall be made in the manner prescribed by the rules made by the Central Government under section 45 ZA of the Banking Regulation Act, 1949.

B. Mobilisation of additional funds for housing through secondary market:

9.2.11 NHB has been authorised to purchase, sell, or otherwise deal in any loans or advances secured by mortgage or charge on the immovable property relating to scheduled banks or HFCs. NHB has also been allowed to create trusts and also to act as a trustee. To facilitate transfer of securities while undertaking this function, NHB has been exempted from compulsory registration under the Registration Act both at the time of issue of securities by NHB and at the time of their transfer by the investors. Further, in order to instill confidence among the investors in the securities issued by NHB, the Bank acting as a trustee or otherwise in the transaction relating to securitisation of loans has been authorised to recover the dues as arrears of land revenue.

C. Introduction of speedier recovery mechanism for housing loans:

9.2.12 To provide for introduction of a speedier recovery mechanism a new chapter has been added to the NHB Act. This chapter provides for appointment of officers of approved institutions as recovery officer, the procedures to make application to and hearings by such recovery officers and the procedure for promulgation and enforcement of orders by recovery officers. This chapter also proposes for establishment of appellate tribunal to hear appeals against the orders of recovery officers. The composition, qualifications for presiding officers, salaries, allowances and other terms and conditions of the presiding officers and the staff of appellate tribunals have also been specified.

D. Other Amendments

9.2.13 The amendment to the Act has enlarged the scope of lending for housing by NHB. NHB can now extend refinance assistance to agriculture and rural

development banks instead of subscribing to the Special Rural Housing Debentures floated by these institutions. NHB can also grant financial assistance for housing or residential townships-cum-housing projects or slum clearance projects. The amended Act has also permitted NHB to undertake additional business activities like mortgage insurance and to set up mutual funds.

9.2.14 Considering the difficulty experienced by NHB in obtaining mortgage of the properties from its borrowing institutions, a simple method of creation of charge in favour of NHB by declaration has been provided for. Further any sums received by a borrowing institution in repayment or realisation of loans and advances financed or refinanced either wholly or partly by the National Housing Bank shall be to the extent of the accommodation granted by NHB and remaining outstanding, would be deemed to have been received by the borrowing institution in trust for NHB.

9.2.15 In terms of the amended Act, NHB can borrow money from scheduled banks, financial institutions and mutual funds. Further, NHB can also borrow money for a period less than 12 months.

9.2.16 NHB was established with an authorised and paid-up capital of Rs. 100 crore which was fully subscribed and paid up by RBI. The said authorised capital was increased by the Central Government by Notifications from time to time to Rs. 350 crores. The additional increased capital was also paid by RBI. Due to increase in business in the last 10 years, and the expected increase in the scope of business of NHB, the Central Government can increase the authorised capital by means of notifications upto Rs. 2000 crore as against Rs. 500 crore prescribed earlier under the Act. In addition, the increase in share capital can be subscribed by the Central Government, scheduled banks, public financial institutions, HFIs and other institutions approved by the Central Government, besides RBI. However, the share of RBI, Central Government and the institutions controlled by the Central Government cannot at any point of time fall below 51% of the paid-up capital of NHB. Simultaneously the Act has also been amended to provide for representation by institutions holding equity on the Board of NHB.

CHAPTER - X

MORTGAGE BACKED SECURITISATION (MBS)

10.1 Many developing/underdeveloped countries in the world have not been able to address the problem of providing adequate shelter to every citizen of the country. One of the main reasons for the problem has been the absence of long-term capital for investment in the housing sector. Traditionally, the funds for the housing sector has come from the individuals themselves from their own savings or from the financial institutions who are primarily engaged in the intermediation process of channelising funds from the savers to the borrowers. However, the funds so mobilised through the formal sector financial institutions have been much lower than what is required to tackle the housing problem. With increasing number of players entering the housing finance business and the disbursals taking quantum jump, it is necessary that the other avenues of resource mobilisation be explored and one such source could be the capital market. The process of securitisation of mortgages offers enormous scope for expanding the mortgage financing operations and probably the time tested viable market alternative for mobilising resources.

10.2 The housing finance system in many developed countries, particularly USA and UK, is characterised by the presence of a strong secondary market which enables the mortgage originators to off load their loan portfolios from their balance sheets by selling them off to major players in the secondary market. This imparts greater liquidity to the system and results in larger funds flow to the housing sector.

Securitisation- Concept & Rationale

10.3 The process of converting mortgage loans together with future receivables into negotiable securities or assignable debt is called securitisation. The securitisation process involves packaging designated pool of mortgages and receivables and selling these packages to the various investors in the form of securities which are collateralised by the underlying assets and their associated income streams. Alternatively, securitisation could be described as a special form of financial intermediation based on direct access to capital markets in place of retail dominated system of raising funds.

10.4 In our country, the housing loans extended by the various category of institutions are kept by the originator in his books only. A typical housing loan is kept alive in the books for a period of fifteen years and during the initial years, the principal repayment is very small. Under these circumstances, the recycling of funds is slow and it is not possible to cover more and more households in the immediate future. Securitisation is an off-balance sheet financing technique with

the objective of mobilising resources at a comparatively lower cost through a wider investor base, by removing loan assets from the balance sheet of the loan originator. Securitisation actually involves conversion of mortgages into securities which are tradable debt instruments. The securities, which are backed by the mortgages, are then freely traded in the market thereby giving rise to a secondary market. In this process, saver's surpluses are channelled to meet borrower's deficits. This also facilitates inter-regional and inter-sectoral flow of funds.

10.5 One of the objectives of securitisation is to mobilise resources at a lower cost and make borrowings more affordable for the home-seekers. This is achieved through specialisation and diversification. Specialisation promotes efficiency and reduces the transaction costs. With the supply of housing finance expanding across the range of lenders, the interest rate on mortgage loans tends to decline making the loans cheaper with the resultant increase in demand. With larger volumes to manage, economies of scale operate leading to a reduction in cost of funds. Similarly, with securitisation and development of the secondary mortgage market, the risks associated with mortgage financing get diversified among increased number of actors resulting in more efficient allocation of risk. May be then we can look for soft loan structure. The interest rate on housing loan today predominantly depends on the cost of funds to the financing institution. The cost of funds to the commercial bank is relatively cheap when compared with the cost of funds to the housing finance companies. The banking system alone is not sufficient to cater to the needs of the population. Besides, housing finance is only one of their activities. The National Housing Bank has been working towards introduction of Mortgaged Backed Securities and the development of a secondary mortgage market in the country, for quite some time now.

The Background

10.6 The financial sector and capital markets reforms have reached an advanced stage in India with a perceptible inclination towards market-orientation in resource mobilisation. The economic environment of the country is now in a position to increasingly offer a level playing field for all the economic agents in the market. On the strategic plane, interest rates on mortgage loans have been deregulated. In the above backdrop it has been perceived that development of mortgage backed securities market in tandem with capital market would cater to the need for market orientation of housing finance system in the country. The Government, in its capacity as a facilitator and enabler, has been showing positive orientation in its policies towards the housing sector and Mortgage Securitisation since 1990's. As securitisation has been recognised by the Government as an important source of raising funds for the housing sector, the National Housing and Habitat Policy (1998) provides appropriate thrust to the

National Housing Bank to play a lead role in mortgage securitisation in its capacity as the apex institution in the housing finance sector.

Issues Faced in Introducing MBS

10.7 In order to introduce MBS in its true sense, NHB had to first resolve a number of issues. The issues related to sale of mortgage loans (transferability of assets, method of transfer), insolvency of the originator, issuance and transferability of MBS, foreclosure of mortgages, provisions concerning investments by institutions, fiscal issues relating to borrowers, originators, issuers & investors, accounting issues and regulatory issues. Besides there were certain areas like selection of mortgage pools, credit rating and prepayment behaviour of mortgages which had to be examined.

10.8 In India, there exists a plethora of agencies for legal approvals involving time and cost. This multiplicity in legislations governing land and construction activities gives rise to built-in inefficiencies. Thus there exists a need for national-level legislative reforms. Besides, the inter-state variances in stamp duty & registration charges on transfer of immovable property create distortion in the system and generate high transaction cost for transfer of immovable property. Further, recovery of loan in case of a default is a time consuming process. An efficient foreclosure law thus, is a precondition for the success of secondary market operations. As the existing law is biased towards borrowers it would necessitate a large number of high quality loan originators and a large set of high quality mortgages. This would imply a narrow base of clientele among the home borrowers and act as constraint. In order to simplify the recovery procedure, a new chapter has been added to the National Housing Bank Act. This chapter provides for appointment of officers of approved institutions as recovery officer, the procedures to make application to and hearings by such recovery officers and the procedure for promulgation and enforcement of orders by recovery officers. Further in the case of securitised loans, NHB may without prejudice to any other mode of recovery make an application to the State Government for the recovery of the amount in the same manner as arrears of land revenue.

10.9 Since the MBS market cannot be viewed in isolation from the bond market, the prevailing high stamp duty in various states will hamper the creation of MBS in India by adding to the costs of securitisation of housing mortgage loans and making the transfer of MBS costly. Considering the sensitivity of the sector and its proneness to distortions, mortgage insurance will enhance the confidence of the financing institutions as well as the investor community. In order to induce institutional investors to invest in MBS, investment in such products could be declared as approved investments under the Insurance Act as also for the provident funds.

10.10 In order to promote marketability of the MBS to make it acceptable to a varied range of potential investors, identification of risks is a prerequisite and rating of MBS has to be made mandatory. Standardisation in accounting procedure has to be introduced to ensure off-balance sheet treatment to securitisation to reap the full benefit of the exercise. The issue of taxation, i.e. who among the originator, intermediary and investor would bear the incidence of taxes and how would that be shared etc., needs to be settled. A friendly taxation treatment would go a long way in enhancing the flow of funds for the sector.

Role of NHB

10.11 In the case of any asset securitisation, the assets that need to be securitised are transferred to an intermediary agency which is also known as the “special purpose vehicle” (SPV). SPV is a critical link in the entire process as it acts as a conduit between the primary and the secondary markets. The housing finance system in India is yet to acquire the desired level of maturity and adaptability, a mechanism involving an SPV is better suited to the existing conditions. NHB - in its apex institution capacity is most suited to act as a credit enhancer and the SPV. As an intermediary between the mortgage and capital market, NHB is ideally placed in the system to act as central promoter of MBS. As a regulator and supervisor of the sector, NHB’s access to information regarding asset quality assumes direct significance in the absence of Mortgage Insurance & Foreclosure. Ideally speaking, the role of an SPV can be summarised as a mechanism to reduce borrower’s mortgage cost, to ensure continuous supply of funds for the sector and to help increase homeownership. By acting as a conduit for principal and interest payments to the investors, it could represent the interest of both the mortgage originator as well as the investor. NHB, in its capacity of a financier, could provide a back up to ensure liquidity in the market. With a view to tackle the potential asset-liability mismatch that characterizes the housing finance business, the SPV can tap the long term community savings held by pension funds, provident funds, insurance funds etc. by issuing them long term securities. As more and more players enter the market, the prepayment risk becomes greater particularly in case of investors for a back-to-back MBS. Therefore, prepayment forecasting is a basic need for the process to become a success. As a centralised issuer of securities the SPV can efficiently allocate the risk among various players including prepayment risk. Besides, the SPV can also act as a disseminator of all related information in a centralised manner. NHB is also having discussions with the central and state governments to settle the legal issues related to securitisation. NHB has been working towards launching the first mortgage backed securitisation deal in the market acting as Issuer and Trustee to the proposed Special Purpose Vehicle (SPV) Trust. The issue is

targetted towards a wide range of institutional investors including Insurance Companies, Mutual Funds, Financial Institutions, and Commercial Banks. This issue of MBS will be the first of its kind to be introduced in India and is a prelude to the development of a Secondary Mortgage Market (SMM) in the country.

10.12 This transaction involves the assignment of retail housing loans from the HFCs to NHB. The individual loans, repayable in Equated Monthly Installments (EMI), will then be packaged and offered to the investors by way of securities in the form of Pass Through Certificates *sans recourse* to the issuer. The issue proceeds will be used by NHB to pay the HFC the part consideration for the receivables purchased. Under the transaction NHB will make an express Declaration of Trust (SPV Trust) in respect of receivables, appoint itself as sole Trustee and will hold and administer the receivables as Trust property for the benefit of PTC holders. The SPV Trust will rely only upon collections against the receivables and the credit enhancement specified in the Information Memorandum for making payments on the PTCs. The HFC, which has originated the housing loans, will continue to administer them even after securitisation, in its capacity as Servicing and Paying (S&P) Agent.

10.13 Salient characteristics of a securitisation transaction include:

- Legal true sale of assets to an SPV with narrowly defined purposes and activities
- Issuance of securities collateralised by the underlying assets by the SPV to investors
- Reliance by the investors on the performance of the assets for repayment - rather than the credit of their Originator (the seller) or the issuer (the SPV)
- Consequent to the above, “Bankruptcy Remoteness” from the Originator

10.14 The PTCs are in the nature of trust certificates and represents proportionate undivided beneficial interest in the pool of housing loans. It does not represent an interest or obligation of either the National Housing Bank (NHB) or the HFC concerned or any other affiliates, nor are the PTCs or the underlying housing loans insured or guaranteed by either NHB or the originators or any of their affiliates. NHB in its corporate capacity as also in the capacity of sole Trustee of the SPV Trust will issue Class A and Class B PTCs. While the Class A PTCs will be issued to investors, Class B PTCs will be subscribed entirely by the originators. Class B PTCs are subordinated to Class A PTCs and shall act as a credit enhancement for Class A PTC holders.

10.15 NHB in its capacity as trustee will hold all underlying securities including mortgages, except for mortgages pertaining to loans in respect of properties located in Maharashtra, which shall be held in trust by the HFC for the benefit of the SPV Trust declared by NHB. The SPV Trust would in turn hold the

mortgages also for the benefit of the PTC holders. While the receivables will be legally transferred to NHB/SPV Trust, the HFC will continue to physically hold the title documents in respect of the housing properties, obtained as security on the loans issued, in the capacity of a custodian to NHB/SPV Trust. The HFCs will administer the housing loans given to the Borrowers, in their capacity as the S&P Agent. Administering of such loans will include follow-up for the recovery of the EMI from the Borrowers in the event of delays.

10.17 In view of the high stamp duty payable on the instruments of securitisation, NHB is currently in a position to securitise the mortgages originated only in four states viz. Karnataka, Tamil Nadu, Maharashtra and Gujarat as they have prescribed very low stamp duty on instruments of securitisation. It is hoped that the other State Governments will reduce the stamp duty to enable securitisation of mortgages originated in those States also. Considering the various advantages of mortgage securitisation, it is hoped that this will become a successful instrument for raising resources in future.

ANNEXURE -I

**List of HFCs issued show cause notices during the year 1999-2000(July-June)
for the contravention of various provisions of the Housing Finance Companies
(NHB) Directions, 1989**

HFC Name	Address	Date of issuance of Show-cause notice
Pragati Housing Finance Development (India) Ltd.	209, Gayatri Sah Niwas, Reshimbag, Nagpur-440009	July 01, 1999
International housing Finance Corporation Ltd.	1318, Parabadi, Near Mithakali Rly. Crossing, Mithakali, Ellisbridge, Ahmedabad	October 11, 1999
Charotar Gruh Vikas Nigam Ltd.	Sathi Estate, Station Road, Anand-388001 (Gujarat)	December 03, 1999

GLOSSARY

APEX CO-OPERATIVE HOUSING FEDERATIONS	ACHFs
AGRICULTURE AND RURAL DEVELOPMENT BANK	ARDB
APEX CO-OPERATIVE HOUSING FINANCE SOCIETIES	ACHFS
BELOW POVERTY LINE	BPL
BUILDING MATERIAL AND TECHNOLOGY PROMOTION COUNCIL	BMTPC
CENTRAL BOARD OF DIRECT TAXES	CBDT
CENTRAL PUBLIC WORKS DEPARTMENT	CPWD
DIFFERENTIAL RATE OF INTEREST	DRI
DISTRICT CENTRAL CO-OPERATIVE BANK	DCCB
ECONOMICALLY WEAKER SECTION	EWS
FARMERS SERVICE SOCIETIES	FSS
GENERAL INSURANCE CORPORATION	GIC
GUJARAT RURAL HOUSING FINANCE CORPORATION	GRUH
HIGHER INCOME GROUP	HIG
HINDUSTAN PREFAB LIMITED	HPL
HOUSING AND URBAN DEVELOPMENT CORPORATION LTD.	HUDCO
HOUSING DEVELOPMENT FINANCE CORPORATION LTD.	HDFC
HOUSING FINANCE COMPANIES	HFCs
HOUSING FINANCE INSTITUTION	HFI
INDIRA AWAS YOJANA	IAY
INDUSTRIAL AND EXPORT CREDIT DEPARTMENT	IECD
JAWAHAR ROZGAR YOJANA	JRY
LAND DEVELOPMENT & SHELTER PROJECT	LD&SP
LARGE-SIZED ADIVASI MULTIPURPOSE CO-OPERATIVE SOCIETIES	LAMPS
LIFE INSURANCE CORPORATION OF INDIA	LIC
LOW INCOME GROUP	LIG
MIDDLE INCOME GROUP	MIG
MINIMUM NEEDS PROGRAMME	MNP
NATIONAL BANK FOR AGRICULTURE & RURAL DEVELOPMENT	NABARD
NATIONAL BUILDING CONSTRUCTION CORPORATION	NBCC
NATIONAL BUILDING ORGANISATION	NBO
NATIONAL CAPITAL REGION	NCR
NATIONAL CAPITAL REGIONAL PLANNING BOARD	NCRPB

NATIONAL HOUSING POLICY	NHP
NEHRU ROJGAR YOJANA	NRJY
NET OWNED FUNDS	NOF
NON PERFORMING ASSET	NPA
NON-GOVERNMENTAL ORGANISATION	NGO
NON-RESIDENT INDIAN	NRI
OVERSEAS CORPORATE BODY	OCB
OVERSEAS DEVELOPMENT ADMINISTRATION	ODA
OVERSEAS ECONOMIC CO-OPERATION FUND	OECF
PRIMARY AGRICULTURAL CREDIT SOCIETIES	PACS
PRIMARY CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK	PCARDB
PRIMARY URBAN CO-OPERATIVE BANK	PUCB
REGIONAL RURAL BANK	RRB
RESERVE BANK OF INDIA	RBI
SCHEME OF HOUSING AND SHELTER UPGRADATION	SHASU
SECURITIES AND EXCHANGE BOARD OF INDIA	SEBI
SPECIAL RURAL HOUSING DEBENTURE	SRHD
STATE CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK	SCARDB
STATE CO-OPERATIVE BANK	SCB
URBAN CO-OPERATIVE BANK	UCB