

MONDAY MUSINGS

2009 will be the year of affordable housing



The actual equity component in housing is much higher than in the West. Thus, prices have fallen a bit in India and may fall further, but unlikely to get into a free-fall situation

BY
MAYUR SHETTY
CHAIRMAN & MANAGING DIRECTOR
NATIONAL HOUSING BANK

A combination of fall in house prices and interest rate cut could put the house in order for the realty sector

NATIONAL Housing Bank (NHB) — a subsidiary of the Reserve Bank of India (RBI) — was created two decades ago to regulate and promote housing finance institutions in India. Given the current economic environment, home finance has gained momentum, with housing construction being the largest employment generator with linkages to 250 auxiliary industries. As the apex housing finance institution, NHB has taken several initiatives to promote affordable housing. In an interview with **Mayur Shetty**, NHB chairman and managing director, he shares his views on why he expects 2009 to be the year of affordable housing.

House prices have crashed in the West. There is an expectation among buyers that prices will decline in India as well. How do you see the situation?

The situation in India is quite different from that of the West. In India, the conduct of the monetary policy and regulation over banks and housing finance companies ensured that the housing bubble did not develop. Further, the actual equity component in housing is much higher than in the West. Thus, housing prices in India have fallen a bit and may fall further, but unlikely to get into a free-fall situation.

What needs to be done to reduce housing shortage?

I expect 2009 to be the year of affordable houses, when affordable houses will be available to the middle and lower income groups in sufficient volumes. This will happen mainly through a combination of fall in house prices and reduction in home loan interest rates. The latter has happened. I hope developers reduce prices to stimulate demand and public housing agencies will take up affordable housing in a big scale. Additional hygiene factors are reduction in transaction cost in home purchases through reduction in stamp duty and registration charges and the availability of risk mitigants such as account page guarantee, title insurance, credit guarantee for lower income houses.

Where do you see interest rates on home loans? Is the NHB refinancing rate likely to come down further?

Interest rates are headed southward. Public sector banks (PSU banks) have set the pace. Others, including housing finance companies, are following suit. NHB's refinancing rates have also come down to single digit. Refinance for rural housing at concessional rate of 8% per annum for seven years has also been provided. Our PLR has been reduced to 10.75% per annum.

NHB has announced a package for the housing sector. At what interest rate will you lend to HFCs?

The refinance facility of Rs 4,000 crore extended by RBI to NHB will be on-tenor by NHB to housing finance companies with the following major conditions. It will be available at an interest rate of 8%, and will be available only for loans below Rs 20 lakh. The facility is available up to March 31, 2010.

You have launched an index of home prices. How is the index doing?

NHB's RESIDEX, which is India's first official property index, was launched in July 2007 for five cities — Bengaluru, Bhopal, Delhi, Kolkata and Mumbai, covering the period 2001-2009. It has since been updated to December 2007. The property index has been well received. It is being expanded to cover 15 cities and up to December 2008 which will be ready by March 2009. In another year, it will cover all cities with population above 10 lakh.

What are the trends in housing finance. Do you expect the market to shift to banks?

Housing finance growth rate in 2007-08 was lower at about 19% compared with the previous year. During the first half of the current year, the growth rate was marginally lower reflecting the slower growth in the housing sector. I am confident with the measures announced by the government to stimulate the economy in general and housing in particular, housing finance growth rate will revive. I expect the market share of banks and housing finance companies to remain broadly at the existing level.

NHB has been in the market to raise funds. What are your fund-raising plans and how do you plan to deploy the funds?

NHB has already raised Rs 7,800 crore in the first half of current year July 2008 onwards against Rs 12,100 crore in 2007-08 and Rs 13,200 crore in 2006-07. We expect to raise another Rs 3,000 crore, including the Rs 4,000 crore refinance facility from RBI.

How do you plan to tie up life insurance with reverse mortgage?

We have been in discussions with insurance companies for over a year to develop a Reverse Mortgage Lifetime Annuity Product, which enables senior citizens to a monthly annuity for life unlike the present product which is available for 20 years. LIC particularly has shown keen interest and a lot of product development work has been done.

NHB was planning to float a mortgage guarantee. What is the status of the company and how will it help the mortgage business?

Mortgage guarantee or insurance is a key component of a well functioning mortgage finance system and is available practically in all developed and middle income country. Mortgage guarantee provides market-based default risk protection to lenders and could thus enhance the flow of housing finance, particularly to lower income groups. NHB will be introducing the product in the country through a separate joint venture company. The preparation work is on.

Do you see a rise in bad loans in housing finance because of the slowdown?

No. So far, we have not seen any significant deterioration in asset quality of housing finance companies. Increasingly, the asset quality of loans of lower value i.e. less than Rs 5 lakh is better than the portfolio as a whole.

mayur.shetty@nhsgr.com



राष्ट्रीय आवास बैंक
 (भारतीय रिजर्व बैंक के संपूर्ण स्वामित्व में)

NATIONAL HOUSING BANK
 (Wholly owned by the Reserve Bank of India)

www.nhb.org.in