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National Housing Bank (NHB) : Various Annual Reports
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Housing Finance Portfolio of Scheduled Commercial Banks (SCBs) - A Trend Analysis 2000-05

Occasional Paper No. 1

**NATIONAL HOUSING BANK
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National Housing Bank

National Housing Bank (NHB) is the apex financial institution for housing in India, wholly owned by the Reserve Bank of India. It was established in 1988 under an Act of Parliament. NHB has three main functions viz. to regulate the housing finance companies, to promote and develop the housing finance market and to provide financial assistance to housing finance institutions and others. NHB's current focus is on addressing the needs of the unserved and underserved.

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Housing Finance Portfolio of Scheduled Commercial Banks (SCBs) - A Trend Analysis 2000-05

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FOREWORD

Housing is a basic necessity for most Indians. Home ownership is a matter of personal accomplishment and arguably one of the most important asset acquisitions in life. "Affordable Housing for All" is a national goal. Government of India and Reserve Bank of India have put in place a highly supportive policy framework for housing, comprising fiscal incentives, monetary policy measures, other policies, administrative steps.

Housing finance as a financial service is relatively young in India and has witnessed massive growth particularly over the last few years. National Housing Bank which was set up in 1988 under an Act of Parliament as a wholly owned subsidiary of RBI, has contributed effectively to the growth of the housing finance both in value and volume spread. Today not only the specialized finance companies but also commercial banks, co-operative banks are actively involved in housing finance. In the initial years, the housing finance companies dominated the scene. However, with the entry of commercial banks into housing finance in a significant manner since 2001, the scenario changed with the banks now accounting for 2/3rd of the housing loan portfolio in the country as of 31st March 2006 as compared to 1/4th as of 31st March 2001. Housing loan outstandings of banks constituted 13% of the gross bank credit as of 31st March 2006.

Against the above backdrop, we analysed the performance of banks in housing finance over the last 5 years i.e. 1999-00 to 2004-05, the latest year for which disaggregated data is available in public domain. The findings of the study are quite interesting. While it brings out the commendable penetration achieved by banks during this period, the gaps in financing are also clearly outlined.

NHB, as a principal development financial institution for housing in the country, seeks to collect, analysis and interpret relevant economic and financial information and disseminate findings widely. Accordingly, NHB has launched an Occasional Paper series of which this paper is the first. We hope to publish our in-house studies, analysis and other relevant data which would be of interest to policy makers, RBI, banks, housing finance companies and other market players, real estate developers, researchers and general public. It is hoped that adequate feedback would be generated that could facilitate NHB to initiate appropriate measures consistent with its mandate.

I earnestly request readers to give us their comments, suggestions and views.

(S.Sridhar)

**Chairman and Managing Director
National Housing Bank
New Delhi**

22nd May 2007



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National Housing Bank



Abbreviations

<i>GOI</i>	= <i>Government of India</i>
<i>RBI</i>	= <i>Reserve Bank of India</i>
<i>GDP</i>	= <i>Gross Domestic Product</i>
<i>NHHP</i>	= <i>National Housing and Habitat Policy</i>
<i>NHB</i>	= <i>National Housing Bank</i>
<i>NABARD</i>	= <i>National Bank for Agriculture and Rural Development</i>
<i>PLIs</i>	= <i>Primary Lending Institutions</i>
<i>LIC</i>	= <i>Life Insurance Corporation of India</i>
<i>GIC</i>	= <i>General Insurance Corporation</i>
<i>HUDCO</i>	= <i>Housing and Urban Development Corporation</i>
<i>SCBs</i>	= <i>Scheduled Commercial Banks</i>
<i>- SBI Group</i>	= <i>State Bank of India and its associate banks</i>
<i>- NBs</i>	= <i>Nationalised Banks</i>
<i>- FBs</i>	= <i>foreign Banks</i>
<i>- RRBs</i>	= <i>Regional Rural Banks</i>
<i>- Other SCBs</i>	= <i>Other Scheduled Commercial Banks</i>
<i>HFCs</i>	= <i>Housing Finance Companies</i>
<i>NCHF</i>	= <i>National Co-operative Housing Federation</i>
<i>O/S</i>	= <i>Outstanding</i>
<i>CAGR</i>	= <i>Compounded Annual Growth Rate</i>
<i>NPAs</i>	= <i>Non Performing Assets</i>
<i>BPL</i>	= <i>Below Poverty Line</i>
<i>EWS</i>	= <i>Economically Weaker Sections</i>
<i>LIG</i>	= <i>Low Income Group</i>
<i>MIG</i>	= <i>Middle Income Group</i>
<i>HIG</i>	= <i>High Income Group</i>
<i>MFIs</i>	= <i>Micro finance Institutions</i>
<i>NGOs</i>	= <i>Non Governmental Organisation</i>
<i>SHGs</i>	= <i>Self Help Groups</i>
<i>R</i>	= <i>Rural</i>
<i>SU</i>	= <i>Semi Urban</i>
<i>U</i>	= <i>Urban</i>
<i>M</i>	= <i>Metropolitan</i>
<i>PHIRA</i>	= <i>Productive Housing in Rural Areas</i>
<i>RMBS</i>	= <i>Residential Mortgage Backed Securitisation</i>



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EXECUTIVE SUMMARY

Housing Finance Portfolio of Scheduled Commercial Banks (SCBs) - A Trend Analysis 2000-05

A snapshot picture of housing scenario in the country is given below:

- Number of Households and Residential Houses
 - Total Households – 192.0 million
 - Total Occupied Residential Houses – 187.1 million,
 - Gap (Household Houses) i.e. Housing Shortage – 4.9 million
- Status of Housing Condition
 - Pucca Houses – 51.7% (18.8% in 1961)
 - Kutchha houses – 18.2% (44.6% in 1961).
- Additional Housing Requirement during 11th Plan i.e. 2007-12
 - As per NHB Estimates – 45 million of which 7 million as backlog and 38 million as additional units i.e. 26,300 housing units per day.
- Investment Requirement for Housing during 11th Plan Period
 - Total Requirement – Rs. 10 Lakh crores i.e. Rs.2 Lakh crores per year.
- As on 31/3/2006
 - During 2005-06 Housing loan disbursements aggregated Rs.86,034 crore of which Rs.58,623 crores (68%) accounted for by SCBs.
 - Outstanding Housing loan portfolio of SCBs stood at Rs.186,429 crore, representing 13% of Gross Bank Credit.
 - Outstanding Mortgage Debt (Rs. 2,72,558 crores for banks & HFCs) represents 8.5% of the Country's GDP (current prices) as compared to 32% in Malaysia, 26% in Korea, 15% in Thailand and about 14% in China.
- Analysis of RBI's BSR Data of SCBs for the period 2000-05 reveals:

Growth in housing finance is value driven and not volume driven as seen from the following:

- ❖ Number of loan accounts (proxy for number of houses) increased from 22.53 lakhs as on 31.3.2000 to 36.66 lakhs as on 31.3.2005 registering CAGR of **8.5%** only.
- ❖ Housing loan credit limits registered a CAGR of **38%**.
- ❖ Average Credit Limit increased from Rs.93,000 to Rs. 3.96 lakhs registering CAGR of **27.3%**.



- ❖ Outstanding Housing Loans increased from Rs. 18,525 crores as on 31.3.2000 to Rs.1,26,797 crores as on 31.3.2005 registering CAGR of **37.8%**.
- ❖ Average loan outstanding increased from Rs. 82,000 to Rs.3.46 lakhs registering CAGR of **27.1%**.
- ❖ A significant **shift** observed **towards the loan category of more than Rs. 5 lakh and above** during the period 2000-05. As at end March 2005, such accounts stood at 17.3% of the total loan accounts with 45.6% of the total outstanding loan as against 1.0% and 9.9% respectively as at end March 2000.

Bank group-wise distribution

- ❖ As on 31.3.2006, 66.9% of the total outstanding housing loans of banks (public sector banks+ private sector banks+ foreign banks except RRBs), are classified under priority sector i.e. loans below Rs.15 lakhs.
- ❖ As on 31.3.2005, nationalized banks retained maximum share of 37.45% in the total outstanding housing loans of all SCBs despite significant CAGR of 68.07% recorded in housing finance portfolio by other SCBs (mainly the private sector banks) during 2000-05. The share of SBI Group, as on 31.3.2005, was 27.0%, Other SCBs 26.8%, Foreign Banks 6.8% and RRBs 1.9%. As at 31.3.2000, the respective share was 50.5%, 31.5%, 8.1%, 6.8% and 3.1%.

Urban Rural divide

- ❖ Share of rural areas in total housing finance has remained **constant** at **10.3%** during 2000-05.
- ❖ Share of Metropolitan areas **increased** significantly from **37.2%** as on 31.3.2000 to **47.3%** as on 31.3.2005.
- ❖ Share of Urban areas declined from 30.1% as on 31.3.2000 to 27.2% as on 31.3.2005.
- ❖ Share of Semi-urban areas declined from 22.4% as on 31.3.2000 to 15.2% as on 31.3.2005.
- ❖ Bank group wise data indicates that of the total outstanding housing loan portfolio, the **share of rural areas has gone up** in case of **SBI Group, RRBs and Foreign Banks** from 7.40% to 13.88%; 33.95% to 46.26% and 0.24% to 1.24% respectively during 2000-05 while in case of **Nationalised Banks and other SCBs**, it has recorded **decline**.

Regional Distribution

- ❖ At end March 2005, **Southern Region** accounted for **maximum** share of **37.3%** of the total outstanding housing loan of all SCBs despite significant CAGR of 40.85 recorded in housing loan outstanding in Western Region during 2000-05. The share of **Western Region**, as on 31.3.2005 was **23.23%**, **Northern Region 18.8%**, **Central Region 10.35%**, **Eastern Region 8.8%** and **N-E Region 1.39%**. As at 31.3.2000, the respective share was 38%, 20.4%, 18.2%, 11.4%, 10.64% and 1.4%.

- ❖ Regional data further indicates that Delhi in Northern Region, Assam in N-E Region, West Bengal in Eastern Region, Uttar Pradesh in Central Region, Maharashtra in Western Region accounted for the maximum share in the total housing loan outstanding in the region for all SCBs while Andhra Pradesh, Karnataka, Tamilnadu and Kerala in Southern Region had equal share. **State wise housing loan portfolio of SCBs compared with State-wise housing shortage as per Census 2001 (latest available) indicates that flow of housing finance is not to States with highest housing shortage.**
- ❖ The top five States in terms of housing loans portfolio with respective share of all India loan portfolios in brackets are Maharashtra (19.5%), Karnataka (11.3%), Tamil Nadu (10.1%), Andhra Pradesh (8.8%) and Delhi (8.4%).
- ❖ The top five States in terms of housing shortage with respective share of all India housing shortage are Bihar (14.9%), Uttar Pradesh (11.0%), Assam (9.56%), Andhra Pradesh (8.9%) and Maharashtra (8.5%).

THE CHALLENGE

The above analysis indicates that the coverage of housing finance system has, by and large been restricted to metropolitan and urban areas as well to middle and high income groups thereby bypassing low income groups at large both in urban and rural areas. The exponential growth witnessed in housing loans of banks is due to increase in value of houses financed through wider coverage by numbers. Therefore, despite significant growth in the housing finance market, there still remains a huge gap in the housing requirements in the low income categories. The challenge therefore, is to arrange, facilitate, catalyse and manage the required finances for investment in housing focusing on low income segments and improving accessibility of finance to underserved and unserved segments. The challenge is also to raise resources of long term nature at lower rates so as to meet the affordability requirements of the poor and low income segments.

THE WAY FORWARD

- Building a market based inclusive, sustainable housing finance system.
- Elements of such a system as identified by NHB: Liquidity, Risk Mitigation, Affordability and Access, Consumer Protection and Education.
- Judicious integration and convergence of different approaches and alternatives relating to financing mechanisms, resource mobilization and risk mitigants to make institutional credit for housing accessible and affordable to un-served and underserved segments.
- Partnership arrangements between NHB, banks, financial institutions, governmental agencies, MFIs, academic and professional organizations in India and abroad, co-operative sector to be judiciously aligned.
- Development of Mortgage Backed Securitisation Market (RMBS) and covered bond market (secured corporate bonds)



CHAPTER I

INTRODUCTION

Housing is not only one of the three basic needs of a human being but also an indicator of nation's progress in terms of human development. World over housing is considered as a means of long term wealth accumulation and financial security. Home ownership is a basic requirement and the primary source of wealth for the middle and lower income groups. In India, the task of facilitating affordable and adequate shelter to all is yet to be accomplished despite all round economic growth, well established planning processes and increased access to institutional finance through expansion of credit delivery channels.

With improved economic fundamentals, housing has now assumed a vital place in national economic agenda. This has been truly reflected in the National Housing & Habitat Policy, 1998 underscoring the above facts as ...“Political servitude detracts from the dignity of the individual. But political independence by itself does not fully restore it. After fifty years of independence, most of us still live in

conditions in which even beasts would protest. The situation is doubtless grim and calls for nothing less than a revolution - a Housing Revolution. Mere lip service will not do...”. In a sense, the National Housing and Habitat Policy has styled itself as a **'declaration of war against human indignity'**. The new (draft) National Urban Housing and Habitat Policy, 2006 lays significant emphasis on quantification and achievement of these objectives.

Recognising the importance of housing in the economy, supportive policy interventions by the Government and Reserve Bank of India during the last decade, have resulted in creation of enabling and conducive environment encouraging increased investment in housing. The financial institutions e.g. SCBs and HFCs have been instrumental in providing easy accessibility of institutional finance for housing resulting in exponential growth of housing loan disbursements in recent years. The increasing demand for home



ownership has been spurred by increase in income levels especially of the middle class, low interest rates and tax breaks besides increased number of housing loan outlets. This is evident from the fact that during the last five years (2001-06), the housing finance disbursements have witnessed a CAGR of 43%. However, the outstanding mortgage debt at Rs. 2,72,558 crore (banks + HFCs) represents only 8.5% of the Country's GDP (current prices) as at end March 2006 as compared to 32% in Malaysia, 26% in Korea, 15% in Thailand and about 14% in China. Similarly, the contribution of housing in country's GDP at 4.5% (at current prices) is far less than China (10%), European Union and USA (40-60%).

The housing finance market has been recently impacted by the increase in property prices and the interest rates. This has led to concern on affordability as well as possible loan delinquencies. Further, with banks being hard pressed to meet credit requirements of a booming corporate sector, rebalancing of loan portfolio has been suggested.

In this context, an analysis of the performance of scheduled commercial banks (SCBs) for the period 2000-05 was undertaken which is presented in the succeeding Chapters. Again by way of

background, in Chapter II, an overview of the housing scenario in the country is presented. The present mechanism for institutional finance for housing is outlined in Chapter III. Chapter IV and V contain performance of banks in respect of housing finance analyzed under various parameters. Chapter VI attempts a futuristic estimate of funds requirements for housing. Chapter VII outlines the way forward as perceived by NHB.

The major limitation of this study is the limited availability of data requiring a number of assumptions to be made. For instance, disaggregated data on houses financed by banks e.g. new houses/flat, purchase of old houses/ flats, repairs, renovation & up-gradation and taking over of old loans etc., are not available. Therefore, it has been assumed that numbers of accounts are number of houses. Thus, some double counting can not be ruled out. Similarly, income category wise data is also not available. Data on asset quality is also not available in the public domain. Data on housing prices can not be accessed. Year wise sanctions and disbursements data in a disaggregated manner in respect of Region/s and State/s is also not available.



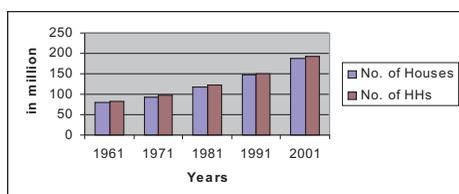
CHAPTER II

HOUSING SCENARIO

Status of Households and Available Residential Houses

India is the second largest populous country in the world, next only to China. The increase in population (more than 1027 million in 2001 with CAGR of 2.13% during the decade 1991-2001) has led to increase in total number of household from 83.50 million in 1951 to 191.96 million in 2001 (with CAGR of 2.7% during 1991-2001). However, there has also been correspondingly consistent increase in construction of additional houses. As a result, the number of occupied houses

Graph-1: Growth in Number of Households (HHs) and Occupied Houses



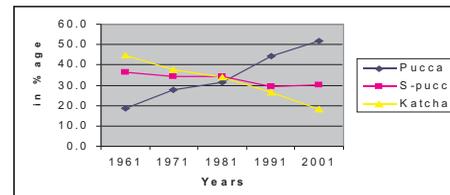
Source: Census Reports

increased from 79.2 million in 1961 to 187.1 million in 2001. However, the number of households have always outnumbered the available houses since 1961 as shown below.

Condition of Houses

The conditions of housing structures over the last fifty year period have witnessed significant improvement. The total number of pucca houses which were only 18.8% of the total occupied houses in 1961 has gone up significantly to a level of 51.65% in 2001. As a result, the percentage of katcha houses which was 44.6% in 1961 has fallen to 18.2% in 2001. The trend in percentage of pucca houses, semi-pucca houses and katcha houses in the total occupied houses during the period 1961-2001 is reflected in the following graph indicating a steep improvement in the housing conditions over the last 40 years.

Graph-2: Share of Pucca, Semi-pucca and Katcha Houses in the total occupied houses (1961-2001)



Source: Census Reports

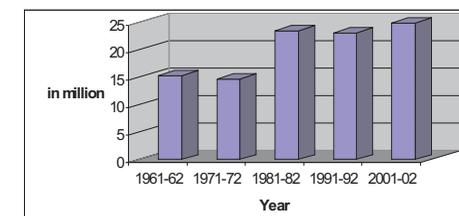
Housing Shortage during 1961-2001

Housing shortage in India was first recognised during the World War-II, especially after 1947 when about 7.5 million displaced persons migrated to India, in the wake of the partition of the country. As mentioned earlier, exponential growth of population coupled with nuclearisation of families resulted not only in pressure on the existing available houses but also growing requirements of additional houses. The imbalanced regional growth has also led to increased pressure on the urban centers due to migration of population from rural to urban

agglomerations resulting in increased number of slum and squatter settlements.

Though the residential housing stock in the country both in urban and rural areas has increased from 64.4 million in 1951 to 147.0 million in 1991 and further to 187.1 million in 2001, the housing shortage in the country has been showing increasing trend except during 1981-91, as can be seen from the following graph. CAGR of housing shortage has been estimated as 1.33% during the period 1951-2001. As per Census 2001, (as also NBO, 2006), the housing shortage at the beginning of 2002 was estimated as 24.7 million units.

Graph-3: Housing Shortage during 1961-2001



Source: Census Reports and NBO Reports





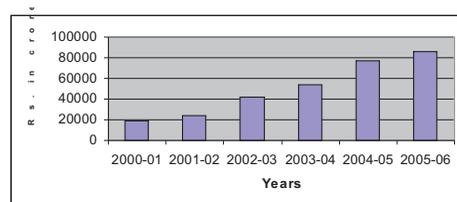
CHAPTER III

PRESENT INSTITUTIONAL MECHANISM FOR HOUSING FINANCE

Presently, the source of funds for housing sector development is mainly through budgetary support for social housing schemes (Central & State Plan and Non-Plan allocations), financial institutions viz. Banks, HFCs, co-operative sector institutions, LIC & GIC (part of which is reflected in the Plan resources) and individuals own sources. Though the public investment in housing under each Plan period increased in absolute terms, its share in overall public investment has been around 1% over the last 10-15 years.

Though housing finance as a financial service is relatively young in India, it has witnessed exponential growth during the last two decades especially after the setting up of NHB in 1988. Supportive fiscal and monetary policies coupled with easy liquidity in the financial system and competitive environment has provided a sound platform for housing finance market to achieve such growth proportions. Today not only the specialized housing finance institutions but the commercial banks are actively extending housing loans. As a result, housing loan disbursements by these institutions have increased from Rs. 6433 crore in 1996-97 to Rs.86,034 crore in 2005-06 registering a growth of more than 1000% during the decadal period of 1996-2006. During the last 5 years (as shown in graph below), the housing finance

Graph-4: Housing Finance Disbursements by Primary Lending Institutions: 2001-06

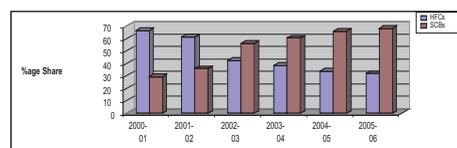


(Source: NHB reports)

disbursements recorded a CAGR of 43%. However, the coverage of housing finance system has, by and large, been restricted to middle and high income groups thereby bypassing low income groups at large.

One of the important developments in country's housing finance market has been the increasing role of SCBs during the last few years. SCBs market share which was less than 30% in 2000-01 increased sharply and significantly to about 65% in 2005-06 while the share of HFCs, the specialized HFIs, declined from 65% in 2000-01 to about 30% in 2005-06 as shown below:

Graph-5: Share of SCBs and HFCs in the Housing Finance Market -2000-06



(Source: NHB Reports)



CHAPTER IV

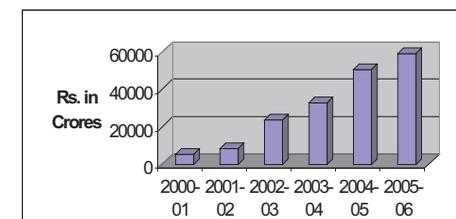
SCHEDULED COMMERCIAL BANKS AND HOUSING FINANCE

Scheduled Commercial Banks (SCBs) are one of the largest mobilisers of the households' savings and major source of credit for all the sectors of the economy. During the last decade, SCBs have assumed a significant role as largest institutional source for providing mortgage loans. Before 1990's, SCBs were earmarking annual allocations which were minimal to the size of their total disbursements (about Rs.1000 crore per annum). In mid 1990's (1997), SCBs were directed by RBI to allocate a minimum of 1.5% of their incremental deposits for investment in housing (app. Rs.1295 crore p.a.). However, indirect credit provided by SCBs to intermediary agencies viz. HFCs and investment in bonds and debentures of NHB & HUDCO was also reckoned as eligible investment for fulfillment of the said requirement. This limit was later increased to 3% in the late 1990's (1998-99). However, SCBs were still reluctant in extending individual mortgage loans in 1990's.

The policy initiatives like inclusion of housing loans upto Rs. 5 lakh (now upto Rs. 15 lakh) under the priority sector advances, fiscal concessions to individuals availing housing loans as well as easy liquidity

conditions in the financial market, drove SCBs to the housing finance market in a big way since 1998-99. Today, SCBs have taken a driver's seat in Indian housing finance market. SCBs housing loan disbursements witnessed phenomenal growth from Rs. 1805 crore in 1996-97 to Rs. 50,398 crore in 2004-05 and further to Rs. 58623 crore in 2005-06 registering a growth of more than 2000% during these years. As a result, the outstanding housing loan portfolio of SCBs stood at Rs. 1,26,797 crore as at end March 2005 and further to Rs. 1,86,429 crore as at end March 2006 as compared to Rs. 18,525 crore as at end March 2000, thereby witnessing a significant CAGR of 39.1%. The percentage of outstanding housing credit to gross bank credit which was 3.44% as at end March 2001 increased significantly to about 13% as at end March 2006. Similarly,

Graph-6: Housing Loan Disbursements by SCBs

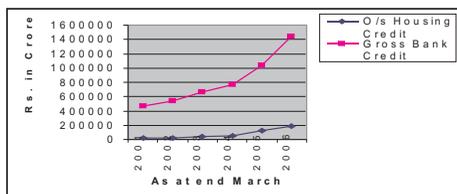


(Source: NHB Reports)



the outstanding loan accounts with the SCBs which were 22.53 lakhs with credit limits of Rs. 21,000 crore as at end March 2000 registered increases to 36.66 lakh and Rs. 1,45,034 crore respectively as at end March 2005. As a result, the average credit limit and loan outstanding in SCBs housing loan accounts increased significantly from Rs.93,000 and Rs.82,000 to Rs.3.96 lakh and Rs.3.46 lakh respectively during the period 2000-05 registering a CAGR of 27.31% and 27.12% respectively.

Graph-7: Housing Loan Portfolio of SCBs in Outstanding Gross Bank Credit



(Source: RBI annual & BSR and NHB Reports)

The major factors driving SCBs in the housing finance market are (i) ever increasing demand for housing (ii) increased investment in services sector especially in urban areas leading thereby

the income levels (iii) increase in incomes of Public Sector and Government staff (iv) sound primary security with appreciation in its value (v) probability of low default due to social importance of a house (vi) availability of fiscal concessions to individuals and the last but not the least, the comfortable liquidity position.

Credit Limit wise o/s accounts and loan

The trend in outstanding housing loan accounts and loan amount of SCBs during the period 2000-05 as shown below, indicate a CAGR of 8.45% in terms of number of o/s accounts, 38% in terms of o/s credit limit and 37.79% in terms of o/s loan. As a result, per housing loan account the average o/s credit limit and loan amount has gone up from Rs. 93,000 and Rs.82,000 as at end March 2000 to Rs. 3.96 Lakh and Rs. 3.46 lakh respectively as at end March 2005 which can be a proxy for increase in value of the housing asset during this period. The trend in outstanding number of loan accounts, average credit limit and average outstanding loan per account is shown in following table and graphs.

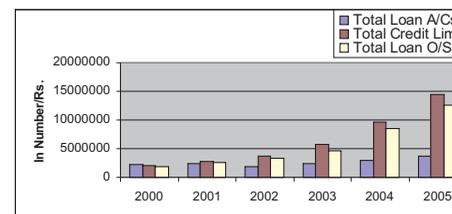
Table-1: Loan Accounts, Credit Limit and Loan Outstanding of SCBs

Years (As at end March)	Accounts (in Numbers)	Loan Outstanding (Amount in Rs. crore)	Average Loan Outstanding (Amount in Rs. Lakhs)
2000	22,53,390	21,000	0.82
2001	24,82,857	25,412	1.02
2002	18,16,315	32,826	1.81
2003	24,31,536	46,470	1.91
2004	30,35,026	85,346	2.81
2005	36,66,450	1,26,797	3.46

(Source: RBI's BSR Reports)

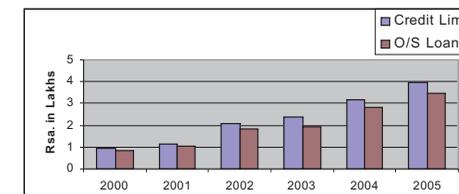


Graph-8: Loan Accounts, Credit Limit and Loan Outstanding of SCBs (2000-05)



(Source: RBI's BSR Reports)

Graph-9: Average Credit Limit and Loan Outstanding (2000-05)



(Source: RBI's BSR Reports)

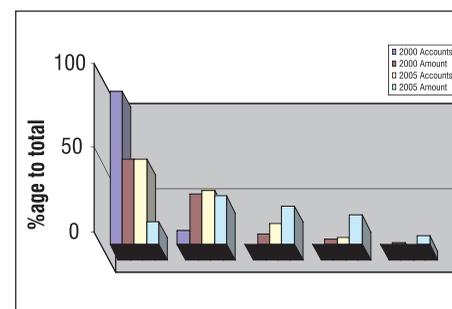
The trend in outstanding accounts and loan of SCBs indicates a significant shift towards the credit limit category of Rs. 5 lakh and above during the period 2000-05. The following table and graphs reflects the shift towards this segment.

Table-2: Loan category wise Accounts and Loan Outstanding of SCBs

	Percentage to total o/s Housing Loan Portfolio			
	As at end March 2000		As at end March 2005	
	Accounts	Amount	Accounts	Amount
Upto Rs.25,000	18.5	2.5	5.6	0.2
>Rs.25,000 Rs. 2 Lakh	72.2	48.1	44.8	13.5
>Rs.2 Lakh Rs.5 Lakh	8.2	29.7	32.0	28.5
>Rs.5 Lakh Rs.10 Lakh	0.8	6.2	12.2	22.9
>Rs.10 Lakh Rs.25 Lakh	0.2	2.7	4.5	17.3
>Rs.25 Lakh Rs.50 Lakh	Negligible	1.0	0.6	5.4

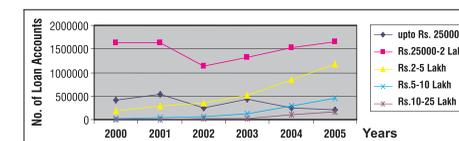
(Source: Derived from RBI's BSR Reports)

Graph-10: Trend in percentage of Accounts and Loan Portfolio (Credit Limit wise) 2000-05



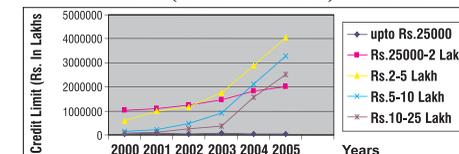
(Source: Derived from RBI's BSR Reports)

Graph-11: Trend in Number of Loan Accounts (Credit limit wise) - 2000-05



(Source: Derived from RBI's BSR Reports)

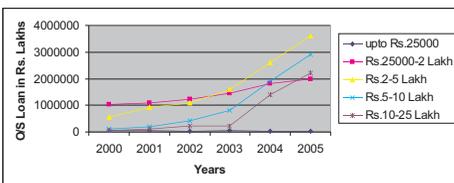
Graph-12: Trend in Credit Limit of Loan Accounts (Credit limit wise) - 2000-05



(Source: Derived from RBI's BSR Reports)



Graph-13: Trend in Outstanding Loan (Credit limit wise) - 2000-05



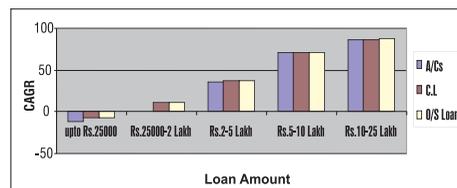
(Source: Derived from RBI's BSR Reports)

HOUSING FINANCE DRIVEN BY VALUE AND NOT BY VOLUMES

Housing finance business of all SCBs during 2000-05 is indicative of the approach of “value driven” rather than “volume driven” as the loans outstanding in the categories of above Rs. 5 lakhs (especially in the category of loan of Rs.10 lakh and above) increased significantly while loans below Rs.5 lakh registered minimum growth. This reflects the increased property prices. It also indicates that the customer base is largely higher/middle income groups only. Not adequate outreach is seen to serve the low income segments which have by and large remained underserved and Unserved. At the same time, the demand for housing and housing finance continues to rise.

A comparison in the movement of CAGR in o/s number of accounts, credit limit and loan portfolio under different loan size categories during the period 2000-05 is as under:

Graph-14: Trend in growths in number of accounts, credit limits and outstanding loans for different loan sizes (2000-05)



(Source: Derived from RBI's BSR Reports)

The above graphs reflect a clear and significant structural shift towards the loan categories of Rs.5 lakhs and above i.e. MIG, HIG groups. The data further indicates that as at end March 2000, the housing loan portfolio of SCBs had 90.7% of o/s total loans accounts and 50.60% of the total o/s credit of credit size upto Rs. 2 lakh while as at end March 2005, these accounts accounted for 50.40% of the total accounts and only 13.70% of the total o/s credit reflecting a clear shift and biasness towards higher income categories. There has been a clear decline in the number of accounts as well the o/s credit in the loan category of Rs.25,000 while a slight improvement in loan categories of above Rs. 25,000 and upto Rs. 2 lakh as compared to very significant jump in number of accounts as well as o/s credit in the loan categories of size of above Rs.5 lakh and above.

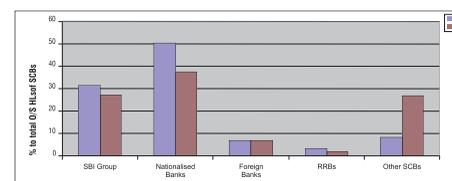


CHAPTER V BANK GROUP WISE ANALYSIS

Bank Group wise share in total outstanding housing loans of all SCBs

As at end March 2000, nationalized banks had maximum share of 50.51% in the total outstanding housing loans of all SCBs followed by SBI Group at 31.46%, Other SCBs at 8.13%, foreign banks at 6.75% and RRBs at 3.16%. However at end March 2005, the share of nationalized banks declined to 37.45% in the total outstanding housing loans of all SCBs, SBI Group to 26.99%, RRBs to 1.89% while the share of other SCBs and foreign banks increased to 26.77% and 6.91% respectively.

Graph-15: Bank Group-wise share in Housing Loan portfolio of all SCBs - 2000-05



(Source: RBI's BSR Reports)

OTHER SCBs (mainly the private sector banks) - AGGRESSIVE GROWTH

Other SCBs, majority of which are private sector banks, recorded highest CAGR of 68.07% in their outstanding housing loan portfolio during 2000-05 as against all India CAGR of 37.8% for all SCBs, followed by Foreign Banks at 38.34%, SBI Group at 34.32%, Nationalised Banks at 31.09% and RRBs at 26.52%.

Region wise O/S Loan Portfolio of all SCBs

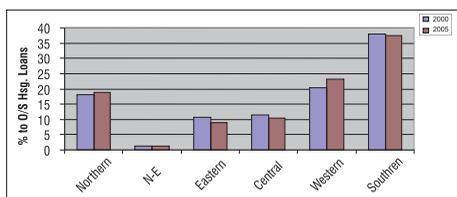
The data indicate that as at end March 2005, Southern Region accounted for 37.33% of the total outstanding housing loan of SCBs followed by Western Region at 23.23%, Northern Region at 18.8%, Central Region 10.35%, Eastern Region at 8.8% and N-E



Region at 1.39% as against the figures of 38.02%, 20.41%, 18.2%, 11.44%, 10.64% and 1.37% respectively as at end March 2000.

The data further indicates that Western Region recorded maximum CAGR of 40.8% during 2000-05 followed by N-E Region at 39.5%, Northern Region at 38.6%, Southern Region at 37.4%, Central Region at 35.8% and Eastern Region at 33.5% as against the overall CAGR of 37.8% for all SCBs at all India level.

Graph-16: Region-wise percentage of Outstanding Housing Loan of all SCBs - 2000-05



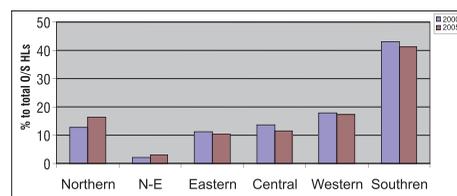
(Source: RBI's BSR Reports)

Region Wise O/S Loan Portfolio of different Bank Groups

SBI Group: As at end March 2005 Southern Region accounted for the highest share of 41.24% of the Groups' outstanding housing Loan portfolio followed by Western Region at 17.42%, Northern Region at 16.61%, Central Region at 11.63%, Eastern Region at 10.31% and N-E Region at 3.14% as against 43.02%, 17.8%, 12.61%, 13.53%, 11.08% and 1.975 respectively as at end March 2000. This indicates that during 2000-05, the share of

northern region in the total outstanding housing loan portfolio of SBI recorded increases in Northern and N-E Regions while witnessing decline in Southern, Western, Central and Eastern Regions.

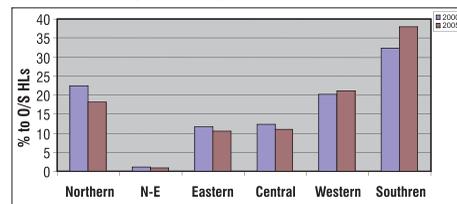
Graph-17: SBI: Region wise Outstanding Housing Loan Portfolio 2000-05



(Source: RBI's BSR Reports)

Nationalized Banks: In contrast to SBI Group, the share of Southern and Western Regions in the outstanding housing loan portfolios of Nationalised Banks increased from 32.27% and 20.27% as at end March 2000 to 38.05% and 21.14% respectively as at end March 2005 while the share of other regions witnessed decline during this period.

Graph-18: Nationalised Banks: Region wise Outstanding Housing Loan Portfolio 2000-05



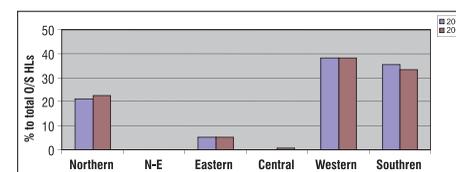
(Source: RBI's BSR Reports)

Foreign Banks: The share of Northern, Eastern and Central Regions in the



outstanding housing loan portfolios of Foreign Banks increased from 21.21%, 5.2% and 0.06% as at end March 2000 to 22.51%, 5.16% and 0.64% respectively as at end March 2005 while the share of Southern Region declined marginally from 35.31% to 33.34% during 2000-05. The share of Western Region however, remained constant at 38.3% during the same period.

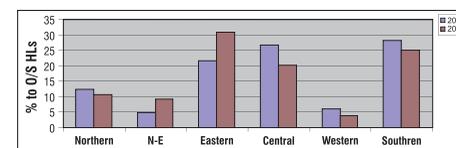
Graph-19: Foreign Banks: Region wise Outstanding Housing Loan Portfolio 2000-05



(Source: RBI's BSR Reports)

Regional Rural Banks: The share of Eastern and N-E Regions in the outstanding housing loan portfolios of RRBs increased from 21.57% and 4.9% as at end March 2000 to 30.92% and 9.24% respectively as at end March 2005 while the share of all the other regions recorded decline during this period.

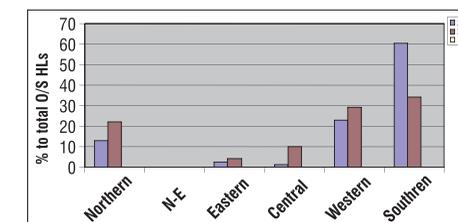
Graph-20: RRBs: Region wise Outstanding Housing Loan Portfolio - 2000-05



(Source: RBI's BSR Reports)

Other Scheduled Commercial Banks: The share of Southern Region in the outstanding housing loan portfolios of other SCBs recorded significant decline from 60.54% as at end March 2000 to 34.28% as at end March 2005 while the share of all the other regions recorded increases during this period.

Graph-21: Other SCBs: Region wise Outstanding Housing Loan Portfolio - 2000-05



(Source: RBI's BSR Reports)

HOUSING LOANS DISBURSALS: BANK GROUP WISE ANALYSIS

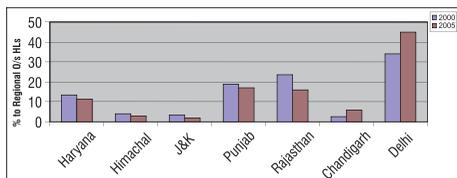
SBI Group's emphasis has been on increasing their housing loan portfolio mainly in Northern and N-E Regions. Nationalised Banks in Southern and Western Regions, Foreign Banks in Northern Region, RRBs in Eastern and N-E Regions while other SCBs emphasis was widespread in all Northern, Central, Western and Eastern Regions during 2000-05. This is indicative of regional specific approach of various bank groups depending upon their network and business operational areas.



State Wise O/S Loan Portfolio of All SCBs

Northern Region States: Of the total outstanding housing loans of all SCBs in Northern Region, Delhi accounted for the major share followed by Rajasthan, Punjab, Haryana, Chandigarh and J&K. During the period 2000-05, the share of Delhi and Chandigarh in the o/s portfolio, witnessed increases from 34.15% and 2.49% as at end March 2000 to 44.77% and 5.91% respectively as at end March 2005 while the share of other States witnessed decline.

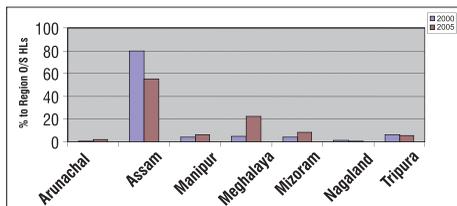
Graph-22: All SCBs- State wise percentage of Outstanding Housing Loans in Northern Region 2000-05



(Source: RBI's BSR Reports)

North Eastern Region States: Of the total outstanding housing loans of all SCBs in N-E Region, Assam accounted for the major share (80% as at end March 2000 & 55.24%

Graph-23: All SCBs- State wise percentage of Outstanding Housing Loans in N-E Region 2000-05

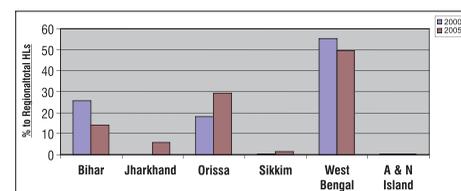


(Source: RBI's BSR Reports)

as at end March 2005). However, during the period 2000-05, the share of other States like Maghalaya, Manipur and Mizoram witnessed increases while that of Assam witnessed decline during the same period.

Eastern Region States: Of the total outstanding housing loans of all SCBs in Eastern Region, West Bengal and Bihar accounted for the major share (81% as at end March 2000 & 63% as at end March 2005). However, during the period 2000-05, the share of other States like Orissa and Sikkim registered increase while that of West Bengal and Bihar declined as at end March 2005. Jharkhand came into existence after 2000 and therefore, many housing loans of SCBs in the State of Bihar were reclassified. Even if we include the progress of Jharkhand in Bihar State, the combined o/s housing loans witnessed decline during 2000-05.

Graph-24: All SCBs- State wise percentage of Outstanding Housing Loans in Eastern Region 2000-05

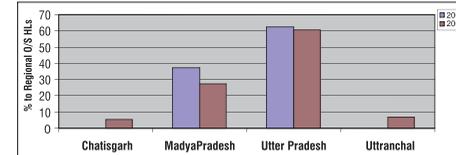


(Source: RBI's BSR Reports)

Central Region States: Of the total outstanding housing loans of all SCBs in Central Region, Uttar Pradesh accounted for the major share i.e. 62.59% as at end March 2000 & 60.53% as at end March

2005 while the State of Madhya Pradesh accounted for 37.41% and 27.32% respectively. The State of Chatisgarh and Uttranchal (Uttrakhand) came into existence after 2000 and therefore, if we consider the growth of housing loans in their previous States from where they have emerged, UP and Uttranchal (Uttrakhand) (combined) accounted for 67% of the outstanding housing loans of all SCBs in the Region indicating higher increases in overall housing loan disbursements in the State/s during 2000-05 as compared to MP and Chatisgarh (combined).

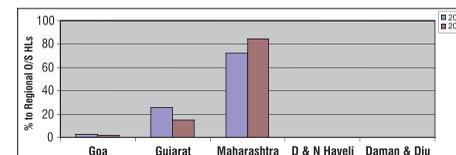
Graph-25: All SCBs- State wise percentage of Outstanding Housing Loans in Central Region 2000-05



(Source: RBI's BSR Reports)

Western Region States: Of the total outstanding housing loans of all SCBs in Western Region, the State of Maharashtra accounted for the highest share which increased significantly from 72% as at end March 2000 to 84% as at end March 2005. The other States like Gujarat, Goa, D&N

Graph-26: All SCBs- State wise percentage of Outstanding Housing Loans in Western Region 2000-05

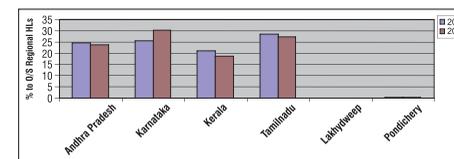


(Source: RBI's BSR Reports)

Haveli and Daman and Diu, on the other hand witnessed decline during this period.

Southern Region States: Of the total outstanding housing loans of all SCBs in Southern Region, the share of all the States except Karnataka witnessed marginal decline during 2000-05. The share of State of Karnataka in the o/s housing loans of all SCBs increased from 25.39% as at end March 2000 to 30.2% as at end March 2005.

Graph-27: All SCBs- State wise percentage of Outstanding Housing Loans in Southern Region 2000-05



(Source: RBI's BSR Reports)

HOUSING LOANS DISBURSALS - 2000-05 : MAJOR STATES

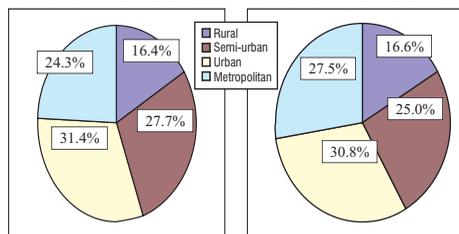
Delhi and Chandigarh in Northern Region, Assam in N-E Region, Orissa in Eastern Region, Uttrakhand and Chatisgarh in Central Region, Maharashtra in Western Region and Karnataka in Southern Region were the main States where the outstanding housing loans of all SCBs registered significant increases during 2000-05 reflecting comparatively higher growth of housing construction activities in these States as compared to other States in the country. This could be one of the possible indicators for increase in prices of houses in these States.



Area wise O/S Housing Loan Portfolio of All SCBs

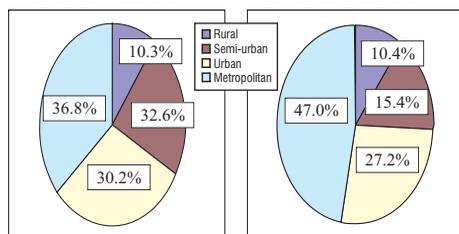
Further analysis of data on o/s housing loans by SCBs in rural, semi-urban, urban and metropolitan areas, also indicates that the growth (CAGR) of number of accounts, credit limit and loan outstanding in rural, semi-urban and urban areas has moved in tandem with the overall CAGR of SCBs while it was significantly more in metro areas as shown in the following graphs. It further indicates that SCBs housing loan portfolio in rural areas has remained constant in the range of 10.3% of the total

Graph-28: Area-wise Housing Loan Accounts with SCBs
As at end March 2000 As at end March 2005



(Source: RBI's BSR Reports)

Graph-29: Area-wise Credit Limit of Housing Loans with SCBs
As at end March 2000 As at end March 2005



(Source: RBI's BSR Reports)

LIMITED HOUSING FINANCE IN RURAL AREAS – MORE CONCENTRATION IN METROPOLITAN AREAS

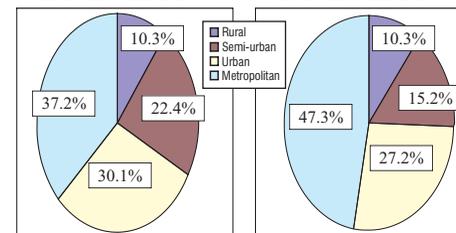
The percentage of number of loan accounts as well as outstanding loan amount in the rural areas out of the total loan accounts and outstanding housing loan amount of all SCBs remained stagnant at 16.5% and 10.3% respectively during 2000-05 while in metropolitan areas, the figures registered significant increases from 24% to 27.5% and 37% to 47% respectively during the same period. SBI and its group as well as RRBs registered increases in their rural housing loan portfolio during 2000-05 while that of Nationalised Banks and other SCBs registered declined during this period.

This indicates that the housing credit needs of rural population remained by and large unserved. This may be on account of higher risk perception of lending for rural housing as also the non availability of risk mitigants. In addition, certain operational constraints also need to be addressed so as to encourage bankers to lend aggressively for improving the housing and habitat conditions in rural areas.



outstanding portfolio implying that SCBs credit disbursement concentration was mainly in the urban and metropolitan areas (74.5% of the o/s housing loan portfolio as at end March 2005).

Graph-30: Area-wise Outstanding Housing Loan with SCBs
As at end March 2000 As at end March 2005

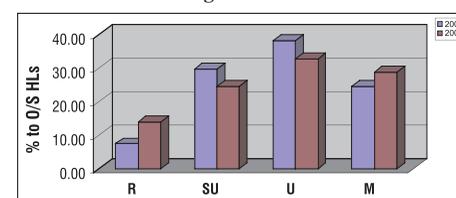


(Source: RBI's BSR Reports)

Bank Group Wise - Area wise O/S Housing Loan Portfolio

SBI Group: As at end March 2005, urban areas accounted for 32.67% of SBI Groups' outstanding housing Loan portfolio followed by Metropolitan areas at 28.88%, Semi urban at 24.57% and Rural areas at 13.88% as against 38.33%, 24.62%, 29.65% and 7.40% respectively as at end March 2000 indicating increase in the share of metropolitan and rural areas and decline in Urban and Semi urban areas during the period 2000-05.

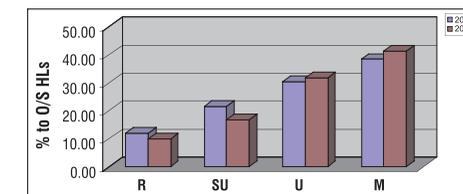
Graph-31: SBI Group: Area wise Outstanding Housing Loans 2000-05



(Source: RBI's BSR Reports)

Nationalised Banks: The share of Metropolitan and Urban areas in the o/s housing loan portfolio of nationalized banks witnessed increases from 38.49% and 30.54% as at end March 2000 to 41.49% and 31.93% respectively as at end March 2005. The share of rural and semi urban areas declined to 9.86% and 16.73% as at end March 2005 from 12.03% and 21.52% respectively as at end March 2000.

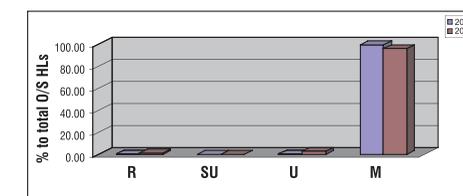
Graph-32: Nationalised Banks: Area wise Outstanding Housing Loans -2000-05



(Source: RBI's BSR Reports)

Foreign Banks: The share of Metropolitan and Urban areas in the o/s housing loan portfolio of foreign banks have remained at the level of about 99% (about 97% in Metro areas alone) during the period 2000-05. It is however, worth mentioning that the share of rural areas has witnessed increases from

Graph-33: Foreign Banks: Area wise Outstanding Housing Loans - 2000-05



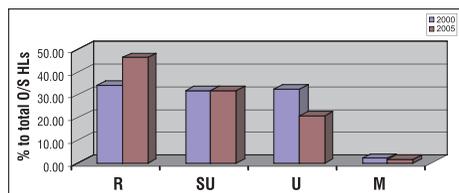
(Source: RBI's BSR Reports)



0.24% as at end March 2000 to 1.24% as at end March 2005 while the share of metro areas declined from 99.55% to 96% during the same period.

Regional Rural Banks: The share of rural areas in the o/s housing loan portfolio of RRBs have increased from the level of about 33.95% as at end March 2000 to 46.26% as at end March 2005 while the share of urban and metropolitan areas witnessed decline during the same period. However, the share of semi urban areas remained almost same during this period.

Graph-34: RRBs: Area wise Outstanding Housing Loans 2000-05

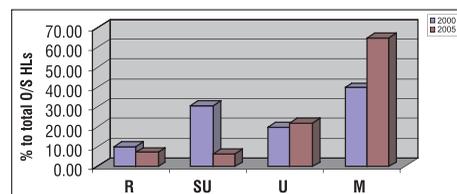


(Source: RBI's BSR Reports)

Other Scheduled Commercial Banks: The share of metropolitan and urban areas in the o/s housing loan portfolio of other SCBs witnessed significant increases while share of Semi-urban and Rural areas witnessed declines during the period 2000-05. Of the total o/s housing loan

portfolio of other SCBs as at end March 2005, the share of metropolitan areas was 64.67% (39.71% as at end March 2000), urban areas 21.92% (19.82% as at end March 2000), Semi urban areas 6.41% (30.62% as at end March 2000) and Rural areas 7.01% (9.85% as at end March 2000).

Graph-35: Other SCBs: Area wise Outstanding Housing Loans 2000-05



(Source: RBI's BSR Reports)

Conclusion

The above analysis indicates that the coverage of housing finance system has, by and large, been restricted in metropolitan and urban areas as well to middle and high income groups by-passing the low income groups. Therefore, despite significant growth in the housing finance market, there still remains a huge gap in the housing requirements in the low income categories as estimated in Chapter-VI.



CHAPTER VI ESTIMATES OF HOUSING and FUNDS REQUIREMENTS FOR 11th PLAN PERIOD i.e. 2007-12

Estimates by National Housing Bank

NHB has estimated additional housing requirement of 45 million (7 million as backlog and 38 million as additional units) for both rural and urban areas in the country

Table-3: NHB's Estimates for Housing Requirements during 11th Plan Period

(Figures in million)

	2007-12		
	R	U	T
Excess of Households over Residential houses	4.0	3.0	7.0
Replacement of Non-serviceable Katcha houses	6.0	(-) 2.5	3.5
Congestion	1.5	3.5	5.0
Obsolescence	1.5	2.6	4.1
Upgradation of existing Katcha/Pucca houses	20.0	2.4	22.4
Additional housing Requirements	22.0	16.0	38.0
Total	55.0	25.0	80.0

Note: 1. Data on HH's & Residential Housing stock including Serviceable Katcha house needing repairs, upgradation and non-serviceable katcha houses needing replacement, taken as per Census Reports, 1991 and 2001. Construction of houses and household formation is assumed to be same during 2007-12 as observed during 1991-2001.

2. Total population of the country taken as 1160 million in 2007, 1272 in 2015 and 1482 by 2015 (Draft Report of Task force on Urban Housing 2005). Further the ratio of rural & urban population in the total population is assumed as 70:30 in 2007 and 68:32 in 2012 as compared to 72:28 in 2001. The average family size is taken as 5.1 for arriving at number of households during 2007 and 2012.

* 2 Million housing Programme continued thereby automatically reducing the number of replacement of non-serviceable katcha houses to that extent.

** Report of Sub-Group on Urban Housing during 10th Plan

besides repairs, upgradation of existing units, needing investment of more than Rs. 10 lakh crore. Of this requirement, more than 80% will be in the categories of poor, EWS and LIG segments. *This implies that the country needs construction of 26,300 housing units per day during the years 2007-12 to mitigate the housing requirements of all segments of the population.*

Estimates by Working Group on Urban Housing requirements AND Ministry of Rural Development, GOI

Working Group Report (draft) on Urban Housing for the 11th Five Year Plan, has estimated 26.53 million additional houses requirement in urban areas during the period 2007-12 of which more than 90% will be for poor, EWS and LIG segments with estimated funds requirements of about Rs. 5.40 lakh crore.

Ministry of Rural Development, GOI has estimated housing requirement of 47.43 million units in rural areas during the 11th Plan Period (2007-12) of which more than 80% is envisaged for below poverty line (BPL) families.



CHAPTER VII THE WAY FORWARD

The housing finance scenario in the country presents an interesting mix of high potential, emergence of higher risk on account of erosion in affordability of the low and middle income groups, unprecedented increase in the underlying asset value as well as in interest rates and increased competition for prime business. There are also structural gaps in the institutional housing finance system such as non availability of adequate risk mitigants, increased pressure on resources. As the housing finance market matures in terms of structure and size, a need of judicious integration and convergence of different approaches and an alternative relating to financing mechanisms, resource mobilization and risk mitigants is required. The aim of the approach should be to provide not only the credit for housing but a complete solution for adequate housing which inter-alia may mean providing viable alternative solutions for increasing the employment and income generation capabilities of the low income households with adequate housing solutions.

INCLUSIVE HOUSING FINANCE SYSTEM

It bears repetition that the upcoming challenge is to make institutional credit for housing accessible and affordable to unserved and underserved segments of the population. Whilst, such inclusion is a national imperative, it could be rewarding from the business point of view as well. The process of building inclusive housing finance system on sustainable lines can be identified by mapping & segmentation of the market, identification of housing & financial needs of different segments, development of new, innovative & customized loan products, strengthening & creating appropriate institutional credit delivery mechanisms, upgrading marketing infrastructure through policy interventions and capacity building. Thus, **building an Inclusive Housing Finance System** on sustainable lines is a viable solution to tackle growing housing requirements of low income segment households for which the following approaches could prove feasible.



AN APPROACH TOWARDS INCLUSIVE HOUSING FINANCE - HOUSING MICRO HOUSING FINANCE THROUGH MFIs/SHGs

Servicing small loans to vast number of borrowers of low income segments is perceived both risky and costly. Therefore, the emergence of Self Help Groups (SHGs) and Micro Finance Institutions (MFIs) as intermediaries have provided an alternative platform to financial institutions to cater to their credit needs. As low income segments require housing loan for smaller amounts as well as for less duration to undertake house construction in a phased manner, lending to these segments could be increased significantly through these institutional mechanism with reduced risk and costs. *NHB, in its endeavour to serve the unserved and underserved has adopted this approach and has directly financed federated SHGs and Micro-finance institutions to enable them to finance small quantum of housing loans to their members, which has worked quite satisfactorily. NHB endeavours to have partnership arrangements with SCBs and other institutions to achieve this objective.*

PRODUCTIVE HOUSING IN RURAL AREAS (PHIRA)

In rural areas, there is a need to provide composite loan to enable improving the living and working environment for increased productivity. Therefore, along-with credit for housing, there is need to provide credit for income generating activities for effective sustainability and viability of the market based housing finance mechanism. The scheme is proposed to be implemented through primary lending institutions viz. Scheduled Commercial Banks, Housing Finance Companies (subject however, to extending of loan for income generating assets within the maximum limits prescribed under non housing loans by them), Regional Rural Banks, Micro-finance Institutions, Federated Self Help Groups and Non-Governmental Organisations.



***PRODUCTIVE HOUSING IN RURAL AREAS (PHIRA)
– AN APPROACH***

PHIRA, a composite loan scheme intending to provide financial assistance for construction/up-gradation/repairs of house as well as for income generating activities like small business/ trade, tiny/ cottage industry or service activity, artisan activities, agricultural and allied activities, dairy, poultry & piggery activities and/or any other productive activities. The scheme will enable enhancement in income, repayment and absorption capabilities of the borrowers through adequate housing, habitat and working environment. The objective of the scheme is to catalyse increased investment in housing and micro credit for improved habitat and working environment of low income segments in rural areas to enable improving the hygiene and productive capabilities leading to overall improvement in the life style of the people besides developing housing finance system on market based principles.

Under the scheme, a composite loan, of upto Rs.70,000 will be extended to the borrowers, of which 75% i.e. Rs. 52,500 will be construction/upgradation/repairs of the house including purchase of land and 25% i.e., Rs.17,500 is for the income generating asset/activity. A Second loan upto Rs.25,000/- could also be considered after a period of 3 years of good track record, from the date of disbursement of earlier loan for housing purposes only. NHB will provide 100% refinance support to primary lending institutions under the scheme.

NHB, being an apex institution in housing, has already entered into partnership arrangements with Oriental Bank of Commerce, State Bank of India and such arrangements are on anvil with Andhra Bank, Canara Bank, Central Bank of India, Union Bank of India and few more banks so as to reach out to the low income segments in rural areas through this scheme.

***RESOURCES FOR HOUSING
FINANCE***

Access to sufficient sources of finance preferably long term, has always been recognized to be critical for the effective operation of housing finance market as

mortgage finance involves the commitment for long periods. At the same time, it is equally important to ensure accessibility of institutional finance at competitively affordable rates especially to deprived low income segments to



enable them to improve their habitat conditions, if not at one go, may be in a phased manner. The following approaches are suggested to mobilise funds either through the domestic/ international markets and/or through the multinational agencies so as to effectively meet the funds requirements needed for mitigating the growing housing shortage in the country.

Deposit Mobilisation under Specialist Saving Schemes for Housing

Mobilisation of domestic savings for investment in housing is both viable and cost effective. Deposits accounts for 62% of the funding of all mortgage loans within EU Countries and this percentage is even higher in transition countries. Therefore, as a refinement of the traditional saving schemes, housing loan linked specialist saving schemes on the lines of Bausparkassen as practiced in Germany, Austria, Slovakia, Czech Republic, Hungary, Croatia and other transition countries could prove to be an effective tool towards “Inclusive Housing” for low income segments. Such schemes, however, requires availability of loan at affordable rates making good the difference between the inflation and real rate of interest. Such saving instruments, on one hand, will prepare low income households for making

regular repayment while on the other, it will ensure loan repayments as affordable.

External Borrowings

In India, households' savings as percentage of GDP is quite high at 29-30% as compared to US, European, Latin American, Transition and many Asian countries except China. These savings are being used for investment in all sectors of economic activities including housing. Mortgage financing is quite insignificant of the total domestic savings e.g. in case of commercial banks, the housing finance portfolio is only about 9% of its outstanding aggregate deposits. However, in EU countries, it is about 62% and still more in transition countries. The gap in financial requirements for housing and existing deployment may be met through mobilization of External Borrowings. Therefore, NHB being the apex institution, may be allowed to access funds from multinational institutions like World Bank, ADB, IFCI etc. with or without the Government Guarantee. Presently, NHB is not allowed to external borrowings from international markets. In view of the huge gap in resource requirements to mitigate the housing shortage especially in rural areas as well in low income segments, NHB may be allowed to have access to tap funds from the



international markets to enable improving the availability and accessibility of finance for housing to low income segments and in rural areas through the existing credit channels as well as through the Micro-finance Institutions.

Development of Mortgage Backed Securitisation Market (RMBS)

Development of Residential Mortgage Backed Securitisation Market (RMBS) as a vital tool and platform to tap surplus resources from the capital and financial market for investment in housing, has been gaining momentum in the developing and transition countries. USA has led development in secondary mortgage markets (Fannie Mae and Ginnie Mae covering about 60-90% of the market) which is being followed in many EU, Latin America, transition and Asian Countries. Growth of housing finance market and setting up of RMBS markets reflects the

integration of financial and capital markets as also the attractiveness of mortgage finance for investors both domestic and international.

In India, RMBS market is in operation since few years (NHB being the pioneer), however, it has miles to go to have a dent in the market. Presently, it covers about 2.6% of the outstanding stock of housing and mortgage debt in India as compared to 20.6% in US and 15.0 % in Germany. To develop RMBS market on sound and viable lines, the stamp duty on RBMS instruments is required to be rationalized across all the States on the lines of Delhi, Tamil Nadu, Andhra Pradesh etc. while at the same time, policy initiatives are required to provide a status of “Approved Securities” to RMBS securities so that institutions like Pension/Provident and Insurance Fund, mobilizing funds of long term nature and best suited for housing finance market, could be channelised.



RESIDENTIAL MORTGAGE BACKED SECURITISATION (RMBS) – NHB'S INTIATIVES

Housing sector has always remained capital deficient especially in the developing countries. Therefore, to bridge the gap in resources requirements for housing, setting up of Secondary Mortgage Market has been considered as an vital platform for garnering surplus resources from the capital and financial market as well as from individual investors besides ensuring safety, comparatively better returns and easy liquidity to the investors. In developed countries, RMBS has proved a vital tool and platform for garnering required resources from the market for investment in housing. Such markets are being set up and developed in many developing countries to raise additional surplus resources from the market for meeting the housing investment and credit requirements.

The operational modalities of RMBS requires pooling of the residential mortgages, formation of the trust or an SPV taking over such pool of mortgages and then issuing appropriate securities for investment by investors of capital and financial markets. The trust or the SPV undertakes the responsibility for payment of principal and interest to the investors. The mortgages so pooled and taken over by trust or SPV goes out of the balance sheet of the concerned institution who are in turn provided with the equivalent funds raised through RMBS from the market thereby providing liquidity for their enhanced business operations.

NHB, being the apex institution in housing, is the pioneer and leader in setting up and developing RMBS market in India. So far it has undertaken more than 13 RMBS issues of various HFCs and mobilised about Rs.900 crore from the market. NHB is also the pioneer and leader in providing “Credit Enhancement” to RMBS instrument and has provided “credit guarantee” to RMBS issue of an HFC.

Recent amendments in the Securities Transaction Act will enable trading of RMBS instruments in market thereby providing easy liquidity to the investors.

Targeting subsidy for increased outreach and development of market based housing finance system for low income segments

Towards, making housing loan affordable for low income segments, there is a need to target Government subsidy not only to cover maximum number of families but also a step towards development of sustainable market based financing mechanism. Providing interest rate subsidy

of 5% for a initial period of 5 years and thereafter withdrawn, will be a viable proposition, both, to primary lenders (to meet their market costs and high risk perception for this segment) and low income segment families (affordable). Interest rate subsidy has proved to a popular way of enhancing housing finance affordability in countries like Japan, Mexico, Singapore etc.



INTRODUCTION OF RISK MITIGANTS FOR SUSTAINABILITY

To provide encouragement and sustainability to the housing finance system to reach to every segment of the society especially the low income segments, there is need to introduce appropriate risk mitigants as mentioned below. Availability of such risk mitigants, on one hand, will encourage PLIs in increasing their lending in rural areas as well as to low income segments while on the other will prove to be an effective tool for residential mortgage backed securitisation (RMBS) for housing loans in rural and low income segments.

Title Guarantee: In majority of the rural abadi areas, clear title of the land pertaining to the existing houses, are not available. In the absence of such clear titles, the PLIs find it difficult to provide housing loan on such property. However, the ownership is not in doubt as certificate from the village Panchayats or Land Revenue Officer, or payment of local property tax are adequate proof apart from local community feedback. Title guarantee is a noble option in such cases that would provide the necessary comfort to the PLIs.

Rural Risk Fund: Presently, the PLIs have high risk perception for lending to EWS and LIG categories. A Rural Risk

Fund may be set up which will provide credit guarantee cover for loans upto Rs. 1 lakh taken by EWS and LIG borrowers in rural areas, where collateral is not available, title is defective. The corpus of the Fund may be contributed by Government of India, with some contribution from NHB, major banks, NABARD etc.

Mortgage Credit Guarantee: NHB's proposal to set up a Mortgage Credit Guarantee Company with equity participation from overseas is under consideration of the Reserve Bank of India (RBI) from the regulatory angle. The company will cover all loans given by PLIs other than EWS and LIG segments (in urban and rural areas with loans above Rs. 1 lakh). A separate window can be created for rural borrowers. NHB with the other institutions will bring in the required corpus of initial funds and PLIs will be paying premium for the credit cover which may be shared between PLI and the ultimate borrowers or may be loaded to the ultimate borrower.

The introduction of such risk mitigants in US, European, Latin and Transition countries, has helped housing finance system to grow on viable and sustainable lines as well as reaching to all segments of the population.



ECONOMIC BENEFITS OF INVESTMENT IN HOUSING ACTIVITIES

Housing activities can prove to be an effective tool for “employment generation”, “poverty alleviation” & significant contributor to GDP. As experienced world wide, housing contributes significantly to GDP through forward and backward linkages. It generates direct and indirect employment opportunities both in housing construction sector as well as in ancillary industries. As per study, housing construction activities has linkages with 250 ancillary industries. From a plethora of activities a number of job opportunities get generated. Each activity relating to housing and habitat management e.g planning & development of land; marketing of developed land/plots; financing home construction activities; managing & maintaining services like water supply, waste disposal, neighborhood social & community facilities, buying, selling & insuring house property etc., in turn, has both “on site” & “off site” multiplier effects on employment and income scenarios.

A study undertaken by IIM, Ahmedabad (2000) by Prof. Bakul Dholakia and Prof. Ravi Dholakia on “Impact of Investment in the Housing Sector on GDP and Employment in the Indian Economy” indicate that the construction sector ranks 4th amongst 14 industrial sectors in terms of backward linkages and 3rd in terms of total linkage effect implying that growth of the construction sector would provide significant stimulus for other sectors' growth. The following coefficients of income and employment multipliers of the construction sector along-with backward and total linkage effects have been indicated in the above study:

Ranking of the Construction Sector		
Variables	Value of Coefficient	Rank among sectors
Direct backward linkage effect	0.4870	4
Total Linkage Effect	1.2581	3
Income multiplier Type I	1.9491	4
Income Multiplier Type II	4.7098	4
Employment Multiplier Type I	2.02	5
Employment Multiplier Type II	7.76	7

Income Multiplier

Type I: Total direct and indirect income generation effect of a unit increase in the final demand

Type II: Direct and indirect income effect plus induced income effect Employment Multiplier

Type I: Ratio of total direct and indirect employment generated to direct employment generated as a result of initial expenditure of one unit in that sector.

Type II: Direct and indirect employment generation plus induced employment generation

A study sponsored by Ministry of Urban Affairs and Employment "on role of Co-op. Housing in employment Generation & Poverty Alleviation" undertaken by NCHF in 2004 confirms the above findings and indicates the following:

- a) Every million rupees invested in construction of housing will generate 2245 man days of employment.
- b) Construction of one house with average cost of Rs. 4.5 lakh creates about 1000 man-days of employment.
- c) Majority of workers engaged get full employment opportunities.
- d) Unskilled workers get employment for 204 days in a year.



CHAPTER VIII

CONCLUSION

SCBs have taken a leap forward in expanding the housing finance market in a big way as a result, the capital deficient housing sector witnessed significant increased flow of resources and investment leading to increased housing construction activities throughout the country enabling mitigation of housing shortage. It needs to be appreciated that the banks who were till then raised on agenda of financing productive assets for decades, shifted gears quickly to effectively set up nation wide credit delivery system for housing. Assets quality in housing finance has been maintained at high level by and large. With SCBs vast net work, accessibility to housing credit to a common man has improved significantly both in urban and rural areas. Successful implementation of NHB's programmes viz. Golden Jubilee Rural Housing Finance Scheme by SCBs has resulted in significant increase in housing loans in rural areas.

With SCBs presence in the housing finance market, not only the borrowers have been benefited with increased competition but the market also witnessed improved

transparency and movement towards standardizations.

Similarly, SHGs linkages with banks has also opened up new era of evolving of housing micro credit financing mechanism to address / meet the housing credit needs of low income segment households through convergence of on going successful micro credit programme being implemented and financed by SCBs.

With the proposed interventions as mentioned in chapter VII, adequate resources as required for housing could be mobilised and affordable market based housing finance system could be evolved enabling mitigation of the housing shortage in the country in the coming years. In sum, the success of lending for housing to all segments of the society and especially the low income households, in urban and rural unorganized sector, a broad range of actions on many fronts are required. SCBs being the largest institutional platform may have to play a vital role in adopting new approaches and bring about customized and flexible mortgage products in active partnership with Federal Sources, State &



Local Governments, other non profit organizations and formal sector institutions both in public and private sector. This also implies that the schemes/programme so evolved must provide not only the affordable housing loan products having inbuilt flexible underwriting criteria but also a complete Housing Solution.

NHB being the apex institution in housing will have to play a major role in developing a market based inclusive and sustainable housing finance system to enable the system to increase its outreach to meet the housing credit needs of low income segments that have so far remained unserved and underserved. To strengthen the market and to improve the comfort level of FIs, NHB will bring in suitable risk mitigants in the system. Specifically, NHB may consider following actions:

- To develop with the help of RBI, a comprehensive national data base on housing finance from all housing finance providers in the country. A system for housing finance companies is in place. Progressively, this system of electronic data base can be extended to link with the registration data in various

States to create registry of immovable assets.

- To examine the feasibility of introduction of Title Guarantee/ Insurance in the country as a major risk factor cover in housing finance in view of non-availability of perfect title.
- To introduce at the earliest mortgage credit guarantee product in the country on which NHB has done considerable preparatory work.
- To partner with banks, HFCs, select co-operative credit institutions to implement innovative and customized housing loan products aimed at low income segment households in urban and rural areas.
- To prepare a comprehensive road map for housing micro finance in convergence with on going programmes aimed at EWS segments.
- To develop a suitable financial architecture for affordable housing for all so that the institutional financial system in partnership with Central and State Governments can effectively be implemented.

Source of all the data given in this article is from Reserve Bank of India's Reports on Basic Statistical Returns of SCBs, RBI's Annual Reports and NHB's Reports on Trend and Progress of Housing in India.