Housing Finance : A Study of Experiences of Commercial Banks

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Contents

List of Tables

List of Charts

List of Boxes

Preface

Housing Finance in India during the last decade has gone through many changes. From very low exposure to the housing sector initially, banks have gone very fast in extending credit to this sector which has witnessed unprecedented expansion. With urbanisation and higher level of economic growth, it is quiet natural that the housing sector has received a fillip. However, in the recent years the banks have gone faster than what could be a reasonably justified in financing this sector. At the international level, the speed at which banks have rushed to this sector, has resulted in financial crisis causing great damages to the stability of the banking system.

Against this background, it is very appropriate and timely that Indian Institute of Banking and Finance has sponsored the research project on **Housing Finance - A Study of Experiences of Commercial Banks**. A review of the growth in housing finance in India is made critically besides making a case study of the experiences of three banks - Syndicate Bank, Corporation Bank and Karnataka Bank. Customers' perception of housing finance and the problems associated with it are analyzed based on a small sample survey conducted in two districts of Karnataka - Dakshina Kannada and Udupi.

We at Justice K. S. Hegde Institute of Management are grateful to the authorities of Indian Institute of Banking and Finance for entrusting us this useful research study to us. We are sure that some of the suggestions made in the study would be of interest to the banking sector in particular and the policy makers in general.

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Chapter - 1

Introduction

Good housing is a pre-requisite for human development and welfare. It provides shelter, security, amenities and privacy to the human beings for decent living. Without good housing, people cannot realize their full potential and carry on the life they want to lead. Good housing reflects the general welfare of the community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Deprivation of a decent housing, in fact, becomes a threat to social harmony and economic prosperity. Housing is also an investment activity and provides impetus to economic growth. It has both forward and backward linkages. Because of its forward and backward linkages, even a small initiative in housing will propel multiplier effect in the economy through the generation of employment and demand.

Recognizing the critical importance of human settlement in developing countries, the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights, have recognized the right to housing as a human right. The UN also declared the year 1987 as International Year for Shelter for the Homeless and Poor. Since then, there has been a growing concern to address various forms of housing deprivation particularly in developing countries, where with the growing population pressure, meeting the housing needs of all families is a real challenge.

1.1 Problem of Housing Finance

In India, the demand for housing has increased rapidly due to population growth, migration from rural areas to urban areas, the decay of the existing housing stock and breakdown of traditional joint families. The information technology revolution and rapid growth of knowledge based industries in recent years have also further contributed to the already growing acute shortage of housing India particularly in urban areas. Since housing requires huge investment, a critical constraint for the development of housing is lack of finance.

With the entry of commercial banks into housing finance, the housing sector has witnessed real boom during the last decade. The growing demand for housing finance has contributed for rapid growth of banks' lending to housing sector. Housing finance has now emerged as an important segment of the credit portfolio of banks. Its rate of growth in the recent years is rapid enough to cause concern to the regulator. During the year 2003 for example, the unprecedented interest evinced by almost all banks in attracting new customers for their housing loans, has resulted in an increase of 55 percent in housing finance. In its Annual Report 2002-03, the Reserve Bank of India expressed its concern in a box item captioned as Housing Finance: New Driver of Bank Credit. “The cause for potential worry” it revealed, “is that by lowering the lending rates, banks are approaching the cost of funds”. It cautioned, “Banks need to be alert against an unbridled growth of housing finance and should take due precaution in the matter of interest rates, margin, rest period and documentation.”

It is also important to note that the on-going global financial crisis was mainly caused by housing finance in US. With the real estate boom and appreciating house prices, the housing finance spurred competition among financial institutions to unprecedented levels. Large number of borrowers, brokers and appraisers inflated house prices and borrowers income on loan applications. The banks were confident that potential repayment problems could be mitigated by ever increasing market prices for the collateral houses. With the fall in asset prices, the housing finance by banks ultimately led to subprime lending crisis. From the housing finance policy perspective, India has a lesson to draw from this housing finance subprime crisis. Tarapore Committee has already drawn the attention of policy makers on the growing subprime quality of housing finance in India.

The expansion in housing finance has continued unabated. In March 1990, it constituted only 2.4 percent of the total bank credit. While according to the latest Report on Currency and Finance (2005-06), its share has gone up to 11 percent. The rate of growth of housing finance since 2000-01, has been about 40 percent. Excessive speed is bound to result in accidents. This is evident from the emergence of NPAs. It is estimated to be around 3 to 4 percent of the net advances. It is also reported that three of the major players in the housing finance sector have approached the Asset Reconstruction Company Ltd (ARCIL) to sell the bad loans from their home loan portfolios. ARCIL is expected to purchase a good volume of the bad loans from these banks at a discount and recover the advances.

Besides direct lending, many public sector banks have promoted in the past subsidiaries for extending housing finance. Only a few of them appear to have been successful like CanFin Homes Ltd. and PNB Housing Finance Ltd. Other housing finance subsidiaries like Corpbank Homes Ltd. and VIBANK Housing Finance Ltd. are merged with the parent banks, ING Vysya Bank Ltd. - a private sector bank also had a housing finance outfit, which was taken over by Dewan Housing Finance Ltd. Other prominent players in this area are HDFC Ltd. and LIC Housing Finance Ltd. IDBI is in the process of setting its own housing finance subsidiary.

Housing finance has received a boost since the establishment of National Housing Bank by the Reserve Bank of India in 1988. In addition to providing refinance facilities, NHB has provided a regulatory framework for the operations of the housing finance companies in India.

On the demand side, housing being a basic need of the growing population, the strategic role of the house building industry and the bulging demand for housing finance cannot be under-estimated. A large section of the population in rural and semi-urban areas is still beyond the reach of the banks. Banks also are concentrating in urban and metropolitan centers, where the demand for housing finance is strongly supported by the builders.

On the supply side, public sector banks are the major source of housing finance having share of 63 percent. The share of private sector banks-both of the older and younger generations - is 26 percent. Foreign banks, though quite active in extending housing finance, their share is about 9 percent only. Gramin banks have a negligible share at less than 2 percent. The total number of housing loans serviced by the banking sector is 45.21 lakh only. This figure can be considered as an infallible indicator of the long way the banks have to go to enable the teeming millions to have a roof over their heads.

The concentration of housing finance in the metropolitan centers is a unique feature of the disbursal of housing finance in India. According to the available data, 51 percent of the total housing finance is lent in metropolitan centers only. Out of the total housing finance amounting to Rs.1,82,167 crore, the rural sector receives only Rs.18,213 crore - 10 percent during 2005-06. The poorer sections of the population depend upon the government-sponsored and subsidized housing schemes. Most of those working in the un-organized sector are unable to obtain housing finance from banks and financial institutions.

Regional inequalities in the disbursement of housing finance are very conspicuous. Three states-Maharashtra, Karnataka and Tamil Nadu account for nearly 43 percent of the total as on March 2007. Of this, the share of Maharashtra alone is 21 percent. In the less developed states, housing finance has not shown any signs of growth. The regional disparities in the number of housing loans serviced by banks are also very glaring, as can be seen from the table given in annexure. Maharashtra and the southern states together get the lion's share.

Despite phenomenal growth in housing finance by commercial banks in India, there exists mismatch between demand and supply, regional disparity in disbursement, rural and urban divide and poor outreach to weaker sections of the community. Besides this, they are faced with the problem of growing NPA and legal complications.

1.2 Objectives of the Study

This study seeks to evaluate the performance of the banking sector in India in extending housing finance during the last decade. The innovations made by them to reach out to the needy borrowers in different parts of the country have been examined in detail. It was proposed to look into the problems faced by them in developing the linkages between the borrowers and suppliers. The emergence of NPAs in housing finance is a cause of concern to the bankers as well as the regulator. This aspect has been examined in detail, subject to the availability of data pertaining to this sensitive area.

The following are the specific objectives of the study.

1. To make a macro assessment of the problem of housing, Housing Policy and Housing Finance in India.
2. To review of the development of Institutional support.
3. To analyze regional disparities in demand and supply.
4. To examine the inadequacies and inequalities in Housing Finance.
5. To identify the operational problems encountered by the lenders and borrowers.
6. To analyze the problem of emergence of Non-Performing Assets and legal complications.
7. To recommend the future action program of Housing Finance.

1.3 Methodology of the Study

The methodology adopted for the research included compilation and analysis of both secondary and primary data and consultation with bankers, Builders Associations and other stakeholders. The secondary data have been compiled from the banks from their annual reports and from the publications of the Reserve Bank of India and National Housing Bank. Housing finance companies, both in the public sector and private sector were approached to obtain the required data. The study has also relied heavily on published and unpublished empirical research studies on information and data.

The primary data were collected from three banks based in Mangalore - Corporation Bank, Syndicate Bank and Karnataka Bank. Discussions were held with Heads of the Housing Finance departments of these selected banks to gather first hand information about the lending scheme, advance portfolio and operational problems. The primary data were also collected from the beneficiaries with the help of a structured questionnaire. The beneficiaries were selected from the list of beneficiaries supplied by the selected bank branches on random sampling basis. The survey method through interview was adopted to collect the data from the beneficiaries. Discussions were also held with a few selected developers and other stake holders in Mangalore seeking an insight into their perceptions.

1.4 Relevance of the Study

In consideration of the strategic significance of the housing sector in the emerging Indian economy and the government's major policy thrust to encourage banks' housing finance portfolio particularly in the context of on-going recession, the findings of the study would be very useful to the policy makers, practicing bankers, researchers, academicians and other stake holders. Based on the findings of the study, specific suggestions / recommendations were made for fine tuning the commercial banks' focus on lending policies and priorities with a view to improve the outreach and to avoid the emerging problems of subprime lending.

1.5 Structure of the Report

The study has been divided into seven chapters. While chapter one is introduction, setting out the study objectives and methodological and analytical framework adopted for the research, chapter two traces the evolution of housing policy and institutional development including emergence of commercial banks for housing finance as a backdrop. In chapter three, the problem of demand and supply for housing finance in India was analyzed. Discussion in chapter four is centered around the present status, regional and rural and urban disparities in commercial banks' housing finance. Chapter five focuses on the case studies of selected public sector and private sector bank branches in financing housing sector in Dakshina Kannada and Udupi Districts in Karnataka State. The problems faced by the beneficiaries and other stakeholders are looked into in depth in chapter six. In concluding chapter, based on the main findings and implications of the study, policy and strategy recommendations were made. Annexure, at the end, contain some useful statistical tables on housing finance and a bibliography.

Chapter - 2

Evolution of Housing Policy in India

Housing, literally, connotes a physical structure to provide shelter including basic amenities such as supply of safe drinking water, sewerage system, electricity, and other basic infrastructure required to lead a good quality life. In a broader sense, housing means more than just a shelter. By virtue of its fixed location, it becomes an integral part of a neighborhood and social, cultural and economic environment. It defines a space of social reproduction that necessarily reflects gender, familial and other types of social relations. It provides security against changing climatic conditions and protects the belongings of the households. It can also function as a place of contact, leisure, education and religious observance, of ordered social interactions. The good housing, thus, reflects the general welfare of the community, whereas the bad housing causes serious consequences such as health hazards, juvenile delinquency and social disharmony and also becomes a threat to economic prosperity.

Housing, by definition, is not only a basic necessity for human living but also an indicator of the progress of the nation in terms of human development and welfare. Without good housing, people cannot realize their full potential and carry on the life they want to lead. This chapter, therefore, focuses on the problem of housing and an overview of the evolution of housing policy in India since independence as a backdrop.

2.1 Importance of Housing

Ever since human civilization evolved, human settlement became a primary concern along with food and clothing. Housing, in fact, laid the foundation for human settlement and civilization. The importance of housing has been acknowledged and housing as a human right was recognized way back by the Universal Declaration of Human Rights adopted by the General Assembly of the United Nations on 10 December 1948. Article 25 of this declaration states "Every one has the right to standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing…" Article 11 of the International Covenant on Economic, Social and Cultural Rights 1966 also recognizes the right of everyone to an adequate standard of living including food, clothing and right to housing as a part of human right. It asked the states to take appropriate steps to ensure realization of this right. India is a signatory to both the Declaration and Convention. Article 19(1) (e) of the Constitution of India states as: "All citizens shall have the right to reside and settle in any part of the territory of India." This provision is construed as a right to residence / home / shelter.[1] In pursuance of this, India embarked on the path of making "housing for all" a reality. The National Housing and Habitat Policy, 1998 stated that the ultimate goal of the policy was to ensure "shelter to all".

All over the world, housing is regarded as a means of long term wealth accumulation and financial security. Good housing is, thus, a pre-requisite for human development and welfare. It is essential for the smooth operation of a modern society. Healthy and commodious living provides incentives and generates efficiency, energy, zeal and strength on which depends social, cultural and economic prosperity. Without good housing, people, therefore, cannot realize their full potential and carry on the life they want to lead. Good housing reflects the general welfare of the community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Deprivation of a decent housing, in fact, becomes a threat to social harmony and economic prosperity.

Housing, in the economic sense, is considered as one of the merit goods because of its inherited utilization characters. Unlike any other consumer goods, housing symbolizes many aspects of life. It is also both a consumption and investment item. It is considered as consumption goods in the sense that it provides shelter, security, amenities and privacy to the human beings for decent living. Housing is an economic asset as it has market value and therefore, considered as an investment good. When house is let out, it generates rental revenue. Moreover, housing has a positive impact on human development, particularly on physical and mental health and happiness, which ultimately enhances human efficiency and productivity. It empowers individuals and families economically, socially and politically. Therefore, housing is considered as one of the important basic social infrastructures, which contributes to overall human development.

1. Article 21 of the Constitution of India clearly states that right to life includes right to residence. The Constitution aims at ensuring fuller development of every child, which would be possible only if an appropriate house is provided. The Directive Principles enshrined in the Constitution of India also enjoin upon the State to secure adequate means of livelihood, raise the standard of living and ensure economic justice.

Since housing drives economic activity with both backward and forward linkages, it is considered as an important family investment activity. It is an integral part of the infrastructure sector. Construction of houses provides jobs and higher tax revenues for local, state and central governments. It has both forward and backward linkages to the production of building materials, land markets and labour markets. It is highly labour intensive. According to a survey conducted by the National Buildings Organization, (NBO) housing construction accounts for direct employment of two million people and 15 million man hours of indirect employment. A study by Indian Institute of Management, Ahmadabad (IIMA) commissioned by Housing and Urban Development Corporation (HUDCO) to evaluate the impact of investment in the housing sector on GDP and employment, has found that the housing sector ranks third among the major sectors in terms of the direct, indirect and induced effects on all sectors of the economy (GOI, 2002). It is estimated that the overall employment generation in the economy due to additional investment in the housing construction sector is eight times of the direct employment. The sector ranks third among the 14 major sectors in terms of the direct, indirect and induced effect on all sectors of the economy (IIM Study, 2005).

Hence, housing sector is recognized as a major employment generator. It also results in growth of many home-based manufacturing industries like cement, iron and steel, paints, marble / ceramic tiles, bricks, electrical wiring and appliances, PVC pipes, furniture, sanitary fittings, household articles and other consumer durables. As per the CSO estimates, housing sector contributes 4.5 percent to GDP. With forward and backward linkages, housing activity provides impetus to economic growth. Whenever the economy is facing recession, the investment in housing sector has the potential to kick-start the economy for growth. It has a multiplier effect on income and employment. Because of its strong forward and backward linkages, even a small initiative in housing will propel multiplier effect in the economy. The main reason is that the investment in housing increases income levels of the people having low income, who normally have high Marginal Propensity to Consume (MPC). This high MPC gives rise to demand for consumer goods, which result in higher Gross Domestic Product (GDP) by multiplier effect, which clearly shows that housing investment significantly contributes to economic development.

Recognizing the critical importance of human settlement in developing countries, the UN declared the year 1987 as International Year for Shelter for the Homeless and Poor. Since then, there has been a growing concern to address various forms of housing deprivation particularly in developing countries.

2.2 Dimension of Housing Problem

The problem of Housing mainly centered on population growth, urbanization and quality of housing. The economic development, which is closely associated with industrialization and urbanization, has resulted in the rapid growth of cities in developing countries and acute shortages of housing in urban areas. According to the UN estimates, the global urban population was 724 million in 1950, which increased to 3.2 billion in 2000. The urban population in Less Developed Countries (LCD's) was about 275 million in 1950, it reached to 2.1 billion in the year 2000 i.e. 66 percent of the global urban population. The rapid pace of urbanization had serious implications on demand for housing. The demand for housing has increased phenomenally not only in quantitative terms but also in qualitative terms. The rapid spread of urbanization is also accompanied by the prolific growth of huge slums and shantytowns. The slum settlements, without any basic amenities, today represent over one third of the urban population in developing countries. Their numbers are to double over the next 25 years. Given the phenomenon of massive and historically unprecedented movements of people from rural areas to burgeoning cities, the critical issue that needs to be addressed particularly in developing countries is the provision of the basic amenities for human settlement.

Like other developing countries, India too is not an exception to this seriously growing human concern. India is a vast country with a population of 1.028 billion living in an area of 32,87,263 square kilometers. The density of population works out to 324 persons per square kilometers. As per the 2001 census, 286 million people reside in urban areas and 743 million in rural areas (Table-2.1). The urban population constitutes 28 percent of the total population. The decadal growth of population in rural and urban areas during 1991-2001 is 17.9 per cent and 31.4 per cent respectively, indicating a significantly higher growth in urban population.

During the period between 1961 and 2001, the urban population increased from 79 million to 286 million, almost 3.6 times. According to Census data, 23 pre cent of the urban population still lives in slums (Census, 2001). The slum population has increased from 46.26 million in 1991 to 61.82 million. 640 towns in 26 states have reported the existence of slums. Every seventh person in urban India is a slum dweller. It is estimated that the share of urban population may increase to about 40 percent of the total population by 2020-21 (GOI, 2008).

Table - 2.1 : Growth of Urban Population in India

Year	Total Population (Million)	Urban Population (Million)	Share of Urban Population (Percentage)	Growth Rate (Percentage)
1961	439.20	79.20	17.97	2.30
1971	547.20	108.90	19.91	3.77
1981	683.33	159.46	23.34	4.64
1991	846.30	217.60	25.71	3.65
2001	1029.00	286.00	27.79	3.14

Source : Census, 2001 GOI.

The pace and pattern of urbanization varies widely among States. At one end of the spectrum is the Delhi Territory with 93 per cent of its population living in urban areas. At the other end, Himachal Pradesh is the least urbanized State with only 9.8 per cent of its population in urban areas. Tamil Nadu is the most urbanized among the larger states with 43.9 per cent urban population followed by Maharashtra with 42.4 per cent and Gujarat with 37.4 per cent. Among the larger States, Bihar has the lowest urban population with 10.5 per cent. There are 27 cities in India with more than one million populations (GOI, 2002). The four largest metropolitan cities, Mumbai, Kolkata, Delhi and Chennai accounted for nearly one-fourth of total urban population.

The rapid pace of urbanization has serious implications for demand for housing. The Census-2001 has estimated the housing shortage at 15.23 million, 11.6 million in rural areas and 3.63 million in urban centres. According to the Report of the Technical Group on Estimation of Housing Shortage constituted at the time of formulation of the Eleventh Five Year Plan, housing shortage is estimated to be around 24.71 million. During the Eleventh Plan, this is expected to reach 26.53 million. This is considered as an underestimate as it does not take into consideration people living in slums without proper housing and basic amenities and old houses in dilapidation. Besides, nearly 2 million new housing units will be required each year to cope up with the new migrants to urban areas. In contrast, the present rate of supply of housing units is estimated at about 0.30 million per year. As much as 90 percent of the shortfall pertains to urban poor and is attributable to the congestions, needs of joint families, obsolescence and replacement of old houses and provision of housing to slum dwellers. This clearly shows the acute shortage of housing in urban areas in India today. The information technology revolution and rapid growth of knowledge based industries in recent years has also further aggravated the already deteriorating problem of housing in urban areas.

The Eleventh Plan has estimated that the total investment requirement for meeting the housing requirement would be of the order of Rs.361,318.10 crore, consisting of Rs.1,47,195 crore required for mitigating housing shortage at the beginning of the Eleventh Plan and Rs.2,14,123 crore for new additions during the Eleventh Plan.[2]

The incidence of the housing problem is not spread evenly across regions and union territories. As per the census 2001 data as shown in Table-2.2, the highest shortage exists in Eastern region (5.6 million), followed by Central region (2.93 million), Western region (2.68 million) and southern region (2.63 million). Northern region has the lowest (1.35 million). In urban areas, the Western region has the highest shortage of dwelling houses (91.14 million), followed by Eastern Region (0.70 million) and Southern region (0.63 million). This is mainly because of Mumbai, Kolkatta and Chennai metropolitan cities. Among the states, Bihar has the highest shortage (3.7 million) of dwelling houses, followed by Assam (2.1 million), Andhra Pradesh (2.1 million), West Bengal (1.64 million) and Maharashtra (1.6 million). Haryana has the lowest shortage (0.17 million) housing units, followed by Punjab (0.2 million) and Gujarat (0.45 million).

Table - 2.2 : Problem of Housing Shortage in India by Regions

(In Million)

Region	Rural	Urban	Total
Northern	0.80	0.55	1.35
Eastern	4.91	0.70	5.61
Western	1.54	1.14	2.68
Central	2.34	0.59	2.93
Southern	2.00	0.63	2.63
Union Territories	0.01	0.02	0.03
India	11.60	3.63	15.23

Source : Census 2001 GOI.

The problem of housing is both quantitative and qualitative housing shortage. Shortage in quantitative terms arise largely due to an outgrowth in the number

2. Eleventh Five Year Plan-2007-2012 Volume III, Agriculture, Rural Development, Industry, Services and Physical Infrastructure PP. 412. The investment estimate includes upgradation of semi-pucca and kutcha housing units.

of families than the residential housing stock, while qualitative shortage are the number of sub-standard (life threatening and unsafe) and inadequate housing units. The other dimension of the housing problem is mainly centered around the adequacy in terms of size and in-house basic amenities required for quality standard of living like adequate living space, safe drinking water, sanitation, electricity etc. Crowding and unreasonable sharing of available services and filthy environment are the added features of unsafe houses. The quality of housing also refers to dwelling structure - whether it provides safe living in all weather conditions.

Table-2.3 shows the quality status of residential houses as per 2001 census data. In rural areas, as against 138 million households, 135 million have residential houses and 3 million have no houses to live. In urban areas, out of 54 million households, only one million have no houses to live. Out of 135 million residential houses, only 66 million houses or 48 percent of them were categorized as livable. In urban areas, it constitutes 32 percent. About 8 million houses in rural areas and 2 million in urban areas are classified as dilapidated. Nearly 40 percent of the houses in both rural and urban areas were one room houses. Similarly, out of 135 million rural houses, only 52 million houses have tile roofs, three-fourth of the houses have mud floor, only 13 million have water tap within the premises and 108 million have no latrine. Only 44 percent of the residential houses in rural areas have electricity. In urban areas, though condition in these regards is slightly better, there still remain wide gaps.

Census 2001 has classified houses into pucca (permanent), semi-pucca (semi-permanent) and katcha (temporary). In rural areas, the prevailing scenario of housing conditions is worse than urban areas. Kutcha houses still account for more than 40 percent. About 26.5 million houses are reported as kutcha houses; 60 percent of rural houses have no safe drinking water facility; 40 percent have no electricity; 80 percent no toilets and more than 80 percent of the households, no LPG for cooking. The incidence of unsafe housing stock in rural areas is, thus, alarming. In urban areas, 79 percent of the houses are classified as pucca, 16 percent as semi-pucca and 5 percent as kutcha.

Another serious dimension of the housing problem is that housing is a problem of deprivation. Housing is a basic human need. A roof over head endows a shelter less person with an essential asset and improves his physical and mental well-being. India is a nation with over 300 million poor people. Around 90 per cent of housing shortage pertains to the economically weaker sections and low income groups. Most of them are asset less poor and do not have land of their own to build houses.

Table - 2.3 : Residence Houses: Types and Quality

(In million)

Particulars	Rural	Urban	Total
No. of Households	138.27	53.69	191.96
Number of Residence Houses	135.05	52.01	187.06
Good	60.63	33.30	93.93
Livable	66.01	16.82	82.83
Dilapidated	8.41	1.89	10.30
Thatch, Grass, Bamboo, Mud Roof	38.34	3.74	42.08
Tiles	51.93	10.57	62.50
Mud Floor	99.96	9.67	109.63
Cement Floor	24.95	25.94	50.89
Mosaic Floor	3.01	11.00	14.01
Permanent	56.83	42.60	99.43
Semi-permanent	49.40	8.26	57.66
One Room	55.00	18.85	73.85
Owned	130.49	35.86	166.35
Tap water within premises	13.29	26.68	39.97
Electricity	60.18	47.03	107.21
No latrine	107.97	14.11	122.08

Source : Tables on Houses, Household Amenities and Assets, Census, 2001, GOI

The incidence of over crowding and dwelling in the dilapidated or kutcha units, which are unsafe to live, is huge among the communities. There is a need to increase the supply of affordable housing to the economically weaker sections and low income category through a proper program of allocation of land, extension of funding assistance and provision of support service. The problem of shelterless and pavement dwellers in the urban areas is another dimension of the housing problem in the metropolitan urban areas.[3]

There is a general feeling that urban planning ignores the needs of the urban poor and slum dwellers, who cannot afford housing at market rate. The Urban Development Authorities who acquire and develop large tracts of land for the growth of the cities, should reserve a major part of such land to meet the requirements of economically weaker sections and law income group population. At present, there is very little evidence that these authorities are providing the due share of land to the urban poor. This is essential to fulfill the norms

3. The Conference of Chief Ministers, 1996 recommended the Basic Minimum Services Program and under this program, one of the priority attention was " provision of public housing assistance to all shelterless poor families".

of growth with social justice as enshrined in the literature of India's Five Year Plans.

Access to land and legal security of tenure are strategic prerequisites for the provision of adequate shelter for all and for development of sustainable human settlements in both urban and rural areas. With upward trend in economic growth, increasing urbanization and competitive use of land supported by market forces, there would be growing pressure on limited available land. Availability of land has been, also, constrained by the existence of variety of laws and / or systems of land tenure such as the Land Revenue Act, the Land Reforms Act, Urban Land (Ceiling and Regulation) Act, the Town Planning Act, Stamp Duty Act and the Urban Development Acts. Each of them has, often through the rigid provisions and through the mode of their implementation, created hurdles for legitimate and smooth market transactions in land required for expansion of the housing stock. The move towards the repeal of Urban Land (Ceiling and Regulation) Act in different states was expected to ease and simplify the situation to some extent. This, however, needs to be followed by other changes whereby legally valid availability of land for housing is speeded up, and people are not forced to adoption of short-cuts to obtain housing plots for other uses. Urban planning tools including master planning, zoning and regulations are not adequate enough to make land available in pace with the rapid urbanization, resulting in insufficient land supply and increase in land prices. Inadequate availability of land in the urban areas is a major constraining factor in taking up housing projects for the poor.

Another major constraint in the development of housing is the rent control legislation in many states. Rent Control and Tenancy Laws also prevent the development of Rental Housing market and contract housing stock. Rent Control Act provisions have, virtually, no relation to market rates. The undue protection to tenants accorded in the Act not only hinders the development of rental housing but also acts as barriers to the smooth growth of cities. Dilapidated structures cannot be renovated because of the difficulty in evicting tenants, with the result that rejuvenation and planning of inner city areas is not taking place. Rental housing in the urban areas needs to be promoted through enabling legislative and administrative measures to serve a wide cross-section of population in need of housing during their stay in cities.

Thus, the problem of access to proper housing has reached a crisis situation due to rapid population growth, rapid pace of urbanization, migration from rural areas to urban areas, decay of the existing housing stock, absence of in-house basic amenities, obstructing land laws and tenure system, absence of competitive land market and breakdown of traditional joint families and resultant growing demand for single family houses.

2.3 Housing Policy since Independence

The problem of housing had not engaged adequate attention of policy makers till recently. Housing was viewed mainly as family driven individual activity, which did not warrant State intervention. Housing was, thus, treated largely as a private sector activity in both the rural and urban sectors. Since housing is a long-term durable form of investment, requiring substantial outlay with low return, the housing development had been given subsidiary attention in the developmental priorities under Five Year Plans. Till 1970s, the role of government was restricted to provide housing to its own staff and low income industrial workers at subsidized rate. The government policy on urban land, building and rent, in fact, played a negative role in the housing market. The public sector intervention to provide directly low cost housing has, in fact, crippled private initiative in the housing sector. The administrative, legal and institutional regulations of urban authorities have also slowed down the pace of house building activity by the private sector. Since housing was considered a long-term investment, commercial banks were not considering housing as their domain. The public investment in the housing sector also declined from 34 per cent of the total investment in the economy in 1950s to 10 per cent in 1970s due to low priority accorded to housing sector in the planning for development.

In the government led housing finance system, the overall focus was to increase the housing stock in both owner and rental sectors. To accomplish these goals, governments intervened in the housing finance market in three forms : as regulator, provider of subsidies, and direct investor. As a regulator, the government regulated housing market through various legislation and rent control acts. As a provider of subsidies, the government fixed housing value below the costs. The direct subsidies were also provided for the construction or rehabilitation of dwelling units, for acquisition and improvement of house sites and for occupants of dwellings units. The direct housing subsidies were restricted for providing housing assistance directly to weaker sections of the society in the form of capital assistance required for constructing own houses. This instrument is being used to boost supply and demand for housing respectively for producers and consumers. As developers, the government invested on production of housing units for rental and selling purposes.

With the rapid pace of urbanization, 1970s and 1980s witnessed real boom in the housing market. The limited availability of affordable rental house units, mortgage finance-related constraints on house ownership, inhibiting land laws and resultant reluctance of the private sector to invest in housing sector, reduced housing and income assistance to very low income population and problem of equal opportunity to housing and basic livelihood amenities led to national debate on housing policy. Recognizing the critical importance of housing, the Government of India set up a National Commission on Urbanization to look into inter alia the problem of housing in urban areas. Based on the recommendations of the National Commission on Urbanization (1988), the Government of India adopted the National Housing Policy (NHP) in 1990, which emphasized the enabling and promotional role of Government in the field of urban housing. The policy emphasized the need for private sector involvement in the housing sector.

The National Housing Policy (NHP) and the Seventh Five Year Plan, for the first time, assigned a dominant role for private sector initiative. The Seventh Plan document clearly stated that "the government has to play an active role through developing a necessary delivery system in the form of a housing finance market and taking steps to make developed land available at right places and at reasonable prices "(GOI, 1985). The National Housing Policy in the preamble stated : "there is obviously a need to recognize the role of a multiplicity of actors including the government in the production and improvement of housing on the scale required. Government will need to devise and implement coherent and well set-out shelter strategies, which will enable all the various actors to complement one another and to ensure most efficient utilization of resources". India, thus, adopted mixed financing strategy for housing finance.

The National Urban Housing and Habitat Policy (NUHHP) enacted by the Government of India in 1998 have provided the basic framework for achieving the objective of "shelter for all". It laid down three goals : (i) eradicating houslessness completely throughout the country, (ii) improving the housing conditions of inadequately housed and (iii) providing a minimum level of basic services and amenities to all. It also emphasized the need for addressing the issues of sustainable development, infrastructure development, and strong public-private sector participations (PPPs) for shelter delivery with the objective of creating surpluses in housing stock and facilitating construction of two million houses each year in pursuance of the National Agenda for Governance. The National Agenda for Governance emphasized that housing activity would be an engine for substantial generation of employment and all legal and administrative impediments that stand in the way of vigorous housing activity should be removed forthwith.

In May 2001, the Government of India announced the policy of permitting 100 per cent Foreign Direct Investment (FDI) for the development of integrated township, including housing, commercial shops, hotels and resorts. FDI was also permitted in city and regional level urban infrastructure facilities such as roads and bridges. Development of land and providing allied infrastructure will form an integrated part of townships development. The 1998 National Housing Policy has been replaced by a new National Habitat and Housing Policy, 2007 with land and the development of civic amenities to make land habitable as its two critical elements.

With the above policy developments, the housing sector has witnessed several changes in the last two decades in legal framework and government interventions. The legal initiatives and interventions relate to legislations concerning ownership transfer and development of land; stamp duty and registration laws; rent control legislation; tax policy, particularly relating to housing loans; property and land tax laws and town planning laws regarding urban development plans, zoning legislation, land use changes; and building bye-laws. It also covers urban development authorities; sites and services schemes; slum policy; provision of urban infrastructure; urban transport policy and facilities; the institutions in the public sector relating to housing development and housing finance; and house constructions in the public sector. The repeal of the Urban Land (Ceiling and Regulation) Act has been a significant step in creating favourable conditions in the urban land market. After the repeal of the central legislation, a number of state Governments has also repealed the state level laws.

The Government has also realized the role of the fiscal incentives in housing production in early 90s, though such realization came belatedly. The commitment of the government to increase housing stock in the owners segments was exhibited through a number of concessions from the payments under income and property taxes.

These concessions were being offered to both individuals and corporate sector. Under section 88 of the Income Tax Act, concessions were offered to individuals to deduct interest paid towards the housing loans. This was initially raised from Rs.1,000 to Rs.5,000, then to Rs.15,000, to Rs.30,000, to Rs.75,000 and now up to Rs.2,50,000. These concessions also include a 20 per cent deduction of principal loan repayment. This apart, tax holiday under section 80-1A was extended for a built up area up to 1,500 square feet of dwelling units of approved projects in urban areas other than Mumbai and Delhi to encourage high income housing activities, who could borrow more than five lakh rupees.

These concessions, not with standing their revenue loss to the exchequer, played a very big role in promoting housing activity in the country, particularly in urban areas. Similarly, to boost the housing activities in the corporate or business sector, fiscal concessions were given to them. Prominent incentives include tax holiday to the tune of 100 per cent for the first five years for housing projects and 30 per cent for another five years and 50 per cent exemption of profits of the companies engaged in the housing projects. Especially for the housing finance companies, concessions were also shown by increasing depreciation rate from the present 20 per cent to 40 per cent on new dwelling units.

The Government under the various Five Year Plans also launched a number of housing schemes for weaker section of the community. In Ninth Plan, Basic Minimum Services (BMS) program was initiated, which gave priority attention to "provision of public housing assistance to all shelterless poor families." In 1996, Indira Awas Yojana (IAY) was the first independent housing program launched for rural areas. Other programs launched include National Slum Dwellers Program, A Two Million Housing Program for Economically Weaker Sections, Prime Minister's Grama Awas Yojana, Valmiki Ambedkar Awas Yojana (VAMBAY), National Slum Development Programme (NSDP), Urban Reforms Incentives Fund (URIF), etc. The state governments also have launched rural house construction programs targeting the poor. In urban areas, the major thrust is to create an enabling framework for a well-functioning housing market.

Though, the last two decades have witnessed some evolution in both the focus of and the approaches to housing policy, the problems of acute shortage of housing stock and residential overcrowding remain at the forefront of the current housing policy. Considering the magnitude of supply constraints and growing demand, there is a need for an integrated and holistic approach to address issues of land, finance, legal and regulatory framework, technology support and private and public sector participation (PPP). The government has to create an enabling and conducive policy framework for developing a well-functioning housing market. However, it should be noted that there cannot be one solution and various options and initiatives have to be considered based on local needs and priorities. Moreover, whatever be the approach, it has to take into account the special needs of vulnerable and deprived groups.

Chapter - 3

Problems of Housing Finance

In the earlier chapter, the analysis of supply and demand dimension has clearly shown the widening supply and demand gap for housing stock in India. The recent higher economic growth and rapid urbanization coupled with the government's enabling policy initiatives have also led to the emergence of booming housing market in India. Since housing is capital intensive construction activity, it requires huge investment. Moreover, housing being a basic necessity for the family life, there is a strong household sentiment in favor of homeownership. Homeownership is, in general, viewed as the key investment of typical Indian households. A critical constraint for the development of ownership housing stock is, therefore, mainly centered around on lack of adequate finance at supply and demand end.

In view of the critical importance of housing finance, this chapter focuses on an analysis of type of financing required for housing sector, institutional framework developed for housing finance, role of various financing institutions and emerging issues in housing finance.

3.1 Need and System of Housing Finance

Housing finance is basically required by both suppliers (builders) and users. The builders need finance for land acquisition, purchase of building materials and construction related activities. The household-users need finance for purchase / construction of new house or flat or house-site, for repairs, renovation or extension of already existing houses. Housing being a long durable asset, the finance required is generally a long term credit in nature. As a durable asset, housing structure provides security for house finance. Hence it is made usually against mortgage of house itself as security. Naturally it follows that to become eligible for house finance, the borrower should be the owner of the house with clear title of ownership. Housing finance, thus, enables individual households to acquire land and build their own dwelling units with the basic amenities for a better standard of living.

The need and significance of increasing housing investment are two-fold : First, the consideration of human comforts, decency and dignity as well as social and economic welfare justifying adequate investment to meet the growing demand for housing by the people, and secondly, with economic development and increased income, the people become increasingly more consumer oriented, which would raise the propensity for better quality housing services calling for larger investments to improve housing (Cherunilam and Heggade, 1987). In other words, investment in housing is not only socially desirable but also necessarily becomes economically indispensable. Increasing emphasis and demand for more investment in housing is, therefore, a direct off - shoot of the welfare state goals of the modern governments all over the world (Heggade, Odeyar 1987).

Investment and financing in housing can be broadly divided into two categories : private and public. There are three types of private investment in housing. They are : (i) the investment in owner-occupied housing, (ii) the private investment in housing to earn regular income by way of rent and (iii) the housing investment undertaken by the private industrialists / employers for housing their employees. The public investment in housing is, on the other hand, based on the socio-economic considerations and welfare objectives. The economic objective in housing investment is to promote employment and to contribute to the development of national economy, whereas the social objective intends to improve social welfare of people through a provision of better quality housing to the resource poor community. The owner occupied private housing investment is motivated by the need for and the ability to pay for housing. In other words, the magnitude of investment requirement depends on the type of house constructed. Type of house constructed depends on the nature of access to resources required. Usually, there are three categories of households, who would require investment on owner-occupied housing. The first group, comprising of the business class, industrialists and other rich class of society require the construction of luxury housing units. Financing for construction of these house models does not pose problems, as the owners from their own resources usually meet them. The second is the middle class and salaried families, who require semi-luxury decent housing to live in. This class of households needs financial assistance on cost recovery basis for construction of houses of the type they prefer. The last is the assetless resource poor families, who cannot afford the houses at market rate and require financial support by the Government. There is a good case for credit to low-income households through a subsidy mixed specific housing programs. This is entirely the responsibility of the government, as the low-income households cannot get access to formal housing credit (World Bank, 1984).

Three distinct housing finance systems are evolved worldwide namely public financing, market financing and mixed financing (Mahadeva, 2004). Financing housing activities by government has been the most common method since time immemorial. Most of the developing countries adopted public financing system to meet the housing needs of urban poor and low income and resource poor people in rural areas. The direct public intervention is justified on two grounds : first, organized housing credit market is underdeveloped and not responsive to vulnerable section of the society in most of the developing countries, and second, on equity and welfare considerations, government housing finance programs are considered the effective methods to spread the benefits and transfer resources towards low-income groups (Habitat, 1996). Financing is provided by way of both subsidy and loan. In this system, government intervened as regulator, provider of subsidies and a direct investor. However, the empirical evidences have shown that "Public housing turned out to be expensive, and limited funds meant that such housing could not reach the bulk of urban population. High subsidies meant that only a chosen few benefited. Zoning and building standards were widely flouted. Indeed, illegal housing and squatter colonies became the predominant source of new housing in many cities" (The World Bank, 1972).

The second mode of housing finance system, which is commonly adopted in USA and advanced European countries is the market financing. Housing production is largely dominated by private sector in developed countries. Government, due to huge requirement of funds to meet the total housing needs, restricts its role only as a facilitator. Finance is supplied to consumers at an affordable price by different financial institutions. The main pillar of the market financing system is the existence of a host of financial institutions with private capital. This includes commercial banks, co-operative banks, insurance companies, trusts and mortgage loan companies. Commercial banks raise short-term deposits and insurance and trust companies sell insurance bonds and manage trust and pension funds to raise required funds for housing finance (Fallis, 1990). These institutions control a huge part of the mortgage loans for housing. Mortgage insurance for the housing loans has provided a greater confidence to the private investors and ensured uninterrupted supply of finances. The facility of mortgage insurance has been extended for the acquisition of apartments, purchase of existing building besides the newly constructed units. Notwithstanding the present subprime housing finance crisis, this system of housing finance has succeeded in resolving housing problem in developed countries.

Mixed financing, typically refers to co-existence of all major forms of housing finance mechanisms : public financing, market financing and informal source of financing. This system of house financing is largely found in developing parts of the world mainly for two reasons : First, most of the developing countries have not attempted to organize a full fledged housing finance market with investment-friendly environment as in the market-driven developed economies, and second, the governments of these countries do not have resource capacity to meet the total housing financial needs

The objective of mixed financing approach is to restrict the government housing finance to social housing for weaker sections of the community and encourage private agencies to finance those who can afford to repay from their income. Since the housing financial market is not developed fully, the informal sources of financing play a major role in housing finance. The informal sources include moneylenders, friends relatives and family savings, which are estimated to have met up to 80 percent of the housing finance in developing countries in general and South Asian countries in particular (Okpal, 1994). With the development of financial market, their importance would, however, decline gradually.

As per the RBI guidelines, housing finance is categorized into direct and indirect housing finance. The direct housing finance refers to the finance provided to individuals or groups of individuals including co-operative societies. Within this conceptual framework, the RBI has stipulated the following types of bank finance under the direct housing finance :

- Bank finance extended to a person who already owns a house in town / village, where he resides, for buying / constructing a second house in the same or other town / village for the purpose of self-occupation.
- Bank finance extended for purchase of a house by a borrower, who proposes to let it out on rental basis on account of his posting outside the head quarters or because he has been provided accommodation by his employer.
- Bank finance extended to a person, who proposes to buy an old house, where he was previously residing as tenant.

- Bank finance granted only for purchase of plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within a period of two years from the availment of the said finance.
- Bank finance granted for carrying out alterations / additions / repairs to the house / flat existing or already financed by the bank

The indirect housing finance refers to bank finance granted to housing finance institutions, housing boards and other public housing agencies and private builders primarily for augmenting the supply of serviced lands and constructed dwelling units.

Housing finance is a typical market-oriented system. Though, housing is considered as infrastructure development, housing finance distinguishes itself from other forms of financing social goods such as education, health care, etc. It is generally considered as a long-term credit as the investment is made for creation of durable asset with a long life period. Both land and house have markets and are saleable commodities. However, for housing credit market to function efficiently, a well functioning land and house market is essential. Then only the financial market would be in a position to meet the housing financial needs of households / people, who can afford the services including the cost on viable basis.

3.2 Global Scenario in Housing Finance

In view of the critical importance of housing finance, it has been witnessing substantial growth world-wide in the recent past. In fact, in many countries, it has been recognized as the driver for economic growth. There were also many favourable factors, which also encouraged housing finance boom. Lower inflation, lower interest rates and increasing real estate prices provided the necessary environment for the growth of housing finance. With the recent spurt in the GDP growth across many countries, people have been aspiring to realize their life time dream of living in their own house of choice. Moreover, with the application of innovative technology, data collection, processing and customer services have acquired efficiency through automation and transaction costs reduced to the minimum. New delivery channels have come into use in the IT environment. Many countries have tax incentives for the borrowers. The legal regime was made lender-friendly with appropriate foreclosure laws. The mortgage loan securitization route has helped the lending institutions to handle larger volume of loans with lower regulatory capital requirement besides transfer of risks. All these factors have contributed towards global growth in the housing finance.

In United States (US), Fannie Mae and Freddie Mac were the principal government sponsored enterprises in the housing finance sector. Their market share in the housing loans was as high as 70 percent. These two enterprises enjoyed implicitly government guarantee and consequently raise long term funds globally at low interest rates to finance home mortgage loans at relatively cheaper rates. Fixed rate mortgage loans were offered even for 30 years maturity period. These two organizations were instrumental in the securitization and development of secondary markets for home loans. The long-term fixed rate mortgages also provided hedge against interest rate risk for home loan borrowers, besides facilitating finance for consumption purpose.

Europe, which was known for strong banking network, has also a very advanced mortgage loan market. However, Europe does not have any government sponsored institutions in the mortgage loan market. The foreclosure practices also vary from country to country depending on the legal regimes of the countries, which are not uniform. In Italy, for instance, a foreclosure will fructify in 120 months, whereas it takes just six months in Sweden, and 9 months in Netherlands. Securitization process is adopted by most of the banks to raise funds. In China, the government involvement is almost total in providing housing. Chinese banks do not have any significant exposure to housing loans.

In Latin American countries, on the other hand, the state sponsored mortgage banks are engaged in the home loan activity. The commercial banks' involvement in housing loans is limited due to many unfavorable factors. Besides unsatisfactory legal situation with regard to the property title deeds, macro-economic instability, high inflation, volatile real estate prices and non-availability of long term funds at reasonable interest rates also come in the way of the banks' active involvement in the home loan market. Similarly, housing finance is not a flourishing activity in the transition economies. Many countries in this category do not have strong and vibrant banking system, reliable legal system to confer property rights and financial stability to promote on a massive scale housing finance.

3.3 Recent Subprime Housing Finance Crisis

The housing finance market had undergone fundamental changes world-wide during the last two decades. Traditionally, there were limited sources of mortgage financing as the banking system were hesitant to fund their short term deposits to long term mortgage lending. The lending terms were less attractive; required down payments usually about half of the home's purchase price, the duration of mortgage loans was short usually ten years or less and high fixed interest rates on loans reflecting the illiquidity, unhedgeable interest rate risk and default risk associated with mortgages. The shift from reliance on short term deposits to greater use of capital markets in recent years represented a great sea change in the mortgage finance market.

This revolutionary change took place, first, in the US in early 1970s. The US government authorized Fannie Mae, a privately owned government sponsored enterprise to operate in the secondary market for guaranteed mortgage loans. To compete with Fannie Mae in the secondary market, another government sponsored company Freddie Mac (the Federal Home Loan Mortgage Corporation) was created. In 1980s, Freddie Mac introduced collateralized mortgage obligations (CMOs), which separated payments from a pooled set of mortgages into strips carrying different effective maturities and credit risks. Since 1980, the outstanding volume of mortgage backed securities has increased from less than US $200 billion to more than US$4 trillion. Alongside these developments, the private mortgage insurers bundled housing loans not handled by the Freddie Mac, which amounted to around US$2 trillion in home mortgage debt. By 1990s, increased reliance on securitization led to a greater separation between mortgage lending and mortgage investing even as the mortgage and capital markets became more closely integrated. More than 60 percent of the home mortgage market was securitized compared with less than 10 percent in 1980s.

The on-going global financial crisis, the worst since the depression of 1930s is, thus, mainly driven by subprime mortgage housing loans in the United States (US). With the real estate boom and appreciating house prices, the banks considered safe to lend against security of mortgage as potential repayment problems could be mitigated by rapidly appreciating market prices for the collateral houses. However, when the asset prices started falling, the housing loans against mortgage become subprime loans and the banking system was faced with the problem of growing non-performing assets (NPAs). This was more so in the context of recession, when the probability of most of the housing loans becoming ninja loans was - no income, no job and no assets, very high. This situation led to banking crisis in the US.

While considering the problem of housing finance, the following developments, which led to subprime lending, should be taken into account :[4]

- The shift from traditional model of mortgage markets based on portfolio lending to securitization market is fraught with high risks as it is difficult to monitor the originators of home loans and ensure that they have incentives to make good loans.
- A major driving force for the housing finance revolution in the global market was the steady decline of interest rates and easier credit terms for long term and illiquid mortgage loans.
- There has been a global trend to easier credit conditions in obtaining housing finance; margins for mortgage loans have generally fallen and loan to value ratios have risen.
- Mortgage contracts offered more consumer choice; greater use of variable rate mortgages, which have traditionally relied on fixed rate mortgages.
- The transition from a highly regulated system to a more market driven system also boosted the housing finance market and linked closely to liberal lending conditions in capital markets. The capital markets emerged as the main source of housing finance.
- The off-balance securitization and the development of liquid derivatives markets eased the spreading and trading of risk which attracted the global investors to buy financial products backed by subprime mortgages.
- Technological advances facilitated these developments and led to commoditization of mortgages.
- The capacity to withdraw owner equity from appreciating house prices has materially increased while there is a boom in the real market.

4. Compiled from papers "The Housing Finance Revolution" presented at Symposium on "Housing, Housing Finance and Monetary Policy" held at Jackson Hole, Wyoming, 29-31 September 2008 by William Roy White, Economic Adviser, Bank for International Settlement.

Chapter - 4

Institutional Framework for Housing Finance in India

Traditionally, informal sectors played a major role in housing finance. Housing was considered more as a family affair and private investment. The investment required, which was limited and met either from family saving or borrowings from informal sources. With the rapid growth of urbanization and improved income as a result of economic development since Independence, the government recognized the critical importance of housing finance and need for development of multi-institutional network to meeting the growing investment needs of the housing sector. This chapter, therefore, focuses on the institutional development for housing finance since Independence.

4.1 Institutional Development for Housing Finance

Evolution of formal housing finance began with the establishment of public sector agencies for housing by both Central and State Governments. Initially, the government financial support to housing had been centralized and directed through the State Housing Boards (SHB) and development authorities. Attempts were also made to organize Co-operative Housing Financing Societies (CHFS) at primary level, Apex Co-operative Housing Federations (ACHFs) at state level and National Cooperative Housing Federation at national level with an Act of Parliament to deploy housing credit to their members. In fact, co-operatives were the only source of financing for housing during the first three Five Year Plan periods. The National Co-operative Housing Federation now operates through 26 Apex Co-operative Housing Federations in the states. There are nearly 90,000 Primary Co-operative Housing societies with 6.5 million individual members.

The nationalization of the insurance sector in late fifties and subsequently the commercial banks, has further paved the way for implementation of various social housing schemes by the governments and increasing volume of financing for housing activities in the country. The Life Insurance Corporation (LIC) was mandated to invest 25 per cent of its control funds in socially oriented schemes including housing development activities through government. Similarly, the General Insurance Corporation (GIC) was statutorily required to invest 35percent of its investment funds through State governments for housing and for loans, bonds, debentures and preference shares of Housing and Urban Development Corporation (HUDCO). Employees" Provident Fund (EPF) has been another important source of housing finance for salaried class.

In spite of these developments, the housing scenario deteriorated rapidly during the fifties and sixties. The living conditions of the majority of people, especially of those, who formed the economically weaker section, were abysmal. Shelter, along with food, was the burning issue of the day. The cost of land and building materials were soaring high, taking housing beyond the reach of the common man. The State Housing Boards and other housing agencies engaged in the housing construction were continuously facing the problem of inadequate finance.

It is in this environment and to accelerate residential construction activity in the country that Government of India decided in 1970 to establish the Housing and Urban.

Development Corporation Ltd, (HUDCO) as a fully owned Central government enterprise with the following objectives :

- To provide long-term finance or undertake directly construction of houses for residential purpose in urban and rural areas
- To finance or undertake wholly are partly, the setting up of new satellite towns;
- To subscribe to the debentures and bonds to be issued by the State Housing Boards, ACHFs and other housing agencies for the purpose of financing housing and urban development programs;
- To finance or undertake the settings up of building materials industries ;
- To administer the funds received, from time to time, from Government of India and other sources as grants or otherwise for the purpose of financing or undertaking housing and urban development programs in the country ;
- To promote, assist, collaborate and provide consultancy services for designing and planning programs for housing and urban development.

HUDCO was constituted as a national body to finance housing and urban infrastructure activities including housing.

The evolution of formal housing financial institutional development, in fact, began with the establishment of National Housing Bank (NHB) as an apex housing finance institution in 1988. Based on the recommendations of the High Level Committee set up by the Government of India in June 1986 under the Chairmanship of Dr. Rangarajan, then Deputy Governor of RBI, the NHB was set up as a subsidiary of Reserve Bank of India (RBI) to provide refinance facilities to banks, housing finance companies, Co-operative Housing Finance Societies etc. As an apex body, it has regulatory, promotional and refinance roles. Accordingly, the mandate of NHB was to promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population. It was expected to mobilize resources by issuing bonds besides share capital from RBI, which at present stands at Rs.450 crore and a line of credit from RBI.

The United Nation's declaration of 1976 as the International Year of Shelter for the Homeless prompted the Government of India to adopt multi-agency approach for financing housing. In 1977, the Housing Development Finance Corporation (HDFC) was set up, as the first Company of its kind in the private sector, to offer home loans in India. It was sponsored by the ICICI and IFC. It has contributed to develop the housing finance for growing middle class as a viable banking business. HDFC has now a network of 180 branches all over the country. Dewan Housing Finance Company Ltd. came into existence in 1984. Later Life Insurance Corporation of India promoted LIC Housing Finance Co. Ltd. in 1989. The new economic policies launched in early 1990s paved the way for the entry of commercial banks into the housing finance sector. The entry of commercial banks has also laid the foundation for the expansion of the housing sector and for evolving a vibrant housing finance market.

4.2 Entry of Commercial Banks to Housing Finance

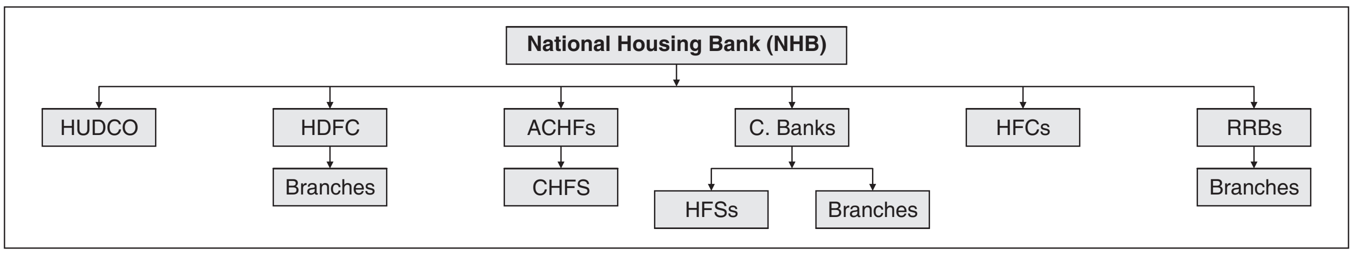
Although the commercial banks were the largest mobilizer of savings in the country, traditionally, banks were rather reluctant to finance for housing. This was mainly because banks considered housing finance as a long-term credit against mortgage, which was not in their business domain. The difficulties, particularly the legal technicalities regarding title, valuation etc., in accepting immovable property as security and in realizing the amount lent, in case of default, discouraged banks to advance money on mortgage of real estate in general. Banks considered housing loans as unproductive and inflationary. Granting housing loans was considered a function of institutions specializing in housing finance, namely the HUDCO and Co-operative Housing Societies. The Banks preferred financing the working capital needs of industry. Banks' participation in financing housing in India has been very limited (Cherunilam and Heggade, 1987). Moreover, as their resources are short term maturity based, they were reluctant to tie their resources in long term ventures. Though the nationalization of fourteen major commercial banks in 1969 opened a new era of 'social and innovative' banking in India, housing finance continued to be outside their portfolio.

Demographic pressure on urbanization with the economic development, however, raised the demand for housing and for housing finance. Proliferation of slums in bigger cities has compelled the Government to consider the need for directing banks to include housing finance in their lending portfolio. A study Group on Housing Finance Institutions set up by the RBI in September, 1987 under the Chairmanship of Dr. Rangarajan, then Deputy Governor, made recommendations, inter alia, the role that can be played by the commercial banks in housing finance. Based on the recommendations of the Study Group and considering the growing importance of housing sector and the massive housing shortage prevailing in the country, the Reserve Bank of India had advised banks in early 1990s to enter the domain of housing finance. Banks were asked to allocate annually a minimum of 3 per cent of their incremental deposits for housing finance.

The entry of commercial banks was definitely a landmark in the housing finance sector. Initially, they entered the housing finance market cautiously on small scale. Before directly entering into housing finance, some banks have found expedient to set up separate subsidiaries to specialize in housing finance. Canara Bank, Vijaya Bank, Corporation Bank, and ING Vysya Bank have adopted this route and established their own housing finance subsidiaries. Banks like Syndicate Bank opened specialized Housing Finance Branches dealing exclusively with housing finance. Towards the end of 1990s, against the backdrop of lower interest regime, industrial slow-down, sluggish credit off-take and ample liquidity, commercial banks recognized the potential of housing finance as an alternative avenue to lend their surplus funds. The rising disposable incomes, growing demand for housing, stability in real estate market and fiscal incentives made housing finance an attractive bankable business.

From April 2004, the banks were also allowed to treat the direct housing finance extended up to Rs.10 lakh to individuals as priority sector advances. Banks opened their doors for home loans, more so, when they found that the credit intake in the other segments was not growing during the last few years. With the entry of the new generation banks into housing finance, the whole complexion of home loans changed dramatically. Through the muti-media publicity and by offering highly attractive competitive price and customer-friendly terms, they created a new home loan market. Their target group was the professionals and high-income middle class in urban areas. Interest rate-war followed, when more players entered the field. Public sector banks could not stay behind, especially when they found their own customers were lured by other banks for home loans. Consequently, the housing sector has now emerged as one of the sectors attracting a large quantum of bank finance.

Thus, with the entry of commercial banks, the institutional set up for housing finance in India emerged as under :



Housing Finance Companies (HFCs) are exclusively set up for providing finance for housing development. They include besides private sector sponsored housing finance subsidiaries set up by banks for housing finance. Since most of the commercial banks are now directly undertaking housing finance, the housing finance subsidiaries sponsored by commercial banks have merged with them. There are also other institutions involved directly or indirectly in undertaking housing finance like NABARD, Non-banking Financial Institutions (NBFIs), cooperative banks, LIC, GIC, and Employees' Provident Funds etc. Their role is only marginal.

4.3 An Overview of Performance by Various Institutions

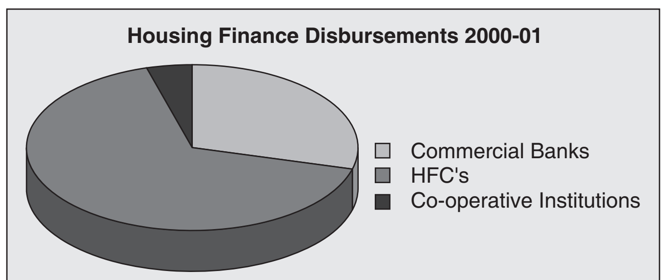
The housing finance has witnessed phenomenal growth during the last ten years. The housing finance as percentage of GDP increased from 3.4 percent in 2001 to 7.25 percent by 2005. The higher economic growth, burgeoning middle class, increasing purchasing power, changing demographics and increasing number of nuclear families, scaling down of real estate prices and a softer interest rate regime enabled the housing finance sector to grow at a phenomenal rate of around 41 percent on average during the last five years (NHB, 2005). Table-4.1 shows the performance of various agencies in housing finance in recent years. From the Table, it may be seen that during the last five years, growth in housing finance was driven by commercial banks.

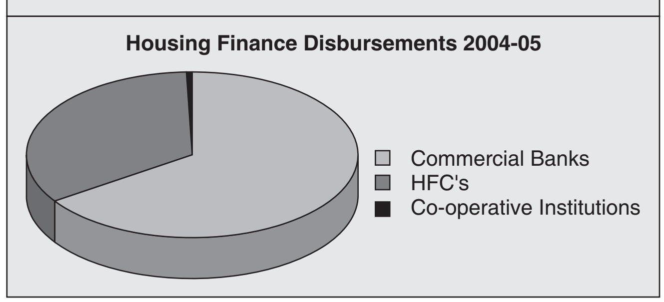
Table - 4.1 : Housing Finance Disbursements by various Institutions

(Rs in Crore)

Institutions	2000-01	2001-02	2002-03	2003-04	2004-05
Commercial Banks	5553	8566	23553	32816	50398
HFCs	12638	14614	17832	20862	26000
Co-operative Institutions	868	678	642	623	421
Total	**19059**	**23858**	**42027**	**54301**	**76819**
Annual Growth (%)	35.07	25.18	76.15	29.21	41.47

Source : Report on Trends & Progress of Housing In India, June, 2005.





There was an almost nine-fold increase in the commercial banks' lending to housing sector. In absolute terms, commercial banks' lending to housing has increased from Rs.5553 crore in 2000-01 to Rs.50398 crore in 2004-05. As a result, the market share of commercial banks increased from 29 percent in 1999-2000 to 66 percent in 2004-05. Although the amount disbursed by the HFCs increased from Rs.12638 crore in 2000-01 to Rs.26000 crore in 2004-05, their market share declined from 66 percent to 34 percent during this period. Similarly, there is a significant decline in the market share of Co-operative Housing Financing Agencies. In their case, even the amount disbursed for housing witnessed steady decline.

Thus, the housing finance sector has grown remarkably well during the recent years, mainly spearheaded by the keen interest evinced by the commercial banks in this sector. The growth potential further gathered momentum as a result of the higher economic growth, real estate boom, lower interest rate and fiscal incentives given to housing loans. In order to increase the market share, in the absence of preferable alternative avenues for investment, the lending institutions were competing with each other by offering very attractive terms to customers in the form of lower rate of interest, liberal collateral requirements, longer repayments period and higher loan-value ratio. This also contributed the growth of housing finance by commercial banks. Till recently, many have offered options of floating rate interest besides fixed rate ones. Besides, speedier processing and disbursement, efficient advisory services and reduction or waiver of upfront fees have also facilitated their widening market penetration.

4.4 Supply - Demand Gap in Housing Finance

In the recent years, a significant development in credit markets all over the world has been the rapid growth of credit availed for housing by individual households. While household housing credit market has already developed in the developed countries, it is only recently that the household housing credit market has started developing in India. On demand side, boost to households' current incomes as a result of high economic growth, rapid urbanization particularly emergence of a number of second tier cities as upcoming business centres and increase in IT and IT related activities have positive impact on households' demand for housing credit. On supply side, lower inflation and lower interest rates, higher income levels, higher asset prices, financial liberalization and more liquidity have boosted the confidence of financial intermediaries to enter into the housing credit market. The removal of restrictions on bank lending to the housing sector has also eased the supply-led credit constraints and facilitated higher credit flow by banks to this sector.

The growth in housing and housing finance activities in recent years, thus, reflect the buoyant state of housing finance market in the country. The housing investment as the proportion to GDP has increased from 3.4 percent in 2001 to 7.25 percent by 2005. However, this ratio is very low compared to other countries. The proportion of housing investment to GDP in UK is 54 percent, in USA 57 percent, 40 percent in the European Union, 17 percent in Thailand and 34 percent in Malaysia (NHB, 2005). Even in most of the developing countries, it is in the range of 25 percent to 40 percent. Assuming India will reach housing loan / GDP ratio of 10 percent during the Eleventh Plan period, the demand for housing finance is projected to go up to Rs.3.79 lakh crore per annum.

As per the Eleventh Five Year Plan estimates, the housing sector requires Rs.3,61,318 crore of investments, consisting of Rs.1,47,195 crore required for mitigating housing shortage at the beginning of the Eleventh Plan and Rs.2,14,123 crore for new additions to be made during the Eleventh Plan period. As against this requirement, the present total outstanding housing loans is only Rs.76,819 crore. There is already a shortage of 24.71 million houses in urban areas alone (Eleventh Plan). During the Eleventh Plan period, total housing requirement including the backlog is estimated at 26.53 million. Every year, nearly, 2.5 million houses are now built in India. But the nation's requirement is more than 6.5 million per annum, besides renovation of dilapidated houses. This clearly shows the tremendous potential and opportunity for future growth in the housing finance sector.

From the above data, it is clear that the supply and demand gap in housing finance is at present very wide and is expected to widen further with high economic growth, rapid urbanization and growing number of nucleus individual families. In the Eleventh Plan, it is expected that the housing finance disbursals by banks and other housing finance institutions would grow at the rate of about 15 percent per annum during the Eleventh Plan period. Based on this, it is estimated that the flow of credit disbursal from the Housing Finance Institutions would be Rs.7.75 lakh crore during the Eleventh Plan period. This amounts to Rs.1.55 lakh crore per annum. This requires tremendous growth in supply side of housing finance, which really poses challenge to institutional players in housing finance market. Since the commercial banks have vast branch network throughout the length and breadth of the country and major mobilizers of saving, the banking sector is expected to play an important role in providing credit to meet the growing housing needs in the country.

The Key issues involved on supply side which need to be looked into in order to meet the demand and supply gap in housing finance are as follows :

1) To strengthen the multi-institutional network based on multi-agency approach that would enhance the flow of housing finance at competetitive terms to meet the growing investment needs of housing sector.
2) To identify potential sources and mobilize resource base to meet the required long term funds for housing investment.
3) To rationalize and simplify the land legislation, procedure for registration, structure of stamp duties and documentation and facilitate development of land and real estate market to ensure availability of land for development of housing sector.
4) To provide fiscal incentive and conducive monetary policy for sustainable development of housing finance market and entry of professional suppliers of housing products.
5) To link formal institutional net work with informal network, which are the major sources of housing finance for lower income households both in urban and rural areas.
6) The government intervention to provide low-cost housing stock to low income households, who would be unable to access housing finance from formal financial institutions.

Chapter - 5

A Review of Housing Finance by Commercial Banks

With the entry of commercial banks, housing finance witnessed phenomenal growth. The banks have entered the housing finance market with great vigor and consequently, they are now the major players in the field. This phenomenon has brought into fundamental changes in the housing finance system in India. Housing finance has also emerged as an important segment of the credit portfolio of the banks. Six years ago, in its Annual Report 2002-03, the Reserve Bank of India has expressed its concern in a special section: Housing Finance-New Driver of Bank Credit. Referring to the huge increase in the volume of housing loans and the increase in the number of borrowing accounts, the Report has cautioned, “The cause for potential worry is that by lowering the lending rates, banks are approaching the cost of funds”. It cautioned, “Banks need to be alert against an unbridled growth of housing finance and should take due precautions in the matter of interest rates, margin, rest period and documentation”.

Despite phenomenal growth in housing finance by commercial banks in India, there exists mismatch between demand and supply, regional disparity in disbursement, rural and urban divide and poor outreach to weaker sections of the community. It is also important to note that the on-going global financial crisis was mainly caused by housing finance in US. The need for critical review of housing finance by commercial banks has, therefore, become imperative. In this chapter, an attempt is made to analyze the growth pattern of the housing finance with a view to identify the emerging issues and concerns in housing finance by the commercial banks.

5.1 Exposure to Housing Finance : An Overview

Housing finance as bankable business is a recent phenomenon in India. In the past, banks were providing housing loans at concessional interest rate to their staff on long-term maturity basis. The volume of business was, however, very small and banks never considered housing finance as their business proposition. In 1979, the banking system, as a whole, was allowed to provide funds of the order of Rs.75 crore per annum for the housing sector mainly through housing agencies. Otherwise, until early 1990s, there were several restrictions for granting of housing loans to individuals directly. The restrictions were in the form of (i) limits on total amount of housing loan to be given by all the banks in a given year; (ii) limits on maximum loan amount to individuals; prescription of rate of interest according to size of loan amount; (iv) prescription of margin requirement; and (v) prescription of maximum period of repayment. All these restrictions were removed in the early 1990s and banks were given freedom to decide the quantum, rate of interest, margin requirement, repayment period and other related conditions. These relaxations paved the way for banks entry to housing finance sector.

Initially, the banks were cautious in their approach in housing finance. Several banks set up housing finance subsidiaries, which functioned as independent units. In late 1990s, against the backdrop of lower interest regime, industrial slow down, sluggish credit off-take, and ample liquidity, commercial banks recognized the potential of housing finance as an alternative avenue to lend their surplus funds. The high economic growth and resultant rising disposable incomes, growing demand for housing, stability in real estate market and fiscal incentives also made housing finance an attractive bankable business. As per the guidelines issued by RBI in the early 1990s, Banks are expected to allocate 3 percent of their incremental deposits for housing finance. From April 2004, Banks are allowed to treat housing loans up to Rs.10 lakh to individuals, which was subsequently increased to Rs.15 lakh as priority sector lending.

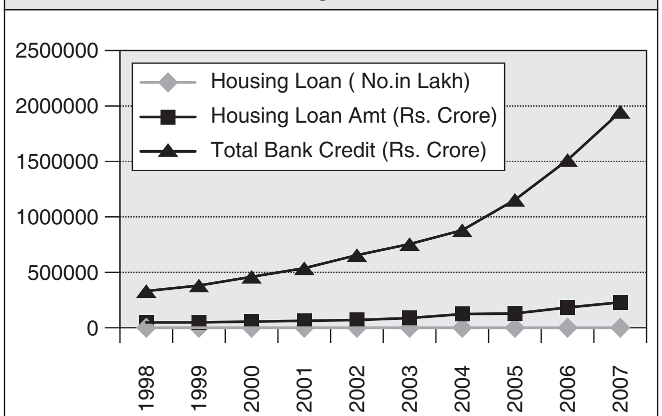
During the last ten years, the housing loans lent by banks grew at an average annual rate of 48 percent as compared with 20.3 percent annual growth rate of overall bank credit. Table-5.1 shows the recent trends in housing loans and overall bank credit during the last ten years. The housing loan amount disbursed increased significantly from Rs.9,631 crore in 1998 to Rs.1,28,923 crore by March 2007. Banks, despite being late entrants, have overtaken all other financial institutions in housing finance. Their market share, which was less than 25 percent in 1999-2000, has increased to 70 percent in 2006-07. The average growth rate during the last seven years works out to 44 percent per annum (Table-4.2). There was a sudden spurt in the growth of housing finance during 2002 to 2005. During 2003-04, housing finance witnessed a peak growth rate of 74 percent. With the phenomenon of rapid credit expansion to the household sector, the RBI has initiated several prudential policy measures. Consequently, in the year 2007, there was a slow-down in the growth rate to 25 percent. The overall exposure of the commercial banks in housing finance now constitutes almost 70 percent of the total housing finance disbursed by all institutions.

Table - 5.1 : Housing Loans by Commercial Banks - All India

Year (March)	Housing Loan Accounts (Number lakh)	Housing Loan Amount (Rs.crore)	Total Bank Credit (Rs.crore)	Share in Total Credit (Percentage)
1998	10.80	9,631	3,29,944	2.92
1999	12.75	12,377	3,82,425	3.14
2000	22.53	18,525	4,60,080	3.91
2001	24.83	25,412	5,38,434	4.64
2002	18.16	32,826	6,55,993	4.88
2003	24.46	49,067	7,55,969	6.48
2004	30.35	85,346	8,80,312	9.55
2005	36.66	1,26,797	11,52,467	11.02
2006	45.21	1,82,167	15,13,842	12.03
2007	50.10	2,28,923	19,47.099	11.76

Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI (various issues)

Growth in Housing Finance 1998-2007



The number of loan accounts has increased from 10.80 lakh to 50.10 lakh during this period. It is important to note that while the loan amount increased thirteen fold, the number of beneficiaries has increased only five fold showing increased number of bigger loans for housing. The average loan amount has gone up from Rs.102354 in 2001 to Rs.456932 in 2007, more than fourfold increase (Table-5.2). The share of housing loans in the total banks loan portfolio has increased sharply from 2.92 percent to 11.76 percent during 1998 and 2007. The housing loans, in fact, occupy very prominent place in both priority sector lending and retail credit. It accounts for 53 percent of the total retail credit of almost all banks. The banks have also consistently exceeded the targets prescribed for providing housing loans (3 percent of the incremental deposits) since 2001.

Table - 5.2 : Trends in Housing Loans Provided by Banks

Year	Annual Growth Rate (Percentage)	Average Housing Loan per Account (Rupee)
2000-01	37.2	102354
2001-02	29.2	180728
2002-03	49.5	200594
2003-04	73.9	281205
2004-05	48.6	345830
2005-06	43.7	402935
2006-07	25.7	456932
Average	43.9	281511

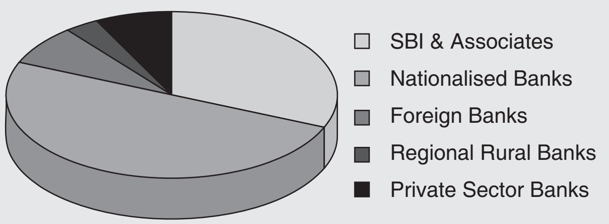
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI (various issues)

In Table-5.3, the contribution and growth performance of various bank groups in housing finance during the last five years is analyzed. The data analysis in the table shows that housing loans are increasingly finding favour among all categories of banks - public and private sector banks as well as foreign banks. While State Bank Group witnessed six fold increases in housing finance, the Nationalized Banks have increased their housing loans almost sevenfold during the period between 2001 and 2007. Even the foreign banks were not lagging behind in housing finance. Foreign banks have also increased their lending to housing sector almost six times. There is, however, only a moderate growth in the lending of Regional Rural Banks (RRBs) to the housing sector. Their housing loans disbursement has increased only 3.8 fold. As against this, the growth performance in the private commercial banks are more than 39 fold. This clearly shows that in recent years, the private sector banks have become very aggressive in the housing loan segment. The growth in the housing finance in recent years was driven mainly by the private sector banks.

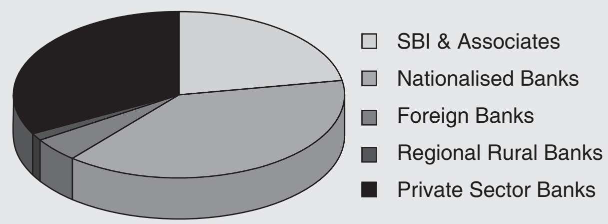
Although, there was six fold increases in the housing finance by both the State Bank of India group and other nationalized banks, there was a significant decline in their shares in the total housing finance lent by the banking sector. The share of the SBI group in the total

Table - 5.3 : Bank group wise Housing Finance : All India (as on March 31)						
Bank Group	**2001**		**2004**		**2007**	
	No. of Accounts (lakh)	**Amount (Rupees In crore)**	**No. of Accounts (lakh)**	**Amount (Rupees In crore)**	**No. of Accounts (lakh)**	**Amount (Rupees In crore)**
SBI & Associates	8.08	7978.80	9.23	21248.59	15.75	51166.73
Nationalized Banks	12.37	12684.63	13.88	34156.14	21.51	88433.29
Foreign Banks	0.35	2011.94	0.63	5705.76	0.76	11355.07
Regional Rural Banks	1.94	824.73	1.85	1913.50	2.68	3167.03
Private sector Banks	2.08	1912.32	4.75	22322.45	9.40	74801.23
Total	24.83	25412.42	30.35	85346.44	50.10	228923.35
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI (Various Issues)						

Sources of Housing Finance : 2001



Sources of Housing Finance : 2007



housing finance by the banking sector has declined from 31 percent in 2001 to 22 percent in 2005. In the case of other nationalized banks also, there was a sharp decline in their share from 50 percent to 38 percent during this period. As against this, the share of the private sector banks in the total lending to the housing sector increased from less than 7 percent in 2001 to 33 percent in 2007. ICICI Bank and HDFC Bank are the major drivers of housing loans in the private sector. In the case of RRBs, on the other hand, the share in the total housing finance has declined from 3.2 percent to 1.38 percent during the reference period. This has serious implications for rural housing development.

Analysis of the performance of banks in housing finance clearly indicates the growing preference and concentration of banks in direct retail housing finance rather than indirect housing finance. The composition of housing loans has also undergone fundamental change during the last seven years. Table-5.4 shows the classification of housing loans according to size of loans. Prior to 2001, three-fourths of the bank loans were in the range of less than Rs.5 lakh. The beneficiaries of these small loans were 24.42 lakh out of the total beneficiaries of 24.82 lakh. Their share was 98 percent. Though outstanding housing loans in the size of Rs.2 lakh to Rs.5 lakh continued to account for the single largest share in the overall housing loans, there was a significant decline in the share of these loans during the last five years. The reduction is significant in the case of loans below Rs.25000. The number of the beneficiaries has gone down from 5.37 lakh to 2.05 lakh and the share in loan amount declined from 2.17 percent to 0.23 percent. The share of these small loans (below Rs.5 lakh) declined from 75 percent to 42 percent. The number of beneficiaries also declined from 98 percent to 82 percent.

Table - 5.4 : Classification of Housing Loans by size of Loans (as on March, 31)						
Loan range (Rs. in lakh)	**2001**			**2005**		
	No. of Accounts	**Amount (Rupees In crore)**	**Percentage Share**	**No. of Accounts**	**Amount (Rupees In crore)**	**Percentage Share**
Below 0.25	536572	552.09	2.17	205307	292.14	0.23
0.25 - 2.00	1620279	9543.99	37.56	1643585	17110.97	13.49
2.00 - 5.00	285328	9232.89	36.33	1174191	36099.24	28.47
5.00 - 10.00	30933	1996.41	7.86	447699	29086.90	22.94
10.00 - 25.00	7639	1053.29	4.14	164352	21958.18	17.32
25.00 - 50.00	1278	322.53	1.27	23740	6883.51	5.43
50.00 - 100.00	380	208.27	0.82	5475	3202.89	2.53
Above 100.00	388	2502.95	9.85	2101	12163.20	9.59
Total	**2482797**	**25412.42**	**100.00**	**3666450**	**126797.03**	**100.00**
Source : Report on Trend & Progress of Housing in India 2005, NHB.						

As against this, the growth in number of accounts and loan amounts has been robust on higher loan slabs. There is a sharp increase in both loan accounts and loan amounts in the higher slab loans above Rs.5 lakh. The growth rates were most significant in the case of the slab Rs.5 lakh to Rs.10 lakh and Rs.10 lakh and upto Rs.25 lakh. There is also significant increase in the number of accounts and loan amount disbursed in the loan slabs Rs. 25 lakh to Rs.100 lakh. This clearly demonstrates that the commercial banks are increasingly catering to the housing needs of upper middle class. In the case of Rs.100 lakh and above, though there is a significant increase in number of accounts and loan outstanding, its share in the total loan outstanding remained unchanged.

The robust growth experienced by the commercial banks has been triggered by a number of factors, some of which are listed below :

- RBI's policy of treatment of housing finance as priority sector advance upto Rs.15 lakh per individual irrespective of location and liberalized prudential requirement for housing loans in assigning risk weight of 50 percent, instead of earlier 100 percent.
- Lowering of interest rate as a result of keen competition among the banks for housing finance.
- Tax rebates on repayment of principal and interest on housing loans.
- The demand for credit by the industrial sector slowed down, especially between 1996-97 and 2001-02 due to their focus on restructuring and consolidation.
- High economic growth and expanded job opportunities particularly in the IT and IT - related activities resulted in rising disposal income level of the middle class.
- Perception of the banks that mortgage housing loans are safe and consequently, keen competition among banks to increase housing finance.
- Increase in real estate prices and also stock market boosted the household demand for bank credit.
- Entry of professional developers and builders in the housing sector.

A study conducted by NHB covering a sample of 6.5lakh housing loans in the year 2004-05 has brought out some of the key features of the housing finance. They are as follows :

- Average loan size was Rs.255316 with median loan size of Rs.200000 and the proportion of small loans below Rs. 2 lakh at 58.94 percent in 1998-99. In 2004, average loan size rose to Rs.408450, with median loan size of Rs.271000 and the proportion of small loans below Rs.2 lakh at 39.97 percent.
- Upgradation loans were in the range of 10 to 20 percent in different regions.
- Over 44 percent of loans were of 10-15 years' maturity and 45 percent below 10 years.
- 20 to 35 percent of loans were on fixed interest rate contracts and majority on floating rate contracts.
- Self-employed borrowers constituted less than 15 percent of borrowers and majority were from the salaried middle class.
- In nearly 40 percent of the housing loans, co-obligants were other borrowers.

Besides direct lending to individuals for housing, the banks also undertake indirect housing finance by way of term loans to housing finance institutions, housing boards and other public housing agencies etc. In order to enhance the flow of resources to housing sector, RBI allows the banks to grant term loans to housing intermediary agencies against the direct loans extended by these agencies for housing purpose. The indirect housing finance also qualify for categorizing as priority sector lending subject to a ceiling of Rs.5 lakh of loan amount per housing.

Unlike the direct housing finance, the indirect housing finance has not witnessed significant growth. During the period 1999-2003, the indirect housing finance by the banks has grown from Rs.4,046 crore to Rs.6,796 crore, representing 68 per cent growth. The major contribution for this growth came from public sector banks and foreign banks. Though the public sector banks maintained more or less their market share, in the case of SBI and Associates and Indian Private Banks, the market share declined. The foreign banks, on the other hand, have increased their market share significantly. In recent years, the growth in the indirect housing finance segment is negligible. The banks preferred to finance household directly rather than indirectly through agencies.

The banks were also allowed to invest in bonds issued by NHB / HUDCO exclusively for financing of housing and such advances were eligible for inclusion under priority sector advances. In the year 1999-2000, the banks have Rs.2,268 crore in NHB / HUDCO bonds. In subsequent years, the amount invested by banks in such bonds declined significantly. In 2001-02, the banks' total investment in bonds was only Rs.478 crore. In the year 2002-03, this has gone up to Rs.3,490 crore.

5.2 Regional Disparity

Though, there was a substantial growth in housing finance by commercial banks, there exists wide regional disparity. Table-5.5 shows region-wise population and concentration of housing loans by commercial banks during the recent years. From the table, it may be seen that almost 62 percent of the housing loans were concentrated in Southern and Western Regions having population share of only 36 percent. The Southern region with a population share of only 22 percent, accounts for 36 percent of the housing loans disbursed. Similarly, the Western region with population of 14 percent accounts for 26 percent of the total housing loans disbursed during the year ended 2007. As against this, the Eastern and North-Eastern regions with population of 26 percent account for only 10 percent of the banks' housing finance. Even in the case of Central region with population of 25 percent has only 9 percent share in the total housing finance disbursed. Thus, the Central, Eastern and North-eastern regions with population of about 50 percent have received only 19 percent of the housing loan disbursed, whereas 81percent of the housing credit disbursed went to Southern, Western and Northern regions with other 50 percent population.

Table - 5.5 : Region wise Population and Housing Loan Disbursement during 2006-07

Region	Population		Housing Loans	
	Number (lakh)	Percentage share	Amount (Rs. in crore)	Percentage share
Northern	1238.85	12.04	41468	18.11
North-Eastern	384.45	3.74	2803	1.22
Eastern	2278.23	22.15	20191	8.82
Central	2558.69	24.87	21566	9.43
Western	1492.76	14.51	59607	26.04
Southern	2243.43	21.81	83288	36.38
Total	10287.37	100.00	228923	100.00

Note : Population data relate to 2001 census and housing loan relates to 2006-07

The widening regional disparity can be gauged by an analysis of inter-state performance data in Table-5.6. No doubt, there was a significant growth in housing finance in almost all states, but the growth rate varies widely among the states. Delhi, Karnataka and Maharashtra have witnessed the highest growth, more than ten-fold increase. Other states, which achieved the higher growth, were Haryana, UP, Gujarat and West Bengal. These states have witnessed slightly more than seven fold increases. Tamil Nadu, Kerala, Punjab, Assam and Bihar have made relatively moderate progress. Among the states, where growth rates were only marginal, Madhya Pradesh witnessed the lowest growth, followed by Rajasthan.

The analysis of inter-state differences in percentage shares in housing credit flow shows that only two states viz. Karnataka and Maharashtra and one union territory viz. Delhi have significantly increased their shares during the last six years. Karnataka has increased its share in total housing finance from 9.5 percent in 2001 to 12.4 percent, whereas Maharashtra increased its share from 16.9 percent to 21 percent during this period. Delhi, on the other hand, witnessed increase in its share from 5.78 to 7.69 percent. The states, which increased their share marginally include Haryana, and Uttar Pradesh and among union territories, Chandigarh. All other states and union territories have witnessed decline in their shares, in some cases marginally and in other cases significantly. Tamil Nadu had a share of 11.79 percent in 2001 and it has declined to 9.4 percent in 2007. Other states, which witnessed significant decline in their shares, are Kerala, Madhya Pradesh, Rajasthan, Punjab and West Bengal.

The dimension of regional disparity can be gauged by analyzing the mis-match between the populations and housing finance disbursed in different states. In Table-5.7, an attempt is made to analyze the inter-state divergence between the population distribution and housing credit flow by commercial banks. From the table, it may be seen that in Karnataka, Maharashtra, Kerala and Delhi, the percentage shares in the total housing finance are more than double of the percentage shares of population. While their share in the total population works out to 19 percent, their share in the housing credit is 47 percent. Even in the case of Tamil Nadu and Andhra Pradesh, the share of housing finance is higher than population share. In all other states, the shares of housing credit in total housing credit are significantly lower than the shares of population. The disparity between the housing finance and population shares is very wide in the case of Bihar (1:4.83), Assam, Jharkhand (1:5.70), Chhattisgarh (1:3.02), Madhya Pradesh (1:2.46), UP (1:1.97), Orissa (1:2.00), and West Bengal (1:1.64). The total population of these states constitutes 44 percent whereas their share in the total housing loans disbursed is only 18 percent.

Table - 5.6 : Housing Loans: State-wise Deployment (As on March 2007)						
States	**2001**			**2007**		
	Housing Loan Accounts (No. lakh)	**Housing Loan Amount (Rs. crore)**	**Percentage Share**	**Housing Loan Accounts (No. lakh)**	**Housing Loan Amount (Rs. crore)**	**Percentage Share**
Andhra Pradesh	2.28	2194.03	8.63	4.43	19186	8.38
Arunachala Pradesh	0.01	2.95	0.01	0.01	41	0.02
Assam	0.22	242.67	0.95	0.62	1739	0.76
Bihar	0.58	493.07	1.94	1.21	3826	1.67
Chandigarh	0.09	135.69	0.53	0.32	2332	1.02
Chhattisgarh	0.24	176.99	0.70	0.47	1525	0.67
Delhi	0.54	1468.33	5.78	1.61	17619	7.69
Goa	0.10	105.13	0.41	0.18	751	0.33
Gujarat	1.57	1225.62	4.82	2.56	10066	4.40
Haryana	0.56	585.48	2.30	1.28	5599	2.44
Himachal Pradesh	0.22	199.58	0.79	0.42	1381	0.60
Jammu & Kashmir	0.19	168.13	0.66	0.27	742	0.32
Jharkhand	0.25	202.24	0.80	0.36	1062	0.46
Karnataka	1.96	2425.59	9.54	5.15	28314	12.37
Kerala	2.70	1948.01	7.66	5.17	13798	6.03
Madhya Pradesh	1.19	994.67	3.91	1.63	5461	2.38
Maharashtra	3.23	4299.68	16.92	7.53	48750	21.29
Manipur	0.01	12.14	0.05	0.06	186	0.08
Meghalaya	0.01	15.28	0.06	0.04	152	0.06
Mizoram	0.02	21.91	0.09	0.10	316	0.14
Nagaland	0.01	5.24	0.02	0.01	58	0.03
Orissa	0.68	539.74	2.12	2.06	4108	1.79
Puducherry	0.05	35.50	0.14	0.08	359	0.15
Punjab	0.99	868.14	3.42	1.72	6352	2.77
Rajasthan	1.05	1095.39	4.31	1.93	7443	3.25
Sikkim	0.02	14.56	0.06	0.08	343	0.14
Tamil Nadu	2.14	2995.12	11.79	4.30	21556	9.42
Tripura	0.28	20.23	0.01	0.14	311	0.13
Uttar Pradesh	1.94	1383.04	5.44	3.13	13131	5.73
Uttarakhand	0.23	178.28	0.70	0.52	1449	0.63
West Bengal	1.72	1352.29	5.32	2.61	10852	4.74
All India	24.83	25412.42	100.00	50.10	2,28,923	100.00
Note : Total includes Union Territories also.						
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, March 2007.						

Table - 5.7 : State-wise Population and Housing Finance				
States	**Population (2001)**		**Housing Loans (2007)**	
	Number (lakh)	**Percentage share**	**Amount (Rs. in crore)**	**Percentage share**
Andhra Pradesh	762.10	7.41	19186	8.38
Arunachala Pradesh	10.98	0.11	41	0.02
Assam	266.56	2.59	1739	0.76
Bihar	829.99	8.07	3826	1.67
Chandigarh	9.01	0.01	2332	1.02
Chhattisgarh	208.34	2.03	1525	0.67
Delhi	138.51	1.35	17619	7.69
Goa	13.48	0.13	751	0.33
Gujarat	506.71	4.93	10066	4.40
Haryana	211.45	2.06	5599	2.44
Himachal Pradesh	60.78	0.59	1381	0.60
Jammu & Kashmir	101.44	0.99	742	0.32
Jharkhand	269.46	2.62	1062	0.46
Karnataka	528.51	5.14	28314	12.37
Kerala	318.41	3.09	13798	6.03
Madhya Pradesh	603.48	5.87	5461	2.38
Maharashtra	968.79	9.42	48750	21.29
Manipur	22.94	0.22	186	0.08
Meghalaya	23.19	0.23	152	0.06
Mizoram	8.89	0.09	316	0.14
Nagaland	19.90	0.19	58	0.03
Orissa	368.05	3.58	4108	1.79
Pondicherry	9.74	0.09	359	0.15
Punjab	243.59	2.37	6352	2.77
Rajasthan	565.07	5.49	7443	3.25
Sikkim	5.41	0.05	343	0.14
Tamil Nadu	624.06	6.07	21556	9.42
Tripura	31.99	0.31	311	0.13
Uttar Pradesh	1661.98	11.29	13131	5.73
Uttarakhand	84.89	0.82	1449	0.63
West Bengal	801.76	7.79	10852	4.74
All India	**10287.37**	**100.00**	**2,28,923**	**100.00**

Source : Census-2001,GOI for population data; Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, March 2007 for bank advances.

Table - 5.8 : Concentration of Housing Loans in Selected Districts (As on March 2007)					
States	Districts having highest concentration Of Housing Loans			Total State's Housing Loan (Rs. core)	District's Percentage Share
	District	Number of Accounts (Lakh)	Housing Loan (Rs. core)		
Andhra Pradesh	Hyderabad	1.27	10899	19186	56.81
Arunachala Pradesh	Chungleng	0.002	15	41	36.59
Assam	Kamrup Metro	0.10	382	1739	21.97
Bihar	Patna	0.14	505	3826	13.20
Chandigarh	Chandigarh	0.32	2332	2332	100.00
Chhattisgarh	Raipur	0.15	539	1525	35.34
Delhi	Delhi	1.61	17619	17619	100.00
Goa	North Goa	0.11	501	751	66.71
Gujarat	Ahmadabad	0.48	2378	10066	23.62
Haryana	Gurgaon	0.15	1493	5599	26.67
Himachal Pradesh	Simla	0.07	518	1381	37.51
Jammu & Kashmir	Srinagar	0.06	190	742	25.61
Jharkhand	Ranchi	0.10	347	1062	32.67
Karnataka	Bangalore Urban	2.28	20345	28314	71.85
Kerala	Ernakulum	0.85	3242	13798	23.50
Madhya Pradesh	Indore	0.36	1785	5461	32.69
Maharashtra	Brihan Mumbai	3.86	32073	48750	65.79
Manipur	Impala West	0.04	137	186	73.66
Meghalaya	East Khasi Hill	0.01	19	152	12.50
Mizoram	Lawngtlai	0.01	45	316	14.24
Nagaland	Dimapur	0.005	25	58	43.20
Orissa	Khurda	0.47	1278	4108	31.11
Pondicherry	Puducherry	0.06	295	359	82.17
Punjab	Ludhiana	0.37	1946	6352	30.64
Rajasthan	Jaipur	0.57	3295	7443	44.27
Sikkim	East Sikkim	0.05	219	343	63.85
Tamil Nadu	Chennai	1.40	12584	21556	58.38
Tripura	West Tripura	0.09	206	311	66.24
Uttar Pradesh	Luknow	0.48	2278	13131	17.35
Uttarakhand	Dehradun	0.18	769	1449	53.07
West Bengal	Kolkata	1.03	6748	10852	62.18
All India		**16.65**	**124884**	**2,28,923**	**54.55**
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, March 2008					

It is also important to note that the concentration of housing finance took place mostly around the state capitals. The metropolitan cities particularly the state capitals corner bulk of housing loans. Table-5.8 contains the districts having the highest concentration in housing finance in different states. The districts, where the state capitals are located, account for the largest share of housing finance lent.

Nearly 55 percent of the total housing advances made by the banking sector are deployed in such 31 districts, which constitute only 5 percent of the total number of the districts in the country. Brihan Mumbai district, for example, alone accounts for about 15 percent of the total housing finance in India, it got Rs.32073 crore out of the total Rs.228923 crore as on March 2007. It is indeed a surprising revelation that about 15 percent of the total housing finance made by the banking sector in India is deployed in this urbas prima only. The Silicon City ranks second in getting housing finance - Rs.20345 crore, nearly 5 percent of the nation's total. National capital region - Delhi - is the other major beneficiary of housing finance (Rs.17619 crore) from commercial banks. Besides Delhi, Noida located in Gautam Buddha district abutting Delhi, also gets a large volume of housing finance (Rs.2227 crore). Outside these districts, other smaller towns have not been benefited from the credit flow by commercial banks for housing sector development. Similarly, Chennai ranks fourth with Rs.12584 crore and Hyderabad follows with Rs.10899 crore.

From the table, it may be also noted that the districts in all states having the highest concentration ratio are mostly metropolitan or urban centres. For example, in Andhra Pradesh, Hyderabad, in Karnataka, Bangalore urban, in Maharashtra, Mumbai, in Tamil Nadu, Chennai and West Bengal, Kolkata are the districts having the highest concentration of housing finance by commercial banks. Similar pattern is observed in the case of other states also. The concentration ratio is as high as 82 percent in the case of Ludhiana in Punjab and as low as 13 percent in Patna in Bihar state. Brihan Mumbai accounts for 66 percent of the total banks lending for housing segment in Maharashtra. Similarly, Kolkata accounts for 62 percent in West Bengal, Chennai in Tamil Nadu 64 percent, Bangalore urban 72 percent in Karnataka and Hyderabad 57 percent in Andhra Pradesh.

5.3 Inter-District Variations in Karnataka State

Within the state, inter-district variations in the pace of housing finance are also very conspicuous. Table-5.9 presents the district-wise disbursement of housing loans by commercial banks as on March 2007 in Karnataka state. Among the states, Karnataka witnessed the highest growth in housing loans. As already indicated, it has increased its share from 9 percent in 2001 to 12 percent of the total banks housing finance portfolio in 2007. About ten years ago, there were only 1.96 lakh housing loan accounts with banks in Karnataka. The amount of loan outstanding was Rs.2425 crore as on March 2001. In 2007, the number of loan accounts increased to 5.15 lakh, more than doubled. The loan amount disbursed increased to Rs.28314 crore, almost twelve fold increase. The boom in the housing sector, is however, not well spread. Only three districts viz. Bangalore-Urban, Dakshina Kannada and Mysore were the main beneficiaries. These three districts out of 27 districts in the state account for 56 percent of the total borrowers and 80 percent of the loan disbursed. Bangalore-Urban district gets the lion's share of the housing loans. The amount lent by banks in the district was Rs.20346 crore, accounting for about 72 percent of the total housing loan made in the state. Nearly 44 percent of the borrowers of all banks in the state are in Bangalore-Urban. The silicon city has witnessed rapid urbanization in the recent years with many big builders from outside the state expanding the housing market.

Dakshina Kannada district has received the second largest volume of housing finance; Rs.31872 borrowing accounts and Rs.1140 crore loan amount disbursed. Mysore, the third largest beneficiary, received Rs.1023 crore housing loans for the benefit of 29632 borrowers. Other three districts benefited most in housing finance by banks are Dharwad, Udupi and Belgaum. They account for 2 to 3 percent of the total housing loan disbursed in the state. Outside these districts, the volume of housing finance by banks varies widely and not significant. Bidar district received the lowest of Rs.64 crore and Tumkur received the highest of Rs.333 crore. The majority of other districts have received less than Rs-200 crore. The most disturbing reality is the higher incidence of housing shortage in the backward and vulnerable districts and lower housing credit flow in these districts.

Table - 5.9 : Karnataka State: District-wise Disparity in Housing Finance			
District	**Accounts (Number)**	**Loan Amount (Rs.crore)**	**Percentage Share in Total Loan Amount**
Bagalkot	5389	125.49	0.44
Bangalore Rural	9551	469.10	1.66
Bangalore Urban	228613	20345.64	71.86
Belgaum	22051	587.58	2.08
Bellary	10795	295.95	1.05
Bidar	3031	64.01	0.23
Bijapur	6625	198.08	0.70
Chamarajanagar	3875	38.96	0.14
Chikmagalur	7786	166.59	0.59
Chitradurga	5513	113.14	0.40
Dakshina Kannada	31872	1140.55	4.03
Davanagere	8729	208.05	0.73
Dharwad	23483	757.27	2.67
Gadag	4487	92.22	0.32
Gulbarga	8294	208.40	0.74
Hassan	13582	256.33	0.91
Haveri	4925	85.48	0.30
Kodagu	4502	134.41	0.47
Kolar	8295	171.15	0.60
Koppal	5077	156.85	0.56
Mandya	9432	137.17	0.48
Mysore	29632	1022.97	3.61
Raichur	4304	119.84	0.42
Shimoga	14813	322.56	1.14
Tumkur	14765	333.43	1.18
Udupi	18217	592.25	2.09
Uttarakannada	7968	170.65	0.60
Karnataka	515606	28314.12	100.00
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, March 2008			

5.4 Rural-Urban Dichotomy

The problem of housing deprivation is also serious in rural areas as 73 percent of the people live in rural areas. Table 5.10 sets out the comparative picture of housing loan disbursement by different banks in rural and urban areas. From the table, it may be seen that there was a significant progress in housing loan disbursement in rural, semi-urban, urban and metropolitan areas. While metropolitan centres witnessed more than twelvefold increase, the rural and semi-urban areas have benefited from less than six fold increases during the period between 2001 and 2007. The percentage share of rural housing loans in total housing loans declined from 10 percent in 2001 to 8 percent in 2007. As against this, the metropolitan centres have improved their share significantly from 39 percent to 55 percent during this period. Surprisingly, there was a significant decline in the shares of semi-urban and urban areas. The share of semi-urban areas has declined from 22 percent to 12 percent, whereas in the case of urban areas, the share in total housing loans declined from 29 percent to 24 percent. Thus, the main beneficiary of the rapid growth of housing finance in recent years is the metropolitan areas. Even in the case of number of beneficiaries, the growth rate in metropolitan areas is significantly higher than rural and semi-urban areas.

Table - 5.10 : Housing Loans of Banks-Rural / Urban				
Category	**(2001)**		**(2007)**	
	Number of Accounts (Lakh)	**Loan Amount (Rs. in Crore)**	**Number of Accounts (Lakh)**	**Loan Amount (Rs. in Crore)**
Rural				
SBI & Associates	0.88	681.09	2.37	6265.78
Nationalized Banks	1.93	1405.43	3.32	8073.17
Foreign Banks	neg.	0.26	neg	46.58
Private Banks	0.20	172.81	0.72	4186.46
RRBs	0.71	274.24	1.46	1451.23
Total	**3.72**	**2533.83**	**7.87**	**20023.22**
Semi-Urban				
SBI & Associates	2.66	2298.08	5.22	11897.23
Nationalized Banks	2.66	2289.99	4.56	11626.18
Foreign Banks	0	0	0	0
Private Banks	1.03	638.56	1.03	3917.22
RRBs	0.64	279.54	0.71	923.71
Total	**6.99**	**5506.17**	**11.52**	**28364.33**
Urban				
SBI & Associates	2.98	3000.58	5.17	16969.84
Nationalized Banks	3.91	3738.76	6.64	22184.32
Foreign Banks	0.01	32.01	0.02	295.26
Private Banks	0.47	397.01	2.24	15709.96
RRBs	0.58	257.50	0.46	699.33
Total	**7.95**	**7425.86**	**14.53**	**55858.72**
Metropolitan				
SBI & Associates	1.56	1999.05	2.99	16033.89
Nationalized Banks	3.87	5250.45	7.00	46549.63
Foreign Banks	0.35	1979.67	0.73	11013.22
Private Banks	0.37	703.94	5.40	50987.59
RRBs	0.01	13.45	0.06	92.75
Total	**6.16**	**9946.56**	**16.18**	**124677.07**
All India	**24.82**	**25412.42**	**50.10**	**228923.35**
Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, March 2008				

Notwithstanding the disparities in the growth performance, the most disturbing trend is the rural and urban divide in housing finance. The metropolitan and urban centres with less than 28 percent of population account for 79 percent of the total housing loans disbursed by the banking system. The rural and semi-urban areas with population of 72 percent account for only 8 percent and 12 percent respectively. The role of various banks in housing credit is also quite revealing. In rural housing credit, while SBI group has maintained their share of rural housing finance in the total housing finance by the banking sector (2.7 percent), there was a significant decline in the shares of both nationalized banks and regional rural banks. While the SBI group has increased the share of rural housing finance in their total housing credit from 8 percent to 12 percent, the share of rural housing finance of the nationalized banks in their total housing credit portfolio declined from 11 percent to 9 percent.

Table-5.11 presents the data relating to the shares of rural and urban housing credits by respective banks in their housing loan portfolios. Though the amount involved is small, rural housing credit constitutes major component of housing finance lent by the regional rural banks. Rural (includes semi-urban) housing credit constitutes 21.14 percent of its total lending to the housing sector. In the case of SBI groups, the share of rural housing credit is 35.5 percent.

Table - 5.11 : Rural and Urban Housing Finance and their Share in Total Housing Credit (As on March 2007)					
Banks	**Total Housing Loans Amount (Rs. crore)**	**Housing credit to Rural / Semi-Urban areas (Rs. crore)**	**Share in Bank's Total Housing Credit (percentage)**	**Housing Credit to Urban / Metropolitan centres (Rs. crore)**	**Share in Bank's Total Housing Credit (percentage)**
SBI & Group	51167	18163	35.50	33004	64.50
Nationalized Banks	88433	19699	22.28	68734	77.72
Foreign Banks	11355	46	0.40	11309	99.60
Private Banks	74801	8103	10.83	66698	89.17
RRBs	3167	2375	74.99	792	25.01
Total	**228923**	**48386**	**21.13**	**180537**	**78.86**

Out of 11.55 lakh housing loan borrowers, 5.61 lakh - nearly half are from rural and semi-urban areas. The public sector banks lending to housing development in rural and semi-urban areas, on the other hand constitutes only 27 percent. Nearly 73 percent of their housing credit was lent in urban and metropolitan centres. Even in terms of accounts, the rural housing finance borrowers constitute only 39 percent of the total housing loan borrowers. As against this, in the case of foreign banks, almost 100 percent and Indian private banks, 86 percent of their housing credit went to urban and metropolitan centres. Their role in the rural housing finance segment is only marginal.

5.5 Leaders in Housing Loans

With a view to analyze position of the various banks in deployment of housing loans, an attempt is made in Table 5.12 to rank the public sector banks based on their outstanding housing loans as on March 2008. From the table, it may be seen that the public sector banks have the lion's share in housing loans. State Bank of India, the Banker to every Indian, as it claims, leads with a market share of 26 percent. It has the largest number of housing loan accounts - 8.82 lakh and the amount lent is Rs.36,800 crore as on March 2008. This Omni-present bank, extends home loans all over the country through its large branch network. However, its tendency of concentrating in many of the state capitals remains quite visible. This large sized-bank appears to have a soft corner for certain groups of borrowers.

Proclaiming that 'the nation banks on us' it offers concessional interest rate of 0.25 percent below the applicable interest rates on home loans 'to niche client groups like government employees, teachers and employees of public sector oil companies'. During March 2009, it has announced that the rate of interest for the new housing loans would be 8 percent, one of the lowest rates offered by banks in India. If the total home loans of State Bank of India and its seven associate banks are taken together, the amount goes up to Rs.53,372 crore, as on march 2008. It may be added that State Bank of Saurashtra has merged with State Bank of India during 2008-09.

Leaders in Housing Loans : March 2007		
Banks	**Accounts (Lakh)**	**Amount (Rs. crore)**
1. State Bank of India	8.82	36,800
2. IDBI Bank	1.03	8,427
3. Union Bank of India	1.39	7,106
4. Punjab National Bank	1.71	7,026
5. Canara Bank	1.52	7,022
6. Bank of Baroda	1.91	6,687
7. Central Bank of India	1.25	6,412
8. Corporation Bank	0.73	5,401
9. Oriental Bank of Commerce	0.75	5,259
10. Syndicate Bank	1.35	5,208
11. Bank of India	1.58	4,889
12. UCO Bank	0.99	4,573
13. State Bank of Travancore	1.99	4,158
14. Allahabad Bank	0.91	3,979
15. Indian Bank	0.97	3,395
16. Vijaya Bank	0.76	3,318
17. State Bank of Hyderabad	0.68	3,164
18. United Bank of India	0.50	3,053
19. Andhra Bank	0.38	3,032
20. Bank of Maharashtra	0.60	3,001
21. Indian Overseas Bank	0.90	2,935
22. State Bank of Patiala	0.66	2,763
23. Dena Bank	0.37	2,097
24. State Bank of Bikaner & Jaipur	0.44	2,093
25. State Bank of Mysore	0.43	1,979
26.State Bank of Indore	0.36	1,574
27. Punjab and Sind Bank	0.24	1,435
28. State Bank of Saurashtra	0.26	842
Total	**33.98**	**1,47,626**
Source : Statistical Tables Relating to Banks in India; 2008		

Among the associate banks of State Bank of India, one of the banks, which is quite active in the housing loans segment is State Bank of Travancore. Its area of operations being largely confined to Kerala, it must be extending housing loans to NRIs, who are remitting money from the Gulf region. Its housing loans volume is much bigger than those of nine other nationalised banks, some of which are much bigger in size than SBT. The other associate bank worth mentioning is State Bank of Hyderabad, which is ranked 17th. It has marginally overtaken Andhra Bank in this race.

IDBI Bank, the new entrant to the arena of commercial banking, comes next with Rs.8,427 crore. It offers 'Ultra Flexible Home Loans', whose salient features include flexibility of choosing between floating or fixed interest rate, equated monthly installments (EMI) on daily reducing balance, and it offers personalized door step services, as its website claims. Its ad campaign featuring two elephants, big and small, announcing 'not just for big boys' makes an attempt to create the image, that it is banking for all. Its wholly owned subsidiary, IDBI Home Finance Ltd. also extends home loans. Union Bank of India ranks third in volume of housing loans, but has less of loan accounts compared to its nearest competitors, Punjab National Bank, Canara Bank or Bank of Baroda. Punjab National Bank, the name that you can Bank upon, has lent Rs.7026 crore. It has its housing loan subsidiary, PNB Housing Finance Ltd, which is reported to have achieved a growth rate of 49 percent in its total income during FY2008. Perhaps it is one of very few housing finance agencies to disclose its NPA level. It is reported that the net NPA ratio has declined to 0.32 per cent during FY2008.

Canara Bank is the 5th biggest provider of housing finance with outstandings of Rs. 7022 crore. It was in fact one of the earliest public sector banks to venture into housing finance through its own subsidiary. Started in 1987, its mission is : promoting home ownership and increasing housing stock all over the country. The total of housing loans is Rs.1863 crore as on March 2008. Ranked 6th Bank of Baroda has an outstanding housing loan portfolio of Rs.6687 crore. Its huge hoardings announce that the housing loans would be sanctioned within six days. The repaying period is extended to as many as 25 years. Central Bank of India has larger volume of home loans than Bank of India, the bigger bank operating from Mumbai. The latter bank, which professes relationships beyond banking, appears to be less aggressive in extending home loans. The other Mumbai-based bank, Dena Bank remains far behind in the 21st position with Rs.2097 crore. Bank of Maharashtra positions itself between the two banks by lending Rs.3001 crore.

Two of the Chennai-based nationalised banks appear to be treading cautiously. Indian Bank with an outstanding level of housing loans of Rs.3395 crore remains at the 15th position. Indian Overseas Bank is still far behind, ranking 21st and the volume of credit lent is Rs.2935 crore. It is a bit surprising that though Tamil Nadu is the third largest recipient of housing loans, the achievement of the two banks in housing appears to be not very significant. As explained elsewhere in this Report, there is heavy concentration of housing credit in Chennai, the state capital.

Among the Delhi-based banks, Punjab and Sind Bank has the lowest exposure to housing loans. The number of accounts handled is 0.24 lakh only and the amount lent is Rs.1435 crore. Out of the three Kolkata-based public sector banks, UCO Bank marches ahead of the others, with a credit portfolio of Rs.4573 crore, earning for it the 12th rank. Allahabad Bank comes next with Rs.3979 crore and United Bank of India remains way behind, having an outstanding housing credit level of Rs.3053 crore. One common feature of these banks is the relatively very low level of customer bases in the housing segment. The four nationalised banks originating from Karnataka have fairly larger volumes of housing loans, enabling thereby the state to obtain the second largest volume of housing loans among all states in India.

As far as the private sector banks are concerned, two of the major players in housing loans segment are, ICICI Bank Ltd and HDFC Bank Ltd. ICICI Bank's home loan book has grown by 12 per cent year-on-year to around Rs.60,000 crore at the end of December 2007. Private sector banks of the old generation also are in the field of home loans, but on very low key. While their colourful websites provide the operational details of their home loans, none of them provide any clue to their exposure to this segment. They are invariably selective in their approach to these loans. Hence, bank-wise data on home loans are not readily available in any published source, except perhaps in the Directors' reports published annually.

The total housing loans lent by all private sector banks as on March 2008 are Rs.46,990 crore, constituting 14 percent of their total credit outstanding, according to the Report on Trend and Progress of Banking in India-2008. Foreign banks also are into home loans in the metropolitan centres, where they are operating. But their share in the total is negligible.

5.6 Areas of Concern

The achievements of the Indian banks in housing finance segment in recent years are indeed remarkable. Fiscal incentives for investment in housing for households and treatment of housing finance as priority lending for banks were the two factors which drove the growth of housing finance. With the spurt in the growth, there was also move quite recently to push the banks to trade their mortgage portfolio through securitization. Securitization was considered as elsewhere in the world, one of the most important risk-sharing arrangements in the housing finance market. The NHB has considered it as the key to future growth in housing finance market as it would help lower the cost of credit, broaden the pool of investors and borrowers and lessen the variability in availability of capital for the lending banks. During 2002, the Parliament enacted a law known as “The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest 2002 (SARFASI) Act”. The Act specifies the regulatory framework for a Securitization Company and Asset Reconstruction Company. However, with sudden burst of derivative market in the home loan market in USA and elsewhere, Indian banks were cautious about securitization arrangements and hence it has not taken off. Only ICICI Bank Ltd. HDFC Ltd and HFCs took initiatives in this area.

Notwithstanding the absence of securitization of mortgage lending, there are many areas, which cause concern. Housing finance is a long-term commitment involving many risks for lenders, borrowers and even for the economy in general. The banks, as lenders, need to manage interest rate risk, liquidity risk and credit risk, while dealing with large number of individual borrowers. The banks are also not free from legal risks as the country does not have lender-friendly foreclosure practice. They have to face many hurdles in enforcing eviction of defaulters and eventual sale of the house through legal recourse. Being long-term commitment, the banks also require proper asset-liability management strategy.

The banks were new to housing finance. While seeking asset growth in a sluggish business environment coupled with the tax incentives on housing loans, they were attracted to housing finance in recent years to lend somewhat excessively. Housing, being a basic requirement and the dream of every middle class family to have a roof over their heads, it is but natural that banks have considered housing finance as a desirable destination. But the rate at which these advances are growing is causing a little concern. Housing loans are normally considered as totally secured advances. But there are instances, when many flats come for sale after obtaining the court verdicts, the prospective bidders seek to settle at very low prices for the 'used houses'. Such cases are on the increase in some districts. Moreover, most of the loans were granted to middle class salaried professionals in metropolitan urban centres. Due to loss of jobs, closure of factory / company, transfer, illness / demise of the borrower and frauds, housing loans turn into Non-performing Asset (NPA). In some cases, the same property is mortgaged to two to three banks. Benami transaction in real estates and housing finance has become a common feature.

Since the demand for housing finance is more pronounced in the urban areas, it is, but natural that a major portion of housing finance is lent in the urban and metropolitan areas. The share of metropolitan and urban centres (including semi-urban) in the total housing finance is about 90 per cent. Rural areas, (having population of less than 10000) have received only 10 per cent of the total housing finance extended by banks in India. The number of housing finance accounts entertained in the rural areas is the lowest 6 lakh only out of the 37 lakh total borrowers. Chances of violent fluctuations in the real estate prices are much more in metropolitan and urban centres than in villages. Banks run the risk of the value of the securities they hold, moving irrationally. Some of the new generation banks lend even 100 percent of the value of the flat to be purchased by the young borrowers from the IT sector. The target-oriented branch managers and private banks, which outsourced housing finance through agents are likely to dilute the procedural formalities to reach the target under housing finance.

Another area of concern is the widening regional disparities and rural urban divide in housing finance. While states in Sothern and Western regions obtained greater share of housing finance, the states in North-eastern, Eastern and Central regions are neglected by banks. Even within the state, less developed districts are neglected by banks in lending for house building. The concentration of housing loans in metropolitan centres and few developed district is a matter of serious concern. The growth is remained largely focused to the middle and upper income strata mostly concentrated in metropolitan / urban areas. Housing is more a problem of the deprived section of the community in both rural and urban areas. Affordability and accessibility are still the twin problems faced by rural areas and weaker section of the community. Because of economic backwardness, the demand for credit may itself be low in many cases. Banks have to formulate tailor-made schemes to suit the economic conditions of the areas. There are a large number of self-employed persons in the unorganized sector, who do not get housing loans from any financial institutions. They could be targeted by linking their savings to small amounts of housing loans. With the expansion of the market and entry of new classes of borrowers, the need for innovation through development of new products, adaptation of existing products, developing appropriate new delivery mechanisms and channels cannot be over emphasized.

There was stiff competition among banks in expanding their portfolio under housing finance. With growing competition, the slackening of controls and cut-throat interest rate war among banks followed in order to capture maximum market share particularly in metropolitan and urban areas. With the appreciating real estate prices, the bankers have realized that housing loan was a more secured loan, with little risk. From 11 to 12 per cent, the interest rates have started coming down to as low as 6 per cent. This rate was much lower than the Prime Lending Rates of most of the banks. Floating rates were introduced, offering relatively lower rates compared to the fixed rates, to attract the gullible customers. Migration of housing loan accounts to different banks, has become a common feature among the new generation banks. A CRIS-INFAC study shows that in 2001-02, the take-over loans were around 50 percent of the incremental direct disbursement by banks and around 18-20 percent of the total direct housing loans (NHB, 2003).The differences in the interest rates under the floating rate regime facilitated this trend. For a small temporary gain in interest amount, many borrowers have changed their banks. According to some studies, the average age of the borrowers of housing loans has come down to the 30 to 35 year group. And they are more prone to hop from bank to bank, as the young software workers change their jobs frequently. The Reserve Bank of India has expressed its righteous indignation on this dichotomy. Some bankers also have expressed their apprehension about the likely mismatch of the maturity pattern of deposits and home loans.

The unprecedented interest evinced by almost all banks in attracting new customers for their housing loans has promoted the Reserve Bank of India to make a special reference to it in its Annual report 2002-2003. Its concern for the surge in bank finance to the housing sector increasing by 55 per cent during FY 2003 is reflected in the box item captioned as Housing Finance: New Driver of Bank Credit." The cause for potential worry, it reveals, "is that by lowering the lending rates, banks are approaching the cost of funds". It is true that banks are making all out efforts to woo the potential customers by offering finer interest rates, sometimes going below the PLR. Considering the speed at which the new credit drivers has been moving, it may be necessary to install speed –breakers to regulate the speed (Thingalaya, 2005). But an examination of the trip sheets (or the record of credit disbursement, in the banker's language) would reveal that the driving is confined mostly to posh residential localities in major cities, where driving is smooth. Traffic density is high; potholes are less. Passengers should be happy as they are charged less than what the traffic can bear. Bright young boys pursuing higher studies are made to pay 12 per cent. Only home loans are lent at 6 to 7 per cent by some banks. The new credit driver may have to change the route, extending it outside the big cities. There are many smaller towns, where housing shortage persists. Real estate prices do not gyrate whimsically here and high –rise buildings do not come up easily. The pent up demand of the salaried classes for a roof over them remains latent. Banks are not as aggressive here as they are in big cities. The credit needs of individuals may not be very large. Therefore, banks can reach a large number of home loan customers, within the overall limit prescribed by the Reserve Bank. Regulate the speed, change the track and move into the countryside. That would be the way to be healthy, wealthy and wise (Thingalaya, 2005).

With the unprecedented growth of housing finance in India in recent years and falling real estate prices as a result of on-going recession, there is a growing fear that India's banking system is not free from its own home-grown potential subprime crisis. As credit exposure to sensitive sectors such as housing was already around one-fifth of the aggregate bank loans, Tarapore Committee rightly warned that the defaults of these loans could trigger a banking crisis in India. Though, the problem of sub-prime lending and toxic assets, which the banks abroad are facing, has not manifested so far, it is very important for India to be cautious and take necessary steps to avoid occurrence of such subprime lending crisis.

To sum up, it should be noted that housing finance market both at the national level and Karnataka State level, has undergone rapid and fundamental change. The banking institutions have entered the housing finance market aggressively, which resulted in the traditional housing finance players' only minor role. With higher economic growth and increasing purchasing power, the housing finance market till recently was booming. In spite of on-going recession, the demand for housing investment is expected to grow at the rate of 25-30 per cent per annum in the near future as rising incomes, falling property prices and fiscal incentives continue to make housing more affordable. In spite of the recent remarkable growth of banks' housing finance portfolios, mortgages in India constitutes only 2 per cent to Gross Domestic Product (GDP) as against 20-30 per cent to GDP in developed countries. Thus, the market potential remains vast. The full potential of the housing finance sector can be realized only if all efforts are made to develop the market by all the players as well as exploring new avenues of finance such as foreign direct investment (FDI).

The analysis of performance of banking system in housing finance during the last decade, however, revealed the following as the key challenges and issues to be faced by the Indian banks in the area of housing finance :

- *High concentration in metropolitan and urban areas :* The rapid growth of housing finance is so far concentrated mainly in metropolitan and urban areas. It is more property-boom driven and not real demand driven. Besides widening regional disparity and rural urban divide, the concentration of housing credit in metropolitan and urban areas is fraught with high potential risk as the volatility of real estate prices in these areas is very high.
- *Housing finance exclusion :* Banks focus on middle to higher income groups and excluded lower income groups, slum dwellers, self-employed, rural households and assetless people. They, in fact, constitute the deprived section of the community in housing sector. An inclusive housing finance system with accessibility and affordability alone can help to tackle growing housing needs of the housing deprived section of the community.
- *Declining spread :* With the decline in the interest rate, banks have to operate housing finance with marginal spread. The increasing delinquency rates and reduced interest on housing loans had serious implications on their profitability. In the case of fixed rate loans, banks may also face a problem if the cost of funds goes up due to increasing interest regime
- *Asset-Liability mismatch :* Banks are mobilizing short-term deposits, whereas housing loans are given on long-term basis. With the increasing demand for housing loans, the banks went overboard during the period, peddling home loans to all and sundry with the promise of soft interest rates and high loan-to-value ratio, which some cases exceeded 100 percent of the property value. As a result, the banks are bound to face asset-liability mismatch in the portfolio. Banks have to be careful and recognize that there is no substitute for prudent credit policies that the pricing of loan products have to be a function of costs and not competition. Finally, financial history is replete with disasters caused by asset-liability mismatches and thus short term funds should not be indiscriminately used to fund long term assets.
- *Increasing frauds :* Home loans frauds are already haunting some commercial banks. Frauds have been committed in home / mortgage loans using fake title deeds and inflated valuation reports. Builder-Borrower-Advocate / Chartered Accountant-revenue official's nexus is root cause of banks falling prey to home loan frauds. What is baffling is that the same flat is sold / mortgaged by some unscrupulous builders many times over. It is reported that in Navi Mumbai, a flat was financed by around 20 banks involving a fraud of Rs.1 crore. There is also a case of a single borrower duping 27 banks to the tune of Rs.8 crore for buying flats across Mumbai (Ram Kumar, K. 2009). It is estimated that the home loan fraud could now be in the region of Rs.1000 crore. The situation could be worse in the case of private sector banks, which outsourced housing financing.
- *Growing NPA :* Since the housing loans are long-term in nature, it is too early to make any judgment on default risk. Whatever data available, it is, however, clear that the delinquency rate in housing finance is going up in recent years due to acute competition, fraudulent practices adopted in lending, crash in real

estate market prices, and job-loss or pay-cut as a result of recession. It is estimated that the NPA in the home loans would be to the extent of Rs.20000 crore. In the ultimate analysis, while analyzing housing finance, it should be remembered that the resources of the financial system are held by banks in trust and have to be deployed for the maximum benefit of their owners - viz. depositors and investors. The safety of their funds should be the primary concern of banks and regulatory authorities.

In consideration of the significance of the housing sector the above issues need immediate attention of both the bankers and the regulators.

Chapter - 6

Housing Finance : A Case Study of Commercial Banks

Since housing finance market has grown fairly significantly in recent years, there is a need for in-depth cross-section analysis of banks' performance at micro level to understand the home-loan portfolio, pattern of disbursement, loan characteristics, profile of the beneficiaries, nature of risk associated and problems and prospects. After the macro-level assessment of housing policy and housing finance by banks, it is, therefore considered necessary to undertake micro-level evaluation of selected banks in selected districts in order to understand in-depth the dimension of housing finance problem in India.

Karnataka state has witnessed the highest growth in housing finance among the states in India. It has increased its share from 9 percent in 2001 to 12 percent in 2007 of the total housing finance disbursed by the banking system. Among the districts, Dakshina Kannada (DK) is the second and Udupi, the fifth largest in housing finance disbursement in the state. These two districts provide a very fascinating track record of banking development spanning over hundreds years. They had given birth to 23 banking institutions and proudly home of four out of 19 nationalized banks viz. Canara Bank, Syndicate Bank, Vijaya Bank and Corporation Bank and one of the biggest private banks, Karnataka Bank Ltd. Hence, these districts are called “The Cradle of Banking” in India (Thingalaya, 2009). The districts have the highest concentration of bank branches and highest penetration ratios in terms of banking services provided in the country. There are 24 banks operating with the network of 328 and 230 branches in respective districts. In DK, out of 328 branches, 159 are urban, 56 semi-urban and 113 rural. In Udupi district, 40 are urban, 54 semi-urban and 136 rural. Considering the bank branch network and magnitude of the housing finance made, the selection of these districts for the case study does not need any further justification.

Two public sector banks and one private sector bank with strong base in the districts were selected for cross section analytical purpose. The public sector banks studied are : Syndicate Bank and Corporation Bank. Syndicate Bank is the lead bank in both the districts. Karnataka Bank Limited is the private sector bank selected for the study. Assessment of housing finance made by these banks is attempted at two levels, using both secondary and primary data. The primary data were collected mainly from the beneficiaries of housing loans of these banks on random sample basis with a view to get an insight into the problems faced by them and their perceptions. The secondary data were compiled from these banks on their housing advance portfolios. Besides compiling data, interactions were held with concerned officials in the Head Office of the Banks, branch managers and the officers dealing with the housing credit to elicit their views on the operational problems involved in the housing finance. This chapter mainly focuses on evaluation of the lending policies and strategies adopted by these banks for housing finance, their comparative performance and problems faced by them in future perspective.

6.1 Lending Policies and Strategies

Traditionally, housing finance, by virtue of its long-term investment nature, is granted through term loans with equated monthly installments, on fixed interest rate, backed by the security of mortgage of the house. However, during the last ten years, many innovative instruments have been introduced in the home loan market by the banks, essentially driven by the competitive forces, risk management, potential of raising cheaper funds and considerations of customer convenience. There are flexible mortgages with variable repayments, floating rate loans, mortgage loans linked to investment funds, home equity loans, reverse mortgage loans etc. The securitization process is a recent phenomenon. It has given tremendous thrust to housing finance in US and European countries. It is a process of selling homogeneous loans for cash by the financing banks to a Special Purpose Vehicle (SPV), usually investment banks. The SPV in turn collects money by selling bonds in secondary markets, which have the security backing of home mortgage. Banks continue to collect interest and repayment and pass on them to the SPV. Thus, the securitization is more a risk transfer mechanism in the home loan market and the banks would be able to sell home loans without recourse basis and avoid holding regulatory capital required.

In India, the lending policies adopted by both the public sector banks and private sector banks are mainly governed by the RBI guidelines on housing finance. The broad policy framework provided by the RBI for housing finance has the following basic elements :

- Banks should lend at least 3 percent of their incremental deposits for housing. Banks' shares of the housing finance allocation should be computed at 3.0 percent of their incremental deposits as on the last reporting Friday of March of the financial year over the corresponding figure of previous financial year. This was the minimum housing finance allocation and the banks are free to exceed this level, having regard to their resource position.

- Housing loans upto the ceiling of Rs.15 lakh irrespective of location and loans granted for repairs to damaged houses upto Rs.1 lakh in rural and semi-urban areas and upto Rs.2 lakh in urban areas are eligible for classifying under the category of priority sector lending of banks.
- Banks can deploy their funds under the housing finance allocation in any of the four categories :
  - Direct finance to individuals or group of individuals including cooperative housing societies for construction or purchase of new houses / flats or renovation / expansion of existing houses.
  - Indirect finance to housing finance institutions, housing boards or any other public housing agencies and private builders for augmenting supply of housing stocks.
  - Investments in bonds issued by NHB / HUDCO for financing of housing.
  - Banks can consider channelizing housing finance through regional rural banks, village co-operatives and voluntary agencies.
- Indirect housing finance should be provided primarily for augmenting the supply of land and constructed units with time bound program not exceeding 3 years. It should be channeled by way of term loans to housing finance institutions and housing boards / agencies.
- Banks should consider extending credit to private builders on commercial terms by way of either demand loan for a maximum period of 18 months or term loans for a period to be determined by the banks based on their commercial judgment.

With this broad policy framework, the banks have been given freedom to evolve their own guidelines on the terms and conditions as regards interest rates, security, margin and repayment for direct housing finance. Based on these broad guidelines, the commercial banks formulated their own housing loan schemes. Accordingly, Syndicate Bank has SyndNivas - Housing loan scheme, Corporation Bank, CorpHome - Housing Loan Scheme, and Karnataka Bank, KBL - Apna Ghar Scheme. Though all the three housing loan schemes were designed based on the broad guidelines issued by the RBI, a comparative analysis of their schemes, however, reveal significant differences in their policies and approach in housing finance. They are discussed in detail below :

6.1.1 Purpose of Loan

The banks usually offer various housing loan products. As per the RBI guidelines, the direct home loan refers to loans provided to individuals or groups of individuals including cooperative societies. The indirect housing finance is channeled through housing finance institutions or public housing agencies for construction of housing units. The banks, in general, prefer direct housing finance. The purposes which would qualify for direct housing finance as stated under the housing loan schemes of three banks studied are given in Box-6.1.

Box - 6.1 : Purpose of House Loan

SyndNivas Housing Loan Scheme	CorpHome Housing Loan	KBL Apna Ghar Scheme
- Construction / purchase of new house / flat	- Construction / purchase of new house / flat	- Construction / purchase of new house / flat
- Purchase of ready built house / flat not more than 25 years old	- Purchase of ready built house / flat not more than 30 years old	- Purchase of ready built house / flat not more than 20 years old
- Repairs / Renovation of existing house / flat	- Repairs / Renovation of existing house / flat	- Repairs / Remodeling / Renovation of existing house / flat
- Purchase of plot to construct house within two years.	- Take over of housing loans from other banks / institutions	
- Take over of housing loans from other banks / institutions		

A close examination of the eligible purposes for home loans shows that there are no differences in the housing loan products offered under SyndNivas Home Loan Scheme and CorpHome Housing Loan schemes. Only difference observed is that while Syndicate Bank's Scheme restricted financing ready built old house / flat of not more than 25 years, Corporation Bank finances ready-built old house / flat even upto 30 years old. As against this, the private sector Karnataka Bank's Apna Ghar scheme has restricted financing ready built old house / flat of not more than 20 years old only. Unlike other two schemes of the public sector banks, the Karnataka Bank Scheme does not envisage financing take over of housing loans of other housing financing agencies. Similarly, the SyndNivas Home Loan Scheme include financing purchase of plot to construct house in near future, the housing loan schemes of other two banks are silent on this product's eligibility for financial assistance.

6.1.2 Eligibility

As regards eligibility for housing loan, as shown in Box 6.2, SyndNivas Home Loan Scheme shows that resident and non-resident Indians aged 18 to 55 years and in special cases upto 60 years, with gainful employment or profession / business with regular income are eligible for housing finance. The scheme also qualifies that in the case of younger salaried people, they should have minimum 5 years of service and of older salaried people, they should have minimum 5 years of services left for retirement to become eligible for housing loan.

Those who have taken VRS having pension are eligible for home loan subject to their age not more than 60 years. The CorpHome Housing loan scheme, on the other hand, restricted the age limit for both residents and NRIs at 18 to 50 years and for salaried people, two years confirmed services.

If the applicant's income is not adequate to service the loan, any close relative, who have independent income can join as co-borrower. Karnataka Bank has formulated a separate Housing Loan Scheme for NRIs. KBL Apna Ghar Scheme and Housing Loan Scheme for NRIs have stipulated that residents / NRIs with clear title over the property are eligible for housing loans under their scheme. The age limit is restricted to 21 to 70 years. In the case of applicants over 60 years, spouse or major son / daughter should be made as co-borrower / guarantor. In the case of salaried people, the applicant should have three years experience and confirmed service in the present employment. Similarly, in the case of professionals / businessmen, they should be in profession/business for a minimum period of three years. The KBL scheme has also income restrictions: in the case of salaried people, minimum gross monthly salary of Rs.6000 for residents and Rs.10000 for NRIs and for others, the annual gross income of Rs.60000.

6.1.3 Limit for Housing Loan

The quantum of housing loan is restricted to different category of borrowers in all the schemes. In the case of SyndNivas housing loan scheme, the maximum loan amount allowed for salaried class is 72 times months gross salary and for others six times of their net annual income. Income from other sources and/or income of co-borrowers are allowed to be clubbed for determining the quantum of loan amount. The quantum of loan is also subjected to repayment capacity. Annual installment including interest should not exceed 45 percent and in exceptional cases, 50 percent of the gross annual income. CorpHome loan scheme, on the other hand, has fixed the maximum quantum of loan based on inter alia the location. For metropolitan centre, loan limit is fixed at Rs.100 lakh for house / flat and Rs.30 lakh for site, for urban centres,

Box - 6.2 : Eligibility for Home Loan

SyndNivasHousing Loan Scheme	CorpHomeHousing Loan	KBL Apna Ghar Scheme
- Residents / NRIs aged 18 - 55 (in special cases 60) years with gainful employment / profession / business having regular income. - Salaried with minimum 5 years of service, in exceptional cases 3 years and with a minimum of 5 years service left for retirement. - Pensioners under VRS not more than 60 years age with assured monthly pension	- Residents / NRIs with independent / regular income. - If income not adequate, close relatives with confirmed income join as co-borrower. - Age limit : 18 - 50 years. - Two years of confirmed service. - Title in the name of applicant. - If in joint name, joint holder joins as co-borrower.	- Residents / NRIs having clear title over property. - Age Limit : 21 - 70 years. If applicant is over 60 years, spouse / son / daughter to join as co-borrower. - Salaried persons : confirmed service in present employment and minimum 3 years service - Income : For the salaried, of 6000 and businessmen / professionals / self-employed, annual grossincome of Rs.60000.

Box - 6.3 : Permissible Size of Home Loans		
SyndNivas Housing Loan Scheme	**CorpHome Housing Loan**	**KBL Apna Ghar Scheme**
- 72 months gross salary in case of salaried. - 6 times average annual income including depreciation for others. - Income from other sources and salary or income of co-borrower can be clubbed to fix the loan limit. - EMI should not exceed 45% and in exceptional cases 50% of the gross annual income	- Loan limit fixed at Rs.100 lakh for house / flat and Rs.30 lakh for site in metropolitan centres - Rs.50 lakh for house / flat and Rs.15 lakh for site in urban centres - Rs.25 lakh for house / flat and Rs.10 lakh for site in semi-urban and. rural areas - For renovation / repairs, Rs.5 lakh. - EMI not to exceed 40% of net income for salaried income upto Rs.2 lakh and percent of the value of the house / 50% for salaried income above Rs.2 lakh. - For others, EMI should not exceed 50% of annual net annual income	- 60 times of latest monthly take home(net) salary for salaried - 5 times of latest annual net income plus depreciation in case of businessmen / professionals / self employed subject to ceiling of Rs.75 lakh whichever is less. - For renovation / repairs of existing house, maximum Rs.10 lakh or 60 flat whichever is lower.

Rs.50 lakh for house / flat and Rs.15 lakh for house site and for semi-urban and rural centres, Rs.25 lakh for house / flat and Rs.10 lakh for house site. For repairs / renovation, loan limit is fixed at Rs.5 lakh irrespective of the location. In addition, there is also provision based on repayment capacity. The Equated Monthly installment (EMI) should not exceed 40 percent of net income for salaried income upto Rs.2 lakh and 50 percent for salaried income above Rs.2 lakh. For others, the EMI should not exceed 50 percent of annual net income.

KBL Apna Ghar scheme has restricted the maximum loan amount to 60 times of latest monthly take home (net) salary in the case of salaried people and 5 times of latest annual net income plus depreciation or Rs.75 lakh whichever is less for businessmen, self-employed persons and professionals. In the case of renovation / remodeling / repairs of the existing house / flat, maximum Rs.10 lakh or upto 60 percent of the value of house / flat whichever is lower, is stipulated.

6.1.4 Margin

There is wide variation in the margin stipulated for housing loans among the banks. As a general rule, the Syndicate Bank has stipulated 25 percent of the total project cost as margin for all purposes except in the case of purchase of old houses, where it stipulated 30 percent margin. The relaxation in the margin upto 15 percent in the case of new house / flat and 25 percent in the case of old house / flat is allowed in exceptional cases. The factors to be taken into consideration in relaxation of margin are strategic consideration, competition factor, volume of business, value of the account, share of ancillary business, and length of relationship with the bank, threat of loss of business, perception of long term benefits, credit risk code allotted to the borrower. The Corporation Bank has fixed the margin based on the age of the house / flat. It has fixed 20 percent margin against total project costs for houses / flats upto 20 years and 25 percent margin for houses above 20 years and upto 30 years.

Box - 6.4 : Margin for Home Loan		
SyndNivasHousing Loan Scheme	**CorpHomeHousing Loan**	**KBL Apna Ghar Scheme**
- Minimum 25 % of total project costs in the case of purchase of plot, construction / purchase of house / flats and repairs / renovation of existing house / flat. - Minimum 30 % for house / flat more than 5 years old - Relaxation in margin allowed on merits upto 15% for new and 25% for old houses / flats	- Minimum 20 % of total project costs for house / flat below 20 years old. - Minimum 25% in the case of above 20 years old house / flat and below 30 years old - Minimum 20% for repairs / renovation of existing house / flat	- Minimum 15% of project cost for construction of house on land already owned - Minimum 20% for construction of house on land to be purchased / purchase of upto 5 years old house / flat and booking of new flat. - Minimum 25% for purchase of ready built house above 5 years old. - Minimum 25% for renovation / remodeling subject to maintaining 40% margin on value of the house / flat.

The Karnataka Bank has stipulated lowest minimum margin of 15 percent for construction of house on land already owned. In the case of construction of house on land to be purchased / purchase of upto 5 years old house / flat and booking of new flat, the bank has stipulated minimum 20 percent margin against costs. For purchase of ready built above 5 years old house / flat, it has stipulated a higher minimum margin of 25 percent. Even in the case of repairs / renovation, it has higher margin of 25 percent.

6.1.5 Rate of Interest

The housing loans are made available by banks with floating or fixed options with regard to interest rate. The interest rate regimes adopted for housing loans by the three selected banks under study are set out in Box-6.5. The Prime Lending Rate (PLR) is adopted by all banks as the bench mark in extending home loans of different types depending on the risk profile of the borrower. As a result of competition, there is also wide inter-bank difference in the interest rates charged on the housing loans. None of the banks have adopted uniform interest rate system. Based on the risk assessment, the basic criterion applied for determining the differential interest rate structure for housing loans are interest option adopted (fixed or floating), size of loan and repayment period. While both public sector banks have adopted fixed and floating rate regimes for their housing finance, the private sector bank has restricted their home lending only on floating rate. All the three Banks have taken into consideration both size of loan and loan tenor as factors for determining variable interest rates. Smaller loan amounts and lower loan repayment period have lower interest rates and vice versa in both fixed and floating regimes. Comparatively, the Syndicate Bank has lower loan slab structure and lower interest rates for loans than other two banks. Interest is compounded monthly on diminishing balance on daily product basis by all the banks.

6.1.6 Other Charges

Besides interest rate, the banks also charge other fees. Most common charges in the case of housing loans are administrative and processing fee, pre-payment charges, conversion charges and penalty rate of interest. The Box-6.6 contains the various charges stipulated under the Housing Loan Schemes of the three banks studied.

Box - 6.5 : Rate of Interest for Housing Loan (As on December 2008)

Bank	Size of Loan / Repayment period	Fixed Rate (% p.a.)	Floating Rate (% p.a.)
Syndicate Bank	Upto 5 years	8.25	PLR / PTLR minus 3.25
	5 - 10 years	9.00	PTLR minus 2.75
	10 - 20 years		
	i. Upto Rs.10 lakh	9.25	PTLR minus 2.50
	ii. Over Rs.10 lakh	9.50	PTLR minus 2.25
Corporation Bank	Upto Rs. 20 lakh :		
	Upto 5 years	11.00	10.00
	5 - 10 years	11.50	10.25
	15 - 25 years	11.75	10.75
	Rs.20 lakh - Rs. 30 lakh		
	Upto 5 years	11.00	10.00
	5 - 15 years	11.50	10.50
	15 - 25 years	11.75	10.75
	Above Rs.30 lakh		
	Upto 5 years	12.00	11.25
	5 - 15 years	12.25	11.25
	15 - 25 years	12.25	11.50
Karnataka Bank Ltd.	Upto Rs.20 lakh :		
	Upto 5 years		10.50
	5 - 10 years		11.00
	10 - 15 years		11.25
	Above Rs.20 lakh		
	Upto 5 years		11.50
	5 - 10 years		12.00
	10 - 15 years		12.25

SyndNivas Housing Loan Scheme allows switch over between fixed and floating rates once during the tenure of the loan without penalty. As against this, Corporation Bank allows conversion only from floating to fixed and not fixed to floating. The bank charges 1.00 percent of the outstanding balance as conversion fee. In the case of Karnataka Bank, the question of conversion does not arise as the Bank only allows floating interest option for home loans. The processing fee is charged to cover some portion of operation costs incurred by the bank during the evaluation of loan application.

While Syndicate Bank does not levy processing charges, both Corporation Bank and Karnataka Bank levy processing charges. The processing charges vary depending on the size of loan amount subject to certain ceilings. Corporation Bank levies processing fee at the rate of 0.50% of loan subject to certain ceilings : for loan amounts below Rs.5 lakh, minimum Rs.1000 and maximum Rs.2500; for loan amount above Rs.5 lakh and upto Rs.15 lakh, minimum Rs.2500 and maximum Rs.7500; for loan amount above Rs.15 lakh and upto Rs.20 lakh, minimum Rs.7500 and maximum Rs.10000 and loans above Rs.20 lakh, minimum Rs.10000 and maximum Rs.20000. Karnataka Bank, on the other hand, charges processing fee for loan upto Rs.2 lakh, 0.50 percent with minimum Rs.500 and for loans above Rs.2lakh, 0.25 percent with a minimum of Rs.1000.

Housing loans being long term in nature, the borrowers rarely intend to carry the loan for its entire duration of 15 - 25 years. Whenever they are flush with funds, they would like to pay lump sum or close the loan prematurely. Since this result in income loss to banks, the prepayment fee to meet a part of their income-loss is a common feature of the housing loan system. All the three banks studied have provisions for charging pre-payment fee at the time of prepayment. The prepayment charges are in the range of 0.50 percent to 1.00 percent. Syndicate Bank levies 1.00 percent prepayment fee on outstanding balance irrespective of whether the loan is floating or fixed. Corporation Bank, on the other hand, charges 0.50 percent on pre-paid amount in the case of floating and 1.00 percent on prepaid amount in the case of fixed prior to completion of five years. No pre-payment fee is levied in the case of fixed loans more than five years old. As against this, Karnataka Bank charges pre-payment fee of one percent on the loan balance.

As regards penalty charges in delay / default in repayment, Syndicate Bank has clearly mentioned charging of 2 percent penalty on defaulted amount. In the case of Corporation Bank and Karnataka Bank, no such provisions are specifically indicated in their schemes.

6.1.7 Repayment Period

As regards repayment period and mode of repayment, there is some element of commonality among the public sector banks and private sector banks (Box-6.7). While both Syndicate and Corporation Banks have maximum repayment period of 20 years and in exceptional cases extended to 25 years, Karnataka Bank has stipulated maximum period of only 15 years including 18 months repayment holidays. All the banks adopted monthly equated installments mode for repayment of housing loans.

6.1.8 Security

Housing loan, by virtue of its long term nature, is mortgage loan. The mortgage of house / flat acquired out of bank

Box - 6.6 : Other Charges for Home Loan

Items	SyndNivas Housing Loan Scheme	CorpHome Housing Loan	KBL Apna Ghar Scheme
Processing Charges	Nil	0.50% of loan amount subject to : - Upto Rs.5 lakh : Min. Rs.1000 and Max. Rs.2500. - Rs 5 lakh - Rs.15 lakh : Min. Rs.2500 and Max. Rs-7500 - Rs.15 lakh - 20 lakh : Min.7500 and Max. Rs.10000. - Above Rs.20 lakh : Min. Rs.10000 and Max. Rs.20000.	Upto Rs.2 lakh : 0.50% of loan amount Min. Rs.500. Above Rs.2 lakh: 0.25% with Min. Rs.1000
Pre-payment penalty	1.00 % of outstanding balance.	0.50% on prepaid in the case of Floating. 1.00% on prepaid prior to completion of 5 years in the case of Fixed.	1.00% of loan balance
Conversion charges	Nil	1.00 % of the outstanding balance in the case of floating to fixed	-
Penalty for default	2.00% on overdue amount	Not indicated	Not indicated

Box - 6.7 : Repayment for Home Loan		
SyndNivas Housing Loan	**CorpHome Housing Loan Scheme**	**KBL Apna Ghar Scheme**
- Maximum period : 20 years including repayment holiday. - Repayment holiday 18 months and in exceptional cases extended upto 24 months from the date of disbursement. - No repayment holiday in the case of outright purchase. - Repayment in equated monthly installments. - Depending on type of activity borrower engaged and mode of income accrual, repayment be fixed at quarterly / half-yearly intervals.	- Maximum period 20 years including repayment holidays for salaried class - Maximum 15 years for other category of borrowers under fixed rate loans - Under floating rate upto 25 years including repayment holiday - Repayment in monthly equated installments	- Maximum period : 15 years including repayment holiday upto 18 months from the date of disbursement - Maximum period 7 years for renovation / repairs. - Repayment in equal / equated monthly installments.

finance constitutes the principal security for the home loan. This principle is commonly adopted by all banks. Housing loans are granted against free-hold land. In the case of lease hold lands, unless the lease is perpetual for a minimum period of 50 years or more, then only home loans are considered. A third party surety acceptable to the bank is taken as additional security. In cases where LIC policy having adequate surrender value, NSCs and KVPs are offered as collateral security, the condition of obtaining third party guarantee is relaxed. Similarly, in the case of joint borrowers or where the value of security offered is more than 2.5 times the amount of loan, the surety is not insisted upon. In the case of salaried class, an undertaking from the employer to deduct equated monthly installment from the salary and credit the same to the borrower's loan account is obtained.

6.1.9 Takeover of Housing loans

The Housing Loan Schemes of both Syndicate Bank and Corporation Bank include takeover of housing loans from other financing institutions such as public sector banks, other banks, HFCs, HUDCO, cooperative banks and Army Group Insurance Fund. The criteria for take-over home loans include inter alia the following :

- The dealings of party are satisfactory; confidential opinion from the existing banker should be obtained.
- Genuine and justification of reason for shifting the loan from another institution.
- Account should not be overdue account, nor show any spell of overdue at the time of take over.
- Underlying security is sound and does not suffer from any impairment or deficiency in matter of title, value and marketability.
- Minimum security value margin for take over loan; loan amount should not exceed 75 percent of market value.
- Repayment period should not exceed leftover repayment period of transferor bank.

Other conditions are more or less same in the case of both public sector banks and private sector bank studied. For instance, loan amount is disbursed in stages or lump sum directly to the seller / builder after obtaining required letter of authorization from the borrower and compliance of security requirement. As a policy, all three banks allow two house loans to a borrower for purchase / construction / renovation. Even in the case of existing house loan, enhancement loan is permitted during pre-EMI or post-EMI period. The loan for enhancement is either treated as a separate loan or clubbed together for computation of EMI. Banks also designed comprehensive check-list to enable Branch Managers to collect the requisite information and documents from the borrower.

6.2 A Comparative Analysis of Performance

The Syndicate Bank has a network of 2169 branches with total deposit of Rs.95171 crore and total advances of Rs.64051 crore as on March, 2008. The Corporation Bank has 981 branches with total deposits of Rs.55424 crore and total advances of Rs.39186 crore. Karnataka Bank has, on the other hand, 431 branches with total deposit of Rs.17016 crore and total advances of Rs.10842 crore during the same period. Among the nationalized banks, the Syndicate Bank ranks seventh and Corporation Bank fourteenth in deposits and advances. Among the old generation private sector banks, Karnataka Bank ranks fourth in the baking business at all India level. In the districts selected, the Syndicate Bank has 67 branches in Dakshina Kannada district and 69 branches in Udupi district. It has exclusive Housing Finance branch in Mangalore opened in 1996. Corporation Bank has a network of 34 branches in Dakshina Kannada district and 27 branches in Udupi district. As against this, Karnataka Bank has 32 branches in Dakshina Kannada and 21 in Udupi district.

Table-6.1 presents the performance of the selected three banks in housing finance at all-India and Karnataka state levels. As on year ending 2008, Syndicate Bank has total home loan outstanding of Rs.5317 crore and the home loan accounts of 134958 at all-India level. Corporation Bank has, on the other hand, the home loan outstanding of Rs.3844 crore involving the number of beneficiaries of 75626. As against these public sector banks' performances, Karnataka Bank, the private sector Bank has home loan amount outstanding of Rs.1252 crore for 13821 home loan accounts.

During the period between 2001 and 2008, Syndicate Bank has increased eight fold its exposure to housing sector, whereas Corporation and Karnataka Bank have increased their exposure fourteen and eighteen folds respectively. The average annual growth rate in housing finance works out to 135 percent per annum for Syndicate Bank and 153 percent for Corporation Bank. In the case of private sector Bank, it works out to be 158 percent per annum.

The analysis of housing finance data, thus, clearly shows that the private sector bank has higher growth performance in housing finance than the public sector banks. Among the public sector Banks, the Corporation Bank has higher growth in housing finance than Syndicate Bank. Compared to the all-India banking sector average annual growth rate of 54 percent in housing loans during this period, the performances of these banks in housing finance are significantly higher. However, it should be noted that in the case of all the three banks, though there was a quantum jump in the growth rates during the period between 2001 and 2005, since 2006, there was a declining trend in housing loans, which clearly shows that both public sector and private sector banks are now cautious in expanding their housing loan portfolio.

The average home loan amount works out to Rs.3.94 lakh in the case of Syndicate Bank, Rs.5.08 lakh in the case of Corporation Bank and Rs.9.06 lakh in the case of Karnataka Bank. This shows that the private sector bank has focused more on larger home loan accounts than public sector banks. Even in the case of public sector banks, Syndicate Bank has comparatively catered more small housing loans than Corporation Bank. Since all the three banks have larger presence in terms of branch network in the Karnataka state, it accounts for major portion of the housing loan portfolios of these banks. In the case of Syndicate Bank, the state accounts for 30 percent of its total home loans. Similarly, 38 percent of the home loan outstanding of Corporation Bank is deployed in Karnataka state. In the case of Karnataka Bank, on the other hand, the share of the Karnataka state accounts for 57 percent. This is mainly due to their higher concentration of branches in Karnataka state.

In Table-6.2, the data on the housing finance by these three banks in selected Dakshina Kannada and Udupi districts are analyzed. In the case of Syndicate Bank, Dakshina Kannada district accounts for 14 percent of its total housing loans in Karnataka state and 4 percent at all-India level. Udupi district, on the other hand, accounts for 15 percent of its total home loans in the state and 4.2 percent at all-India level.

Syndicate Bank - Housing Finance (All India)

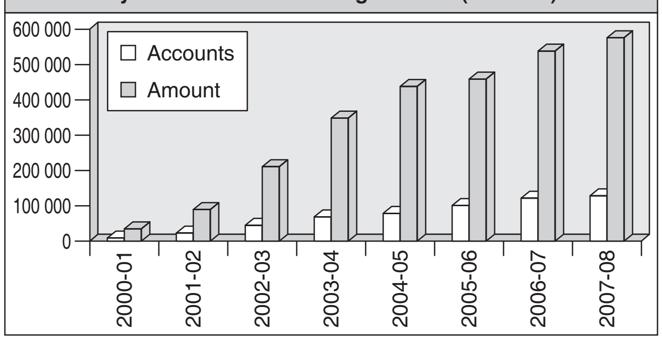
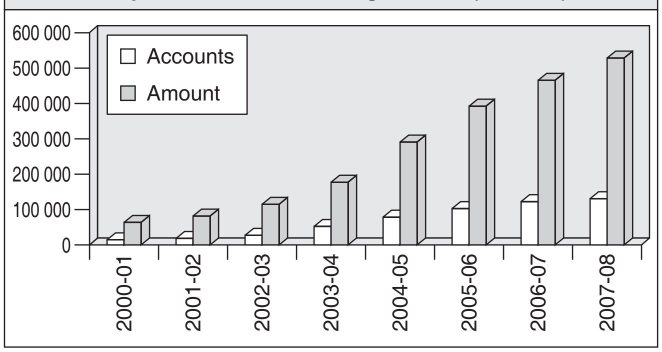


Table - 6.1 : Housing Finance by Selected Banks - All India

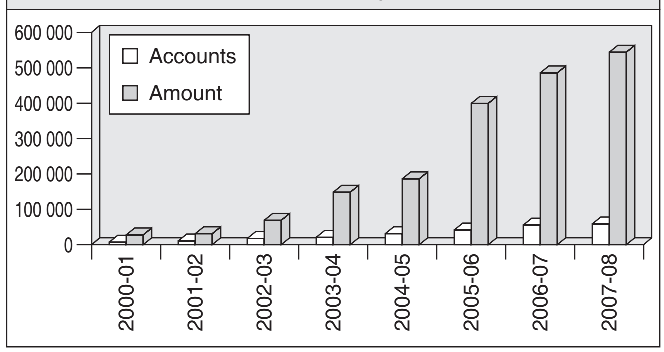
Year	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.	
	Accounts (No.)	Amount Outstanding (Rs. in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)
2000-01	19229	67152	8969	27225	1636	6808
2001-02	22019	87535	17516	63472	2610	7519
2002-03	32755	118158	32221	141861	4645	15824
2003-04	57524	182997	49134	233309	5336	34661
2004-05	84696	293432	61086	295659	7777	42669
2005-06	107096	398395	64823	307053	10132	91966
2006-07	126168	469703	73619	359365	12678	111564
2007-08	134958	531668	75626	384294	13821	125220

Table - 6.2 : Housing Finance by Selected Banks - Karnataka State						
Year	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.	
	Accounts (No.)	Amount Outstanding (Rs. in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)
2000-01	6098	12498	4127	10358	1321	4417
2001-02	7115	28009	6618	21356	2131	4801
2002-03	10885	28392	11108	46649	3816	12154
2003-04	18446	52653	16330	75117	3799	25154
2004-05	27025	82674	20481	99911	5457	28065
2005-06	33395	106451	22408	108807	6816	56776
2006-07	38158	132191	24064	130487	8388	68437
2007-08	41625	159428	26212	145911	9363	71221

Corporation Bank - Housing Finance (All India)



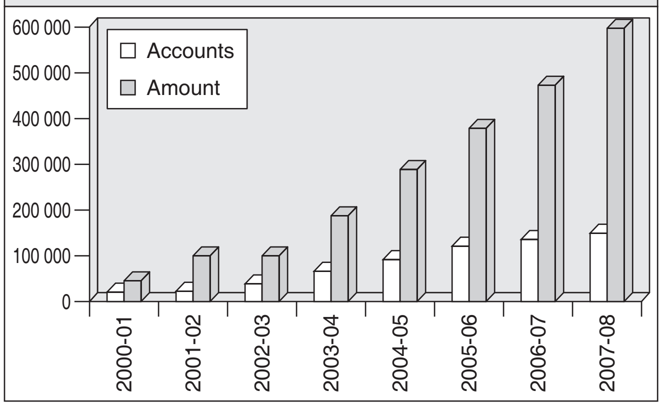
Karnataka Bank Ltd. - Hosing Finance (All India)



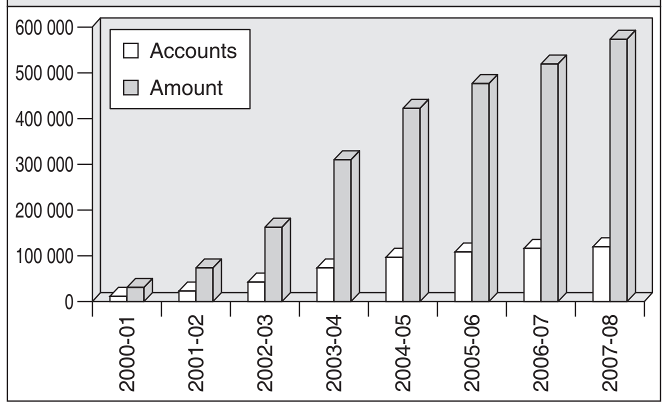
In Dakshina Kannada and Udupi districts housing finance has been increasing very fast in the recent years. While in Dakshina Kannada district, the concentration of housing finance is around Mangalore city, in Udupi it is around Udupi-Manipal. Symptoms of urbanization are becoming visible in Udupi - Manipal since the formation of Udupi district in 1997 with Udupi as the district headquarters. Manipal, the fast growing educational

Table - 6.3 : Housing Finance by the Banks in Dakshina Kannada and Udupi Districts						
Year	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.	
	Accounts (No.)	Amount Outstanding (Rs. in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)	Accounts (No.)	Amount Outstanding (Rs.in lakh)
Dakshina Kannada District						
2000-01	862	1328	527	1285	199	260
2001-02	979	1508	1021	3131	209	402
2002-03	1204	2142	1836	6826	261	648
2003-04	1969	4233	3085	12730	343	953
2004-05	3001	7610	4053	17401	478	1443
2005-06	4338	12286	4561	19586	567	1910
2006-07	5340	17498	4849	21369	733	2528
2007-08	5939	20358	5065	23674	754	2637
Udupi District						
2000-01	825	1551	566	1173	108	201
2001-02	990	2272	792	1846	116	208
2002-03	1404	2992	1213	3200	119	250
2003-04	2315	5609	1743	5027	143	398
2004-05	3522	9846	2235	6924	218	613
2005-06	4626	14576	2616	8756	390	972
2006-07	5414	18446	2791	9805	518	1384
2007-08	5945	22221	2919	10952	493	1282

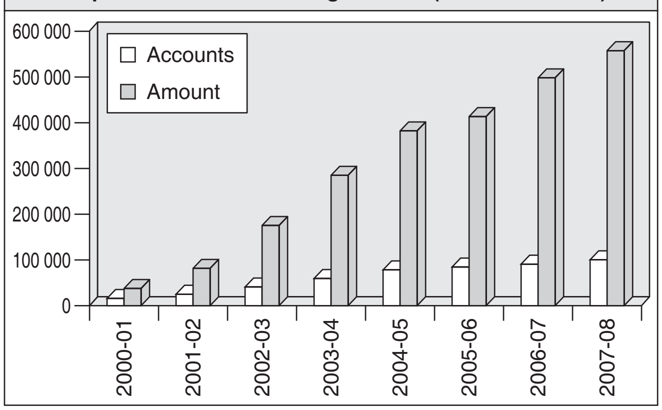
Syndicate Bank - Housing Finance (Karnataka State)



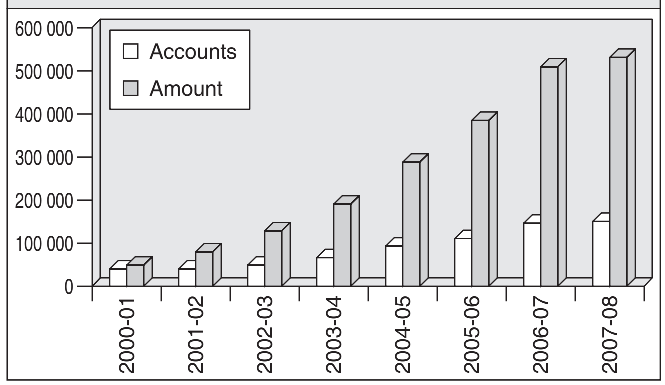
Corporation Bank - Housing Finance (Dakshin Kanada District)



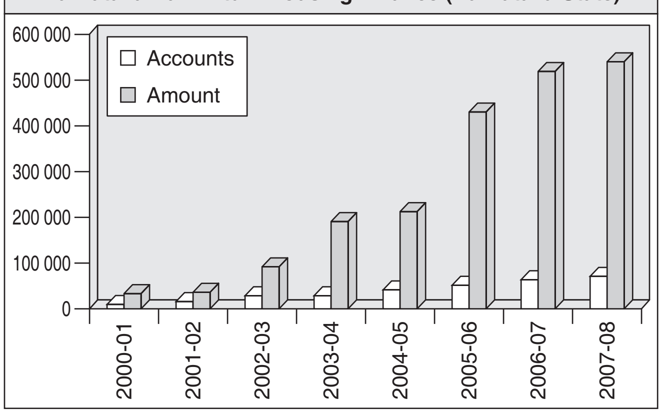
Corporation Bank - Housing Finance (Karnataka State)



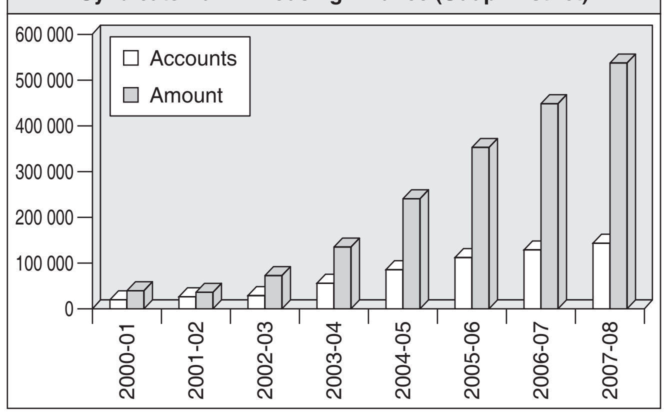
Karnataka Bank Ltd. - Housing Finance (Dakshin Kanada District)



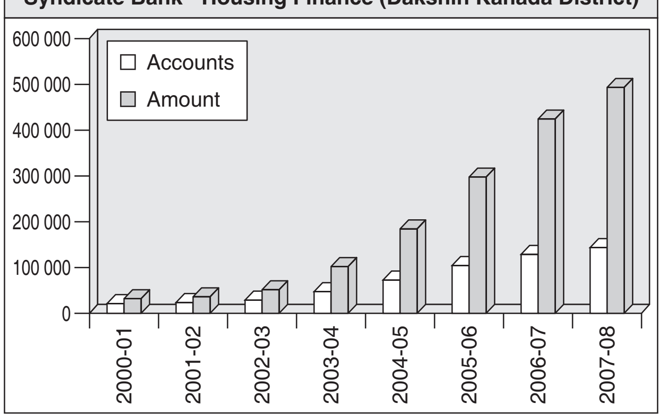
Karnataka Bank Ltd. - Housing Finance (Karnataka State)



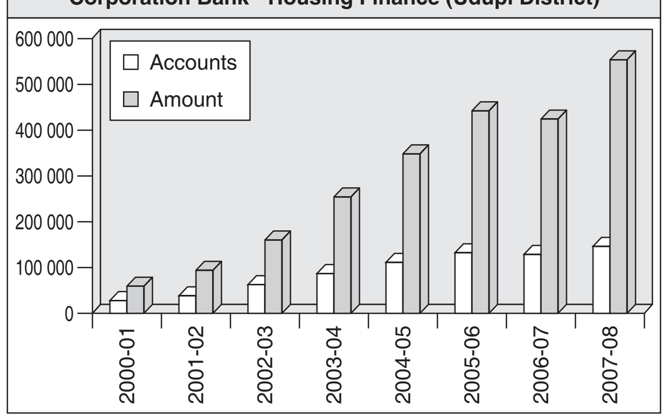
Syndicate Bank - Housing Finance (Udupi District)

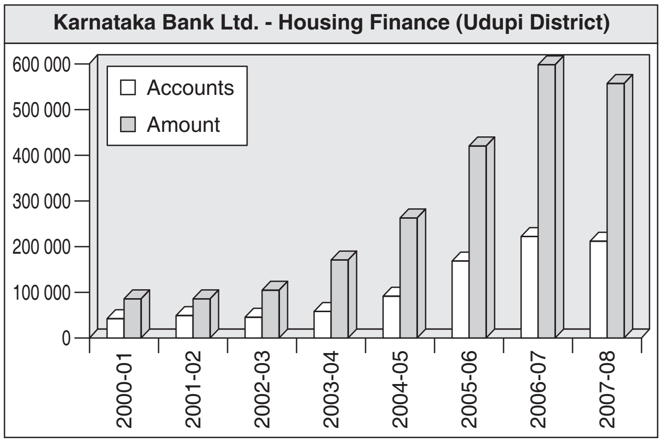


Syndicate Bank - Housing Finance (Dakshin Kanada District)



Corporation Bank - Housing Finance (Udupi District)





centre has transformed into an urban conglomerate with many high size buildings changing the skyline of the hillock. The three local banks have been playing a significant role in providing the financial support to the house building activities.

Similarly, in the case of Corporation Bank, Dakshina Kannada District accounts for 16 percent of its total housing loans in the state and 6 percent of the all-India level. Udupi district accounts for 7 percent of its total lending in the state and 3 percent of the all-India total lending to the housing sector. Comparatively, the shares of the selected districts in the housing finance of Karnataka Bank at both state and all-India levels are smaller. In the case of Dakshina Kannada district, the share is 4 percent at the state level and 2 percent at all-India level in its housing portfolio. In the case of Udupi district, the respective shares work out to 2 and one percent respectively.

During the period between 2001 and 2008, in Dakshina Kannada district, there was a fourteen fold increase in the housing finance of Syndicate Bank, whereas in the case of Corporation Bank, the increase was eighteen fold. Karnataka Bank, on the other hand, has increased its housing finance exposure in the district only ten times of the 2001 level. More or less similar growth pattern is observed in housing finance by these banks in Udupi district. In the case of Syndicate Bank, there was a fourteen fold increase in the district, while Corporation Bank has witnessed nine fold increase. In the case of Karnataka Bank the increase is only six fold during this period. The average housing loan amount per borrower in the case of Syndicate Bank works out to Rs.3.43 lakh in Dakshina Kannada district and Rs.3.74 lakh in Udupi district. For Corporation Bank, it works out to Rs.4.67 lakh and Rs.3.75 lakh respectively. Karnataka Bank has, on the other hand, lower average loan amount per borrower, Rs.3.49 lakh in Dakshina Kannada district and Rs.2.60 lakh in Udupi district.

6.3 Problems and Prospects

The extent of housing needs and scope of the housing finance have grown by leaps and bounds in recent years. Since in the districts selected, the role of non-banking housing financing agencies is almost negligible, the commercial banks are trying to capture a sizeable share of the market in housing finance. Since the market is experiencing growth spurt, financing activities of the banks have been drawing closer attention from the RBI as the regulatory agency. Income recognition, asset classification based on risk, asset-liability management, capital adequacy and credit concentration are some the areas of concern, which received the attention of the RBI. The RBI has already changed the NPA classification from 180 days to 90 days past due. The subsequent increase of risk weight in the case of housing loans from 50 percent to 75 percent reflect the enhancement in the risk perception in the housing finance, which was traditionally considered low risk lending area.

The banks, in general, are hesitant to give any data on the NPAs in housing finance. The common perception of the bankers is that housing finance was not a part of their normal lending and it was thrust upon them by the government. Moreover, the financing of a house built or purchased for self-occupation is not self-liquidating as it does not yield revenue. The repayment of loan has to depend on other sources of income. However, an attempt was made to get the bankers' perception on this important issue, through informal interactions with senior bank officials. The observations during the interactions are quite revealing. They are summarized as follows :

- The traditional belief that the mortgage based housing finance is safe lending is not necessarily true. With declining real estate prices and instability in employment market as a result of recession, risk of lending housing loan has gone up tremendously.
- In recession, when real estate prices are falling, assets valued at boom period result in higher credit risks. The repayment problem is also aggravated as a result of uncertainty of employment, reduction in salaries etc.
- The credit risk is very high in the case of self-employed / professional because of irregular income pattern.
- The stiff competition and varying standards impose systemic risks, which can be potential threat to the

housing finance market. The intense price competition has resulted in sub-PLR lending rate in most of the cases. Similarly, dilution in appraisal norms, reduced / waiver of margin and lack of due diligence also affect the asset quality of home loans.

- Unscrupulous borrowers in connivance with builders / estate agents / revenue officials have defrauded banks by obtaining multiple finance against the same property or through submission of fake / forged / stolen documents including fake title deeds.
- With the risk-weights on housing loans being reduced to 50 percent from 100 percent irrespective of the loan-to-value (LTV) ratio, the softening of collateral requirements, over-valuation of mortgage and high LTV loans lead to increase in probability of default loss. In the aftermath of lower risk-weight prescription, there has been a marked dilution in the quality of assets and collateral requirements. With the decline in real estate prices, high LTV loans have become negative equity loans.
- Over-valuation of assets and over estimation of income are very common in housing loans, which distort the credit appraisal. Housing loans being long term in nature are exposed to several economic / business cycles which can bring the asset under stress. Dilution of standards, fraudulent practices or gaps in these regards can pose systemic risks with growing contagion effect.
- Instead of uniform risk weight across the asset classes, the banks should assess the risk of each asset separately and assign the risk weight and collateral requirement for housing loan.
- Another key area of concern in housing finance is the emergence of increase in the asset-liability mismatch. Since in most of the cases, loan tenor is more than 10 years, the option of fixed rates loans would result in facing the problems of asset-liability mismatch given the short term maturity of their liabilities.
- A higher proportion of fixed rate to floating rate portfolio increases the interest rate risk to lenders. In the case interest rates moves up, the probability of default may go up in the floating regime as it results in increase in EMI and more repayment burden to the borrower, which might not have been considered at the time of appraisal.

It is imperative that an effective policy on housing finance should consider the some of the concerns expressed by the practicing bankers as they look at housing finance as one of the avenues of asset building for the nation. These concerns, therefore find a place in the recommendations of this study.

Chapter - 7

Borrowers' Perceptions in Housing Finance - An analysis

In the earlier chapter, a comparative analysis of the lending policies and strategies adopted and the performance in housing finance of selected two public sector banks and one private sector bank has been carried out in detail. An attempt is also made to identify the problems and risk perceptions on supply side of the housing finance market. The questions arising on the demand side are : who have been benefited from the housing loan? What are their perceptions as stakeholders of home loans? What are the problems faced by them in obtaining the required funds for constructing or purchasing house properties? What are their expectations and suggestions to improve the system of housing finance? The empirical findings of these questions would provide some insights for improving the access, affordability, product design, credit policy, credit analysis process and credit decisions by the lenders.

In this chapter, an attempt is therefore made to analyze the field data collected from the sample home loan customers of three selected banks in Dakshina Kannada and Udupi districts in Karnataka state with a view to understand the dynamics of housing finance market on the demand side.

7.1 Study Design and Sample Chosen

With a view to examine the profile, loan characteristics and perceptions of borrowers on housing loans, a field study of banks' customers was carried out. The banks selected were Syndicate Bank, Corporation Bank and Karnataka Bank Ltd. The Head quarters of Corporation and Karnataka Bank are located in Mangalore in Dakshina Kannada district. Moreover, their housing loans are relatively more concentrated in Mangalore urban area in Dakshina Kannada district. In fact, Mangalore is a major banking and financial centre in coastal Karnataka and on the forefront in housing finance by banks. Housing finance constitutes about 20 percent of the total advances in Mangalore city.

The banking sector in Mangalore city has a remarkable track record of innovations and growth during the last hundred years. It has not only nurtured many banks, but also attached a large number of big banks from outside. According to the latest data, Mangalore ranks 35th among the top 100 banking centres in India, with a total deposit of Rs.8,553 crore as on December 2008. There are 179 branches operating in the city including a foreign bank. Their outstanding level of credit is Rs.4,418 crore. It may be added here, that besides the banks, there are the branches of housing companies functioning in Mangalore. They are LIC Housing Finance Co. Ltd., etc.

During the last eight years, there has been a spectacular increase in housing finance in the city in tune with the increase in the advances made by all the banks. From the level of Rs.102 crore in 2000, the total housing finance has increased to Rs.821 crore in 2008 (estimated). House construction activities are very brisk in Mangalore. Thanks to rapid growth of city due to commercial activities around fast growing harbor. Mangalore Refineries and Petro-chemicals Ltd. (MRPL) has been expanding its operations. A Special Economic Zone is in the offing, which is expected to be one of the largest petro-chemicals complexes in India. Urbanization is making a visible impact on attracting reputed builders from Bangalore to expand their businesses in different part of the city. The entry of IT-based companies has raised the demand for housing in and around the city. The establishment of huge complex by Infosys Technologies Ltd. in the outskirts of the city has boosted the house building activities.

The Head Office of Syndicate Bank is situated in Manipal. Its role in housing finance in Udupi district is relatively more significant than the other two banks. Hence, the beneficiaries of Corporation and Karnataka Bank were selected from Mangalore Urban centre, while, for the Syndicate Bank, the beneficiaries were selected from Udupi district purposively.

The field study was carried out on a rapid appraisal basis. The lists of home-loan borrowers were obtained from the respective banks and sample of borrowers for the study were selected from the list on a random basis. The data were collected through structured schedule based on interview method. The schedules focus mainly on home loan borrower characteristics, loan characteristics, problems faced by the respondents and their perceptions. To supplement the survey method, the study also adopted consultation and participatory approach to gather information on dynamics of housing finance. The study team held detailed discussion with the Branch Managers and the bank officials concerned in the

Table - 7.1 : Housing Finance Extended by Banks in Mangalore			
Year ending (March)	Housing Finance Outstanding (Rs.crore)	Total Bank Advances Outstanding (Rs.crore)	Share of Housing Finance (percent)
2000	102	894	11.8
2001	139	1068	13.0
2002	169	1240	13.6
2003	278	1768	15.7
2004	386	2139	18.0
2005	401*	2217	18.5
2006	596*	3009	19.8
2007	759*	3798	20.0
2008	821*	4214	19.5
Source : Housing finance data for Mangalore city was obtained from the Reserve Bank of India through private correspondence. Other data culled from Banking Statistics-Quarterly Handouts, Reserve Bank of India, various issues			

Table - 7.2 : Bank-wise Distribution of Sample Chosen						
Bank	Sample Chosen		Single - Borrower		Joint - Borrower	
	No	%	No	%	No	%
Syndicate Bank	82	41.00	79	96.34	3	3.66
Corporation Bank	64	32.00	33	51.56	31	48.44
Karnataka Bank	54	27.00	47	87.04	7	12.96
Total	**200**	**100.00**	**159**	**79.50**	**41**	**20.50**

command areas of the field survey. The analytical framework adopted was mainly governed by the primary objective of the study, which is to assess who benefited from the housing finance and the perception of the stakeholders on demand front of housing finance market. No sophisticated statistical analysis is made; instead, only simple cross-section and disaggregated analysis of data has been carried out.

7.2 Profile of Beneficiaries

It is important to know who benefited from the housing loans from the banks and what are their characteristics? The market inclusion / market exclusion or credit decision of the banks also depends on the risk profile of the stakeholders. In this section, an attempt is, therefore, made to analyze the field data in regard to the profile of the sample borrowers of three banks selected for the study.

The details of bank-wise distribution of sample home loan beneficiaries studied are furnished in Table-7.2. A sample of 200 home loan customers of three selected banks in Dakshina Kannada and Udupi districts were selected. Out of 200 sample borrowers, 82 were from Syndicate Bank in Udupi district, 64 from Corporation Bank and 54 from Karnataka Bank in Dakshina Kannada district.

It should be also noted that out of 200 sample customers studied, 159, which works out about 80 percent were single borrowers. Only 41 out of 200 or 20 percent were joint borrowers. Housing loans being long-term in nature, the banks usually insist spouse or close relatives as co-borrowers to avoid any future legal complications and ensure regular recovery of the loans. The presence of co-borrowers is also essential if the property is in the joint name or if the income of the applicant is not sufficient to service the loan amount. The default risk is also considered lower for loans backed by co-obligants. The finding of the field survey is, however, contrary to this general belief. Inter-bank differences are also found very significant. While in the case of Syndicate Bank, only 3 (4 percent) out of 82 home loan customers were joint borrowers, nearly half of the customers of home loan in the case of Corporation Bank were joint borrowers. In the case of Karnataka Bank, 7 out of 54, which works out 13 percent, were joint borrowers.

The details of the gender-wise composition of the sample home loan customers of three banks selected for the study are presented in Table-7.3. Surprisingly, the gender-wise patterns of home loan borrowers of all the three banks selected, are more or less the same. Comparatively, Syndicate Bank has the highest percentage (27) of female home loan borrowers and Corporation Bank has the highest percentage (80) of male borrowers. In the case of Syndicate Bank, 73 percent of total home loan borrowers were male and 27 percent female. As against this, in the case of Corporation Bank, only 20 percent were female borrowers and 80 percent male borrowers. The gender-wise pattern of home loan borrowers is almost the same

Table - 7.3 : Gender-wise Composition of Housing Finance Customers						
Banks	**Male**		**Female**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Syndicate Bank	60	73.17	22	26.83	82	100.00
Corporation Bank	51	79.69	13	20.31	64	100.00
Karnataka Bank	42	77.78	12	22.22	54	100.00
Total	**153**	**76.50**	**47**	**23.50**	**200**	**100.00**

Table - 7.4 : Occupational Pattern of Housing Finance Borrowers								
Occupation	**Syndicate Bank**		**Corporation Bank**		**Karnataka Bank Ltd.**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Salary Earners	36	43.90	24	37.50	17	31.48	77	38.50
Professionals	26	31.71	16	25.00	9	16.67	51	25.50
Self-employed	7	8.54	2	3.13	4	7.41	13	6.50
Businessme	12	14.63	21	32.81	24	44.44	57	28.50
Agriculturists	1	1.22	0	0	0	0	1	0.50
Housewives	0	0	0	0	0	0	0	0
Others	0	0	1	1.56	0	0	1	0.50
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

even in the case of the private sector bank, Karnataka Bank. The field data analysis thus reveals that housing loan market is primarily the domain of men.

Table-7.4 sets out the occupational pattern of a sample housing finance borrowers of three banks selected for the study. An overall analysis of the data in the table clearly shows that the credit decisions of the banks in housing loans mainly depend on the risk profile of the occupation of the borrowers. The first preference of the banks in home loan is the regular salaried staff. This is reflected in the highest percentages of the salary earning borrowers (39 percent) as home loan borrowers in the sample. The second most important occupational category among the home loan borrowers is businessmen followed by professional class such as doctors, lawyers and chartered accountants. The self-employed constitute hardly 6 percent of the total sample borrowers studied. It appears that banks, in general, do not prefer to provide housing finance to agriculturists, housewives. Hence, to become eligible for housing finance, one must have regular job and regular income.

Out of 200 sample home loan borrowers, only one borrower was found to be an agriculturist. The home loans to agriculturists are stated to be constrained by various factors such as non-availability of clear land title, difficulty in assessing repayment capabilities, irregular income pattern, difficulty in disposal of mortgaged property etc. All these factors result in higher credit risk in lending to agriculturists for housing.

The household income data of borrowers were collected through survey method to know the income level of home loan borrowers. Though there is every possibility of underestimation or overestimation, cross-sectionally, it will give an approximate picture of income pattern of the home loan borrowers. Table-7.5 analyzes the frequency distribution of home loan borrowers based on their annual income. From the table, it may be seen that nearly 75 percent of the total sample borrowers were in the annual income level between Rs.1 lakh and Rs.5 lakh. It appears that most of them belong to salaried class with monthly take home salary of ranging from Rs.10000 to Rs.40000. Those, who were in the income level above Rs.5 lakh mainly, belong to professionals and businessmen. The home loan borrowers with less than Rs.1 lakh income per annum constitute less than 2 percent of the sample borrowers. The income pattern of the home loan borrowers is more or less the same in respect of all banks studied. The main implication emerges from the table is that the housing finance by the banks mainly benefited the middle to high income groups, in particular the salaried class.

7.3 Pattern of Housing Loans

Housing finance is granted by the banks for various purposes, depending on the housing needs of the borrowers. In Table 7.6, an attempt is made to analyze the field data collected in regard to the various purposes for which the sample borrowers have borrowed funds from the banks. The data analysis in the table shows that slightly more than half of the borrowers have borrowed for construction of new houses and one-fourth for purchase of new flats. Out of 200 borrowers, 32 (16 percent) have used the loan amount for purchase of ready built house. In the sample, none was found to be borrowing for purchase of housing site. The home loans for upgradation of existing houses constitute only 7 percent of the sample borrowers.

The inter-bank differences in the pattern of end-use of home loans are found to be only marginal apparently due to location. For example, in Udupi district, Syndicate Bank has financed more for construction of new houses (68 percent) and less for purchase of flats (13 percent). In Mangalore city, the proportions of sample borrowers of both Corporation and Karnataka Banks, who obtained loans for construction of new houses, were comparatively lower, 37 percent and 41 percent respectively. In purchase of new flats, the proportion of their borrowers in both cases comparatively higher, 38 percent and 32 percent respectively. This is apparently due to the fact that Mangalore is a bigger city and the demand for flats in Mangalore city is higher. Corporation Bank and Karnataka Bank have also higher percentage of borrowers for purchase of ready built houses than Syndicate Bank. As regards upgradation home loans, Corporation Bank has least number of borrowers (5 percent), followed by Karnataka Bank (9 percent). As against this, Syndicate Bank has 7 percent upgradation home loans. The low percentage of upgradation home loans clearly demonstrates the low preference of banks in financing renovation / repairs / remodeling of old house stocks.

Table -7.5 : Income Pattern of Housing Loan Borrowers

Annual Income (Rs. in Lakh)	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Below 0.50	0	0.00	0	0.00	0	0.00	0	0.00
0.50 - 1.00	2	2.43	1	1.56	0	0.00	3	1.50
1.00 - 2.50	23	28.05	11	17.19	6	11.11	40	20.00
2.50 - 5.00	39	47.56	33	51.56	38	70.37	110	55.00
5.00 - 7.50	10	12.20	7	10.94	5	9.26	23	11.50
7.50 - 10	5	6.10	8	12.50	2	3.70	15	7.50
10 and above	3	3.66	4	6.25	3	5.56	9	4.50
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

Table - 7.6 : Home-loan Product-wise categorization of Borrowers

Product	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Purchase of built house	9	10.98	13	20.31	10	18.52	32	16.00
Purchase of flat	11	13.41	24	37.50	17	31.48	52	26.00
Construction of new house	56	68.29	24	37.50	22	40.74	102	51.00
Renovation of house	6	7.32	2	3.13	3	5.56	11	5.50
Extension/expansion	0	0.00	1	1.56	2	3.70	3	1.50
Purchase of housing site	0	0.00	0	0.00	0	0.00	0	0.00
Total	**82**	**100**	**64**	**100**	**54**	**100**	**200**	**100**

Table - 7.7 : Distribution of Housing Finance Borrowers according to Loan Size

Loan Size (Rs. in Lakh)	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Below 0.50	0	0.00	0	0.00	1	1.85	1	0.50
0.50 - 1.00	3	3.66	2	3.12	2	3.70	7	3.50
1.00 - 2.0	5	6.10	5	7.81	2	3.70	12	6.00
2.00 - 3.00	8	9.76	7	10.94	5	9.26	20	10.00
3.00 - 5.00	13	15.85	11	17.19	8	14.82	32	16.00
5.00 - 7.50	19	23.17	13	20.31	12	22.22	44	22.00
7.50 - 10.00	25	30.48	11	17.19	16	29.63	52	26.00
10.00 - 20.00	7	8.54	14	21.88	8	14.82	29	14.50
20.00 - 50.00	1	1.22	1	1.56	0	0.00	2	1.00
50.00 - 100.00	1	1.22	0	0.00	0	0.00	1	0.50
Above 100.00	0	0.00	0	0.00	0	0.00	0	0.00
Total	**82**	**100**	**64**	**100**	**54**	**100**	**200**	**100**

Table-7.7 sets out the distribution of home loan borrowers of three banks according to loan size. The average size of the loan amount is another key parameter, which reflects the penetration of the banks in the housing finance market. The size of loan amount, however, depend on purpose of loan- whether for construction of new house / purchase of new flat or renovation of existing house / flat, type of house / flat to be constructed or nature of renovation to be carried out, cost to be incurred, margin money contribution by the borrower and repayment capacity of the borrower, which ultimately depend on the net income of the borrower. The analysis of data in the table shows that about 48 percent of the sample borrowers reported loans of size between Rs.5 lakh and Rs.10 lakh and 16 percent above Rs.10 lakh. Only 20 percent of loans were of size less than Rs.5 lakh. Out of 200 sample borrowers, only 3 reported borrowing above Rs.20 lakh.

The inter-bank differences in the pattern of loan amounts are found to be only marginal. In the case of Syndicate Bank, the majority of the loans (54 percent) were in the range of Rs.5 - 10 lakh and hardly 10 percent of the loans above Rs.10 lakh. The remaining 36 percent of loans were below Rs.5 lakh. As against this, Corporation Bank has the maximum number of home loans (39 percent) below Rs.5 lakh. Nearly 37 percent of the loans were in the range of Rs.5 - 10 lakh. Comparatively, Corporation Bank has the highest percentage (24) of loans above Rs.10 lakh. Karnataka Bank has, on the other hand, 52 percent of loans in the range of Rs.5 - 10 lakh and 15 percent above Rs.10 lakh. The loans below Rs.5 lakh constitute 33 percent. It is, thus, clear that though the banks offer home loans upto Rs.1 crore, as higher risk is associated with larger loans, the banks are cautious in lending larger housing loans.

7.4 Loan Characteristics

The key loan characteristics considered in the field survey are interest rate contract, tenor of loan maturity, mode of repayment and security obtained. As per the RBI guidelines, the banks are allowed to charge interest rate either on fixed basis or on flexible rate (floating) basis. Thus, in the case of Syndicate Bank and Corporation Bank, the home loan borrowers have choice of either fixed interest rate or floating interest rate. The floating interest rates are linked to PLR and accordingly, as and when PLR is revised, the floating interest rate is also revised. In the case of fixed interest rate, no such change takes place. The types of interest rate regime chosen by the sample respondents are furnished in Table 7.8. It should be noted that Karnataka Bank has adopted only floating rate regime. Their borrowers have not been given the choice of fixed interest rate. Hence all respondents have reported floating rate. In the case of Syndicate Bank, it is evident that only one-fourth of the borrowers have preferred fixed rate and three-fourth preferred floating rare contract. Similarly, only 20 percent of the home loan borrowers of the Corporation Bank have reported fixed rate contract and the remaining 80 percent preferred floating interest rate contract.

The information regarding the loan maturity period reported by the sample home loan borrowers of three banks selected for the study is analyzed in Table-7.9. The data in the table shows that 44 percent of the home loan borrowers have opted for repayment period of 10 -

Table - 7.8 : Interest Rate Regime preferred by the Home-loan Borrowers

Interest rate regime	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Fixed Rate	21	25.61	13	20.31	0	0.00	34	17.00
Floating Rate	61	74.39	51	79.69	54	100.00	166	83.00
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

Table - 7.9 : Repayment Period for Home-loans

Repayment Period (Years)	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Upto 5	7	8.54	4	6.25	9	16.67	20	10.00
5 - 10	11	13.41	9	14.06	18	33.33	38	19.00
10 - 15	28	34.15	33	51.56	27	50.00	88	44.00
15 - 20	33	40.24	14	21.88	0	0.00	47	23.50
20 - 25	3	3.66	4	6.25	0	0.00	7	3.50
Above 25	0	0.00	0	0.00	0	0.00	0	0.00
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

15 years. About 24 percent have reported 15 - 20 years loan maturity period. Hardly 10 percent have opted for repayment period of 5 years.

Similarly, only 4 percent preferred repayment period beyond 20 years. The bank-wise analysis of the data, however, shows significant differences between the public sector banks and the private sector banks. In the case of public sector banks (Syndicate and Corporation), about three-fourth of the home loan borrowers have reported loan maturity period of 10 - 20 years. As against this, about 50 percent of the home loan borrowers of Karnataka Bank have loan maturity period of 10 -15 years. The remaining 50 percent of their borrowers have reported loan tenor of below 10 years. Thus, it is evidently clear that the private sector bank prefers earlier maturity of housing loans than the public sector banks as the risk associated with long duration maturity loans is higher.

The repayment terms usually depend on the type of housing product financed and the borrower's repayment capacity. In Table-7.10, responses of the sample borrowers are analyzed in regard to the repayment holidays and periodicity of installments. The data in the table shows that about 61 percent of the borrowers were given only one month repayment holiday, 22 percent were given six months holiday and 15 percent, one year from the date of sanction. Only two percent of the borrowers reported that they have been given repayment holiday till completion of the project. It should be noted that in the case of salaried and professional class, the banks normally insist repayment immediately after the full disbursement of the loans. The builders also sometimes insist lump sum disbursement immediately after execution of mortgage before completion of the housing project and in such cases; the buyers are given discount in property value. Instead of allowing accumulation of interest rate during the repayment holiday, the salaried class borrowers are interested to start payment from their salary immediately to minimize interest rate payment burden. Even in the case of "till completion" the maximum repayment holiday allowed is two years. The pattern followed in this regard by all three banks is more or less the same.

As regards mode of repayment, the three banks normally insist equated monthly installments (EMIs) for housing loans. While in the case of home loan borrowers of Corporation Bank and Karnataka Bank, 100 percent of the respondents have reported monthly equated installments, in the case of Syndicate Bank's home loan borrowers, two borrowers out of 80 sample borrowers reported quarterly installments. They were found to be business people, who usually prefer quarterly installments for repayment of loans.

Since housing loans are long term in nature, the banks invariably insist the mortgage of and house / flat financed as the principal security. The survey results are presented in Table-7.11. As expected, 100 percent of sample borrowers have reported the mortgage of house / flat as the main security for their loans in the case of all

Table - 7.10 : Repayment Terms for Home-loans

Repayment Terms (Years)		Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
		No.	%	No.	%	No.	%	No.	%
Repayment Holiday	One month	46	56.10	42	65.62	34	62.96	122	61.00
	Six months	15	18.29	15	23.44	14	25.93	44	22.00
	One year	18	21.95	6	9.38	6	11.11	30	15.00
	Till Completion	3	3.66	1	1.56	0	0.00	4	2.00
Installments	Monthly	80	97.56	64	100.00	54	100.00	198	99.00
	Quarterly	2	2.44	0	0.00	0	0.00	2	1.00
	Half-yearly	0	0	0	0.00	0	0.00	0	0.00
	Annual	0	0	0	0.00	0	0.00	0	0.00
Total		**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

Table - 7.11 : Security for Home-loans

Type of Security	Syndicate Bank		Corporation Bank		Karnataka Bank Ltd.		Total	
	No.	%	No.	%	No.	%	No.	%
Mortgage of House / Flat	82	100.00	64	100.00	54	100.00	200	100.00
Third Party Surety	49	59.76	51	79.68	34	62.96	134	67.00
LIC Policy / NSC etc	15	18.29	16	25.00	32	59.25	63	31.50
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

Table - 7.12 : Problems faced by the Home-Loan-Borrowers								
Problems	**Syndicate Bank**		**Corporation Bank**		**Karnataka Bank Ltd.**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Delay in sanction /disbursement	11	13.41	13	20.31	18	33.33	42	21.00
Inadequate guidance by the bank	52	63.41	47	73.44	24	44.44	123	61.50
Cumbersome procedure	36	43.90	31	48.44	12	22.22	79	39.50
Difficulty to get title to property	48	58.54	34	53.12	36	66.66	118	59.00
Difficulty to obtain surety	27	32.93	18	28.12	22	40.74	67	33.50
Upfront Margin money	47	57.31	39	60.94	19	35.18	105	52.50
Satisfy EMI eligibility limit	26	31.71	17	26.56	18	33.33	61	30.50
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

three banks studied. About 67 percent of the borrowers have also reported third party surety as collateral security. Wherever the borrower is single, the banks invariably insist third party surety. In the case of joint borrowers, the third party guarantee is not insisted. The requirement of the third party is waived, wherever other tangible securities such as LIC policy or NSC are provided as additional security. This is evidently reflected in the survey data.

7.5 Borrowers' Perceptions

Understanding of the problems faced by the borrowers in availing home loans from the banks and their perceptions on home loans is important on demand side of the housing finance market. Accordingly, in the field survey, the borrowers were asked to identify the problems faced by them in obtaining the bank finance and make suggestions to improve the access to housing finance from banks. Table 7.12 analyzes the responses of the sample borrowers on the problems faced by them in availing the bank finance for housing. It should be noted that the respondents were not asked to rank the problems identified by them.

Most of the respondents identified more than one problem. The data in the table shows that most of the respondents identified inadequate guidance by the bank, difficulty in getting the title to the property, raising of margin money upfront and cumbersome procedure as the main problems faced by them in availing the home loans from the banks. The common complaint of the home loan borrowers was that they were not made aware of the implications of fixed and floating interest rates. With the change in the floating rates, their EMI gets changed frequently and as a result they find difficult to strictly adhere to repayment commitments. In obtaining clear title to their properties, the home loan borrowers face number of difficulties such as non-availability of title deeds in absence of proper land records, problem of transfer in the case of ancestral property, obtaining RTC from the revenue officials, obtaining legal opinion from the lawyer, valuation etc. Similarly, high down payment requirement also come in their obtaining the required loan amount for housing.

Other problems reported by the respondents are difficulty in obtaining the surety required by the bank, cumbersome procedure and numerous documents and delay in sanction and disbursement of the loan amounts. Though there are marginal differences in the responses of home loan borrowers of different banks, the relative importance attached to the various problems identified in availing loans from the banks are more or less the same.

In Table 7.13, an attempt is made to analyze the suggestions made by the sample borrowers to improve access to home loans from the banking system. The suggestions made by the sample respondents mainly centered around affordability and access to bank for home loans. As regards affordability, as expected, the

Table - 7.13 : Suggestions to improve Access to Home-loans								
Suggestions	**Syndicate Bank**		**Corporation Bank**		**Karnataka Bank Ltd.**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Reduce down payment / margin	67	81.70	46	71.88	48	88.89	161	80.50
Security mortgage, No collateral / surety	48	58.54	37	57.81	34	62.96	119	59.50
Personalized service to customers	26	31.70	12	18.75	22	40.74	60	30.00
Lower interest rate and fixed	73	89.02	58	90.62	39	72.22	170	85.00
Simplify Procedure / documentation	39	47.56	23	35.94	26	48.15	88	44.00
Total	**82**	**100.00**	**64**	**100.00**	**54**	**100.00**	**200**	**100.00**

majority of the sample home loan borrowers suggested reduction in the cash margin and lower interest rate. Their recommendation is that the banks should consider financing 100 percent of the housing cost and the interest rate should be reduced to the minimum and remain unchanged. With a view to improve accessibility to banks' housing loans, the suggestion made include provision of home loans against the security of mortgage only without insisting other collateral including surety, simplification of procedure and documentation and personalized service to make the borrowers fully aware of the implications of the bank terms for home lending.

Chapter - 8

Summary of Findings and Implications

The entry of commercial banks into housing finance in early 1990s was definitely a landmark in the development of housing sector in India. Though, the banking sector was initially shy to enter the housing finance sector, once they entered, they entered it with great vigor. Consequently, housing finance witnessed phenomenal growth and real boom during the last two decades. Banks are now the major players in the field. Housing finance has emerged as an important segment of the credit portfolio of the banks. This phenomenal growth has also brought in fundamental changes in the housing finance system and housing market in India. It has become very competitive and the increasing competition has benefited the customers significantly. However, its rapid rate of growth in the recent years has become "the cause for potential worry" to the regulator RBI. It is more so particularly in the context of the on-going subprime lending crisis in the housing sector in US. The time has, therefore, come for banks to evaluate the possibility or potential of systemic failure in the present housing finance system and identify the safeguards required for ensuring its sustainability and soundness. Against this background, this study made an attempt to evaluate in depth the performance and operational problems faced by the banking sector in extending finance to the housing sector and based on findings; identify the areas of concerns and strategic interventions required.

8.1 Problem Dimension

Housing is a basic human necessity and a problem of human deprivation. It also encourages saving in the form of physical assets besides forward and backward linkages with industrial growth. The problem of housing in India is both quantitative and qualitative housing shortage. Shortage in quantitative terms arise largely due to an outgrowth in the number of families than the residential housing stock, while qualitative shortages are the number of sub-standard (life threatening and unsafe) and inadequate housing units. The Eleventh Five Year Plan estimated housing shortage to be around 26.53 million. Besides, additional 2 million new housing units required every year to cope up with new migrants to urban India. Moreover, out of 192 million existing dwelling units, about 40 percent were categorized as sub-standard.

The other dimension of the housing problem is mainly centered around the adequacy in terms of size and in-house basic amenities required for quality standard of living like adequate living space, safe drinking water, sanitation, electricity, etc. Crowding and unreasonable sharing of available services and filthy environment are the added features of unsafe houses. The quality of housing also refers to dwelling structure; whether it is safe for living in all weather conditions. In India, the problem of access to proper housing has reached a crisis situation due to rapid population growth, rapid pace of urbanization, migration from rural areas to urban areas, decay of the existing housing stock, absence of in-house basic amenities, obstructing land laws and tenure system, absence of competitive land market and breakdown of traditional joint families and resultant growing demand for single family houses. Thus, in the Indian context, there is an urgent need and growing demand for housing finance

The housing problem had not engaged adequate attention of policy makers till recently. Housing was treated largely as a family driven investment activity, which did not warrant State intervention. With the rapid pace of urbanization and growing middle class, the housing market witnessed real boom in demand for housing units in 1980s and 1990s. The limited availability of affordable rental housing units, distortions in rental house market, mortgage finance-related constraints on house ownership, inhibiting land laws and resultant reluctance of the private sector to invest in housing sector have aggravated the housing stock supply constraint to meet the growing demand. Recognizing the critical importance of housing, the Government of India adopted the National Housing Policy (NHP) in 1990, which emphasized the enabling and promotional role of Government in the field of urban housing and the need for private sector involvement in the housing sector in large scale.

8.2 Housing Finance : Reaching Crazy Heights

Traditionally, the banks were rather reluctant to finance for housing as the housing finance was considered as a long-term credit against mortgage and not in the domain of normal banking business. As their resources are short term maturity based, they were reluctant to tie their resources in long term ventures. Moreover, the difficulties in regard to land title, valuation, foreclosure etc., discouraged banks to advance money on mortgage of real estate in general. In early 1990s, considering the growing importance of housing sector and the massive housing shortage prevailing in the country, the RBI advised banks to enter the domain of housing finance. Banks were asked to allocate annually a minimum of 3 per cent of their incremental deposits for housing finance. Initially, banks entered the housing finance market cautiously. Several banks had set up housing finance subsidiaries, which functioned as independent units exclusively for housing finance. In the early 1990s, there was only sluggish growth in housing finance by the banks.

Towards the end of 1990s, against the backdrop of lower interest regime, industrial slow-down, sluggish credit off-take and ample liquidity, commercial banks recognized the potential of housing finance as an viable alternative avenue to lend their surplus funds. The IT revolution, rising disposable incomes, growing demand for housing and boom in real estate market coupled with fiscal incentives to borrowers made housing finance an attractive bankable business. The demand for housing loans was increasing as the cities are attracting constantly large number of IT companies and their staff. Real estate has become a big business for bank finance. The RBI policy to include direct housing finance in the priority sector lending and liberalized prudential norms also gave fillip to banks' drive towards housing finance. Banks, big and small, domestic or foreign, considered housing loans as the lucrative business. The bank finance has, thus, started flowing into the housing sector at an unprecedented rate.

During the last ten years, the housing loans lent by banks grew at an average annual rate of 48 percent as compared with 20 percent annual growth rate of overall bank credit. The housing loan amount disbursed increased almost thirteen times from Rs.9,631 crore in 1998 to Rs.1,28, 923 crore by March 2007. The market share of the banks in total housing finance, which was less than 25 percent in 1999-2000, has increased to 70 percent in 2006-07. The number of loan accounts has increased from 10.80 lakh to 50.10 lakh during this period. It is important to note that while the loan amount increased thirteen fold, the number of beneficiaries has increased only five fold showing increased number of bigger loans for housing. The average loan amount has gone up from Rs.102354 in 2001 to Rs.456932 in 2007, more than fourfold increase. The share of housing loans in the total banks loan portfolio has increased sharply from 2.92 percent to 11.76 percent during 1998 and 2007. The housing loans, in fact, occupy very prominent place in both priority sector lending and retail credit. It accounts for 53 percent of the total retail credit of all banks. The banks have also consistently exceeded the targets prescribed for providing housing loans (3 percent of the incremental deposits) since 2001.

Another important feature observed is that the private sector banks have become very aggressive in the housing loan segment. The recent rapid growth in the housing finance was, in fact, driven mainly by the private sector banks. While the share of the public sector banks declined sharply from 50 percent to 38 percent, the share of the private sector banks in the total housing lending increased from less than 7 percent in 2001 to 33 percent in 2007. ICICI Bank Ltd and HDFC Bank Ltd are the major drivers of housing loans in the private sector. In the case of RRBs, on the other hand, the share in the total housing finance has declined from 3.2 percent to 1.38, which has serious implications for rural housing development.

The robust growth in housing finance experienced by the banks has been, thus, triggered by number of factors, some of which are listed below :

- RBI's policy of classifying housing finance as part of priority sector advance initially upto Rs10 lakh and thereafter raised to Rs.15 lakh per individual irrespective of location and liberalized prudential requirement for housing loans in assigning risk weight of 50 percent, instead of earlier 100 percent.
- Lowering of interest rate and liberal repayment terms as a result of keen competition among the banks for housing finance.
- Tax rebates on repayment of principal and interest has stimulated demand for housing loans.
- Banks flush with liquidity, find mortgage housing loan more attractive and safe.
- High economic growth, expanded job opportunities and high disposable incomeparticularly in the IT and IT- related sectors have resulted in rising demand for housing loans.
- Perception of the banks considering the mortgaged housing loans as safe and secure.
- Aggressive competition from the private sector banks to increase market share in housing finance.

- Increase in real estate prices and rapid urbanization around state capitals have boosted the demand for bank credit.
- Entry of professional developers and builders into the housing sector.

8.3 Areas of Concern

The achievements of the Indian banks in housing finance segment in recent years are indeed remarkable. The rapid growth in housing finance and competition among the banks has benefited the customers significantly. With growing competition, the banks have come up with innovative products and services offering the customers a wide variety to chose. The liberal loan terms, speedier processing of loan proposals, efficient advisory service and waiver of associated charges on a selected basis, has also resulted in a customer-friendly environment for home loans. However, these achievements are not free from concerns. Housing finance is a long-term commitment, involving many risks for lenders, borrowers and even for the economy in general. The banks, as lenders, need to manage interest rate risk, liquidity risk and credit risk, while dealing with large number of individual borrowers. The banks are also not free from legal risks as the country does not have lender-friendly foreclosure practice. They have to face many hurdles in enforcing eviction of defaulters and eventual sale of the house through legal recourse. Being long-term commitment, the banks also require proper asset-liability management strategy.

The analysis of performance of banking system in housing finance both at macro and micro levels revealed many other areas of concern, which are summarized below :

- **High concentration in metropolitan and urban areas :** The rapid growth of housing finance is concentrated mainly in metropolitan and urban areas. It is more of an urban property-boom driven development rather than a real demand driven. The share of metropolitan and urban centres in the total housing finance is about 90 per cent. Rural areas, (having population of less than 10000) have received hardly 10 per cent of the total housing finance extended by banks. Besides widening rural urban divide, the concentration of housing credit in metropolitan and urban areas is fraught with high potential risk as the volatility of real estate prices in these areas is very high.
- **Regional imbalance :** The analysis of home loan portfolio of the banks shows the widening regional disparities in housing finance. While states in Southern and Western regions have obtained greater share of housing finance, the states in North-eastern, Eastern and Central regions are neglected by banks. Even within the state, the concentration of housing loans is mostly in metropolitan areas and in a few developed districts. The less developed districts are neglected by banks in lending for housing development.
- **Housing finance exclusion :** The growth in housing finance has remained largely focused to the middle and upper income strata mostly concentrated in metropolitan / urban areas. The analysis of composition of housing loans also shows significant shift towards larger housing oans. Prior to 2001, three-fourths of the bank loans were in the range of Rs.2 lakh to Rs.5 lakh per borrower. The beneficiaries of these small loans are 98 percent of total home loan borrowers. During the last five years, there was a significant decline in the share of these loans. The share of these small loans (below Rs.5 lakh) declined from 98 percent to 42 percent. As against this, the growth in the number of accounts and loan amounts have been robust in the higher loan slabs. This indicates that the commercial banks are increasingly catering to the housing needs of upper middle class. Banks have invariably excluded lower income groups, slum dwellers, self-employed, rural households and people having very poor asset base. They, in fact, constitute the deprived section of the community in the housing sector. An inclusive housing finance system with accessibility and affordability alone can help to meet the growing housing needs of the deprived section of the community.
- **Stiff competition and declining spread :** There is stiff competition among banks in expanding their portfolio under housing finance. With growing competition, the slackening of controls, dilution of appraisal norms and interest rate war among banks have set in for capturing higher market share particularly in metropolitan and urban areas. From 12 to 14 per cent, the interest rates have started coming down to as low as 8 to 6 per cent. The intense price competition has resulted in sub-PLR lending rate in

many cases. Floating rates were introduced, offering relatively lower rates compared to the fixed rates, to attract the gullible customers. Migration of housing loan accounts to different banks has become a common feature among the new generation banks. The differences in the interest rates under the floating rate regime have facilitated this trend. With the acute competition and resultant decline in the interest rate, banks have to operate housing finance with marginal spread. This has serious implications on their profitability. In the case of fixed rate loans, banks may also face a problem, if the cost of funds goes up due to increasing interest regime.

- **High Loan-to-Value (LTV) ratio :** With the risk-weights on housing loans being reduced to 50 percent from 100 percent, the banks are poised towards more aggressive practices, softening of collateral requirements and reduction in margin, resulting in high LTV ratio and high probability of default loss. All over the world, it has been empirically verified that the loan default rates are more in the case of home loans with higher LTV ratios. With the real estate boom and appreciating house prices, the banks consider it safe to lend against security of mortgage' as potential repayment problems could be mitigated by the rapidly appreciating market prices of the collateral houses. However, when the asset prices started falling, the high LTV loans become negative equity and the borrower would be most likely to default. Thus, the housing loans against mortgage would become subprime loans. This is the situation that led to banking crisis in the US. Moreover, the high volatility of real estate prices, the dilution in appraisal norms, security margin and lack of due diligence affect adversely the asset quality of housing loans.

- **Asset-Liability mismatch :** Banks are mobilizing short-term deposits, whereas housing loans are given on long-term basis. With the increasing demand for housing loans, the banks went overboard during the period, peddling home loans to all and sundry with the promise of soft interest rates and high loan-to-value ratio, which in some cases exceeded 100 percent of the property value. As a result, the banks are bound to face asset-liability mismatch in the portfolio. The financial history is replete with disasters caused by asset-liability mismatches and thus short term funds should not be indiscriminately used to fund long term assets.

- **Growing NPA :** Since the housing loans are long-term in nature, it is too early to make any judgment on default risk. Moreover, the details of the NPA in housing loans are not available. However, there are evidence to prove that the delinquency rate in housing finance is going up in recent years due to undue competition, fraudulent practices adopted in lending, crash in real estate market prices, and job-loss or pay-cut as a result of recession. It is estimated that the NPA in the home loans would be to the extent of Rs.20,000 crore. There are instances, when many flats come for sale after obtaining the court verdicts, the prospective bidders seek to settle at very low prices for the 'used houses'. Such cases are on the increase in some districts in different parts of the country. Moreover, in many cases the loans were granted to middle class salaried professionals in metropolitan urban centres without even minimum margins. This was largely due to the outsourcing of the services of agents for selling the housing loan schemes. Due to loss of jobs, closure of factory / company, transfer, illness / demise of the borrower, bust in the real estate boom and frauds, housing loans increasingly turn into non-performing assets. A quantitative analysis of the volume of NPAs in housing finance could not be attempted for want of data. Banks are shy of publishing these data nor do the RBI publications provide any data, even at the macro level. Like the retail credit segment, housing finance segment adds to the banks' NPAs.

- **Increasing Frauds :** Home loans frauds are already haunting some commercial banks. Frauds have been committed in home / mortgage loans using fake title deeds and inflated valuation reports. Builder - Borrower - Advocate / Chartered Accountant - Revenue Officials' nexus is also in some cases the root cause of banks falling prey to home loan frauds. What is baffling is that the same flat is sold or mortgaged by some unscrupulous builders many times over. It is estimated that the home loan fraud could now be in the region of Rs.1000 crore. The situation could be worse in the case of private sector banks, which outsourced housing financing. Benami transaction in real estates and housing finance has become a common feature.

8.4 Borrowers' Profile and Perceptions

A good house to live is a dream of every family. With growing demand and competition, the banks have taken a number of steps to liberalize the terms to simplify the norms and procedures for lending to housing sector. However, the field study response of the borrowers has shown several misgivings, confusion and hurdles in availing housing finance from banks.

The following are the major findings of the field study with regard to borrowers' profile, loan characteristics and problems faced by them in availing bank credit for housing :

- Contrary to general belief, in only 20 percent of the housing loans, co-obligants were borrowers. Gender-wise, 77 percent of borrowers were male and only 23 percent female.
- The salaried class constituted 40 percent of the sample borrowers, followed by 28 percent of business people and 26 percent of professionals. Agriculturists, self-employed and housewives were a negligible proportion of the borrowers.
- About 80 percent of the borrowers belonged to income strata above Rs.2.5 lakh per annum, which indicates that middle and high income salaried and professional class are the main beneficiaries of banks' housing finance.
- Banks mainly financed construction of new houses or purchase of new flats (77 percent of loans). Financing for renovation of existing house or flat or purchase of old houses constituted only a small proportion.
- The loan size range between Rs.5 lakh and Rs.20 lakh. Loans below Rs.5 lakh constituted only 10 percent of the total loans. Similarly, only a few of the sample borrowers obtained loans above Rs.20 lakh.
- About 44 percent of loans were of 10 to 15 year maturity and 24 percent above 15 years but below 20 years. Very few loans were with 5 to 10 year maturity. In almost all cases, the repayment is in equated monthly installments.
- About 35 percent of loans were under the fixed interest rate contract and 65 percent were on floating rate contract.
- In almost all cases, the principal security obtained was mortgage of land and building property financed. In most of the cases, banks also obtained guarantee and other collateral such as LIC policy.

As regards the problems faced in obtaining home loans from banks, most of the respondents reported inadequate guidance, cumbersome procedure, difficulty in obtaining land title to the property, legal opinion and valuation, problem of obtaining surety required by the bank and inordinate delay in appraisal of loan application.

8.5 Policy Implications

Housing finance market has, no doubt, undergone recently rapid and fundamental changes. The banking sector proved to be the driving force for this change. With higher economic growth and increasing purchasing power, the housing finance market was booming till recently. In spite of the on-going recession, there is a huge opportunity for banks in the housing sector due to high demand and supply gap. The demand for housing investment is expected to grow at the rate of 25-30 per cent per annum in the near future as declining interest rate, falling property prices and fiscal incentives continue to make housing more affordable. Moreover, the housing finance in India constitutes only 3 per cent to Gross Domestic Product (GDP) as against 30-50 per cent to GDP in developed countries. Thus, the market potential for home loans remains very large. The full potential of the housing finance sector can be realized only if all efforts are made to develop the housing finance market on sustainable and sound footing.

The findings of the study are quite revealing and have policy implications for both the bankers and the regulators. They could be used for policy inputs for the development of sound housing finance market as well as for making portfolio choices, risk based pricing decisions, product design choices and design risk management process. Broadly, based on the findings, the following recommendations are made :

- It is desirable that the banks should spread out their housing advances into smaller towns and rural areas where land values do not oscillate as violently as in the metropolitan areas. With large branch network, the banks would be in a position to lend to hitherto neglected regions and sections of the community to minimize the regional disparity and rural-urban divide in housing finance. Banks have to formulate schemes tailor-made to suit the economic conditions of these areas. Similarly, micro housing finance can help to achieve more inclusiveness in housing finance. With the expansion of the market and entry of new classes of borrowers, the need for innovation through development of new products, adaptation of existing products, developing appropriate new delivery mechanisms and channels cannot be over emphasized.

- The low credit disbursals for housing by the banks are constrained by factors such as non-availability of clear land title, difficulties in assessing the repayment capabilities due to irregular income pattern, etc. resulting into higher credit risks. Banks usually insist on mortgage of the property as security for the loan. But due to non-availability of clear land records, it is not possible to verify the title to land on which house is to be constructed. There is thus an urgent need to computerize land records for easy retrieval. Some states have already started computerizing the land records, but most of the states are yet to do the same. Implementation of this scheme would facilitate a better flow of credit for housing. There is a definite need for formulating an appropriate mechanism to enable banks to increase flow of funds to meet the housing credit needs of home loan seekers in rural areas. One way of encouraging banks to lend housing credit in rural areas would be through appropriate incentives by way of fiscal benefits. It should be noted that the fiscal concessions presently being extended to promote home ownership in the country benefit income tax payers in metro/urban areas and the rural segment is left out completely as most of them are not income tax payers.
- The Regional Rural Banks should play a catalytic role in rural housing finance, with the active support of National Housing Bank. These banks have already built-up a wide customer base in the rural areas during the last three decades of the existence. Since they have successfully mobilized rural deposits, it should not be difficult for them to formulate schemes for lending small amount of loans to their customers for building houses. The National Housing Bank has to explore the possibility of evolving a special rural housing refinance scheme for the gramin banks.
- The analysis of housing finance data reveals that the banks prefer financing only construction of new houses or purchase of new flats. They do not prefer to extend loans for the up gradation of existing houses. It is desirable that the banks should extend loans for financing repairs and renovation or remodeling of old houses.
- Banks should recognize that there is no substitute for prudent credit policies in long term mortgage lending for housing. The pricing of loan products has to be a function of costs and not competition. There is also a need for the RBI to revisit the present lower risk-weight prescription. Housing loans being long term in nature are exposed to several unforeseen economic and business cycles which can bring the asset under stress and pose systemic risk with growing contagion effect. With the Basel-II recommendation suggesting “granularity of portfolio”, there is a need to assess the risk of each asset separately and assign appropriate risk weight instead of imposing a uniform risk weight across the asset class. Hence, the regulatory norms relating to risk management should be dynamic and pragmatic enough to address the changing risk profile of housing finance in an on-going and evolving manner. The initiative of the NHB to bring into existence a Mortgage Guarantee Company, is a welcome move in this regard.
- Another key area of concern to be looked into is the feasibility of fixed interest rate with changing inflation scenario. In a fixed interest rate regime, interest rate risk for banks in long term loans is very high and beyond their control. In the floating rate portfolio, the interest rate risk is passed on to the customer. With the average housing loan tenor being more than 10 years and the option of fixed rate loans offered, the lenders could face problems of running an asset-liability mismatch given the short term maturity of their liabilities. There is a need for considering floating rate uniformly by all banks.
- There are at present varying standards and practices adopted by banks in housing finance. Though they are free to formulate their own policies, they need to upgrade housing credit management and home loan processing skills. They are required to review the existing system and controls and plug the lacunae therein to prevent the occurrence of such frauds. The Banks' boards should be kept appraised on a periodical basis of the irregularities revealed and the likely loss on this account. RBI should initiate suitable measures to curb the banks resorting to undesirable practices to increase their market share.

- With the on-going subprime crisis in housing finance, banks in India have to be cautious in adopting some of the new innovative methods such as underwritings, securitization, etc. which have potential to externalize the risk profile of the sector. Due care has to be exercised in originating loans, monitoring and supervision to ensure the sustained quality of assets as the housing loans are of longer tenor. Distortions in estimating the property value and income of the borrower can complicate the credit appraisal. Any gaps in these regards will impair the loan quality and jeopardize the loan recovery.
- Home-loan-borrowers are at present at the receiving end due to lack of awareness of terms and conditions, procedures to be followed and legal and financial aspects of home mortgage loans. It is necessary to educate home loan buyers on the processes and regulations involved in purchasing a house or flat, various terms and conditions for home loan particularly on floating and fixed interest rate contract, EMI, valuation of properties, documentation, etc. The need for greater transparency in housing finance transactions to enable borrowers to make right choice about products and loans is the primary requisite of a well functioning sustainable housing finance market.

In the ultimate analysis, while analyzing housing finance, it should be remembered that the resources of the banking system are held by the banks in trust and have to be deployed for the maximum benefit of their owners - viz. depositors and investors. The safety of their funds should be the primary concern of banks and regulatory authorities. There is, therefore, a need to regulate the banking system from its excesses in financial intermediation, maturity and security mismatches. At the same time, housing for all should not remain a distant dream in India; it should be made a reality without any further delay. In the Indian context, the demand for housing finance remains and continues to remain insatiable and it requires more need-based schemes and not greed-induced programs as happened in subprime lending in the US.

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Annexure

Statistical Tables				
Table - 1 : Census Houses and their Status				
State	**Condition of Houses**			**Total Houses**
	Good	**Livable**	**Dilapidated**	
Andhra Pradesh	9705045	6076376	640752	16422173
Arunachala Pradesh	95030	103584	6345	204959
Assam	1382887	2979498	497086	4859471
Bihar	4687894	7215440	1449804	13353138
Chandigarh	131494	55896	5054	192444
Chhattisgarh	2114475	1809248	117701	4041424
Delhi	1422525	897197	131095	2450817
Goa	179199	82568	10372	272139
Gujarat	4376848	3771937	228717	8377502
Haryana	1648165	1692286	157892	3498343
Himachal Pradesh	761716	434033	33415	1229164
Jammu & Kashmir	594340	819430	37394	1451164
Jharkhand	1991188	2539461	257167	4787816
Karnataka	4416588	5147317	499072	10062977
Kerala	3648456	2350488	533077	6532021
Madhya Pradesh	5711312	4684713	390867	10786892
Maharashtra	9895298	7981283	931717	18808298
Manipur	183277	191726	17636	392639
Meghalaya	170536	219215	23233	412984
Mizoram	81567	73894	2855	158316
Nagaland	139617	175918	10128	325663
Orissa	1937774	4867525	751619	7556918
Pondicherry	186584	16987	1235	204806
Punjab	2363676	1640312	181405	4185393
Rajasthan	4368181	4549090	292247	9209518
Sikkim	53152	42625	7485	103262
Tamil Nadu	12309273	1536287	117049	13962609
Tripura	282834	317785	47326	647945
Uttar Pradesh	11385549	12418375	1521681	25325605
Uttarakhand	1029413	478606	54418	1562437
West Bengal	6588235	7594689	1344040	15526964
All India	**93929497**	**82829882**	**10304354**	**187063733**
Source : H-series : Census of India 2001. Note : All India includes Union Territories.				

Table - 2 : Census Houses Having Different Facilities				
State	**Houses Having**			**Total Houses**
	Tap-water*	**Electricity**	**No-Latrine**	
Andhra Pradesh	3465131	11317766	11290651	16422173
Arunachala Pradesh	57211	116275	92908	204959
Assam	374768	1229126	1745019	4859471
Bihar	204934	1433477	11299239	13353138
Chandigarh	153254	195362	42692	192444
Chhattisgarh	334318	2202987	3559319	4041424
Delhi	1572370	2371811	562940	2450817
Goa	139936	261273	115494	272139
Gujarat	4069970	7754307	5342498	8377502
Haryana	933211	2926038	1958837	3498343
Himachal Pradesh	386486	1176338	825915	1229164
Jammu & Kashmir	383585	1250738	727166	1451164
Jharkhand	401474	1181628	3905908	4787816
Karnataka	2468101	8037052	6395107	10062977
Kerala	856123	4632722	1054438	6532021
Madhya Pradesh	1636469	7641993	8300207	10786892
Maharashtra	8628031	14772090	12374681	18808298
Manipur	31174	238733	71441	392639
Meghalaya	54658	179597	205102	412984
Mizoram	26656	112079	17681	158316
Nagaland	43855	211194	97731	325663
Orissa	386425	2118195	6697920	7556918
Pondicherry	113848	183217	104445	204806
Punjab	1220811	3920301	1840723	4185393
Rajasthan	2480208	5109018	6633405	9209518
Sikkim	47223	81444	38354	103262
Tamil Nadu	2663884	11081424	9190806	13962609
Tripura	53640	277015	122819	647945
Uttar Pradesh	4526572	8216439	17665175	25325605
Uttarakhand	505757	956995	869334	1562437
West Bengal	1696099	5885724	8846138	15526964
All India	**39966085**	**107209054**	**122078136**	**187063733**
*Tap water connections within premises				
Source : H-series : Census of India 2001. Note : All India includes Union Territories.				