

ANALYSIS OF HOUSING FINANCE SECTOR IN INDIA

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Abstract

Food, clothing, and shelter are three of the most fundamental needs of a human being. The primary need that tells us about a person's well-being is a place to call home, as a decent place to live provides protection from the outside world, privacy in which to go about one's daily activities, and the ability to think freely. As a result, people's sense of self-worth, social standing, and cultural identity are enhanced by adequate housing. According to the 2011 Indian census, India is the second-most populous country in the world after China, with an estimated population of 1400 million by the next census. Providing housing for such a large population will undoubtedly become an enormous challenge. Professionals such as planners, engineers, and policymakers are solely focused on increasing the country's housing stock to meet the needs of this massive population. Presented in this paper are the issues and challenges of Housing Finance, and how the goal of affordable housing for all can be achieved by assessing the current and future housing shortages.

Keywords: *Housing Finance, Housing Shortage, Challenges in Housing Finance Sectors.*

1. Introduction

A home is a fundamental human necessity, as we all know. In order for a person to be considered to have a proper home, he or she must have access to basic services such as water, sanitation, solid waste disposal, electricity, and other services that are necessary to live a healthy and more fulfilling life. Providing a person with four walls and a roof does not necessarily imply that he or she has a home. In order to be a good house, it should be easily accessible to local activities, be reasonably priced, and allow a person to express their unique personality.

According to Abraham Maslow, the famous psychologist who defined the human need pyramid, human beings

have physical and safety needs as their most fundamental. Others will not be able to develop at all unless those needs are met.

People, community activities, place, and environment are the five components of neighbourhood planning, according to the eco-system model of neighbourhood. To attract people to a place to stay the only way is to choose a proper environment and area and design the place in such a way that the local activities like walking, playing, shopping, learning etc. and interactions at a community level can take place without minimum difficulty. Ultimately the neighbourhood grows up and it will attract more people to settle.

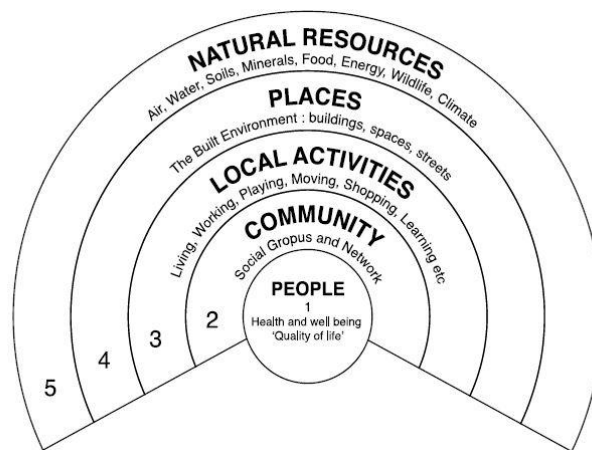


Figure 1. Ecosystem Model of Neighbourhood

The role of a planner or a policy maker is to control this growth of settlement in such a way that it can accelerate the pace of overall development of the region.

2. Objectives

The objectives of this research paper are —

- To analyse the housing shortage in India.
- To discuss the contribution of the housing sector in Indian economy.
- To analyse the development of the Housing Finance sector in India and identification of the issues and problems regarding it.
- Suggest solutions for a better future.

3. Methodology

The paper is entirely based on secondary source information and information from the Government of India and United Nations report.

4. Housing Scenario in India

T A major shift toward a more urbanised world has made urbanisation a significant global trend in early 21st century America. There was a global movement for national independence following World War II. They had a strong desire to change their own fates and improve their economic and living conditions in the newly independent countries. After independence, India placed a high priority on agriculture and industry because it was a developing country. The country's economy will benefit greatly if it invests in the industrial sector, which generates the most revenue and attracts the most foreign currency. A large labour force is needed to support its rapid expansion. This massive demand simply cannot be met by the urban population alone. Consequently, people from the rural areas moved to the city. This was due to their lack of education and skills, which forced them to take low-paying jobs in the rural areas. A decent place to live has always seemed like a pipe dream to these people, who have so little money to meet even their most basic needs. As a result, slums and squatters, two types of urban informal settlements, have their roots in cities.

Housing shortage is defined as the difference between the country's total population and the housing stock that is available to accommodate them. This housing shortage problem can be assessed by looking at the housing shortage or surplus in India at different points in time.

Table 1. Housing Shortage in India

Year	Housing Shortage or Surplus (Million)
1901	+1.8
1941	-1.7
1971	-14.6
1981	-23.3
1991	-22.9
1996	-13.66
2001	-19.4
2007	-24.71



2012	-18.78
2017	-20

Sources:<http://mohua.gov.in>

This has become increasingly clear to us since the country gained its independence, and it will only get worse as the population continues to rise. Based on three criteria, the 12th Five Year Plan Report calculates the housing shortage: (1) Homelessness, (2) Obsolescence Factor, and (3) Congestion Factor. Households with less than or equal to 300 square feet of floor space are estimated to have 2,285,935 households, while more than 6 billion households have crowded living quarters with one couple sharing a room with other family members. 1.06 million people are estimated to be homeless in the United States. There are an estimated 3.07 million housing shortages in Uttar Pradesh, followed by Maharashtra (1.94) and West Bengal (1.33) and Andhra Pradesh (1.27), according to the Technical Group report.

In urban areas, one out of every six people does not have a livable home, while in rural areas, one out of every ten people does. As a general rule, people in urban areas are essentially migrants who do not have ownership of their homes, whereas in rural areas this is not the case to some extent.

Another finding from the study is that there are nearly 96% of the nation's housing shortages in the Low-Income Group and the Economically Weaker Section of people, compared to just 4% in the High-Income Group and the Middle Class. When we look at the supply side, the situation is completely different with 85 percent of supply for the H.I.G and M.I.G population and only 15 percent of supply for the L.I.G and EWS populations. So the situation is that people in the upper echelons of the economy are getting a very small number of homes..

The delivery of housing projects is also a major issue with the rise in the housing shortage. Traditional in-situ construction methods in our country are labor-intensive and time- and money-intensive. When a housing project in India takes three to five years to complete fully, the cost of that project rises, resulting in an increase in the cost of each individual unit of housing. Contrary to what you might think, a person with a low income would not be able to afford this type of home.

5. Contribution of Housing Sector in Indian Economy

Meanwhile, in India, the service sector contributed 54.15 percent of total GDP in the fiscal year 2018-19. in India. According to the current economic situation, we can conclude that the majority of people in the

workforce are wealthy and skilled enough to get a job in this sector. Due to its indirect effect on job creation and overall employment, it is not a good idea.

In recent years, India's government has been working to shift the country's economy from the service sector to the industrial sector in an effort to create more jobs and alleviate the country's unemployment problem. One way to accomplish the goal is to increase the housing sector's GDP contribution. It is currently 7.4 percent of GDP in the Financial Year 2018-19, up from 6.2 percent in the Financial Year 2017-18, a nearly 20 percent increase. Investing in this sector, like other sectors, has a multiplier effect on the generation of income and employment.

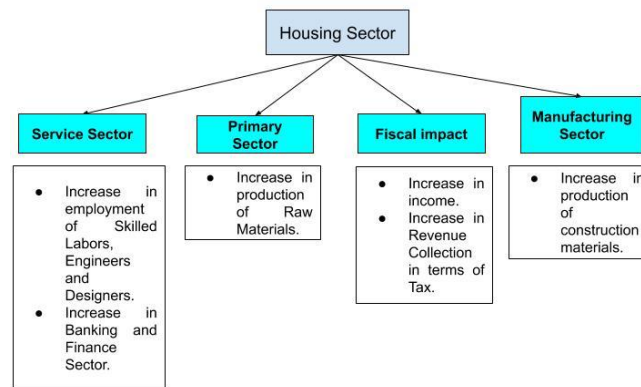


Figure 2. Multiplier Effect of Housing Sector

6. Housing Affordability and Housing Finance

For the purposes of this article, let's begin with a definition of "housing affordability." Affordability is a relative concept that tells us about an individual's ability to pay for a service or facility; in this case, it is a house that they can afford. Currently, a low-income person may not be able to afford a house, but this does not mean that he or she will never have the ability to do so.

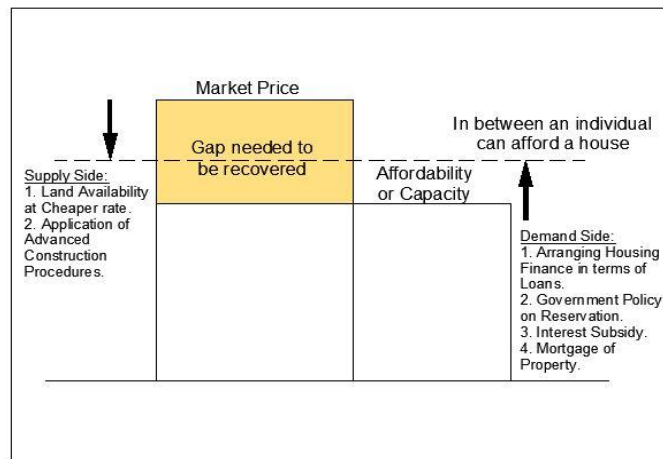


Figure 3. Supply and Demand Side of the Production in Housing Stock

From the above figure we can say that the gap between market price of housing stock and affordability limit of an individual can be recovered in two ways—

- Reducing the Market Price.
- Enhancing the Capacity of people.

This paper focuses on ways to increase a person's affordability. Housing Finance has a significant impact on an individual's ability to purchase a home. Making money available to help people buy homes is the goal of housing finance.

Since its establishment, HUDCO has worked to develop and implement innovative solutions in the areas of technology, plans, designs, as well as to share its findings with state governments in order to improve housing production and delivery in the United States. An institution that serves as a financial institution that lends money to people and developers of housing in order to increase the country's housing stock was established back in 1977, known as Housing Development and Finance Corporation (HDFC).

As a result of the establishment of the National Housing Bank (NHB) in 1987, an environment favourable to investment in the housing sector arose. More than 97 housing finance companies are currently operating in India. As of March 2019, the mortgage market in India is worth Rs.19.1 lakh crore, with a market share of 36% for HFIs. HFIs received refinancing from the NHB in the amount of Rs.13,283 crore during the 2017-18 fiscal year. After the Reserve Bank of India (RBI) sold its entire stake in the National Housing Bank (NHB) earlier this year, it is now owned by the Indian government.

Table 2. Refinance Disbursements by NHB

Year	H.F.Cs (in Crore)	S.C.Bs (in Crore)	C.Ss (in Crore)	Total (in Crore)
2011-12	5302.1	8851.4	236.3	14389.9
2012-13	7694	9848		17542
2013-14	9633	8223		17856
2014-15	7390	14367	90	21847
2015-16	10852	10275	463	21590
2016-17	16779	5696	209	22684
2017-18	13283	11508	130	24921
2018-19	21736	3300	141	25177

Source: <https://test.nhb.org.in>. (NHB Annual Reports)

The data presented in the above table shows that NHB has increased the refinance disbursement amounts over the years in the case of Housing Finance Companies (HFCs) from 36.85 percent to 86.33 percent, while the share of Scheduled Commercial Banks (SCBs) decreased from 61.51 percent to 13.11 percent.

As a result of the Eleventh Five Year Plan Report placing a greater emphasis on national infrastructure development, the current state of affairs has arisen. The banks began lending money to infrastructure projects as a result of this. This has led to a rise in the importance of these housing finance institutions in providing housing loans, which has been announced by the central government. All of us are well-aware of the time-consuming nature of project execution and delivery here in our country. An increase in Non-Performing Assets (NPA) in the banking sector can be blamed on this problem, which has resulted in less money being returned to banks. Consequently, the National Housing Bank began refinancing more Housing Finance Companies in the 2011-12 financial year as a way to maintain the market.

7. Types of Home Loans Provided

The two most widely used types of home loans are fixed-rate loans and adjustable rate loans. A fixed-rate loan keeps the same interest rate for the life of the loan, which means that the principal and interest portions of the monthly payment stay the same. Adjustable-rate mortgages begin with a lower interest rate for the first few years and then adjust to market rates after the initial period is over.

- (i). **Home Purchase Loan:** It is provided to the borrower to buy a home.
- (ii). **Home Construction Loan:** It is basically provided to the borrower for the construction of a house.
- (iii). **Home Improvement Loan:** For the renovation purpose it is given.
- (iv). **Home Extension Loan:** If the borrower wants to construct a new portion on his existing house then he is given this loan.
- (v). **Home Conversion Loan:** If the applicant wants to convert some part of his or her house to another use he or she can apply for this loan.
- (vi). **Land Purchase Loan:** It is simply given to purchase a land for making a house.
- (vii). **Bridge Loans:** Bridge loans are designed for people who wish to sell the existing home and purchase another one. The bridge loans help finance the new home, until a buyer is found for the home.
- (viii). **Refinance Loans:** By taking this type of loan one can repay the previous as well as new loan amount.

The Eligibility in getting these home loans depends on the policy intervention of the HFIs. Sometimes these institutions give loans on the condition of Collateral Security. At present in 2019 the interest charged on home loans is about 9.5% p.a and the maximum repayment period provided is 30 years.

8. Changes of Government Policies towards Housing Sector

From the year 1950 the focus of the central government had started to shift towards the housing sector. If we distinguish the government's role in this sector in different phases of time, then we can find out that after 1950 to 1990 the role of the government was to provide people with housing; after introduction of national housing policy in the year 1988 the government role was changed from a 'provider' to an 'enabler' and after 2010 onwards it is facilitating the process of housing production, delivery and investment.

In the first phase (1950-1990), the aim of the government was to relocate the people from the city towards the peripheral areas of the city by providing them funds to build their own houses and also providing them the basic services like water supply, electricity, sanitation, access road etc. The major steps that were taken in that time were the formation of HUDCO, HDFC and National Housing Bank (NHB). During this



time period the Government had figured out some problems in the process of housing construction and delivery. These are —

- Lack of housing affordability.
- Unavailability of advanced and time consuming technology and system.
- Problems in land allocation.
- Requirement of institutional and policy framework.
- Lack of constant supply of building materials.
- Unavailability of skilled labor.

After getting familiar with these problems the government has improvised its approach in providing the houses with basic services without dismantling the existing structure or without resetting the Slums to the other place and by creating the opportunities of income generation. The major step had taken in this phase was introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which had become a flagship programme in urban poverty alleviation from the year 2005. With the objective in providing the basic services for the poor and the urban infrastructure for everyone in the city, this scheme talks about a comprehensive approach where each and every state government in the city level should have to prepare a Comprehensive City Development Plan for housing and infrastructure. The strategy of the government got changed from individual scheme driven approach to piecemeal approach where firstly the City Development Plan has to be prepared and then the individual projects should be implemented.

In the year 2009 Rajiv Awas Yojana (RAY) was declared by the government with the objective to achieve Slum Free India. The major difference between JNNURM and RAY is that, in case of JNNURM the people who have the ownership of their land got benefited but RAY was proposed for those people who did not have ownership of the land. RAY for the first time proposed a curative as well as a preventive approach to restrict further formation of slum and quarter settlement. It directed each and every Urban Local Body (ULB) to prepare a Slum Free City Plan which contained all details of existing slums in the city, housing typologies, structural quality, land tenure and quality and quantity of basic services provided to them. With the plan report any ULB could propose a slum redevelopment plan for the migrating people and the provision for rental housing was introduced for the first time for these people.

After 2010 onwards governments' focus got shifted from 'enabler' to 'facilitator'. During this phase government is not getting directly involved in the process of housing construction and delivery rather than the government allocating the fund in terms of loans to the individual and the Real Estate Developers with the provision of Interest Subsidy, Mortgage Guarantee, Regularization of housing finance market etc. On the



other hand, the government has also got involved in submission of new technology which will reduce the time of housing construction up to 1 to 1.5 years. In the year 2014-15 government announced the most important scheme Pradhan Mantri Awas Yojana (PMAY) with the objective of achieving Housing for All by 2022. All the preventive approaches of RAY are merged in PMAY and the government gives more focus on providing rental housing by the formation of Draft Rental Housing Policy, which discusses the type of migrating population, their requirement for housing and what should be planners' strategy to satisfy the demand of these transitional people.

Conclusion

In the recent years Indian Housing Finance sector has been witnessing some problems which slowed down the growth of this sector to half of the previous years in FY 2018-2019. But now it is showing some indications of improvement. As per the experts from the housing finance and banking industries, the Indian government and the regulator have taken concrete steps to improve the conditions. In a conference of India Mortgage Leadership Conclave (IMLC) in Mumbai, Mahesh Misra, CEO, India Mortgage Guarantee Corporation (IMGC), spoke about measures for reviving housing finance's sector growth. He said :”Housing finance regulation has converged with the Reserve Bank of India and it has two sets of benefits. Firstly, we can expect a more consistent, uniform regulation, which is likely to create a level-playing field with 58% of mortgage originations being done by banks; there was a case for regulation to move to the RBI. Secondly, this also leaves NHB with a far greater bandwidth to play the sponsor role for development of the housing finance sector and we already have a slew of government initiatives where NHB is the principal anchor”.

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