



Housing Finance: The Emerging Contours

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Introduction

Housing has been a key driver of economic growth of a country. As per the Eleventh Five- year plan the housing shortage is 36 million dwelling units and to meet this demand an estimated Rs. 7,75,000 crores is required over the next five years. The key challenge is that very little funding is going to the segment (of low-income and affordable housing) where housing shortage is pre-dominant.

Key issues – Supply side

1. Land acquisition is the most critical part of housing development and it is fraught with many issues and delays in getting all clearances. Land Acquisition and Rehabilitation and Resettlement Bill is awaiting approval. Given the significant shortage of housing in the country, there is need for fresh supply of land to come into the housing market. Bulk of market driven housing is going to middle and high- end housing. However, here the related issue is how can hoarding of land be prevented? Today the land owner/developer has little incentive to complete the project and deliver it, since he keeps betting on land value appreciation. Secondly, fresh supply of land needs to be there for low-income and affordable housing. Earmarking of land for low-income housing under various government schemes and policies is a welcome step, but the shortages in this segment are chronic and critical and need more to be done by providing the right incentives to market players to do more in this segment.
2. India now has almost 100 million people living in slums. Renewal of existing stock through redevelopment is another critical component of the housing market. Rajiv Awaas Yojana is an ambitious scheme in this regard. However, it's important to integrate slum redevelopment with comprehensive development of transport infrastructure and civic amenities so that no additional financial burden is imposed on the dweller due to the shift. Easy connectivity to work place is one of the most important criteria for slum dwellers in their choice of dwelling.
3. Policy level initiatives like changes in FAR norms, density norms and bringing them to international standards would increase supply.
4. A shift in the urban planning paradigm and emphasis on master planning of new urban centers (on lines of what was done in Greater Noida, Chandigarh, etc.) would ensure long-term planned development without the need for frequent changes and adhoc measures.
5. Developments of civic infrastructure like road/train connectivity, water, electricity, education, healthcare, etc. needs to move in tandem with growth of housing. One suggestion is to bring urban infrastructure under the definition of "priority sector" so that it receives the required impetus.
6. Lack of comprehensive and credible housing data is a key gap in the Indian market. Countries like US regularly publish the "Housing Starts", S&P/Case-Shiller Home Price Indices, etc.

7. Some developers have explored the route of pre-fabricated or modular manufacturing of homes (especially in the affordable housing segment). The benefit of treating housing as manufacturing is that it entails tight processes, shorter construction cycle and on-time delivery. However, to encourage this in a scalable manner, clarity is required on excise and indirect taxation. Also the required technology enhancement needs to be made to make this a commercially viable option.
8. The process of clearances and approvals for housing projects continues to be a long and tardy one extending over several months. This is one of the most critical stumbling blocks and could be eased by some form of single window clearance.
9. As the housing market in India grows and matures, there is a need for new players like Home Inspection industry, which should be regulated but independent from the developers. In the US, more than 70% of home sale transactions involve the services of a Home Inspection professional. In India, presently there is no single authority to supervise the quality of construction and it is being loosely administered at the local municipality levels.
10. The Scheme of Affordable Housing in Partnership encourages public-private partnerships for the development of affordable housing by providing incentives like reduced stamp duty and central government subsidy of 25% of the cost of developing civic infrastructure for the project. However, not a much headway has been made under the scheme. It is therefore important to come up with effective mechanisms to use central budgetary support to incentivise additional supply of affordable housing.

Housing Finance

In the year 2000, home finance was just 1.5% of the total bank advances and in year 2010 it has risen to 10%. The total housing finance volume is Rs. 1.65 lacs crores and it continues to grow year on year.

1. In most cases, Interest rate risk on a long term home loan is being borne by the customer, due to the absence of choice of products being offered to the customer for home finance. Product innovation is required to be explored through the use of derivatives (interest rate futures, swaps, etc.) and channelizing of long term fixed rate savings (like insurance, pensions, etc.) so that a variety of fixed rate and floating rate products can be offered to the customer in a transparent manner.
2. The levy of prepayment charges is done in an opaque and non-symmetric manner by the lenders. While higher interest rates are passed on immediately to the borrower, the treatment is not symmetric in case of fall in interest rates. While a case has been made to do away with pre-prepayment charges, especially in case of the common lower ticket borrower, it is necessary to do ensure that the system that is introduced is fair to both the customers as also the bank.
3. In India, the originators of the housing loans continue to warehouse that risk in their balance sheet. There is a need to develop secondary mortgage market with the right safeguards and incentives.

The mortgage securitisation market could be developed with the support of a credit enhancement package from NHB. The development of the long term mortgage securitisation market would also help in introducing new lenders like insurance companies and pension funds and reduce asset liability mismatches with the banks.

4. Mortgage insurance is an important facilitating product which is yet to be introduced in India. Steps by NHB in introducing the enabling regulatory environment for it are eagerly awaited. Mortgage guarantee product is essentially first loss support against each loan and so it provides additional capital support to the lenders in a non-dilutive manner. This should significantly increase the outreach of financing to those segments with a higher perceived risk.
5. Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) is a well-intentioned scheme where 5% interest subsidy is given on home loans to EWS/LIG person for purchase/construction of house. This mitigates credit risk to an extent for the lender and makes the borrowing more affordable. However, the off take under the scheme has been very low. Certain issues identified for the poor response to the Scheme are: A local nodal agency appointed by NHB/HUDCO is responsible for certifying the eligibility of the subsidy and forwarding applications to Central Nodal Agency for approval. Instead if this responsibility is entrusted to the lending institutions/banks/micro-housing companies, who are carrying out the appraisal for the loan, then it could be more effective and fast. Secondly, the eligibility criteria could be based on the size of the house instead of the income level of the borrower, which is very difficult to ascertain for this category of persons. The micro-housing finance companies give loans to this segment based on field investigations and not against documentary proofs of income, which are mostly not available.
6. The key stumbling block in financing of rural housing is lack of legal titles and absence of credit information of the borrower. Credit bureaus mainly focus on urban customer data. Efforts are being made by institutions like Hi-Mark to make available credible rural customer data.
7. Growing instances of frauds such as fake title documents, fake identities, multiple funding against same property, etc. need to be curbed. Establishing authenticity of title deeds is becoming increasingly difficult. In this regard role of a central/state registry is very important.
8. Financing to developers/projects is being done based on developer's past track record, project evaluation, etc. However, there is limited ability of the lenders to enforce accountability by builders. Can a mechanism of penalties be put in place by lenders to bring in better discipline by builders?
9. One of the constraints for Housing Finance companies that cater to the lower end customers is continuous access to affordable debt. Can there be an urban refinance scheme for small ticket home loans, to address this issue?
10. Increasing supply of affordable housing is essential. The overall market size of this segment is Rs. 21000 crores and is bigger than the top end of the market. However, the value of houses in this segment has been inching upwards to Rs. 7-8 lacs level. Concerted efforts are required to make houses in the below Rs. 5 lacs range available. One suggestion is to have a sub-limit defined under priority sector definition for houses below Rs. 5 lacs.

Consumer Protection

The biggest gap that exists today in this industry is that a home buyer gets no form of assurance on the quality and time of delivery of the home from the developer. In addition, the consumer is fully exposed to price risk till such time the delivery is made to him.

Grievance redressal mechanism against developers needs to be made robust and transparent. In the absence of a regulatory regime for the real estate developers, this has been extremely difficult to put in place. Many complaints exist against the developers such as sale of houses without necessary approvals in place, overstating saleable area, inordinate delays in delivery, non-completion of projects undertaken, etc. Can consumer protection policies be mandated such as a home can be sold by the developer only after receiving Occupation Certificate?

Legal protection must be provided in case of defective title being passed on to the consumer.