

## **Trends of Housing Finance in India**

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### **Abstract**

Owning a house is the elementary desire of an individual. It is the fundamental requirement for a person. It not only provides a shield to live but also gives financial security for any kind of adverse circumstances. A person can use it as collateral for getting credit from the market. Purchase of a house is normally the priciest transaction for someone in whole of his life on which he spends around ten percent of his yearly earnings. Development in housing industry gives the reflection of a strong economy as economic growth and housing industry have a very sound liaison. As per National Housing Bank, “the housing sector has strong backward and forward linkages to over 250 ancillary industries which includes construction workers, builders, developers, suppliers, civil engineers, property consultants, furnishers, interior decorators, and plumbers – a virtually unending list”. Housing sector is a big contributor for employment to the Indian community. This study is an endeavor to retrieve the continuous movement of housing industry in India from 2008 to 2013 by reviewing the annual publications of National Housing Bank.

Keywords: Housing Finance, Affordability, Supply, Demand, Indian Economy

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Owning a house is the elementary desire of an individual. It is the fundamental requirement for a person. It not only provides a shield to live but also gives financial security for any kind of adverse circumstances. A person can use it as collateral for getting credit from the market. Purchase of a house is normally the priciest transaction for someone in whole of his life on which he spends around ten percent of his yearly earnings. Development in housing industry gives the reflection of a strong economy as economic growth and housing industry have a very sound liaison. As per National Housing Bank, “the housing sector has strong backward and forward linkages to over 250 ancillary industries which includes construction workers, builders, developers, suppliers, civil engineers, property consultants, furnishers, interior decorators, and plumbers – a virtually unending list”. Housing sector is a big contributor for employment to the Indian community. This study is an endeavor to retrieve the continuous movement of housing industry in India from 2008 to 2013 by reviewing the annual publications of National Housing Bank.

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## Housing Finance

Housing finance is gradually stepping forward due to immense demand, development and pecuniary reforms. Today housing finance is not just providing credit for a house but it has transformed into a highly competitive market. Financial institutions need to have optimal pricing policy along with customized products again with a range of choices in order to attract and retain customer. A client wants an affordable house with maximum possible facilities. Some and how, housing loan as a percentage of GDP in India still lags significantly behind than other developed nations.

The core players for the market of housing finance in India are the Housing Finance Companies (HFCs) and banks. HFCs are directed and regulated by National Housing Bank while supervisory body for the banks is the central bank of India i.e. Reserve Bank of India.

These players are obliged to abide by the rules illustrated in the National Housing Bank Act 1987. NHB Act ensures sound practices in housing finance with the help of norms, periodical disclosure of information, efficient risk management mechanism and proficient management of assets & liabilities. The housing finance industry is gradually expanding by not only providing housing credit service but also purveying loans (being used for another purpose) on the basis of collateral of existing housing. All the housing parties want to have maximum share in the prospective market for which they are facing homogeneous as well as heterogeneous competition.

Pricing parameters for the real estate business are bit different from that of ordinary goods and services. Along with demand and supply side future expectations and assumptions also play a significant role in deciding the prices of real estate business. If house demand is extremely high at any stage it depicts that people are expecting the prices to boost in future and they are executing the well thought transaction now to meet their once in life need. At hand, we have two House Price Indices named as 1) NHB- Residential Housing Price Index (Residex) and 2) RBI-Housing Price Index to get an idea about the status of house prices in India. These indices are a good tool for all the individuals and corporate bodies to analyze and decide about the sale or purchase of property. The composition of NHB-Residex is done on the basis of survey while RBI-HPI is compiled by registration information of prices related to the concerned cities.

In the current decade, the major requirement of consumers in housing finance area is not just getting a loan to launch their dream but a feasible and smooth inauguration of the same. So they search for so many parameters like low interest rate, tailored loan conditions, flexible and liberal actions in difficulties etc. On the other hand housing institutions and banks can't even think to directly deny credit or further refer the borrower to other consultant. They have to have devices to assess, price and customize terms of loans for each and every potential client. This will give them benefit of economies of scale and reduce the possible costs. But this does not mean they put in danger their long term existence. A trade off is mandatory between prudent approach and customer retainment. The solution for which will be explored in the following part of the study.

### **Analysis and interpretation**

Government support for housing in india

Government of India has initiated various schemes to augment the status of housing. Few of such important policies are Golden Jubilee Rural Housing Finance Scheme (GJRHFS), The Indira Awas Tojana (IAY), Bharat Nirman and National Urban Housing and Habitat Policy (NUHHP). Budget also promises some support to the housing industry every year. Ministry of Housing and Urban Poverty Alleviation (MHUPA), Government of India has also taken initiation to provide affordable house to Economic Weaker Section (EWS) and Low Income Group (LIG) in urban area. It has launched subsidy scheme to urban poor for housing and a fund trust to provide credit risk guarantee to lenders for fresh borrowers in EWS/LIG segment against housing credit upto five lakh that too without any collateral or security.

Table 1: Status of Claims in the Past 3 Years under Subsidy Scheme

	Year			TOTAL
	2009-10	2010-11	2011-12	
Amt. of NPV of interest subsidy disbursed (Amt in RsCrore)	0.37	3.41	3.48	7.26
No. of Beneficiaries	531	4611	3403	8545

Source: Annual Report of National Housing Bank, 2012

Definition of an affordable house is a complicated task especially in a dynamic country like India. EWS and LIG are having the highest scarcity of houses again moving from place to another in search of better housing facilities. That is why for the effective implementation of housing schemes, specific range of houses has been decided for different levels of people. Monthly instalments for the same are conditioned not to exceed 30%-40% of monthly revenues of the purchaser. The following table is explaining the range regarding the same.

Table 2: Definition of EWS and LIG for various housing schemes

	SIZE	EMI
<b>EWS</b>	Minimum 300 Sq Ft Super Built Up Area	Not Exceeding 30-40 per cent of Monthly Income of Buyer
	Minimum 269 Sq Ft Carpet Area	
<b>LIG</b>	Minimum 500 Sq Ft Super Built Up Area	
	Minimum 517 Sq Ft Carpet Area	
<b>MIG</b>	600-1200 Sq Ft Super Built Up Area	
	Minimum 861 Sq Ft Carpet Area	

Source: Guidelines of Affordable Housing in Partnership (Amended), MHUPA, 2011

#### Trends of Housing Index

As per the Index of April-June 2012 liberated by NHB, housing prices have been increasing in sixteen metropolises. The prices of residential faced minor decreasing trend in three cities.

Some and how only one single city did not show any price change in the quarter Apr-June 2012 in contrast to the prior quarter Jan-Mar 2012. The boost/reduction has not been very significant for most of the cities. However three cities Bengaluru, Patna and Pune experienced very acute augmentation. Indore, Jaipur and Hyderabad encountered alteration with ups and downs. House prices in Faridabad were of stationary character in last quarter. Out of five cities which are included in 2012, four named Vijawada, Ludhiana, Guwahati and Bhubaneshwar have shown increase in residential prices while Indore is reflecting decrease in the same. Chennai is having highest value in index which is more than 300 while very few of the cities have even just the number 200 which is a big difference.

Table 3: City Wise Housing Price Index (updating Upto Quarter April-june, 2012)

CITIES	2007 INDEX	JAN JUN 2009 INDEX	JULY DEC 2009 INDEX	JAN MAR 2010 INDEX	APR JUNE 2010 INDEX	JUL SEPT 2010 INDEX	OCT DEC 2010 INDEX	JAN MAR 2011 INDEX	APR JUN 2011 INDEX	JUL SEPT 2011 INDEX	OCT DEC 2011 INDEX	JAN MAR 2012 INDEX	APR JUNE 2012 INDEX
HAYDERABAD	100	65	81	81	82	87	87	83	91	84	79	86	85
FARIDABAD	100	139	145	154	152	170	176	165	220	206	218	217	217
PATNA	100	107	119	127	124	148	146	146	146	141	140	129	140
AHMEDABAD	100	127	128	113	131	141	164	165	169	163	167	164	174
CHENNAI	100	120	143	164	183	210	214	218	248	271	296	304	309
JAIPUR	100	71	63	66	61	63	69	67	64	65	64	80	78
LUCKNOW	100	104	119	112	133	148	152	157	160	154	165	164	171
PUNE	100	103	117	124	135	140	141	148	150	169	184	181	200
SURAT	100	111	123	109	136	128	133	128	149	139	152	144	145
KOCHI	100	90	83	79	83	97	101	86	107	97	82	72	73
BHOPAL	100	139	162	158	153	166	173	167	224	208	211	204	207
KOLKATA	100	162	185	165	176	191	213	211	194	191	190	191	196
MUMBAI	100	124	126	134	160	167	173	175	181	194	193	190	197
BEGALURU	100	58	59	64	68	74	101	88	92	93	100	92	100
DELHI	100	121	113	106	110	115	123	126	147	154	167	168	172
BHUBANESHWAR	100											161	164
GUWAHATI	100											157	159
LUDHIANA	100											163	171
VIJAWADA	100											184	186
INDORE	100											208	203

Source: Annual Report of National Housing Bank, 2012

### Recommendations

From the study we retrieve that there is undoubtful need of accurate blend of residential reforms for reaching the untouched segment and house possession on a wide basis. Government has take appreciable steps for providing supportable scenario to the private sector. But it need to have more liberal and feasible policies for reachable and reasonable

housing to lower segment. The discrimination spots should be washed by proper check-ups. Continuous degrading has also taken place which should be abolished with regular look up so that better conditions of living can exist. People should be educated with the intention that maximum population can have the policy benefits. Cheap housing credit is a right for everyone. Top-down as well as bottom-up approach is required to achieve this target where state government and local parties must be involved for faster actions.

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