

HOUSING FINANCE IN INDIA: OPPORTUNITIES AND CHALLENGES

Dr. Jatinder Kaur*

ABSTRACT

According to the Ministry of Urban Development and Poverty Alleviation, the shortage in housing in the country's urban areas numbered 24.71 million in 2007. India will face shortage of over 26 million houses by 2012. Demand for residential houses is rising sharply because of growing young working population, increasing urbanization, declining household size resulting in more nuclear families, with growing household income and easy availability of housing loans. The allocation of funds for housing loans at all India level by the commercial banks was Rs. 723.78 crore in 1994-95 and it rose to 8389.10 crore into 2003-04. As against allocation, the achievement of housing finance by commercial in 1994-95 was Rs. 748.61 crore and it rose to 45378.20 crore in 2003-04. During this period the compound growth rate for achievement is (50.8), more than the compound the growth rate for allocation i.e. (27.7). The analysis of bank group wise direct disbursement of housing finance during 1999-2000 to 2003-04 demonstrated that the nationalized banks are dominating the housing finance market in India yet the recent growth of Indian Private Banks particularly in 2002-03 and 2003-04 proves that these banks have to play role in this field yet in the coming years. There are some challenges for the housing finance sector in the form of some problems. The major portion of the houseless population is in low and lower middle income segments. The poor repayment capacity of the borrowers is a major problem for this sector.

KEYWORDS: *Poverty Alleviation, Household Income, Housing Finance, Lower Middle Income Segment.*

Introduction

Housing Finance is one of the constituents of the service sector in India. Now, the services sector accounts for more than half of India's Gross Domestic Production (GDP). Its contribution in India's GDP was 56.4 per cent in 2008-09. At present, India emerged as one of the fastest growing economies of the world and the service sector played a significant role in this remarkable performance of the Indian Economy. Housing Finance is an important constituent of the service sector. Against this background the present paper throw light on the Housing Finance in India.

As far as the shortage of houses is concerned, it is a global problem. Although the problem is very chronic in the developing countries, most of the advanced countries also face this problem though in varying degrees. The problem of housing has not been solved in India since its independence. In spite of continuous effort in the country, the problem has become more serious especially in the urban sector of the economy. The problem of housing shortage is likely to grow at a very fast rate in the years to come. So, it is very clear that the housing finance needs to be taken seriously so that the supply of houses can be increased at a faster rate so as to fill the gap between demand and supply of housing. Against this background the present paper has the following objectives:

Objectives of the Study

The objectives of the study are as follows:

- To review the magnitude of the problem of housing shortage in India;
- To evaluate the growth of housing finance by the commercial banks in India;
- To find out the various challenges ahead this sector.
- To find out the various prospects for the growth in this sector.

* Principal, Guru Nanak College Moga, Punjab, India.

Methodology

To examine the objectives, the study is based on the secondary data, collected from the various Financial Institutions like Annual Reports of National Housing Bank (NHB), Census of India, Various Five Year Plans of India and reports of various commercial banks etc. For the purpose of the analysis of the data, various statistical tools like averages, percentages and growth rate have been used. The rest of the paper is structured as follows: Section II reviews the Magnitude of the problem of housing in India. Section III evaluates the growth of housing finance by the Commercial Banks in India for the period of 1993-94 to 2003-04. Section IV discusses the various challenges ahead in this sector. Section V explains the various prospects for the growth of this sector. Finally, section VI concludes the major findings and suggestions.

- **Magnitude of the Problem of Housing in India**

The First Five Year Plan estimated the shortage as 18.4 lakhs houses in urban areas in addition to 10 lakh houses for displaced persons from Pakistan. The Second Five Year Plan estimated that the shortage of houses in urban areas might increase about 5 millions during 1961, as compared to 2.5 million houses in 1951. Based upon the census, the National Building Organization has assessed the housing inadequacy in the country during 1985 to the order of 247 lakh dwelling units (188 lakhs in rural areas and 59 lakhs in urban areas).

The Working Group on Housing has estimated the urban housing shortage at the beginning of Tenth Plan at 8.89 million units and the total number of houses required cumulatively during the Tenth Plan period was assessed at 22.44 million. According to the report of the Technical Group on estimation of housing shortage constituted in the context of preparing Eleventh Five Year Plan document, housing shortage during the plan period (2007-12) including the backlog was estimated at 26.53 million. Most of the housing shortage was for the Lower Income Group sections, which did not seem to be getting translated into economic demand due to lower affordability by the poor. A survey by the National Sample Survey Organisation (NSSO) in 2007 also showed that one out of every seven urban households in the country lived in slums. That means about 8 million people lives in slums and it was 2 million more than a decade ago.

- **Growth of Housing Finance by Commercial Banks in India**

Indian Housing Finance market is mainly dominated by multiple sources of finance. Most of the households resort to more than one source of housing finance because of their inability to secure sufficient housing finance from a single source. The housing finance market can be conveniently divided into Formal Housing Finance Market and Informal Housing Finance Market. The housing credit from institutional sources is termed as formal housing finance. Formal Housing Finance market constitutes- Commercial Banks, Employers supplying housing loan facilities against employee's provident fund contribution, specialize housing finance institutions such as HUDCO, HDFC and LIC etc. and private housing finance institutes. Among the formal institutions, the commercial banks are playing a dominant role in the housing finance market of India.

Till late seventies, the commercial banks were not exposed to any type of housing finance. Although the commercial banks are the late entrants in the field of housing finance yet they have surpassed the total lending's done by the Housing Finance Companies over the past few years. The information relating to housing finance as provided by various scheduled commercial banks in India during 1994-95 to 2003-04 has been given in Table 1. This information pertains to the allocation and achievement of housing finance by commercial banks. The percentage increase in allocation and percentage increase in achievement for each year has also been computed.

Table1: Housing Finance by Commercial Banks in India

(Rs. Crore)

Year	Allocation	%age Increase in Allocation	Achievement	%age Increase in Achievement	Per cent of Achieved Loan to Allocated Loan
1994-95	723.78	30.99	748.61	76.03	100.27
1995-96	927.03	28.08	842.03	12.48	90.83
1996-97	1071.45	15.58	1805.62	114.44	168.52
1997-98	1295.19	20.88	1284.00	-28.87	99.14

1998-99	1480.831	14.33	3951.992	207.78	158.49
1999-2000	3051.52	106.06	9911.35	150.79	324.80
2000-2001	3405.95	11.61	9787.24	-1.25	287.35
2001-2002	5159.22	51.48	14744.85	50.65	285.79
2002-2003	8574.10	66.19	33840.53	129.50	394.68
2003-2004	8389.10	-2.15	45378.20	34.09	540.91
Compound Growth Rate	27.7	—	50.8	—	—

Source: Report on Trend and Progress of Housing in India, 1999, 2003 and 2004.

The allocation of funds for housing at all India level was 723.78 crore during the year 1994-95. This amount rose to 8389.10 crore during the year 2003-04, showing that in money terms the amount for housing loans from the year 1994-95 to year 2003-04 has increased by 914.298 per cent per annum. As against allocation, the achievement of housing finance by commercial banks during the year 1994-95 was 748.61 crore. It rose to 45378.20 crore during the year 2003-04. The amount of achievement in housing finance during the same period increased by 2189.44 per cent per annum. The growth rate of achievement was much higher than the growth rate of allocation from the year 1994-95 to year 2003-04. Achievement as percentage of the amount of allocation is more than 100 per cent in most of the years except during the year 1995-96 and the year 1997-98. The compound growth rate for achievement was 50.8 more than the compound growth rate for allocation i.e. 27.7. The information relating to Bank group wise direct disbursement of housing finance during 1999-2000 to 2003-04 has been shown in Table 2

Table 2: Bank Group wise Direct Housing Finance Disbursement

(Rs. Crore)

Banks	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Compound Growth Rate
SBI & Associates	1205.06 (33.5)	1950.09 (35.1)	2636.34 (30.8)	4782.88 (20.3)	6478.80 (19.7)	40
Nationalised Banks	1710.10 (47.5)	2800.90 (50.4)	4963.62 (57.9)	9129.47 (38.8)	13722.91 (41.8)	51.6
Indian Private Banks	522.30 (14.5)	645.06 (11.6)	696.79 (8.1)	8864.03 (37.6)	11102.52 (33.8)	84.3
Foreign Banks	159.94 (4.4)	157.06 (2.8)	269.66 (3.1)	776.99 (3.3)	1512.16 (4.6)	56.9
Total	3597.40 (100.0)	5553.11 (100.0)	8566.41 (100.0)	23553.41 (100.0)	32816.39 (100.0)	55.7

Figures in parenthesis indicate percentage to total.

Source: Report on Trend and Progress of Housing in India-June 2003 and 2004.

It is clear from the data that the share of SBI & Associates in total direct housing finance disbursement has declined from 33.5 per cent during the year 1999-2000 to 19.7 per cent during the year 2003-04. The share of Nationalised Banks has also decreased from 47.5 per cent during 1999-2000 to 41.8 per cent during 2003-04. Although the share of Nationalized Banks in total direct housing finance has declined yet it has the dominant role in providing the direct housing finance among the Commercial Banks. Nationalised Banks has the highest share in total direct housing finance for each year from 1999-2000 to 2003-04. During the year 2003-04 it had provided 41.8 per cent of direct housing finance. The role of Indian Private Banks has been increasing since 1999-2000 in the field of direct housing finance in India. Indian Private Banks has only 14.5 per cent share in the disbursement of total direct housing finance in India while it rose to 33.8 per cent during the year 2003-04, thereby, surpassing the SBI and Associates. Indian Private Banks has the second highest share only after Nationalised Banks during the year 2002-03 and 2003-04. The Foreign Banks have a meager share in providing direct housing finance in India. Foreign Banks have increased a little share from 4.4 per cent during the year 1999-2000 to 4.6 per cent during the year 2003-04. It is clear from the study that no doubt the Nationalised Banks are dominating the housing finance market in India yet the recent growth of Indian Private Banks particularly in the year 2002-03 and 2003-04 proves that these banks have the role to play in this filed during the coming years.

• **Challenges Ahead in this Sector**

The large population base, the massive housing backlog, the fast expanding urban population, mushrooming slums and squatter settlements are becoming a major socio-economic challenge for India. The working Group on Housing for the Tenth Plan has observed that 90 per cent of housing shortage pertains to the weaker sections. So, most of the housing shortage is for the Lower Income Group sections which does not seem to be getting translated into economic demand due to lower affordability by the poor. The liberalisation and the active entry of commercial banks into housing finance market, deregulation of interest rate increased the competition in the housing finance market and affected the volume of housing companies in the recent years.

The Economic Times dated September 16, 2010 stated that India will face shortage of over 26 million houses by 2012, which would lead to spurt in housing prices as demand-supply gap widens and rising purchasing power of the middle class people. With India back on a high trajectory demand for commercial and residential space is likely to witness an upward trend. Demand for residential property is rising sharply because of growing young working population, increasing urbanization, declining household size resulting in more nuclear families with growing household income and improved availability of loans. Co-chairman of FICCI Real Estate Committee Pranay Vakil said over \$ 1.2 trillion investment was needed to meet the rising demand for urban development. Urban population in India would nearly double to 600 million in the next 15 years from nearly 350 million now and this would put massive pressure on urban infrastructure including housing. In the present paper, the analysis of growth rate of housing finance by the commercial banks from the year 1994-95 to 2003-04 also proves that there are great opportunities ahead the financial institutions in the housing sector of India. Moreover, housing activity would be an engine for substantial generation of employment in the country.

Major Findings

- The housing shortage is rising in India at a faster rate. It was 18.4 lakh houses during the First Five Year Plan and rose to about 26.53 million during the Eleventh Five Year Plan.
- Around 90 per cent of housing shortage pertains to the weaker sections and most of them have no access to housing finance.
- The compound growth rate of achievement is much higher (50.8) than the growth rate of allocation of funds for housing of the commercial banks from the year 1994-95 to 2003-04.
- The Nationalized Banks are dominating the housing finance market in India.
- The growth of Indian Private Banks in housing finance after 2001-02 proves that these banks have the role to play in this field during the coming years.
- The liberalization and deregulation of interest rates increased the competition in the housing finance market and affected the volume of housing companies.

Suggestions

Housing activity can make various contributions to the financial sector, insurance business, capital market, construction material industry and employment etc., thus ensuring more Gross Domestic Production (GDP) growth. This potential needs to be channelised and realized by promoting housing supply and the mortgage industry. The facilitating role of the Government and financial institutions along with private intervention to address the housing needs of the society should be recognized. Efforts should be made to identify the legal and administrative constraints in the housing finance market and these should be addressed suitably. There should be a strong public-private partnership for tackling the housing and habitation issues in India. There is a strong need for more reforms in the banking sector in India.

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