HOUSING FINANCE*

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I am very happy to associate myself with the inauguration of the Vysya Bank Housing Finance Limited. It was only recently that the Vysya Bank secured the Reserve Bank's approval to set up this company and it is a matter of satisfaction that such prompt steps have been taken to establish it.

Housing is not merely a basic necessity. It has extensive backward and forward linkages with the economy as it stimulates the demand for construction materials, furnishings, accessories and consumer durables and provides large employment to skilled and unskilled labour. It is therefore not surprising that in many economies housing is regarded as an important index of overall economic activity. It would appear that housing has not enjoyed a high priority under our Plans. Investment in housing as a proportion of total investment under the successive Five Year Plans has been gradually declining. Of course, in absolute terms, investment in housing has multiplied almost 28 times from Rs.1,150 crore during the First Five Year Plan to Rs.31,458 crore in the Seventh Five Year Plan. However, its share in total investment fell from 34 per cent in the First Five Year Plan to less than 10 per cent in the Seventh Five Year Plan. Further, the share of gross fixed capital formation in housing at 1980-81 prices declined from 3.2 per cent of Gross Domestic Product in 1980-81 to 2.8 per cent in 1987-88. Again, the share of housing in Gross Domestic Product at 1980-81 prices slipped from 5.9 per cent in 1980-81 to 5.3 per cent in 1987-88. Consequently, despite an increase in useable housing stock from 688 lakh units in 1961 to 1027 lakh units in 1981, shortage of housing increased from 152 lakh units in 1961 to 233 lakh units in 1981 and is projected to widen further to 410 lakh units by 2001. In the four Southern States alone, the shortage was placed at 42 lakh units in 1981 and is estimated to increase to 62 lakh units by 1991. Assuming a conservative cost of Rs.50,000 per dwelling, if the all-India shortages of 410 lakh units were to be eliminated by 2001, an investment of over Rs.205,000 crores would be required.

I mention these figures to point out the vast growth potential for business in this sector. The National Housing Policy formulated by the Central Government sets out the priorities and strategies envisaged for eradication of houselessness by the turn of the century. The policy has also advocated the creation of an institutional framework that will mobilise savings for housing, meet the credit needs of households and institutions and respond to the specific shelter needs, income patterns and living conditions of people in different parts of the country.

Housing activities are being financed by both institutional and non-institutional sources. Institutional sources include Central and State Governments, insurance companies, commercial banks, specialised housing finance institutions such as Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation Limited (HDFC), provident funds, Unit Trust of India and several institutions in the co-operative sector. Public and private sector employers also provide houses or housing loans for their staff. Housing activity is, however, still financed predominantly by households themselves. During 1988-89, total disbursements from institutional sources (excluding Governments) for housing are placed at around Rs.1,830 crores (unadjusted for inter-institutional flows) which amounts to only about 12 per cent of total investment in housing.

The Reserve Bank has from time to time issued guidelines to commercial banks for provision of funds for housing activity. In recent years, it has been more actively and directly involved in the evolution of a sound and healthy housing finance system. In 1988, the RBI set up the National Housing Bank (NHB) as its wholly-owned subsidiary. NHB is an apex level institution entrusted with the responsibility of promoting, supporting and regulating housing finance institutions at various levels. Besides, RBI has been permitting commercial banks to set up subsidiary

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companies for housing either on their own or in collaboration with other financial institutions, including HUDCO and HDFC which have done pioneering work in this field. Three banks, namely, the State Bank of India, the Canara Bank and the Punjab National Bank, all in the public sector, have already set up such subsidiaries. The Vysya Bank Housing Finance Limited is the fourth in the series and the first to be set up by a private sector bank. Substantial institutional gap still exists for delivery of credit for housing and there is a vast scope for more players in the field.

Though India has had a fairly high rate of savings they fall short of our requirements. If more funds are to be attracted to housing activity, special efforts are necessary to motivate people to save for acquisition of shelter. As land prices have escalated greatly and the cost of construction materials keeps rising there is a marked tendency on the part of relatively younger persons to acquire houses. In view of this strong motivation, it should be possible to devise schemes which encourage additional savings, both past and future, for the housing sector.

It has to be recognised that the availability of concessional finance for housing is limited. Low-cost subsidised funds, to the extent these become available, have necessarily to be beamed to weaker sections of society through appropriate institutions. A large and growing housing finance system has necessarily to operate on non-subsidised rates of interest.

Inadequacy of financial resources is not the only inhibiting factor for housing development. There is need to improve policies regarding land use and land prices. Laws relating to rent control and urban land ceilings need improvement. The development of a secondary market in house mortgages requires that enforcement of mortgages against housing loans be made easier and speedier. Municipal regulations and their actual operation need to be reviewed. There may be scope for improving fiscal incentives for housing and developing construction industry on sound lines. A great deal has to be done for developing technology and design for low cost housing.

Let me now briefly state some important principles which I consider essential for a sound housing finance company. In the first place, it should be self-sustaining. It should be able to recover its costs in full and earn a reasonable return on capital. This would require well-planned mobilisation and deployment of funds essentially on commercial principle with some amount of cross-subsidisation in favour of small loans. Though the available spread may be slender, this can be compensated by the volume of business.

Secondly, the institution should avoid over-dependence on sources of refinance lest the experience of co-operatives is repeated. The institution must rely largely on the household savings mobilised by it. Innovative instruments can provide a linkage between deposits and loans for housing. The Home Loan Account floated by National Housing Bank is an example. Such savings instruments should be aggressively marketed. In this context, I am sure that the new company will be as effective as the Vysya Bank which has an excellent record in marketing the Home Loan Account of NHB. In due course, with further institutional and market developments, a secondary market for house mortgages could develop and thus attract more resources into the housing sector.

Thirdly, it is essential for the company to run on professional lines by building up expert personnel and optimal mechanisation so as to achieve efficiency in operations. It should develop appropriate appraisal, monitoring and recovery systems.

Finally, the institution should comply with prudential regulations prescribed by the NHB. It is essential to safeguard the interests of depositors at all times and to avoid undue risk and mismatches in the composition of resources in relation to the maturity and yield of the asset portfolio.

For meeting the challenging task of providing adequate housing there is room for a large number of housing finance institutions. A well managed housing finance institution can expect not only to serve a laudable social objective of helping people to procure shelter but also to earn resonable profits. In this context, the Vysya Bank Housing Finance, the first housing finance company to be promoted by a bank in the private sector, is a welcome addition. I have great pleasure in inaugurating the company and wishing it a bright and prosperous future.