

Enabling Affordable Housing for All – Issues & Challenges*

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1. It is a pleasure to address such a distinguished gathering of delegates at the international conference and the well-known experts from the sector who have assembled here. It is my pleasure to be here not only as a representative of the Reserve Bank of India but also as a member of the Board of the National Housing Bank (NHB). Over the years, the Reserve Bank and the NHB have committed to the cause of improving the condition of the Indian housing sector considering that housing constitutes one of the four basic requirements for human survival *roti (food), kapada (clothing), makan (housing) and izzat (dignity)*. Our experience shows that housing tends to serve as a catalyst for a change in socio-cultural milieu and also aids in economic development. More importantly, housing lays the foundation for a life of dignity. By investing in homes, people, in particular, the low-income groups, accumulate equity that can then be used as collateral, making them more credit-worthy for accessing finance through formal channels and also for generating income. Against this background, addressing housing shortage and improving affordability remains an integral part of our national policy towards poverty alleviation.

Dilemmas for the policy makers

2. The recent housing bubble in the US which in many ways contributed to global financial market crisis is still fresh in the minds of all the stakeholders in the financial markets. The housing crisis in the US has yet again proved that the mission of social objectives, if not driven with regulatory caution, can lead to financial instability. Such events not only cause severe structural damages to the financial system but also lead to further intensification of the problem that the mission originally was seeking to overcome. Therefore, dilemma for policy makers is to choose either a policy which aims at affordable houses for all without compromising the stability of the financial sector or a policy which enables all to afford houses with focus on inclusive growth for the people at large.
3. The mandate of Reserve Bank of India, whether stated explicitly or otherwise, is for promotion of inclusive growth without undermining financial stability. The dilemma is all the more significant in the context of housing sector initiatives as they involve framing policies on affordability of housing and also harnessing and promoting markets so as to serve the entire spectrum of customers, irrespective of their levels of income and the phase of business cycle.

The extent of problem

4. Housing shortage has always been a major problem over the years in our country since independence. Such shortage estimated as excess households

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over houses including houseless households, congestion (number of married couples requiring separate house), and replacement/ up-gradation of kutchas/ unserviceable kutchas and obsolescence/ replacement of old houses, etc. had grown over the decades.

5. The Working Group on Rural Housing for the Eleventh Five Year Plan (2007-12), has estimated the total housing shortage in rural areas at 47.43 million units at the end of 2012. As per Government estimates, the total housing shortage in the urban areas, at the beginning of the 11th Plan period was around 24.71 million units and is likely to go up to 26.53 million units by 2012. The urban situation is equally appalling with 99 per cent of the housing shortage pertaining to the Economically Weaker Section (EWS) and Low Income Group (LIG) categories. It is also of major concern that 90 per cent of the rural housing shortage (approximately, 42.69 million units) are in respect of Below the Poverty Line (BPL) categories.
6. According to a report of ICRA[†], housing loans as a percentage of GDP have remained at around 7 per cent, significantly lower than the levels achieved in most of the developed countries. It indicates the extent of opportunity for deeper penetration of such market. With improving demographics and economies of scale, the mortgage to GDP ratio is likely to increase. The stakeholders, however, need to reckon with problems and impediments in the process which may arise from changes in the economic cycle, uncertainties surrounding land acquisition policies, changes in the policy framework and systemic risk that could arise out of rapid credit expansion with lax due diligence standards.

Concept of affordability

7. "Affordability" as a concept is very generic and could have different meanings for different people based on differences in income levels. Different countries have defined affordable housing to present the economic potential of an individual buying a house. In developed countries like the US and Canada, a commonly accepted guideline for affordable housing is that the cost of housing should not exceed 30 per cent of the gross income of the household. Affordable housing and low-cost housing are often interchangeably used but are quite different from each other. Low-cost housing is generally meant for the Economically Weaker Sections (EWS) categories and comprises bare minimum housing facilities while affordable housing is mostly meant for the Low Income Groups (LIG) and the Middle Income Groups (MIG).
8. Defining affordable housing in India is a difficult task given that for every square kilometer of the country the dynamics of the market are different. Keeping in mind that the housing shortages affect mostly the EWS and LIG, and the younger group of urban-urban migrants changing cities in search of better prospects, affordable houses, for the purpose of such schemes, are taken as houses ranging from about 300 square feet (super built up area) for EWS, 500 square feet for LIG and 600 to 1200 square feet for MIG, at costs that permit

[†] ICRA Report - Industry Outlook and Performance Review of Housing Finance Companies and the Indian Mortgage Finance Market for 2010-11.

repayment of home loans in monthly installments not exceeding 30 per cent to 40 per cent of the monthly income of the buyer.

9. A major issue involving the affordable low cost housing is the quality of housing. As per the 2001 census data, only 51.62 per cent of Indian households stay in pucca (concrete) houses. As on end-June 2009, 55 per cent of the rural households and 92 per cent of the urban households lived in pucca structures (Table I).

Table I: Distribution of households with respect to Kutcha (non-concrete) & Pucca (concrete) categories

(In per cent)

	1991			2001			2009		
	Pucca	Semi-Pucca	Kutcha	Pucca	Semi-Pucca	Kutcha	Pucca	Semi-pucca	Kutcha
Urban	85.7	10.6	3.7	88.0	9.1	2.9	91.7	6.2	2.1
Rural	48.8	28.7	22.5	49.8	21.4	18.8	55.0	28.0	17.0

(Source: Report of National Sample Survey Office – Housing Condition & Amenities in India)

The Challenges in India - Reasons for low affordability

10. Although India has been registering a fast paced growth during the first decade of the 21st century there is still a significant population below the poverty line (BPL), irrespective of the parameters defining the line. This requires economic and social support to get above the poverty line. The levels of unemployment also remain significantly high, thereby rendering housing unaffordable to many. It is also important to reckon the fact that even today there is a large population which remains financially excluded from the formal banking/financial systems and, in the process, is deprived of access to housing finance.

Rural housing

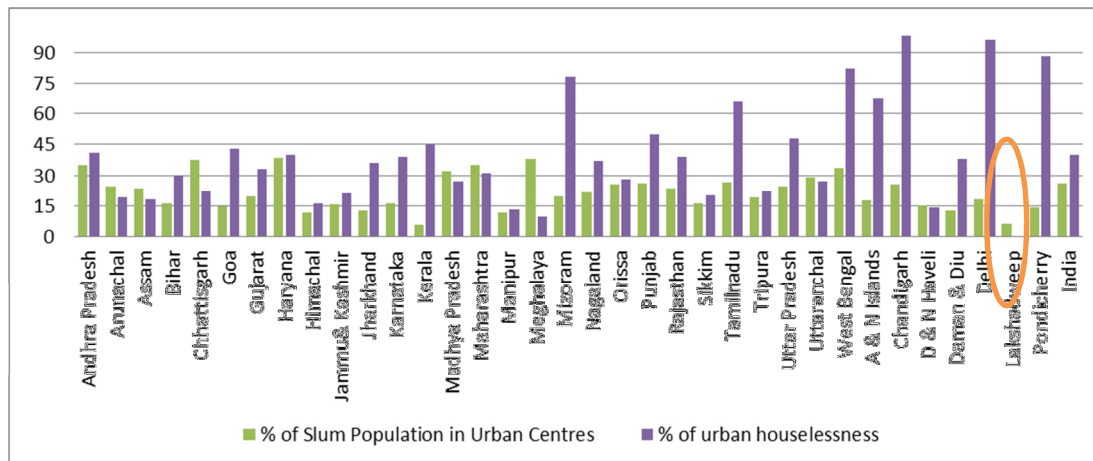
11. The vulnerabilities to the rural housing sector are often thought to be limited to the delivery system for housing materials, services and finance. The sector, however, is deeply affected by infrastructure deficit – roads, electricity supply, drinking water and sanitation. The housing finance which played a key role in the urban housing revolution, if I may say so, is rather conspicuous by its absence in the rural setting. To aggravate the situation further, there is a real paucity of common or non-agricultural land for meeting the housing needs of the poor; whatever little is available is pre-empted by the demands from other sectors. The lack of vibrancy in the market for village properties and the marked volatility in agricultural incomes combine to dampen the prospects of this nebulous sector.

Challenges from urban migration

12. The other challenge emanates from the economic condition of our rural areas which leads to migration of population. The number of people in urban cities and towns has gone up substantially primarily as a by-product of demographic explosion and poverty induced rural-urban migration. This situation has resulted in tremendous pressure on urban infrastructure and consequent increase in the number of homeless people living on the streets. As per the 2001 census, the

total urban homeless population was 0.78 million, which would be much more currently given the inadequate availability of affordable/low cost housing. As per the 2001 census, the country's urban land mass (2.4 per cent of total land mass) housed approximately 28 per cent of the population, excluding people who live on the streets (Chart I).

Chart I: State of urban homelessness – 2001



(Source: Annual Report of Ministry of Housing & Urban Poverty Alleviation, GoI)

- If we look deeper into the extent of availability of basic amenities, the position is all the more disturbing. As per the Report of Housing Condition & Amenities in India (2009), 65 per cent of rural and 11 per cent of urban households do not have adequate sanitation facilities. 34 per cent of the rural and 4 per cent of the urban households did not have the facility of electricity. Only 18 per cent of the rural households had all the three facilities (drinking water within premises, sanitation & electricity) whereas in urban areas, all the three facilities were available to 68 per cent households.

Constraints to housing sector

- Any sector is likely to be influenced by both demand and supply constraints. On the demand side, mainly income levels of the people, overall cyclical condition of the economy and affordability of housing play the most important role and availability of land, finance at reasonable price, infrastructure, legal and regulatory framework are some of the major constraints from the supply side.

Constraints of land availability

- Amongst the four constraints, land bears particular relevance in the Indian context. The continuous tussle between agriculture and industry in a country with a vast segment employed in agriculture and with a policy attempting to boost the manufacturing sector has its undesired effects on sectors like housing. But the required policy support to the housing sector cannot be ignored since construction has direct linkages with the manufacturing sector and any boost in this sector is likely to boost the manufacturing sector as well. On the other hand, with growth in the rural sector, demand for low-cost and affordable housing is expected to increase. The recent bill on Land Acquisition and Rehabilitation & Resettlement has proposed to fix the compensation for rural and urban land at

four and two times the market value respectively. It also stipulates a specified period for the completion of projects. Many feel that the law is likely to increase prices of land and property and also further constrain land availability. If this happens, it may increase the proportion of land cost in the total cost.

16. As mentioned earlier, urban land mass is under severe constraint to meet the housing requirement of the country's urban population which is growing rapidly. This implies that the vision of "Affordable Housing for All" will require acquisition/supply of large land parcels on a regular basis. At the same time, we need to ensure proper development of the housing sector; otherwise we may be seeing increasing number of slums and unauthorised settlements.

Financial constraints

17. Another important constraint that has been existent all along for the housing sector is finance for the developers as well as finance for the households, particularly for the low cost/affordable housing category. The current financing mechanism prevalent in the country mostly targets middle and high income sections of the society while the households falling under low income and economically weaker sections category find it difficult to secure formal housing finance. Commercial banks and traditional means of housing finance typically do not serve low-income groups, whose income may vary with crop seasons or is below the 'viable' threshold to ensure repayment or those who cannot provide collateral for loans. In India, as mentioned earlier, the mortgage to GDP ratio is estimated at around 7 per cent. This contrasts with mortgage to GDP ratio of over 51 per cent in USA. However, even if one were to benchmark with more comparable counterparts, the ratio ranges between 15 and 20 per cent for South East Asian countries. The penetration level of mortgages is miniscule when compared with the shortage of housing units. This problem is more acute for low income families seeking affordable houses.

Need for long-term debt market

18. Housing constitutes a long term asset for a large segment of population in rural and urban areas. As debt markets are not very deep, access to long-term funding for housing finance institutions is difficult. Most banks use their short-term funds from deposits and deploy these funds in long-term housing loans, thereby creating an asset liability mismatch. Reserve Bank of India has cautioned banks of the dangers of borrowing short and lending long. To mitigate such problem, in some countries, banks have been permitted to float long-term mortgage bonds to match their mortgage assets. To tackle the interest rate risks, most assets and liabilities are on a floating rate basis. In India, there has been a long-standing demand to allow pension and provident funds to invest in housing finance. These funds are suppliers of long-term capital. They typically have a low risk tolerance but do crave for diversification. The mutuality of interest is strong between homeowners and long-term institutional investors. Going forward, to tide over the paucity of funds, it is imperative to develop the secondary mortgage market. Securitisation ensures recycling of funds. While some countries in South Asia have issued mortgage-backed securities, most transactions are sporadic and ad-hoc. Rigidities in the legal framework, high stamp duties and lack of uniformity in underwriting norms are recognized as some of the hindrances in the development of mortgage market. Of course,

regulatory concerns for unbridled securitization and massive growth in home loan portfolio with very lax underwriting standards which caused considerable damage to the financial markets, particularly in the context of the advanced economies like the US, have to be kept in view. Drawing upon the lessons from imprudent securitization of mortgages which contributed to a larger extent to the recent global financial crisis, Reserve Bank of India is reviewing the regulatory framework for securitization in India. It is expected that the market for residential mortgage backed securities (RMBS) will develop on safe and sound lines under the new regulatory framework.

Loan products

19. A housing loan is inherently different from any other retail loan. This is because a house is probably the single largest investment a person makes in his/her lifetime. It has been noticed that a customer seeking a housing loan does not just require finance – they may also need ancillary services like loan counselling or legal advice to ensure the title of the property is clear or technical advice to ensure that the structural aspects of the property are in order. It is these add-on services that distinguish the good quality of services from not so good. The typical mortgage borrower of South Asian countries, including India belongs to the upper or middle class, is of an average age of 35-40 years, usually a first time home buyer and by and large a salaried employee.
20. Most loan products are fairly standardised – plain vanilla home loan products, loans for home improvement and extension, land loans, loans for non-residential premises and the newer breed of loans include home equity and top-up/personal loans. Against the backdrop of lower interest rates seen across the region, most home loans are on floating rate loans. In India, the floating rate of some banks and housing finance institutions is benchmarked to prime lending rate. It has been noticed that several customers opt for floating rate loans without understanding the inherent risks involved. Even most of the existing fixed rate loans have been converted into floating rates. To tide over the dilemma of whether to opt for a fixed or floating rate loan, blended options are being offered wherein the customer can hedge part of the interest rate risk by opting for a combination of fixed and floating rates. The major issue, however, is that most individual borrowers find it difficult to manage the interest rate risk under pure or semi floating interest rate regime. Hence, there is greater need for fixed interest rate loan products for individual borrowers. Coming to currency risk, fortunately, home loan borrowers in the Asia-Pacific region and India, in particular, are not exposed to exchange rate risks as borrowings are in domestic currency. Another area of product innovation could be deposit linked home loan products. This would be very useful for low income groups as they can build equity and establish payment capability track record for availing of home loans.

Legal constraints

21. A major feature of the Indian urbanization process is its non-uniform geographical spread. While smaller cities and towns are fast emerging as centre of demand, the pressure on existing four metros remains enormous. A crucial factor behind this tendency is the barrier for major players in real estate in tapping the vast land potential in rural areas reinforced by poor enforcement of laws against encroachment of public lands as well as lack of clear titles to

private lands causing an artificial scarcity of land in rural areas. Another major issue is absence of large scale digitization of land records and the easy access to such records for checking titles/encumbrances.

22. The dynamics between rural and urban housing demand is also different with housing in rural India still largely for own use rather than for sale and resale. A possible reason for this, among other things, could be the problem of transferring ownership rights. As we reach limits to urbanization in metros, rural areas should increasingly come under the focus of real estate development and we would require strong legal framework to prevent the bottlenecks.

Role and responsibilities of stakeholders

23. Given the dimensions of the problem and various constraints that affect a viable and sustainable solution, well-coordinated and concerted effort on the part of all the stakeholders, including the private sector, is required. This will ensure that all segments of the population genuinely aspiring to own a house are effectively catered to without of course compromising on financial stability and ecological balance. Efforts of regulators and government/ government bodies to tackle this colossal housing shortage will have limited impact until and unless the private sector joins hands to meet the challenge.

Commercial banks and HFCs

24. The Indian banking sector has an expansive reach and is well geared to serve all segments of the society, including the underprivileged. The banking sector has been actively involved in lending to the housing sector with an outstanding of Rs. 3786 billion as on December 30, 2011, which is an increase of Rs. 410.10 billion (12.10 per cent) over the previous corresponding year. The housing loan portfolios of HFCs registered a growth of 21.71 per cent during 2010-11. This was comparatively higher than 15 per cent growth reported by commercial banks (*Tables II & III*).

Table II: Comparative position of housing sector credit by commercial banks and HFCs

(in per cent)

	Share of	Mar 05	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11
Housing Credit	HFC	25.84	25.03	24.64	26.50	27.31	29.61	31.16
	Bank	74.16	74.97	75.36	73.50	72.69	70.42	68.84
Credit Growth	HFC	32	28	23	24	21	21	21
	Bank	50	33	25	13	16	8	15

(Source: Reserve Bank of India & ICRA)

Table III: Outstanding housing loans of HFCs[‡]*(as on March 31) (Rs. Billion)*

	2009	2010	2011
Outstanding loans	1268.23 (16.12%)	1531.88 (20.79%)	1864.38 (21.71%)

(figures in bracket reflect the year on year percentage growth)

25. The housing loan portfolio of any financial institution is a product of two variables – number of accounts and loan outstanding per borrower. It has been observed that there has been a noticeable slowdown in the growth of the portfolio (*Tables IV & V*). One plausible reason is that post-crisis, banks have realised that while the demand for housing loans is tremendous, there is no substitute for prudent lending policies. This probably explains the slowdown in the growth rate of number of accounts. Another reason which has affected the demand has been the rising prices of property and prevalence of relatively high rate of interest in the context of high inflation rates.

Table IV: Outstanding gross bank credit[§]*(Rs. Billion)*

Sector	Dec 18, 2009	Mar.26, 2010	Dec 31, 2010	Mar 25, 2011	Dec 30, 2011
Gross Bank Credit	28019.3	30885.7	35681.3 (27.3%)	37314.7	41304.7 (15.8%)
Food Credit	475.0	485.6	633.0 (33.3%)	641.1	846.9 (33.8%)
Non-food Credit	27544.3	30400.1	35048.2 (27.2%)	36673.5	40457.8 (15.4%)
Housing <i>(Including Priority Sector Housing)</i>	2936.5	3009.3	3376.0 (15.0%)	3461.1	3786.0 (12.1%)

*(figures in brackets reflect the year on year percentage change)***Table V: Growth rate of number of accounts and outstanding amounts in the housing sector portfolio of commercial banks***(in per cent)*

	Accounts	Outstanding
Mar-08	9.05	9.25
Mar-09	13.03	15.55
Mar-10	11.53	8.72

(Source: Statistical Tables Relating to Banks in India, RBI)

26. It is encouraging to note that the share of HFCs in the Indian housing market has been exhibiting a rising trend. Looking ahead, HFCs are likely to gain sufficient experience in the sector and would be able to maintain their market share on the strength of their focused approach, targeting of special customer segments and relatively superior customer service. This in a way would pave for constructive competitive environment as traditional lenders like banks would

[‡] Source: National Housing Bank[§] Source: Reserve Bank of India Report on Sectoral Deployment of Bank Credit – December 2011

need to tap their extensive network and broad customer base more effectively and at the same time maintain the priority sector lending targets.

27. In order to remain competitive, both commercial banks and the HFCs need to realize that a customer seeking a housing loan does not just require finance – they also need ancillary services and hand-holding like loan counseling, legal advice, etc. Selling a loan product is a small step in the process of making affordability of housing a reality; bigger leaps by way of encouraging deeper financial inclusion coupled with financial literacy is the need of the hour.
28. Re-engineering of the existing business models is extremely essential given the fact that a large number of the targeted and potential customers are possibly financially excluded. Assessment of the customers and their credit requirement can be achieved more effectively by adopting a field based approach, such as, using surrogates, triangulation and building up knowledge about the customer. Banks and HFCs have to provide innovative products to the sector and work in close collaboration with the other stakeholders in the industry. They also need to adopt different appraisal and risk management methods for low ticket housing loans.

Micro Finance Institutions (MFIs)

29. In the wake of micro-finance revolution in India, housing micro-finance has assumed a lot of importance and has potential of having notable impact on the stakeholders engaged in the mission for affordable housing. Microfinance has the potential to enable small borrowers to start planning for a house and arranging requisite resource for it. At the same time, these institutions can have an impact on the household decision making, portfolio diversification of lenders, expansion of housing sector and growth of the local economy as a whole.
30. Microfinance for housing is believed to progressively upgrade poor families' homes. Such upgradation would include improving existing rooms, adding a room, or installing water or electricity. Based on their credit history microfinance for housing should be designed for the low-income households who wish to expand or improve their dwellings or build a home in incremental steps, relying on small loans raised over a period of time. It has to be a sustainable approach suited to the needs of the low-income market.
31. MFIs are considered to be the next best alternative for financing the EWS and LIG category. MFIs, however, face challenges which prevent them from extending housing loans. The challenges are primarily due to the longer period of housing loans (typically between five to seven years minimum, if not more) as against usual micro loans of one to two years duration and due to the larger amount of loan compared to usual micro loans extended by MFIs. Typically, a house, particularly in the urban areas, will be about ₹1 lakh, whereas when MFIs extend livelihood finance, between ₹ 10,000 to ₹ 35,000. If they have to lend to a significant number of people, the amount to be loaned has to increase substantially. This can lead to problem for MFIs. Another problem with the MFIs is of availability of finance and ensuring regular collection of larger installments from the borrowers. Recognising the importance of community-based financial

institutions as delivery mechanisms for housing finance to the financially excluded, the NHB has initiated a housing microfinance programme by way of financial assistance to the MFIs. The programme is based on an integrated habitat and partnership approach with customised product intervention aimed at supplementing various other financial sector interventions.

Private sector stakeholders

32. Today, technological innovations have transformed the conventional style of trade and commerce. There are numerous examples which reflect that with adoption of technology, the end-product can be highly improvised and made affordable to all segments of customers. Some of the best examples would be the rapid technological innovation in the mobile telephone industry, marketing innovation in consumer non-durable sector, etc. It is high time that the real estate sector also invests resources for more research and development to enable construction of environment friendly, low cost houses. It is important to realize that the terrain of our country, climatic conditions of regions, economic conditions of people and the intensity of the problem changes as we traverse across the country. A search for one technology fits all would not be viable and practically feasible.
33. One model which could be considered and developed is the hub and spoke model for enhancing rural housing construction. The 'hub' of the service could be located in a district/taluka headquarters and the services into rural/interior areas are provided by local rural centres i.e. the 'spokes'. The hubs will be the centre, say, for pre-fabrication of semi-finished structures for housing and skilled labour and will provide men & material to the spokes. This will ensure scale of economies in technologically innovative and homogenous low cost housing to the rural centres.

National Housing Bank (NHB)

34. NHB was setup with an objective of channelizing long-term finance to individual households, thereby proving the much needed impetus to the housing sector. NHB acts as a principal agency to promote housing finance institutions both at local and regional levels and also provides financial and other support to such institutions. The year 2010-11 has been an important year for the NHB as it had crossed Rs. 120 billion loan disbursements, of which approximately 50 per cent was for rural housing, during the financial year. Since inception, NHB has been supporting the housing finance companies and during the year 2010-11, over 50 such companies had a portfolio of over Rs. 1100 billion^{**}. One of its flagship projects is the Golden Jubilee Rural Housing Finance Scheme which aims at the rural households. The scheme offers a platform for easier access to housing finance to enable an individual in the rural area to either build a house or improve the existing house^{††}. The initial success of the scheme can be gauged from the fact that over 3 million dwelling units have been financed.
35. NHB is also playing a significant role in creating market infrastructure for housing finance and has made efforts in plugging the demand supply gaps,

^{**} Source: Annual Report of the National Housing Bank

^{††} Source: Annual Report of the National Housing Bank

particularly for the low and moderate income households in urban and rural areas. It had led initiative in developing the secondary mortgage market and the standards for securitisation market in the country. The Bank is also leading the initiative for setting up a Government-sponsored Credit Guarantee Trust Fund for low income housing in close collaboration with the Ministry of Housing, Govt of India, and for setting up a Mortgage Guarantee Company in partnership with other International Financial Institutions. .

Government/Government bodies

36. The Government policies have remained geared towards alleviating poverty with a host of direct intervention programmes. The early eighties was the period of shift in the policy orientation from the exclusive focus on nutrition based approach towards poverty to cover broader perspectives of providing affordable housing to all. The *Scheme of Affordable Housing in Partnership* promotes various types of public-private partnerships – of the government sector with the private sector, the cooperative sector, the financial services sector, the state para-statal, urban local bodies, etc. It has the potential to provide a major stimulus to economic activities through affordable housing for creation of employment, especially for the construction workers and other urban poor who are likely to be amongst the most vulnerable groups in during the economic downturns.
37. Government bodies can consider single window clearance mechanism for the purpose of further simplifying the approval processes for low cost affordable housing alongwith reconsideration of the taxation policies. The public agencies and the state and local governments should work to bring efficiency in land market, approval processes, provision of efficient infrastructure and e-governance viz. introducing electronic record for land and bringing in more transparency in the record of land and houses, etc. It will add good value if the financing agencies can also connect into these developments and together drive the reforms at the state and local levels. In order to meet the enormous needs of the housing sector, short cuts through the subsidy approach are no longer sustainable over the long period. As subsidy based approach cannot be stretched beyond a point, a more viable and sustainable strategy has to be evolved. There is, therefore, a need for having a market oriented mechanism to meet the challenge of the affordable housing sector.

State Governments

38. In the entire process for creating an enabling environment for affordable housing, the role of State Government is extremely critical. State Governments may contemplate forging Public-Private Partnerships to ensure a fair return on investment to the private land owners/developers through guided development and availability of serviced sites for allotment to low income families at affordable prices. Incentives and provision of infrastructure can induce private sector entrepreneurs to invest in housing including that for the poor. It can consider measures to control the spiralling increase of land prices and curb speculative activities for developing land and also check unregulated and environmentally damaging land development activities. Another aspect which may be considered is the promotion of high density housing in selected areas in cities through appropriate amendments to zoning and land use regulations. This

may obviate the necessity of costly land acquisition and avoid high infrastructure costs. State Governments may also revisit the current provision of tenancy rights and promote rental housing by creating a balance between the interests of the landowner and the tenant. This will pave the way for supply of rental housing at affordable rents and act as an incentive for people to build houses for themselves and for others.

Reserve Bank of India

39. The supportive policy of the Reserve Bank of India and enabling fiscal regime has together contributed to the growth and expansion in the housing market. As regulators of the banking system, it is, however, important for the Reserve Bank of India to remain cautious against imprudent practices for short term gains. The current focus of its regulations is to ensure orderly growth of housing loan portfolios of banks. The policy orientation of the Reserve Bank, simply put, is to ensure and promote inclusive growth without adversely impacting the equilibrium of financial stability. Reserve Bank remains supportive of initiatives of the stakeholders as long as the programmes of affordable houses for all do not lead to structural damages to the financial eco-system.
40. Alongwith the Government, SEBI, Reserve Bank's endeavors have been to develop a deep and vibrant debt market including for mortgage securities in a calibrated manner so as to ease financing pressures on the banks and also to provide an alternate avenue for raising long term resources. Reserve Bank has permitted investments by banks in mortgage backed securities subject to certain conditions. We are also constantly reviewing existing policy framework including those governing the priority sector lending to ensure that the bank credit to these sectors remain growing, smooth and uninterrupted.
41. Reserve Bank has been using pre-emptive countercyclical provisioning and differential risk weights - supplemented by varying loan to value (LTV) ratios - to contain excessive credit growth to sectors which show signs of risk build-up. In order to prevent excessive leveraging, the Reserve Bank had advised banks in December 2010 that the LTV ratio should not exceed 80 per cent in respect of housing loans. However, for small value housing loans, i.e., housing loans up to ₹2 million LTV ratio was prescribed at a higher maximum level of 90 per cent. Further, the risk weight for residential housing loans of higher amounts, i.e. ₹7.50 million and above, irrespective of the LTV ratio, has been prescribed at 125 per cent to prevent excessive speculation in the high value housing segment.
42. In the recent past, it was observed that some banks were following the practice of sanctioning housing loans at teaser rates, i.e., at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. This practice raised concern as some borrowers may find it difficult to service the loans once the normal interest rate, which is higher than the rate applicable in the initial years, becomes effective. It was also observed that many banks, at the time of initial loan appraisal, were not taking into account the repaying capacity of the borrower at normal lending rates. Therefore, in view of the higher risk associated with such loans, the standard asset provisioning on the

outstanding amount had been increased from 0.40 per cent to 2.00 per cent with effect from December 23, 2010. The provisioning on these assets would revert to 0.40 per cent after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'. Since restructuring of an account is normally indicative of some problem in the account, it was decided in November 2008 that restructured housing loans should be risk weighted with an additional risk weight i.e. 25 percentage points over the risk weights normally applicable to the account.

43. Although some of these prudential norms appear to be restrictive for growth of the housing finance sector, it needs to be kept in view that they are essential for sustainable and orderly development of the sector as they are meant to address macro-prudential concerns of financial stability.

Way forward

44. The desire for a safe and secure home is timeless and universal. The twin problems of affordability and accessibility that impede the progress of housing in our country need to be addressed on a sustainable basis. For this, it would be desirable for the governments to withdraw from direct participation in the housing and housing finance sector and instead they need to take on the role as facilitators to create the enabling environment to encourage greater private sector participation. Further efforts of the government are required to strengthen foreclosure laws, land records need to be computerised and archaic land laws, especially rental laws, need a complete overhaul. Steps, such as, digitization of land records, linking of central regulations with state regulations, encouraging credit bureaus, introducing mortgage insurance, allowing real estate mutual funds and creating a favourable environment to facilitate foreign direct investment in housing for genuine and needy customers will help stimulate the housing finance sector.
45. Currently, the real estate sector is largely unregulated with consumers often unable to procure complete information or enforce accountability on builders and developers in the absence of effective regulation. In order to plug the gap, the Central Government has proposed to establish the Real Estate Regulatory Authority in each state with specified functions, powers, and responsibilities. The objective is to ensure regulation and planned development in the real estate sector. Once these authorities are established, they should act as the nodal agency to co-ordinate efforts regarding development of the real estate sector and render necessary advice to the appropriate government agencies to ensure growth and promotion of a transparent, efficient and competitive real estate sector and also establish resolution mechanisms for settling disputes between the builders/promoters and the allottees/ buyers.
46. There is also a felt need for the institutions involved in the financing of housing sector to consider developing segment specific credit products to enable more people to afford a house. One such product could be savings induced home loan or a home loan deposit. The willing consumers may be induced to generate

a savings balance by way of monthly or periodic deposits. This will enable creation of a track record for repayment of a future home loan product. Once the customer reaches a threshold balance, the financial institutions can consider sanctioning of a housing loan. The balance in the account could act as collateral or the margin. The amount deposited every month would act as the base to assess the repayment capacity of the customer for the purpose of calculating the monthly repayment installments.

47. The credit risks originating in the housing sector, particularly low ticket housing segment, should also be internalized through proper insurance schemes for banks and other lenders. The various stakeholders should aim at timely completion of projects, delivery of houses/flats to target segments without cost escalations and with valid titles and all necessary clearances.
48. In short, a comprehensive and holistic approach involving easy availability of land, accessible financing, supportive legal framework and innovative technology is required for making housing affordable for all. I am sure that this conference will generate meaningful discussions and pave way for innovative thinking and policy inputs to make housing affordable and available to all.