RESERVE BANK OF INDIA

FINANCE FOR HOUSING SCHEMES

REPORT OF THE WORKING GROUP ON ROLE OF THE BANKING SYSTEM

REPORT OF THE WORKING GROUP TO EXAMINE THE ROLE OF BANKING SYSTEM IN PROVIDING FINANCE FOR HOUSING SCHEMES

Printed at :
Shree Rajmudra Mudranalaya, Prabhadevi, Bombay-400 025

1978

Bombay,
25th January, 1978.

The Deputy Governor,
Reserve Bank of India,
Central Office,
Department of Banking Operations and
Development,
Bombay-400 001.

Dear Sir,

Working Group to examine the role of banking system in providing finance for housing schemes

I have pleasure in submitting to you 3 copies of the Report of the Working Group to examine the role of the banking system in providing finance for housing schemes, appointed by the Reserve Bank of India in January 1977.

Yours faithfully,
Sd/-
(R. C. Shah)
Chairman,
Working Group to Examine the
Role of Banking System in
Providing Finance for Housing
Schemes.

Jan. 25, 1978

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CHAPTER 1

INTRODUCTION

AT THE MEETING of the Chief Executives of commercial banks held on May 7, 1976, at Calcutta, the Governor of the Reserve Bank of India (RBI) had announced that a Working Group to examine the role of banking system in providing finance for housing schemes would be constituted. In pursuance thereof the Working Group was set up by the Reserve Bank on January 13, 1977. A copy of the Memorandum of the Reserve Bank is reproduced in Appendix I.

Terms of Reference

1.2 The terms of reference of the Working Group were :

i) To identify the various facilities presently available for financing house construction and other types of building construction activities from various agencies and to review the relative significance of these agencies in the overall context.

ii) To consider the type of house construction and other building activities which may be deemed eligible for institutional credit generally and of these, the activities which may be considered eligible for bank credit.

iii) To determine the various sources of indirect finance presently available for construction activities and the quantum thereof.

iv) To assess the requirement of finance for house and other building construction activities in the next five years or so and to identify the gaps in the context of the facilities presently available for the purpose.

v) In the light of the foregoing, to assess the need and the scope for direct finance for house construction and other building activities and the different sources of such finance.

vi) In the context of the constraint on the lendable resources of the banks, to consider the feasibility of bank finance for housing and to determine the basis of allocation of bank credit for housing schemes vis-a-vis the demand for such credit from the different priority sectors and the customary users of credit.

vii) To make recommendations about the form of assistance which the banks may give to institutions engaged in housing activities, i.e., whether assistance should be direct (by way of term loans) or indirect (by way of subscription to their debentures/bonds).

9. Shri R. Pichai, Member
General Manager,
Credit & Administration,
United Commercial Bank,
Calcutta.

10. Dr. P. W. Rege, Member
Chairman,
Saraswat Co-operative Bank Ltd.,
Bombay.

11. Shri K.K. Sachdev, Member
Chief (Finance), Housing & Urban Development
Corporation Ltd.,
New Delhi

12. Shri A. Hasib, Member-Secretary
Director,
Division of Industrial Studies,
Economic Department,
Reserve Bank of India,
Bombay.

Procedure Followed for Collection of Information

1.5 In order to save time, it was decided not to draw up any detailed questionnaire. Instead, a copy of the Memorandum of the Reserve Bank containing the terms of reference was sent to commercial banks, Housing Departments of the State Governments, Housing Boards, Registrars of Co-operative Societies, Apex Co-operative Housing Finance Societies, Provident Fund Organisations, financial institutions, builders, architects, etc., requesting them to furnish their views and suggestions on the points included in the terms of reference. However, where statistical data were required from an institution, it was requested to give the data in a proforma prepared by us. Bankers who were invited to meet the Group were sent a list of questions to serve as a guideline for discussion (Appendix II). A list of parties who sent us their views and replies is given in Appendix III.

Procedure Followed for Discussions

1.6 On perusal of replies and memoranda submitted by various respondents, the Group found it essential to hold discussions with a cross-section of respondents, While selecting the parties for discussions, the Group adopted certain criteria so as to give representation to each group engaged in financing and/or constructing houses. For instance, banks selected for discussions from various regions of the country belonged to public sector, private sector, and co-operative sector. The names of the parties with whom we had discussions are given in Appendix IV. The Secretariat also studied the housing finance systems in selected foreign countries and the notes prepared in this connection are reproduced in Appendix V.

Group Meetings

1.7 The first meeting of the Group was held in Bombay on February 16, 1977. Among other things, the Group decided to appoint the following three Sub-Groups to examine in depth the main issues involved:

Sub-Group	Terms of reference	Members constituting Sub-Groups
I	Nos. (i), (ii) & (iii)	Shri M. N. Buch, Shri J. Matthan, Shri R. Narayanan, and Dr. P. W. Rege.
II	Nos. (iv) and (v)	Shri M. N. Buch, Shri O. P. Mathuria, and Shri K. K. Sachdev.
III	Nos. (vi), (vii) & (viii)	Shri B. T. Acharya, Shri O. P. Mathuria, Shri B. K. Mookerjea, Shri D. D. Naik, Shri R. Pichai, and Shri K. K. Sachdev.

Member-Secretary was made the convenor of all Sub-Groups. Each Sub-Group was empowered to co-opt members from other Sub-Groups. Sub-Group I met for its deliberations on March 1, 1977 at Bombay, Sub-Group II twice, on March 2 and June 7, 1977 at New Delhi and Bombay, respectively and Sub-Group III twice, on March 9 and 24, 1977 at Bombay. The Group met at Bombay on January 23 and 25, 1978 to finalise its Report.

1.8 The Working Group was originally expected to submit its Report by the end of June 1977. However, the members of the Sub-Groups appointed by the Group could not hold discussions with the Government officials and others due to elections held in March 1977. Further, there was a delay in replies received from the respondents. Also, some members of the Group went abroad in the course of their official duties. Hence, at the request of the Group, RBI extended its term first upto October 1977 and later upto January 1978.

Scheme of the Report

1.9 The Report of the Group is divided into eleven Chapters. The sequence of chapters does not necessarily follow the same order as that of the terms of reference.

1.10 Chapter 2 on **Perspective of Housing,** which follows the present Chapter, discusses the economics of housing, characteristics of urban and rural housing markets, the impact of housing on economy as a whole and problems of housing in general. Chapter 3 on **Existing Stock of Houses and Demand for Houses** estimates the present stock of houses in rural and urban areas and projects the demand for houses for the next few years. Chapter 4 on **Investment in Housing and Investment Gap** surveys the level of investment in housing in the public and private sectors since the First Plan period, estimates the required investment to meet the demand for houses in the next five years and assesses the investment gap based on the flow of resources from the existing institutions. In Chapter 5 on **Role of Different Institutions in providing Housing Finance,** we have examined various schemes introduced by the institutions, other than banks, for providing housing finance. This Chapter also discusses the major problems faced by these institutions in expanding their present role in the field of housing finance. Discussions in Chapters 2 to 5 present the backdrop against which the role and entry of banks in the field of housing finance is examined in the subsequent Chapters.

1.11 Chapter 6 deals exclusively with the **Role of Banking System in Housing Finance.** It discusses what banks are already doing in this regard and also examines constraints on their financial and other resources, which prevent them from playing a more active role in this field. Subsequently, it has been pointed out that, notwithstanding these limitations, banks must make some contribution to solve the housing problem. Chapter 7 on **Eligibility Criteria, Forms and Terms of Bank Finance** suggests the guidelines for the forms of housing finance, the terms and conditions on which such finance should be extended, the types of residential building or construction activity which should be eligible for bank finance and the types of borrowers whose housing needs should be met by the banks. Chapter 8 on **Legal Constraints in Providing Housing Finance** examines the various legal and other procedural hurdles impeding the entry of banks in the field of housing.

1.12 Chapter 9 on **Co-ordination between Existing Institutions and Need for New Machinery and Institutions** underscores the need for co-ordinating the activities of the existing institutions engaged in financing housing activity, so that all of them act in concert to fulfil the national objective regarding provision of housing. Subsequently, it discusses the need for establishing a new housing finance system which will not only give a thrust to the housing activity in the country but also fill in the present institutional gap in this regard and provide a long-term solution to the country's housing problem.

1.13 Chapter 10 on **Concluding Observations** draws attention to the need for undertaking low-cost mass housing programme so that the additional funds flowing to the housing sector could be usefully employed. Chapter 11 on **Summary and Recommendations** gives the highlights of the Report and the recommendations made by the Group.

Limitations of the Report

1.14 At the outset, it may be mentioned that the Group was neither required by its terms of reference nor had adequate time or administrative resources to make an independent field survey of existing housing stock, demand for housing, present investment in housing, investment gap, cost of building construction, etc. Therefore, for these data, the Group had depended on the information already available in the Plan documents and publications of National Buildings Organisation (NBO), although some institutions provided estimates of the cost of building construction etc., in response to the Group's request. Secondly, the Group has not gone into monetary and credit policies having a bearing on housing finance as it did not consider itself competent to comment on these policies, nor was it called to do so by its terms of reference. Lastly, though the Group has discussed certain non-financial issues involved in the problem of housing, it has refrained from making any specific recommendations in this regard as these issues are outside the purview of terms of reference given to it.

Acknowledgements

1.15 The Working Group is thankful for the co-operation and assistance it received from various persons and institutions. A number of banks, associations, institutions and State Housing Departments submitted memoranda and some of them kindly spared their valuable time for discussions with the members of the Group. All these discussions and the materials received were found useful for the deliberations of the Group and the preparation of its Report. The Group would also like to thank Bank of Baroda for hosting most of its meetings and discussions and for lending services of Assistant General Manager, Dr. A. C. Shah, who was associated with the Group's work from the inception. He gave his time generously to the work of the Group, attended all the meetings, made various useful suggestions and also assisted in drafting and editing the Report.

1.16 To assist the Group, RBI kindly provided secretarial assistance. A complete list of secretarial staff, who assisted the Group, is given in Appendix VII. The Group would particularly like to place on record its appreciation of the valu-

able services rendered by Sarvashri N. J. Bhatia, J. M. Lopez, M. H. Jauhari, A.M. Dalvi, N. Gopalaswamy and N. Nagarajan. The Group is grateful to them for the devoted work they put in for organising meetings, preparing background materials and drafting the Report. The Group is also thankful to Shri R. Venkataraman for looking after the administrative arrangements.

1 .17 Finally, the Group would like to observe that the Report is an outcome of the single-minded devotion of its Member-Secretary, Shri A. Hasib. He was very thorough and painstaking in both planning and preparing the Report. Further, with an eye on deriving the maximum benefit, he made meticulous arrangements for the Group's visits to different authorities in Bombay and outside. All the Group Members, therefore, are happy to place on record their appreciation for the excellent work done by Shri Hasib for the Group.

CHAPTER 2

PERSPECTIVE OF HOUSING

The Problem

FOOD, CLOTHING AND housing are the three basic necessities of man. But in a developing country like India where more than 45 per cent of the people live below the poverty line, securing of basic necessities is an Herculean task. How far these necessities are satisfied depends primarily upon the level of income and its distribution in a country. Taken together, these necessities constitute a lion's share in determining the standard of living of the people and the quality of their lives.

2.2 Every one, rich or poor, in rural or urban areas, wants to have a roof over his head. He needs it to protect his life and property as also to promote his well being. In a society like ours, only a few are fortunate to have good housing; the vast majority has to put up with poor housing conditions and there are quite a good number who have to go without any shelter.

2.3 According to the 1971 Census, more than half of the households live in houses made of mud and grass. The proportion of such houses in rural areas is as high as two-thirds. Nearly 25-35 per cent of the urban population lives in slums. No precise information is available regarding the number of households which are homeless. The backlog of housing shortage is increasing every year, as the rate of construction has not kept pace with the population growth.

2.4 It is the rapid pace of urbanisation that has brought to the fore the housing problem. In 1971, 19.9 per cent of our people-108.8 million-lived in urban areas. This percentage went up to 21.1 with 128.9 million in 1976. In other words, in a period of five years, three Bombays and one Patna or one Trivandrum were added. The rate of urbanisation is estimated to go up to 22.2 per cent with 151.4 million in 1981 and 29.0 per cent with 291 million in 2001 when Indian population at the current rate of increase will be about 1002 million people. Even if the Government policies to prevent concentration of industries in big urban centres succeed, the problem of urban population will still be of a large magnitude. In almost all countries, the task of accommodating this explosion of urban dwellers poses a serious challenge for urban development and housing policies.

2.5 Although the problem of rural housing has not come to the surface, it is no less serious. There is steady deterioration in the quality of rural housing. Owing to the rising costs of building materials, repairs and replacements are badly neglected. Housing conditions are particularly woeful for the people belonging to the scheduled castes and scheduled tribes, constituting about 24 per cent of the total population at the bottom of the socio-economic ladder.

Case for National Housing Policy

2.6 Housing has not received the priority it deserves and there has been a lack of consistent policy in this regard. For instance, as a result of the ban imposed by Government in 1974, virtually all construction activity in the country came to a standstill, except work on on-going schemes. While the Group recognises that, as part of anti-inflationary policy, the Government has to discourage certain expenditure, it is of the view that along run policy for housing may be evolved, particularly because it has very large employment potential and is important from the point of view of social needs.

Economics of Housing

2.7 Housing is important to development in both economic and welfare terms.[1] The share claimed by housing in the total investible resources of a country indicates the stage of its development. Further, a vigorous house building programme can generate a powerful multiplier effect on demand in the rest of the economy. In fact, house construction can employ a vast under-utilised pool of human resources available in low-income countries like ours at zero or near-zero opportunity cost.

2.8 However, the great interest in housing arises not so much as a result of its pivotal place in the economy but because of its social significance. For most families, the sort of house they live in affects their well-being much more intimately than almost anything else in physical environment. There are numerous studies showing a correlation between bad housing and disease, delinquency and other social disorders. Proper housing conditions help to raise aspirations of the people. In fact, a home-ownership helps to develop the pride of possession.

2.9 The orthodox among economists look upon housing as one of the alternatives for using scarce resources. They prefer to leave out social implications. Although house building may have a high labour-capital ratio, its capital-output ratio is also high in comparison with many other investments. Countries like ours, it is argued, can make greater progress by concentrating on capital outlays yielding a more rapid flow of returns. As for unemployed resources, they can be utilised for many other purposes as well as for housing and the true cost of residential improvement may be measured in terms of the benefits forgone in those alternatives. Housing has, thus, no unique claim on that score. The same is true for

1. World Bank, "Sectoral Policy Paper", Housing, May 1975, P.3.

income redistribution. When the cost-benefit ratio of housing subsidies is compared with the ratio of other instruments for narrowing income differentials, there is no *prima facie* evidence that housing is either the most efficient or the most equitable measure. That the rapid population growth by itself makes special case for housing is also questioned, because capital investment will have to be made in other sectors to absorb labour and to supply social and physical infrastructure.[1]

2.10 The Group has considered both the view points and is of the opinion that investment in housing should be decided not only on the basis of economic calculus but also with reference to its effect on social welfare.

Characteristics of Housing Market[2]

2.11 The housing market in India can be divided mainly in two parts : (a) metropolitan and urban and (b) semi-urban and rural. In the following paragraphs, we may discuss these markets separately.

2.12 The World Bank's Paper on Housing comes up with many important findings on the urban housing market. Housing generally constitutes 15 to 20 per cent of the household expenditure for all but the wealthy. It is usually the major goal of family savings efforts. One-third to two-thirds of the people in each of the six cities studied by the World Bank—Ahmedabad, Bogota, Hong Kong, Madras, Mexico City and Nairobi—are unable to afford the lowest cost housing presently being produced by the concerned Governments.

2.13 Public housing provides an answer in relatively high income countries (with per capita annual income of more than $450). For instance, in Hong Kong and Singapore, 40 per cent of the population lives in public housing. As regards middle income countries (with per capita annual income between $150 and $450), Sao Paulo and some other cities have successfully stimulated the private market so that about 80 per cent of the population is housed in serviced dwellings. Other less affluent cities have also shown that private market generally makes a substantial contribution to housing. But, unfortunately, many of the countries in this category have not pursued policies conducive to stimulating private market. Poorest developing countries (with per capita annual income of less than $150) have relatively low rates of growth of urban population. However, the size and number of such cities are very large and so many people need

1. Leland S. Burns and Leo Grebler, University of California, Los Angeles. "Resource Allocation to Housing Investment - A Comparative International Study," Economic Development and Cultural Change, Vol. 25, No. 1 Oct. 1975, pp. 96-98.
2. Material in paragraphs 2.12 to 2.15 has been taken from World Bank Paper referred to earlier.

to be housed that the problem seems to be overwhelming. The number of squatters and slum dwellers in 1971 in Bombay was about 1.5 million (25 per cent of the City's population) and in Calcutta (metropolitan area) about 2.3 million (33 per cent of the population) outnumbering the total population of some countries.[1] Only very limited new resources can be devoted to improving housing conditions in such cases.

2.14 City size is the second major factor in housing. The largest cities confront the gravest problem because it is here that special imbalances in the location of people and jobs are most severe. The scarcity of land with good access to employment opportunities is the central feature of housing problem. In these cities, this scarcity is often worsened by large areas of land being either kept vacant or devoted to uses which do not require a central location. Of course, land is more readily available on the outskirts of cities at a lower cost. However, such areas are generally not well integrated with the city as a whole. There are seldom substantial employment opportunities nearby, infrastructure provision is inadequate and transport is usually very costly.

2.15 The rate of city growth is the third important factor. Many large cities in developing countries have grown very rapidly in the last 25 years and are among the fastest growing. Most have been deficient in housing the poor at standards offering protection from the elements and sanitation at a cost they can afford. Associated changes in the age structure of population ensure even more rapid rates of household formation and increase the effective demand for housing, making the solution of the problem more urgent.

2.16 The rural housing market in India is extremely imperfect. In addition to low income, several factors intervene, creating a situation of poor housing. As seen earlier, over two-thirds of the houses are made of mud and grass. Their life is extremely limited. Such houses are constructed only for self-occupation. Wherever there are better houses made of bricks or cement concrete, the mode of construction, designs and other facilities are very limited. These houses are again mainly for self-occupation and renting out is rare. Although the availability of suitable land sites for houses is not much of a problem, difficulties arise on account of procuring building materials and services of skilled workers from outside which ultimately raise the cost of house construction in rural areas. In these areas, the problem is not so much the absence of shelter but that of improvement in dwellings. On the other hand, in urban areas, the major problem is the shortage of houses arising from the non-availability of land and the need to build pucca multi-storeyed houses. Hence, the approach to the housing problem in rural

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1. World Bank, op. cit. Annexure 2.

areas has to be different from that in urban areas. The essential elements of the effort in village housing have to be self-help and use of local materials. What is needed in these cases is technical advice and comparatively small financial assistance.

2.17 The experience in our country as also in other developing countries, has shown that lack of financial resources is not the sole factor hindering the progress of housing, There are other constraints as well, and before considering the question of allocation of financial resources, it is necessary to examine the major ones in order that the financial factor is put in a proper perspective. It may be mentioned that the Group has not made a detailed analysis of the non-financial constraints.

Rent Control Act

2.18 The main objective of the Rent Control Act is to provide protection to tenants from the harassment by some unscrupulous landlords, who might take undue advantage of the acute housing shortage. In the absence of such a law, the landlords would have exploited their tenants by raising the house rents sky-high.

2.19 While the Act, by and large, succeeded in its objective of giving protection to the tenants, it had an unintended effect of accentuating the problem of housing shortage. This is because rents have been frozen under the Act to a 'historical' level. The amount that a landlord gets by way of rent now is not adequate even for normal maintenance of the property, leave alone carrying out any minor or major repairs. As against this, tenants go on paying ridiculously low rents frozen at the level prevailing many years ago. Not only this, some tenants also sub-let their premises to others at abnormal rents or extract money (pugree) before vacating. This has led to a situation where persons having surplus funds for investment in housing for the purpose of letting out hesitate to do so, thus reducing investment in the housing sector.

2.20 In the last 20 years or so, when the price of almost every commodity/service has gone up many times, it is unreasonable to freeze the house rents at 'historical' levels. In the economic and political system that prevails in our country, every investor has a right to expect an adequate return on his investment. It was argued before the Group that there should be a provision in the Act by which house rents are automatically revised at regular intervals, taking into account a reasonable return on gross investment in the form of building construction, land on which building is constructed and the amenities provided—all at the current prices. The Group suggests that the Act should only prevent exploitation whether by landlords or by tenants but should not act as a deterrent to private investment in housing.

Urban Land (Ceiling and Regulation) Act

2.21 The main objective of the Urban Land (Ceiling and Regulation) Act introduced in February 1976, is to achieve social control over urban land so as to counteract any excessive rise in urban land prices and to mitigate its adverse effects on the land availability for housing the economically weaker and other disadvantaged sections of the society. With these laudable objectives in view, the Act prescribes the ceilings on urban land, the ceilings on the plinth area of future dwelling units and regulates sale or transfer of urban property. To enhance the effectiveness of the Act, the Government of India have advised the State Governments to take various complementary measures such as (a) imposition of tax on vacant urban land, on urban property built on land which is in excess of the ceiling and on the built-up area which is in excess of the specified ceiling, (b) imposition of development charge when land is developed and (c) imposition of conversion charge when land is used for a purpose other than the existing one.

2.22 Whatever be the original good intentions of this Act, its immediate effect was to bring the building construction activity in the urban areas almost to a halt. This was mainly because of the delay in finalising the guidelines to be used by the State Governments in regard to the implementation of the Act, particularly in respect of terms and conditions under which a person holding vacant land in excess of the prescribed ceiling could be permitted to hold such land for constructing dwelling units for the weaker sections of the society. Secondly, Municipal Authorities in various cities were not clearing applications for building construction unless an exemption from the Act was granted. The imposition of a tough urban land tax had also adversely affected the sale or purchase of house sites. The Group has been told that the immediate impact of this- was that new building projects were given up, unemployment among the building construction workers increased, the off-take of building materials declined and the shortage of housing in the urban areas was further aggravated.

2.23 In view of the urgency of the problem, some State Governments like Maharashtra, Gujarat and Tamil Nadu had on their own taken several steps to reduce the rigours of the Act. For instance, housing construction in these States is now permitted on bigger plots (i.e., those exceeding the ceiling limit) if bulk of the dwellings are built for poor, low and middle income groups. The Governments have fixed the maximum plinth area and the cost for tenements to be built for different income groups. Further, co-operative housing societies, which could not go ahead with construction on their bigger plots, would now be given exemption from the ceiling on certain conditions. Industrial units would also be allowed to retain excess land for development and expansion, including industrial housing, under certain conditions. But they will not be allowed to transfer or sell the land. Similarly, people holding marginally excess land would be exmpted from the provisions of the Act, if such land is not required by the Government for any public purpose. Registered or proposed co-operative housing societies, who could not register the sale or earnest money transactions and hence holding surplus land, have also been exempted from the ceiling provisions of the Act. The State Governments have exempted the excess land held by cultural institutions, clubs, etc., from the ceiling provisions. They have also simplified the procedure relating to obtaining of No Objection Certificate (NOC) from the Competent Authority before effecting sale/transfer of urban land.

2.24 With a view to removing some anomalies and discrepancies in the Act, the Ministry of Works and Housing advised the State Governments that documents relating to transfer of vacant land or urban property executed and presented for registration before January 28, 1976 may be registered without following the procedure prescribed in Sections 26 and 27 of the Act. Subsequently, on December 19, 1977, the Government of India announced the conditions[1] on which a person can retain his excess vacant land under Section 21 of the Act for the construction of dwelling units for the weaker sections of the society. As per these guidelines, circulated among the State Governments, the construction of dwelling units must be completed within five years. The Government has also constituted four regional co-ordination committees to oversee the progress of implementation of the Act.[2]

2.25 Notwithstanding these steps, the application of the Act has caused some difficulties, the major ones being the following.:

1. Under the provisions of the Act, all sales and purchases of the land in excess of the prescribed ceiling are prohibited.
2. So far Government has not initiated acquisition proceedings and as such no land has been acquired by the Government. This has created a further stalemate and even for the socially oriented housing programme no land can be secured.
3. Even within the ceiling, under the provisions of Sections 26 and 27 prior permission of the Competent Authority is required, which has acted as a further deterrent to the land transaction and consequently, utilisation of such areas for housing has become difficult.

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1. Refer 'The Hindu' "December 20, 1977."
2. Refer "Financial Express" January 6, 1978:

4. Even where public agencies like Housing Boards, development authorities, etc. have schemes for land acquisition and development formulated under the respective Acts, the Urban Ceiling Act, by freezing acquisition, has made further progress in these schemes impossible. The Government has appointed a high level committee to consider the working of the Act. The Group suggests that the above difficulties may also be taken into account in this review.

Scarcity of Building Materials and Skilled Workers

2.26 An assured timely supply of building materials and skilled workers is an important precondition for solving the housing problem. Non-availability of building materials like cement, iron, galvanised iron sheets for roofing, etc. at controlled prices has adversely affected construction activity in many parts of the country. The situation has been further aggravated due to non-availability of skilled workers like plumbers, overseers, civil engineers, electricians, carpenters, masons, etc. The shortage of skilled workers is mainly due to their migration to the West Asian and African countries, with the result that the wage rates of locally available semi-skilled workers have gone up considerably.

2.27 One of the main bottlenecks in the construction of houses has been the fluctuation in the availability of cement from time to time. For instance, cement was freely available in the country at controlled prices right upto March 1977. Subsequently, it has again become a scarce commodity. This is attributable to several factors such as the rise in demand for cement following the revival of building construction activity, while the installed capacity of cement producing plants has remained the same. Recently the Government has taken a number of measures to improve the supply and distribution of cement. It has also decided to import cement and exempted such imports from import duty upto 1978–79.[1]

2.28 The use of scarce building materials can be economised by encouraging the use of locally available materials like timber, bamboos, stones and mud. The use of these locally available materials, especially in rural areas where normally single-storey houses are built, deserves encouragement because it would provide employment to local people and reduce the cost of transporting cement, steel, galvanised iron sheets, etc. from the cities to rural areas.

2.29 It is a matter of common knowledge that spacious bungalows and luxury apartments have been built in the metropolitan centres like Bombay, Calcutta,

1. Refer 'Financial Express' January 6, 1978.

Delhi and Madras. Such bungalows and luxury apartments not only occupy a lot of scarce urban land but also use a considerable quantity of building materials which are in short supply in the country. Since such luxury apartments have an adverse demonstration effect on the rest of the population, it is necessary to discourage them.

2.30 Another way to economise the use of conventional building materials is to adopt alternate building technology e.g., pre-fabricated housing. The production of pre-fabricated housing materials can be expanded at a short notice. Since pre-fabricated materials are factory-produced, speed and quality could be ensured and chances of adulteration minimised. Pre-fabricated housing is quite common and popular in many foreign countries and is worth giving a trial in our country, especially where mass housing is to be undertaken.

2.31 Having considered some of the non-financial constraints on housing, we may now turn to significance of financial factors.

2.32 As will be discussed later in the Report, the magnitude of the resources required for solving the problems of housing shortage even over the next 20 years is so large that a breakthrough is possible only if much larger funds are devoted to housing than has been the case so far. The problem, however, is that housing has to compete with other sectors like industry, power, agriculture and transport for limited savings.

2.33 This is reflected in the policies pursued in India, where housing has received a progressively lower share in investment in succeeding Plans. Also, the history of development of financial institutions in India since 1950 shows that most of the new institutions have been created to cater to the requirements of industry and agriculture, or to develop new instruments for savings. Housing has continued to be left to be financed by the existing institutions, which do not find it profitable or even suitable to give housing loans.

2.34 The main difficulty is how to finance a vast majority of low-income families whose housing needs are very acute. Besides low income, the flow of income in regard to many families is uncertain and irregular. Such families require a longer period of repayment and soft terms of loans, which the existing financial intitutions, run on commercial principles, find difficult to offer.

2.35 The problem is that an ordinary person in India cannot build a house with his own savings and credit is not available to him on terms he can afford from the existing institutions. The obvious answer to the problem is to create conditions under which the financial institutions may give loans suitable to the requirements of the borrower. It is essential, for instance, to develop mortgage insurance so that the risk involved in long-term loans is covered. Similarly, it is useful to create a secondary mortgage market so that the funds of the financial institutions can be turned over. Specialised housing finance institutions can also be thought of to fill up the institutional gap. These and related issues will be discussed in the following Chapters of the Report.

CHAPTER 3

EXISTING STOCK OF HOUSES AND DEMAND FOR HOUSES

Backdrop to Housing Schemes

TILL THE FORMULATION of the First Five Year Plan in 1951, housing in India was an undertaking almost entirely executed and financed by private enterprise, the Central and State Governments assuming responsibility for housing only their own employees. Prior to the Second World War, an investor in private housing used to consider it a good investment as he could get a reasonable return on his capital because, among other factors, the cost of construction was not high and there was no rent control. Subsequently, the cost of land and the prices of materials and labour increased many times. Thus, it became very difficult for persons belonging even to middle income group to construct or buy houses. Apart from Government there was no agency which could fill the vacuum thus created. Therefore, Government was called upon to build houses and rent them at rates which low and middle income groups could afford. Alternatively, Government could subsidise the construction of houses for the low income groups. In pursuance of this policy, a number of social housing schemes were introduced by Government from time to time, details of which are discussed in Chapter 5.

3.2 As regards rural housing, the vastness of the problem was recognised at the time of formulation of the First Five Year Plan, but having regard to the limitation of financial resources, a satisfactory programme for rural housing could not be envisaged then. It was, however, indicated that funds would be made available for rural housing programme in later Plans.[1]

Estimates of Housing Stock

3.3 Estimates of housing shortage in urban and rural areas vary depending on assumptions and sources of data. Details of the total population, the number of households and the number of dwellings as indicated in 1961 and 1971 censuses are given in Table 1.

1. Trends in investment in housing during the various Plans are given in Chapter 4.

TABLE 1

Population, Households and Housing Stock

(In millions)

		1961			1971		
		Rural	Urban	Total	Rural	Urban	Total
1.	Population	360.3	78.9	439.2	438.6	108.8	547.4
		(82.0)	(18.0)	(100.0)	(80.1)	(19.9)	(100.0)
2.	No. of Households	68.7	14.8	83.5	78.0	19.0	97.0
		(82.3)	(17.7)	(100.0)	(80.4)	(19.6)	(100.0)
3.	Housing Stock						
	a) Pucca	12.1	6.3	18.4	14.1	11.8	25.9
		(18.6)	(45.0)	(23.2)	(18.9)	(63.8)	(27.9)
	b) Semi-Pucca	23.1	4.9	28.0	27.9	4.3	32.2
		(35.4)	(35.0)	(35.4)	(37.5)	(23.2)	(34.7)
	c) Serviceable Kutcha	21.9	N.A.)	..	24.4	N.A.)	34.8
		(33.6)	)		(32.8)	)	(37.4)
	d) Unserviceable Kutcha	8.1	2.8)	32.8	8.0	2.4)	
		(12.4)	(20.0))	(41.4)	(10.8)	(13.0))	
	Total Housing Stock	**65.2**	**14.0**	**79.2**	**74.4**	**18.5**	**92.9**
		(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
4.	Usable Housing Stock (3a+b+c)	57.1	11.2	68.3	66.4	16.1	82.5
5.	Housing Shortage (households–usable housing stock) (2–4)	11.6	3.6	15.2	11.6	2.9	14.5

N.B. :- Figures in brackets are percentages to total.

Housing Stock : Comprises residential, shop-cum-residence and workshop-cum-residence including household industry.

Housing Units :

Pucca - A unit with the predominant material of wall and roof as follows:

Wall—Burnt bricks, G.I. sheets or other metal sheets, stone, cement, concrete, etc.

Roof—Tiles, slate, corrugated with zinc or other metal or asbestos cement sheets, bricks, lime stone RBC/RCC, etc.

Serviceable Kutcha—A unit with mud walls and thatched roof.

Unserviceable Kutcha—A unit with thatched walls and thatched roof.

Semi Pucca—All units which do not fall under any of the above categories.

Source : Government of India, Ministry of Works & Housing, Report of the Study Group on Rural Housing, March 1975.

3.4 Table 1 shows that housing shortage, as defined by the difference between the number of households and usable housing units, declined from 15.2 million in 1961 to 14.5 million in 1971. The improvemnt was entirely confined to urban areas. However, there was still a substantial backlog in housing in 1971.

3.5 The 1971 Census has indicated a numercial shortage of 3.6 million housing units in rural areas by deducting rural housing stock of 74.4 million (including unserviceable kutcha units) from the total number of 78 million rural households. But if the stock of unserviceable houses of 8 million is excluded, the extent of shortage would rise to 11.6 million houses. Further, if the serviceable kutcha houses are also excluded, the shortage would be 36 million units in the rural areas.

3.6 Similarly, the shortage in urban areas would be 0.5 million units if unserviceable kutcha houses, which are generally slums, are included in the housing stock. On the other hand, if unserviceable kutcha houses are excluded the shortage would be 2.9 million units.

3.7 If the U. N. criterion of "conventional house" is adopted and only pucca dwellings are categorised as houses, the number of units required to be built will increase further. Table 2 gives the different estimates of housing shortage at the end of 1971.

TABLE 2

Housing Shortage in 1971

(In millions)

	Rural	Urban	Total
I. Including unserviceable kutcha	3.6	0.5	4.1
II. Excluding unserviceable kutcha	11.6	2.9	14.5
III. U. N. Criterion (including only pucca houses in housing stock)	63.9	7.2	71.1

Source : 1971 Census.

3.8 No precise data are availble for the years 1972 and 1973. According to an estimate made by NBO, the housing shortage (excluding unserviceable kutcha units from the housing stock) was 15.6 million units of which the shortage in urban areas was 3.8 million units, on the eve of the Fifth Plan (i.e., March 1974).

3.9 The increase in urban population is estimated around 20 to 25 million during 1974–79 and would necessitate provision of minimum of 4 million houses, on the assumption of a household consisting of 5 members. NBO has recently estimated the additional units required in the urban areas at 0.9 million per annum. In the rural areas, 1.8 million houses a year are estimated to be required to meet the anticipated increase in population.[1]

TABLE 3

Housing Needs during the Fifth and Sixth Plan Periods.

(In millions)

	Rural	Urban	Total
Shortage of houses at end-March 1974	11.8	3.8	15.6
Additional new houses required during Fifth Plan	9.0	4.5	13.5
Total Housing requirements (i. e. end-March 1979)	**20.8**	**8.3**	**29.1**
Total housing requirements at end of Sixth Plan (i.e. end-March 1984)	**29.8**	**12.8**	**42.6**

3.10 It would be seen from Table 3 that the number of houses required by the end of the Fifth Plan may be around 20.8 million in rural areas and 8.3 million in urban areas. On the basis of the assumption that the same trend would continue, the total number of houses required at the end of 1983–84 may be estimated at 29.8 million in rural areas and 12.8 million in urban areas. In these estimates, the number of houses constructed during the Fifth Plan period are not included. It has been estimated by NBO that the present level of investment in housing implies the construction of only 0.6 million units of new houses in urban areas every year leaving a gap of 0.3 million units. As a result of this, the shortage of houses witnessed on the eve of the Fifth Plan would not only continue but would further increase over the next decade.

Replacement of Existing Housing Stock

3.11 The above estimates do not take into account the replacement needs of the present housing stock. The Planning Commission has assumed the deterio-

1. Planning Commission, Draft Fifth Five Year Plan, 1974-79, Part II.

ration and replacement needs in houses at the rate of 1 per cent per annum. This implies the life of a house at 100 years. As against this, the Central Statistical Organisation's (CSO) paper " National Income Statistics — Estimates of Gross Capital Formation in India for 1948–49 to 1960–61 " assumed an average life of an urban house at 50 years and that of a rural house at 25 years. This implies the replacement rate at 2 per cent per annum in urban areas and 4 per cent per annum in rural areas.

3.12 In order to estimate replacement requirements during the Fifth Plan period, total housing stock at the end of March 1974 should be known. There are no official estimates of total housing stock on the eve of the Fifth Plan. The Group has estimated the number of households at 117.3 million in 1973–74 on the basis of 5 persons per household.

3.13 As mentioned earlier, NBO has estimated housing shortage of 11.8 million houses in rural and 3.8 million in urban areas at end-March 1974. If these shortages are deducted from the estimated number of households (117.3 million) in rural and urban areas on the eve of the Fifth Plan, one could estimate the housing stock in these areas. Two estimates are given in Table 4.

3.14 The structure built for various categories of population is expected to have different standards of durability and hence it is assumed that in urban areas the rate of replacement for houses built for/by economically weaker section of the society (EWS) is 2.5 per cent, for low income group (LIG) it is 2.0 per cent and for middle income group (MIG) and high income group (HIG) it is 1 per cent. Similarly in rural areas, the houses of landless labourers and marginal farmers are assumed to last for 25 years and those of other categories for 50 years. Replacement requirements in housing on the above basis also are given in Table 4.

3.15 Assuming that the shortage of houses at the beginning of the Fifth Plan may be eliminated in a phased manner over a period of 20 years, the total number of houses required to be constructed every year is indicated in Table 5.

3.16 On the basis of above assumptions, 5.59 million houses in rural areas and 1.53 million houses in urban areas were required to be built every year during 1974–75 to 1978–79. NBO has estimated that only 0.6 million houses were constructed in urban areas during the first three years of the Fifth Plan. On this basis, the total number of units that would be constructed during the Fifth Plan period would be only 3.0 million in urban areas as against estimated requirements of 7.65 million units. This would accentuate urban housing shortages from 3.8 million at the beginning of the Fifth Plan to 8.5 million units at the end of the Fifth Plan.

TABLE 4

Replacement Requirements during Fifth Plan Period

(In millions)

	Estimate I			Estimate II		
	Rural	Urban	Total	Rural	Urban	Total
1. Estimated Total Households at end-March 1974	93.8	23.5	117.3	90.0	22.5	112.5
2. Shortages Estimated by NBO	11.8	3.8	15.6	11.8	3.8	15.6
3. Total Housing Stock (1–2)	82.0	19.7	101.7	78.2	18.7	96.9
4. Replacements per annum	3.20	0.44	3.64	3.12	0.42	3.54

Estimate–I : Based on the assumption of 5 persons per household.
Estimate–II : Based on figures indicated in the Draft Fifth Five Year Plan.

TABLE 5

Total Requirement of Houses per Annum

(In millions)

	Rural	Urban	Total
1. Total Housing Shortage (at end-March 1974)	11.80	3.80	15.60
2. Houses required to be constructed per year to remove shortage over 20 year period	0.59	0.19	0.78
3. Annual Requirement of New Houses ..	1.80	0.90	2.70
4. Replacement of houses per annum	3.20	0.44	3.64
5. Total Houses required to be constructed per year (2+3+4)	5.59	1.53	7.12

3.17 As regards the progress of rural housing, no precise information is available. In Chapter 4, the investment in rural housing has been estimated at Rs. 1290 crores during the Fifth Plan. If the average cost of dwelling in rural areas is taken at Rs. 5,000, the investment of Rs. 1290 crores would provide about 2.58 million dwellings as against the estimated requirements of 27.95 million units. In this case also, it would aggravate the housing shortages from 11.8 milion at the beginning of the Fifth Plan to a high figure of 37.2 million units at the end of the Plan. Even if a house costs only Rs. 2,500 in the rural areas, the total number of dwellings that would have to be constructed would be 5.16 million per year. But still these fall far short of the requirements of rural households.

3.18 It may, however, be pointed out that, as explained in the previous Chapter, the nature of housing problem in rural areas is different from that in cities. In villages, the cost can be substantially reduced by the use of local materials in the construction of a house. Even kutcha or semi-pucca houses can be built at low cost—as in fact is the case in many villages—and the life of a house can be prolonged by the application of improved technology. Also, the use of self-help can reduce the cost; for instance, if only sheltered houses are provided, a dweller can add walls, doors, etc. later with his own labour and resources, depending on his convenience.

3.19 As indicated above, the estimates of housing requirements vary, depending on the concept of a house and assumptions regarding growth in population and households. However, whatever estimate is adopted, it is clear that there is a large backlog in housing stock and the shortages of houses are increasing both in urban and rural areas. The main purpose of estimating the physical housing requirements is to assess the order of investment required to eliminate housing shortages and meet the growing needs, over the next 20 years. This is attempted in the following Chapter.

CHAPTER 4

INVESTMENT IN HOUSING AND INVESTMENT GAP

WE HAVE POINTED out in the previous Chapter that prior to the First Plan, investment in housing was made almost exclusively by the private sector. Since then, Government has come forward with various housing schemes to help EWS, LIG and MIG and also to provide accommodation to its employees. Besides this, substantial expenditure on housing is made by public sector undertakings, railways, posts and telegraph and defence departments also.

4.2 Table 1 indicates investment in housing and its proportion to total Plan investment.

TABLE 1
Investment in Housing

(Rs. in Crores)

	Investment in Housing			Investment in the Economy			Percentage of		
	Public sector	Private sector	Total	Public sector	Private sector	Total	2 to 5	3 to 6	4 to 7
1	2	3	4	5	6	7	8	9	10
First Plan	250	900	1,150	1,560	1,800	3,360	16.0	50.0	34.2
Second Plan	300	1,000	1,300	3,650	3,100	6,750	8.2	32.3	19.3
Third Plan	425	1,125	1,550	6,100	4,300	10,400	7.0	26.2	14.9
Fourth Plan	625	2,175	2,800	13,655	8,980	22,635	4.6	24.2	12.4
Fifth Plan (Draft)	1,044	3,636	4,680	31,400	16,161	47,561	3.3	22.5	9.8

Source : NBO.

4.3 It would be seen from the above Table that investment in housing as proportion of total investment declined from 34.2 per cent during the First Plan to 9.8 per cent in the Fifth Plan. Investment in housing both by public and private sectors as percentage of their respective investment has also declined. The share of public sector investment in housing in its total investments declined progressively from 16 per cent in the First Plan to 3.3 per cent in the Fifth. In the case of private sector it declined from 50 per cent to 22.5 per cent during the same period. Investment in housing as percentage of national income declined from an average of 2.31 per cent in the First Plan period to 1.29 per cent during the Fourth Plan period.

Investment in Rural and Urban Housing

4.4 On the basis of details supplied by CSO, gross capital formation in housing has shown a declining trend in recent years (Table 2). Capital formation in housing as a percentage of national income had risen from 3.1 per cent in 1960–61 to 5.5 per cent in 1968–69 but in subsequent years it started declining and accounted for only 1.9 per cent in 1973–74. It rose to 4.2 per cent in 1974–75 contrary to the ealier trend. However, it may be mentioned that the estimates for the years 1973–74 and 1974–75 are provisional and should be used with caution. It may also be noted that the figures given in Table 2 include reside ntial and non-residential building construction in the household sector.

TABLE 2

Capital Formation (Gross) in Housing

(Rs. in Crores)

	Urban	Rural	Total	National Income	1 as % of 4	2 as % of 4	3 as % of 4
	1	2	3	4	5	6	7
1960–61	169	241	410	13,263	1.3	1.8	3.1
1966–67	749	321	1,070	23,848	3.1	1.3	4.5
1967–68	1,027	368	1,395	23,054	3.7	1.3	5.0
1968-69	1,175	400	1,575	28,607	4.1	1.4	5.5
1969–70	1,256	453	1,709	31,606	4.0	1.4	5.4
1970–71*	1,210	503	1,713	34,462	3.5	1.5	5.0
1971–72*	881	538	1,419	36,332	2.4	1.5	3.9
1972–73*	772	543	1,315	36,943	2.1	1.5	3.6
1973–74*	305	655	960	49,396	0.6	1.3	1.9
1974–75*	1,695	787	2,482	53,137	2.9	1.4	4.2

*Provisional.
Source : CSO.

4.5 A disturbing feature emerging from the Table is the decline in capital formation in urban housing in recent years. It had risen from Rs. 169 crores in 1960–61 to Rs. 1,256 crores in 1969–70 but started declining thereafter. It showed a sharp decline in 1973–74 to Rs. 305 crores and according to provisional figures a sudden jump to Rs. 1695 crores in 1974–75. Thus, with the exception of 1974–75, investment in housing in urban areas has been declining since 1969–70 both in absolute terms as well as in relation to national income. On the contrary, investment in rural areas has shown a rising trend in absolute amounts, though it has declined as pecentage of national income. The decline in housing investment in urban areas is traceable to many factors including a relatively low rate of return in investment on housing and certain problems involved in constructing houses, such as, shortages of building materials in some years and uncertainty about the status of ceiling on urban land.

4.6 The following paragraphs discuss two factors, viz., cost of land and construction and return on investment, which are directly relevant to the trend in investment in housing. Non-financial constraints on housing such as Rent Control Act and Urban Land (Ceiling and Regulation) Act, which have affected investment in housing, have already been discussed in Chapter 2.

Rate of Return on Housing Investment

4.7 Gross income from housing comprises the actual rent realised from tenants as well as the notional rent on the self-occupied houses. The municipal taxes and repairs and depreciation should be deducted from gross rental income in order to derive the net return on investment in housing.

4.8 Generally, urban immovable property is subject to the following municipal taxes : i) General property tax, ii) Scavenging tax, iii) Fire tax, iv) Water tax, v) Education cess and vi) Library cess.

4.9 The National Council of Applied Economic Research (NCAER) has made a study of incidence of taxes on housing.[1] The houses covered under the study are those constructed during 1963-64 and the scope of the study was confined to houses belonging to low and middle income groups.

4.10 It would be seen from Table 3 that municipal taxes absorbed about 8 to14 per cent and repairs and depreciation accounted for 15 to 24 per cent of the gross rental income. Allowing for these, the return on investment came to only 3.84 per cent in Ahmedabad and 10.48 per cent in Delhi.

1. NCAER, Tax Incidence on Housing, 1967.

TABLE 3

Municipal Tax, Depreciation and Repairs as Percentage of Gross Rental Income and Net Income as Percentage of Investment

	Ahmedabad	Delhi	Hyderabad	Madras	Patna
1. Municipal Taxes as percentage of Gross Rental Income	8.34	7.87	7.89	7.66	14.15
2. Repairs as Percentage of Gross Rental Income	15.37	7.03	10.32	12.69	14.84
3. Depreciation as percentage of Gross Rental Income	8.33	8.33	8.33	8.33	8.33
4. Net Income as percentage of Gross Income	67.96	76.77	73.46	71.32	62.68
5. Net Income as percentage of Investment	3.84	10.48	6.95	5.90	4.06

4.11 NCAER has estimated the life of a house at 75 years for the purpose of depreciation. But, as indicated in Chapter 3, CSO has assumed the life of a house in urban areas at 50 years and in rural areas at 25 years. If the life of a building is taken at 50 years, instead of 75 years, then the net return would go down still further.

4.12 The NCAER study revealed that the incidence of taxes and fees varied from 7.70 per cent of total investment, on an average, in Delhi to 5.22 per cent in Patna. Their incidence on the total cost of construction was still higher and varied from 9.61 per cent in Ahmedabad to 6.14 per cent in Patna.

4.13 The net return from housing was the highest at 10.48 per cent in Delhi and lowest at 3.84 per cent in Ahmedabad. NCAER has pointed out that in most cases the houses were occupied partly or wholly by house owners, especially in Ahmedabad. In such cases, the reported rents were generally less than the expected rent. The figures mentioned above relate to 1963-64. Since then municipal taxes have gone up very substantially and so has the cost of building materials.

4.14 In examining the figures of return on investment in housing given in the above paragraphs, it may be remembered that these estimates are based on data available from official or semi-official sources. Also, incidence of income-tax has not been taken into account.

4.15 So far as a professional builder is concerned, it is well known that he insists on taking a part of the price of a house (usually 40 per cent of the total in metropolitan cities like Bombay), without giving a receipt. Further, in many cases his initial investment is only in land. The rest of the money needed for building the house virtually comes from the prospective purchaser, mostly without interest. Therefore, if tax evaded is taken into account, the return on investment to a builder would be higher.

4.16 In order that investment in housing picks up, an investor should be assured of at least a rate of return higher than what he can get on safe investment. The commercial banks are paying 10 per cent rate of interest on deposits above 5 years. Smaller commercial banks and co-operative banks are allowed to pay upto 1 per cent more. Well-established non-banking companies offer rates of 12 to 13 per cent on deposits for 1-3 years. The yield on preference shares is about 11 per cent. On the other hand, it can be argued that, given the supply and demand projections and assuming free market conditions, there is every likelihood of an appreciation in the market value of houses in future. The important point to note is that the net rate of return required to encourage housing investment should be at least higher than that available on long-term deposits with banks.

Cost of land and construction

4.17 When one talks of investment in housing, one has to look at the cost of land and cost of construction. In urban areas, land is scarce and hence the cost of land is rising at a fast rate. In the NCAER study, which was confined to selected urban areas, it was observed that land cost accounted for more than 20 per cent of the total cost.

4.18 The stamp duty and registration fee are directly related to the value of land. The rates of stamp duty and registration fees vary in different States. The NCAER study had indicated that the incidence of stamp duty and registration fee on the value of land varied from 2.20 per cent in Ahmedabad to 6.95 per cent in Madras. Their incidence on total investment varied from 1.47 per cent in Madras to 0.70 per cent in Patna.

4.19 The cost of construction is rising in recent years. NBO has computed an Index Number for Residential Building Cost for Delhi with 1950 as the base year.

TABLE 4

Break-down of Total Investment

	Ahmedabad	Delhi	Hyderabad	Madras	Patna
1. Cost of land as percentage of total investment	34.86	24.70	20.10	21.21	27.90
2. Construction cost as percentage of total investment	65.14	75.30	79.90	78.79	72.10
3. Total	100.00	100.00	100.00	100.00	100.00

Source: NCAER, Ibid, p. 48

The index was at 139.4 in 1961 and went on rising to reach a level of 355.7 in 1975. In other words, there was a rise of 155 per cent in building cost in 14 years.

4.20 The labour cost which accounts for about 25 per cent of the total construction cost has also increased in recent years. Illustratively, wage rates for first class masons are shown below for three cities:

(In Rupees per/day)

Centre	1973	1975
Hyderabad	9.50	14.50
Ahmedabad	12.37	18.00
Lucknow	8.62	10.00

Source : NBO

4.21 To sum up, the above analysis shows that investment in housing has been declining in successive Five Year Plans, relative both to national income and total investment. In fact, gross capital formation in urban housing has been declining even in absolute terms subsequent to 1969-70. When this feature is combined with the facts of rising demand for houses and increasing cost of land and construction, the conclusion is clear that in terms of the number of houses built, investment in recent years has not been adequate.

4.22 In the following paragraphs, an attempt is made to estimate the amount of investment which will be needed if the problem of housing shortage is to be solved over a period of 20 years.

4.23 Before estimating investment requirements, we should be clear about the concept of a house. For this purpose, we may deal with urban and rural houses separately. Since the standard of housing in terms of area, location, building materials used, etc. has to be linked with the economic status and conditions of a family, it will be useful to think of housing norms in terms of incomes.

Investment in Urban Housing

4.24 Housing and Urban Development Corporation (HUDCO) uses the following area requirements and the maximum all-inclusive cost for different categories of families in urban areas.

TABLE 5
Categories of Households and Cost of Houses

Category	Maximum Plinth area Sq. Metre	or Sq. ft.	Maximum all-inclusive cost In Rs.
EWS	35	377	8,000
LIG	55	592	18,000
MIG	95	1,023	42,000
HIG	185	1,991	100,000

Note: EWS—Economically Weaker Section with income upto Rs. 350 p.m.
LIG—Low Income Group with income between Rs. 351 and Rs. 600 p.m.
MIG—Middle Income Group with income between Rs. 601 and Rs. 1,500 p.m.
HIG—High Income Group with income above Rs. 1,500 p.m.

4.25 In making estimates for requirements of finance for housing construction the Group took the view that the following norms may be adopted for the plinth area:

EWS	250 sq. ft.
LIG	400 ,,
MIG	800 ,,
HIG	1,350 ,,

4.26 It will be seen that these norms are lower than the ceilings prescribed by HUDCO. The reason is that these norms represent the average plinth area for each category and considering the constraint on resources and the desirability of solving the problem of housing shortage within a reasonable period of time, the area norms of housing may have to be lowered a little. In making the estimates we have, however, adopted the HUDCO cost ceilings because the trend of construction cost is upwards.

4.27 On the basis of the above assumptions and further assuming that the backlog of housing should be cleared in 20 years, and that replacement needs and demand for additional units would also be satisfied, we have made an assessment of the magnitude of investment required. The total financial requirements for building 8.3 million units in urban areas during the Fifth Plan have been distributed among the various income brackets on the basis of the distribution of urban population among main income categories as given in a study by NCAER.[1] On this basis, the number of houses to be built for different categories may be estimated as shown in Table 6.

TABLE 6

Distribution of Households

Category*	% of urban households	No. of houses to be built (Million)
EWS	75	6.23
LIG	15	1.24
MIG	8	0.66
HIG	2	0.17
	100	8.30

*The income ranges given by NCAER study are not comparable with these categories. Hence, the income ranges have been adjusted appropriately to match respective income groups.

4.28 We have worked out three estimates of per unit cost of construction (including land):

(a) A weighted average cost has been calculated on the basis of maximum all-inclusive cost, as laid down by HUDCO. The weights used are the number of houses to be constructed for different categories of population as given in Table 6. On this basis, the average weighted cost per unit works out to Rs. 14,000.

1. NCAER : Household Income, Saving and Consumer Expenditure : 1967-68 with special reference to Middle Class Households.

(b) Another method of working out the cost per unit has been used by taking the figure of investment in housing in the public and private sectors in the Fifth Plan. It is estimated that rural housing accounted for Rs. 76 crores in the total public sector investment in housing.[1] Further, two-thirds of private sector investment in housing is assumed to be in urban housing. On this basis, annual investment in urban housing has been worked out. Since, according to NBO, only 0.6 million houses are being constructed annually in the urban areas, the average cost of construction of a house has been worked out by dividing the total investment by 600,000 units. This is shown in Table 7.

TABLE 7

Estimate of Average Cost of Construction of a House in Urban Areas

(Rs. in Crores)

	Investment in housing in Fifth Plan	Investment in urban housing
Public Sector	1,044	968
Private sector	3,636	2,424
Total	4,680	3,392
Annual average	936	678
Average cost per unit (in Rupees)		11,300

On the above basis the cost of a house or unit in urban areas works out to Rs. 11,300.

(c) Assuming that either the cost of construction or plinth area or both can be reduced in order that the house building programme is accelerated, we have also estimated the average cost per unit of constructiion at Rs. 10,000.

4.29 On the basis of the above estimates and further taking into account the backlog of demand for houses as well as new demand and need for replacement, alternative investment requirements in urban housing are shown in Table 8.

1. Out of the total outlay of Rs, 505.56 crores under State sector in housing, it is estimated by the Planning Commission that Rs. 76 crores would be for rural housing which account for 7.3 per cent of total outlay of Rs. 1,044 crores for Central and State sectors.

TABLE 8

Investment Required in Urban Housing

(Amounts in Rs. Crores)
(Houses in million units)

Cost per unit	Shortages (as on 31-3-1974)		Additional needs during Fifth Plan		Replacement needs per year	
	Houses	Investment	Houses	Investment	Houses	Investment
I Rs.14,000	3.80	5,320	4.50	6,300	0.44	616
II Rs.11,300	3.80	4,294	4.50	5,085	0.44	497
III Rs.10,000	3.80	3,800	4.50	4,500	0.44	440

	To Clear Backlog		Additional Needs		Replacement Needs		Total	
	Houses	Investment	Houses	Investment	Houses	Investment	Houses	Investment
1 Rs.14,000	0.19	266	0.90	1,260	0.44	616	1.53	2,142
II Rs.11,300	0.19	215	0.90	1,017	0.44	497	1.53	1,729
III Rs.10,000	0.19	190	0.90	900	0.44	440	1.53	1,530

Note : Backlog is assumed to be cleared over a period of 20 years.

4.30 For working out the total investment in urban housing we have adopted alternative II, viz., the assumption of cost of construction per unit of Rs. 11,300 because it appears to meet the requirements of reasonable standard of construction consistent with the need to keep the total investment at a minimum level.

4.31 Thus, on the basis of our above assumption, the total annual investment in urban housing has been estimated at about Rs. 1,729 crores. This includes the cost of infrastructure facilities like internal roads, sewers, water supply and electricity connections.

Investment in Rural Housing

4.32 Turning now to the housing investment requirements in rural areas, it will be recollected that we had estimated the number of houses required to be built by the end of the Fifth Plan at 20.8 million units. We may divide the rural households into the following categories:

i. Landless labourers
ii. Marginal farmers (owning less than 1 hectare of land)
iii. Small farmers (owning 1 to 2 hectares of land)
iv. Big farmers (owning more than 2 hectares of land)

The number of landless labourers at the end of the Fifth Plan is estimated at 12 million.[1]

4.33 The remaining households without houses have been classified on the basis of distribution of cultivators as given in the "Assets of Rural Households" (All India Debt and Investment Survey, 1971-72). The marginal farmers account for 43 per cent, small farmers, including non-cultivators, for 33 per cent and big farmers for 24 per cent. As regards the construction cost (including land), it is assumed that a house for a landless labourer would cost Rs. 2,000, for a marginal farmer Rs. 2,500, for a small farmer Rs. 8,000, and for a big farmer Rs. 30,000. On this basis, the weighted average cost of a rural house works out to Rs. 5,800.

4.34 The Report of the Study Group on Rural Housing[2] has estimated the annual supply of housing units during 1976-81 in rural areas at 2.33 million and the cost of construction at Rs. 1,870 crores. On this basis, the average cost per unit works out to Rs.8,000.

4.35 The various estimates of investment required in rural housing have been indicated in Table 9. In these estimates, for the sake of perspective, we have also indicated the investment requirement at an average unit cost of Rs. 5,000.

4.36 For working out the total cost of investment in housing, it is proposed to take the estimates prepared on the basis of Rs.5,800 per unit. It may be noted that this figure is consistent with the cost of construction of a house for a landless labourer at Rs.2,000 and for a large farmer at Rs. 30,000. Although our estimate (Rs.5,800) is lower than that worked out in the Report of the Study Group on Rural Housing, it is reasonable because of the constraint on resources and the developments taking place in low-cost housing technology. The total investment per annum in rural housing on this basis would amount to Rs. 3,245 crores.

Investment Gap in Housing

4.37 Table 10 summarises the total investment required per annum for housing, both in urban and rural areas, taking into account the backlog, new demand and replacement needs.

1. Planning Commission, Draft Fifth Five Year Plan, 1974-79, Part II, p. 261.
2. Report of the Study Group on Rural Housing, Government of India, Ministry of Works and Housing (March 1975).

TABLE 9

Investment Required in Rural Housing

(Amounts in Rs. Crores)
(Houses in million units)

Cost per unit	Shortages (as on 31-3-1974)		Additional needs (during Fifth Plan)		Replacement needs (per year)	
	Houses	Investment	Houses	Investment	Houses	Investment
I. Rs.8,000	11.80	9,440	9.0	7,200	3.20	2,560
II. Rs.5,800	11.80	6,840	9.0	5,220	3.20	1,856
III. Rs.5,000	11.80	5,900	9.0	4,500	3.20	1,600

Per Annum

	To clear backlog		Additional needs		Replacement needs		Total	
	Houses	Investment	Houses	Investment	Houses	Investment	Houses	Investment
I. Rs.8,000	0.59	472	1.80	1,440	3.20	2,560	5.59	4,472
II. Rs.5,800	0.59	342	1.80	1,044	3.20	1,856	5.59	3,242
III. Rs.5,000	0.59	295	1.80	900	3.20	1,600	5.59	2,795

Note. Backlog is assumed to be cleared over a period of 20 years.

TABLE 10

Investment Required in Housing Per Annum

(Rs. in Crores)

	To Clear backlog	Additional needs	Replacement needs	Total	Present investment	Gap (4-5)
	1	2	3	4	5	6
Rural	340	1,045	1,860	3,245	258	2,987
Urban	215	1,020	500	1,735	678	1,057
Total	**555**	**2,065**	**2,360**	**4,980**	**936**	**4,044**

Note: The figures in cols. 1to 3 have been rounded to nearest 5 or 10.

4.38 It has been mentioned earlier that, on an average, annual investment in housing is envisaged to be Rs. 936 crores during the Fifth Plan. Out of this, about Rs. 678 crores is estimated to be in urban areas and Rs.258 crores in rural areas. Comparing this with the required annual investment in urban housing (Rs. 1,735 crores), as worked out by us, the gap in investment in urban housing would be about Rs. 1,057 crores or say Rs. 1,060 crores per annum. If it is assumed that the public sector's share is about 30 per cent of the total housing investment, then the additional investment by the public sector would have to be Rs. 350 crores and the remaining (about Rs. 710 crores) would have to be undertaken by the private sector. In fact, since the construction of housing for EWS and LIG who constitute 90 per cent of urban households will not be an attractive proposition for the private sector, the share of public sector in housing investment would have to be stepped up considerably. The problem of rural housing is greater, as against the annual investment required of Rs. 3,245 crores the investment seems to be only of the order of Rs. 258 crores. Thus, the investment gap in rural housing on an annual basis may be estimated at Rs. 2,987 crores or say Rs. 2,990 crores. Taking into account the fact that a large element of self-help and local materials will go into the construction of a house in rural areas, the investment gap in these areas may be much smaller.

4.39 Adding the two figures together, the total annual investment gap in housing amounts to Rs. 4,050 crores. It may be reiterated that this estimate is based on the assumption that the backlog of demand for houses will be wiped out in the next 20 years, additional demand for houses will be catered to and replacement demand for housing will also be met.

Concluding Observations

4.40 Considering the constraint on resources, the investment gap as estimated by us seems to be difficult to be bridged in the near future. The alternatives are :

(a) The programme for housing may be spread over a longer period;
(b) The area norms of housing may be lowered;
(c) Full advantage should be taken of improved technology, so that without lowering the standards of housing, cost may be reduced.

Limitations on organisational and financial resources would determine the policy alternatives.

CHAPTER 5

ROLE OF DIFFERENT INSTITUTIONS IN PROVIDING HOUSING FINANCE

THE MAGNITUDE of finance required for dealing with the housing problem has been discussed in Chapter 4. The purpose of this Chapter is to describe the present role of various agencies in providing housing finance and also to discuss their problems which impede the growth of their activities. The role of commercial banks in providing housing finance will be discussed at length in subsequent Chapters 6 and 7. Hence, in this Chapter, we shall confine ourselves only to the major institutions which provide housing finance, viz., Life Insurance Corporation (LIC), General Insurance Corporation (GIC), Housing and Urban Development Corporation (HUDCO), Central and State Governments, State Housing Boards, co-operative housing finance agencies, Provident Funds and Housing Development Finance Corporation Ltd. (HDFC). We shall also estimate the flow of resources from these institutions for housing in the next five years.

LIC

5.2 Life insurance companies all over the world play an important role in undertaking/financing housing construction activity. A considerable proportion of their assets is in the form of mortgage advances. In India too, the erstwhile life insurance companies used to make some mortgage advances. However, after the nationalisation of life insurance in India in 1956, LIC is playing an increasingly important role in housing investment. Among the various institutions financing housing activity in the country, LIC occupies a place of pride. Its contribution to housing aggregated Rs. 728.56 crores upto the end of March 1977 as can be seen from Table 1 .

5.3 During the last 9 years ended March 1977, LIC's investment in housing has increased continuously in absolute figures as well as percentage terms (Table 2).

5.4 The high priority accorded by LIC to housing is also evident from the fact that its investment in housing was the second largest, next only to its investment in Central Government Securities (Table 3).

5.5 It may be mentioned here that LIC is statutorily required to invest 50 per cent of net accretion to its controlled fund in the securities of Central and State Governments and other approved securities. Another 25 per cent is required to be invested in socially oriented schemes, such as, housing, electrification, water supply, sewerage and industrial estates. A further 10 per cent of the funds are to

TABLE 1

LIC's Loans for Housing (upto the end of March 1977)

(Rs. Crores)

1.	Loans to State Governments	263.33
2.	Loans to Apex Co-operative Housing Finance Societies, Housing Boards and HUDCO..	317.97
3.	Loans on mortgage of houses	41.38
4.	Loans under Own Your Home Scheme	53.33
5.	Loans under Own Your Apartment Scheme	0.50
6.	Loans to public limited companies for staff quarters ..	3.36
7.	Loans to co-operative societies of employees of public limited companies	1.76
8.	Loans to co-operative societies of LIC employees ..	13.92
9.	Loans to individual employees of LIC	15.26
10.	LIC's own building construction—staff quarters	8.71
11.	Loans to Agents of LIC for construction/purchase of houses	0.10
12.	LIC's own Township Development	8.94
	Total : ..	**728.56**

Source : Memorandum received from LIC.

TABLE 2

LIC's Investment in Housing

(Rs. Crores)

Year	Gross Amount Invested during the year	Amount of outstanding investment in Housing at the end of the year	Housing Investment as % of total outstanding Investment
1968–69	32.53	168.82	12.75
1969–70	35.28	194.84	13.09
1970–71	39.18	222.47	13.28
1971–72	54.49	262.30	13.80
1972–73	61.23	305.86	14.26
1973–74	66.48	351.92	14.52
1974–75	82.00	412.26	14.87
1975–76	74.01	463.14	14.91
1976–77	81.35	527.08	14.96

Source : Memorandum received from LIC

TABLE 3

Pattern of LIC Investment

(As on March 31, 1977)

	Category of Investment	% to total outstanding investment[1]
1.	Central Government Securities	27.85
2.	Housing	14.96
3.	Loans to Electricity Boards	14.24
4.	Municipal and other Approved Securities	12.49
5.	State Government Securities	12.15
6.	Loans, Debentures and Shares of Companies .. .	10.10

Source : Memorandum received from LIC

be reserved for investment in the private sector, about 7 per cent are to be used for loans against LIC policies, 2 per cent are invested in immovable property and the balance 6 per cent of the funds represent those in pipeline and hence not available for investment.

5.6 The role which LIC is playing in housing can be further appreciated by examining the main features of various schemes introduced by LIC for providing assistance to housing. A major portion of LIC's investment in housing is in the form of direct loans to the State Governments for financing their social housing schemes for different income groups. These loans are sanctioned by LIC as per allocations made by the Ministry of Works and Housing of the Government of India.[2] LIC has also granted special loans to State Governments for reconstructing and repairing the houses damaged by natural calamities like flood, cyclone, earthquake, etc. Apart from loans to State Governments, LIC has granted loans directly to the Housing Boards in the States of Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh for constructing houses for EWS, LIG and MIG. LIC has also granted loans to HUDCO for similar purposes.

1. The figures do not add up to 100; the balance is accounted for by the funds in pipeline.
2. Recently, Government of India has advised the State Governments to utilise 40 per cent of LIC loans for construction of EWS houses, 25 per cent each for LIG and MIG houses and the balance 10 per cent for implementation of rental housing scheme for State Government employees.

5.7 In view of certain legal and administrative difficulties and with a view to ensuring security of its investment, LIC does not grant loans directly to individual co-operative housing societies. Instead, it grants loans to the Apex Co-operative Housing Finance Societies in different States. One special feature of these loans is the grant of a sizeable assistance to the Apex Co-operative Housing Finance Societies in Andhra Pradesh and Karnataka for financing low cost housing schemes meant for the primary societies of scheduled castes and scheduled tribes.

5.8 LIC grants loans to the public against the first legal mortgage (English) of immovable properties to the maximum extent of 50 per cent of the value of property. The maximum amount of individual loan granted under this scheme is Rs. 5 lakhs. This scheme is in operation in over 626 centres spread all over the country.

5.9 In order to help its own policy holders to acquire or construct houses for their own occupation, LIC introduced a scheme called "Own Your Home Scheme" in 1964. Under this scheme, policy holders can secure a loan to the extent of 66$\frac{2}{3}$ per cent to 85 per cent of the value of the property against the mortgage of property and collateral security of the policy/policies on their own lives, sum assured on which should be at least the same as the amount of the loan sanctioned. Under this scheme, the minimum and the maximum amount of loan that can be granted is Rs. 10,000 and Rs. 1 lakh, respectively. This scheme has been extended to 642 centres all over the country. LIC has introduced another scheme for its policy holders viz., "Own Your Apartment Scheme". This scheme is in vogue in four centres only i.e., Bombay, Calcutta, Ahmedabad and Bangalore.

5.10 Apart from individual mortgage loans to general public referred to above, LIC grants loans to public limited companies to enable them to construct quarters for their staff. It also grants loans to the co-operative housing societies of the employees of the public limited companies, provided the concerned company guarantees regular payment of interest and repayment of principal. Similar loan facilities are provided by LIC to the public sector undertakings and the co-operative housing societies of their employees. This scheme has now been extended to cover the employees of State Governments and Zilla Parishads. Recently, LIC has introduced a scheme for grant of loans to the co-operative housing societies formed by employees of Universities and private limited companies.

5.11 LIC has also constructed staff quarters for its own employees at different centres. Besides these, LIC grants loans to the co-operative housing societies formed by its own employees and also to its individual employees and agents to enable them to construct their own houses.

5.12 It will be seen from Table 1 relating to LIC loans for housing that bulk of the amount is granted to State Governments, Housing Boards, Apex Co-operative Housing Finance Societies and HUDCO. Terms and conditions on which LIC grants loans are as follows :

LIC's Present Interest Rate Structure

	Loans to	Rate of Interest (per annum)	Repayment period, etc.
1.	State Governments	8%	Upto 25 Years. Principal is repayable by equal annual instalments. Interest payable separately in half-yearly instalments.
2.	Apex Co-operative Housing Finance Societies	8.5%	To be repaid in 20 equal annual instalments. Interest payable separately in half-yearly instalments, with a guarantee of the State Government for payment of interest and re-payment of principal. The Society has also to arrange for compulsory insurance cover with LIC on the lives of individual members of primary societies.
3.	HUDCO	11%	Rebate of 0.5 per cent for prompt payment. Repayable in 15 years with a moratorium for first 10 years. Security is first floating charge on its assets.
4.	Co-operative Housing Societies of employees of Public Limited Companies/Public Sector Undertakings	10.5%	Upto 15 years. Repayment by monthly equated instalments.
5.	Construction of offices, commercial accommodation, hotels, etc.	13%	Upto 15 years. Repayment by half-yearly instalments (both principal and interest).
6.	Construction of cinema houses	14%	

Source : LIC

5.13 Since 1972, LIC has undertaken construction of townships on commercial basis, mainly for its policy-holders. The flats or houses are sold to policy-holders with a loan component either directly or through co-operative societies formed by them. These townships, which are mainly for the benefit of middle and low income groups, have been constructed at Borivli (Bombay) and Bangalore. Similar townships are planned for Hyderabad, Ahmedabad, Kanpur, Ludhiana, Delhi and Bandra (Bombay)

5.14 Undoubtedly, LIC is playing the most important part among the institutions providing housing finance. However, its investment in housing sector is only a part of its overall investment policy, which is subject to statutory requirements and discussions with the Government of India and Planning Commission. According to present investment policy, LIC is required to invest 25% of net accretion to its controlled fund every year in the socially-oriented sectors like housing, electrification and water supply schemes of municipalities and other local bodies. Thus, to the extent that it may not be possible for LIC to reduce the availability of funds for other socially-oriented schemes, there is a constraint in the availability of resources for housing purposes. Similarly, LIC's interest rate policy is also governed by such considerations as obtaining a fair return on its investment and sub-serving the interests of its policy-holders. Its foremost accountability is to its policy-holders, whose interests need not necessarily coincide with the requirements of the solution to the housing problem in India.

GIC

5.15 General Insurance Corporation (GIC) took over the management of general insurance companies on May 13, 1971, followed by full scale nationalisation with effect from January 1, 1973. The liabilities of general insurance business are much shorter than those of LIC and as such a large part of its assets are required to be invested in easily marketable and liquid assets. However, since GIC is able to make fairly accurate assessment of its maximum liability for a particular risk at any point of time, it is possible for GIC to follow an active investment policy and not be restricted to entirely short-term securities.

Investment Policy

5.16 The investment policy of the GIC and its four subsidiaries is evolved within the ambit of the provisions of the Insurance Act, 1938 and the guidelines issued by the Government from time to time with a view to maximising income, ensuring safety and liquidity of funds and to be consistent with the national objectives and priorities. According to recent guidelines issued by the Government, with effect from January 1, 1977, GIC is required to invest as follows :

i) 25 per cent of the fresh accruals of funds in Central Government Securities;

ii) 10 per cent of the fresh accruals of funds in State Government Securities and other bonds, debentures and loans to various public sector corporations and State and semi-Government bodies ;

iii) 35 per cent as loans to State Governments for housing and for loans, bonds, debentures and preference shares of HUDCO ; and

iv) 30 per cent in other avenues of investment like debentures, equity shares and preference shares, term loans, etc.

5.17 The pattern of investment of the GIC and its subsidiaries at the end of 1976 is given in Table 4.

TABLE 4

Pattern of GIC Investment at the end of 1976

	Investment in	Rs. crores
1.	Central Government Secutiries	109.55
2.	State Government Securities	40.58
3.	Other Approved Securities	27.23
4.	Shares/debentures of companies	211.62
5.	Participation Certificates, Bills Rediscounting Schemes, Deposits with Banks, etc.	186.79
6.	Loans	2.63
7.	Land and Housing Property	9.81
	Total :	**588.21**

5.18 The above pattern of investment helps to satisfy the various objectives of the GIC viz., providing stability to its insurance business, meeting the national economic and social objectives and priorities like housing, industrial development, etc., and at the same time ensuring safety and marketability of its investments. It will be seen that in terms of the present guidelines more than one-third of the freshly accrued funds are to be invested in the housing sector.

HUDCO

5.19 In pursuance of the recommendations made by the Conference of Housing Ministers in January 1970, the Government of India established Housing & Urban Development Corporation (HUDCO) in April 1970, with a view to accelerating the pace of housing construction in the country. The main objectives of the Corporation are to finance or undertake housing and urban development programmes throughout the country, setting up of new satellite towns and financing or setting up of building material industries.

5.20 HUDCO does not grant loans directly to individuals but finances housing and urban development schemes undertaken by the State Governments, Housing Boards, Slum Clearance/Improvement Boards, City Development Authorities, Improvement Trusts, Municipal Corporations and other local bodies. In the initial stages, HUDCO, *inter alia,* financed a few housing schemes meant for Police and Central and State Government employees. But, in November 1974, the Government decided that the funds for such schemes should more appropriately come from the budgetary provisions of the Government concerned. However, the Government has removed these restrictions recently. In order to meet a part of the demand for funds for staff quarters, HUDCO decided in March 1976 to advance loans to employers in the public and private sectors at the interest rate of 11 per cent per annum (net) to undertake construction of quarters for their employees earning upto Rs. 600 per month. HUDCO provides funds upto 70 per cent of the total project cost and the balance is to be found by the employers from their own resources. Since 1974-75, HUDCO has been lending money to co-operative housing societies as well. In their case also, HUDCO finances 70 per cent of the project cost and the balance is provided by members of the society. Recently, HUDCO has introduced two schemes viz., (i) financing of apex co-operative housing finance societies, and (ii) financing of rural housing.

5.21 While granting loans, HUDCO gives overriding preference to housing schemes meant for the EWS and LIG. However, it grants loans for MIG and HIG housing and commercial complexes also, mainly with a view to subsidising and/or making housing for the EWS and LIG financially viable. Till 1974-75, for social housing schemes where the housing content for the EWS was 25 per cent or more of the total project cost, HUDCO charged a preferential interest rate of 6.5 per cent and for other schemes it charged 7.5 per cent. Since the benefit of preferential interest rate accrued to persons in income categories higher than the EWS also, HUDCO introduced a differential interest rate structure in April 1975. As the cost of borrowing by HUDCO from LIC increased by 3 per cent, it raised its own lending rates by 1–1½ per cent with effect from December 1975, in respect of the unrealised amount of loans sanctioned prior to the introduction of the differential interest rate structure.

HUDCO's Present Interest Rate Structure

	Category	Effective rate of interest*	Percentage of loan funds to be provided
1.	EWS	5%	30
2.	LIG	7%	25
3.	MIG..	9.5%	25
4.	HIG..	11.5%)	
5.	Commercial	14%)	20

* After providing for a rebate of ½% p. a. for prompt repayment.

Source : Memorandum received from HUDCO.

5.22 When HUDCO was set up in 1970, the Government had recognised that its operations, which involve implementation of social low cost housing, would call for a subsidy. Accordingly, the Government compensates HUDCO for its losses on account of low interest rate charged for EWS housing and also gives it subsidy to meet its administrative expenses, as per an agreed formula.

5.23 The major sources of funds for HUDCO are borrowings from the market and GIC/LIC, paid-up capital and reserves and repayment of its loans. Within a short period of its existence HUDCO has succeeded in building up its resources to the extent of Rs. 85.37 crores. Of this amount, Rs. 14.27 crores represent its paid-up capital and reserves, Rs. 33.00 crores have been borrowed from LIC and the remaining amount (Rs. 38.10 crores) has been raised through issue of debentures. State-wise distribution of housing loans sanctioned and released by HUDCO since its inception upto end-March 1977 are shown in Table 5.

TABLE 5

State-wise Distribution of Loans by HUDCO upto end-March 1977

(Rs. crores)

State/Union Territory	Amount[1] Sanctioned	Amount Released	
		Gross	Net
1. Andhra Pradesh	9.97	3.72	2.39
2. Bihar	8.66	1.83	0.86
3. Gujarat	27.75	14.10	8.38
4. Haryana	12.13	8.28	5.15
5. Himachal Pradesh	1.31	0.94	0.81
6. Jammu & Kashmir	4.03	0.98	0.11
7. Karnataka	18.89	7.92	5.31
8. Kerala	3.85	3.25	2.71
9. Madhya Pradesh	18.05	10.99	7.78
10. Maharashtra	17.93	11.85	7.63
11. Orissa	4.85	1.30	1.06
12. Punjab	9.78	4.64	3.87
13. Rajasthan	18.12	10.97	8.62
14. Tamil Nadu	33.37	13.46	10.75
15. Uttar Pradesh	30.79	17.64	8.57
16. West Bengal	10.25	2.93	2.67
17. Chandigarh	2.17	0.13	0.13
18. Delhi	11.22	8.88	4.75
19. Goa, Daman & Diu	0.11	0.02	—
20. Pondicherry	0.17	—	—
Total:	**243.40**	**123.83**	**81.55**

Source : Memorandum received from HUDCO

1. At the end of November 1977, HUDCO's total loan commitment was of the order of Rs. 280.9 crores.

5.24 It will be seen from the above table that there are not only wide differences in the amounts of loans sanctioned by HUDCO to various States but the amount released, both gross and net of repayment, in several cases fall short of the amounts sanctioned. There are many reasons for this including constraints on HUDCO's financial resources and absorptive capacity of different States caused by administrative and other factors.

5.25 HUDCO loans have neen sanctioned for construction of 182,042 dwelling units, 3,635 non-residential units and for development of 34,350 plots, involving a total investment of Rs. 335.04 crores. In recent years, HUDCO has laid great emphasis on the construction of low cost houses. Out of the 185,972 houses (residential and others) sanctioned upto March 31, 1977, 95,540 houses (51.4%) are meant for EWS, 56,397 (30.4%) for LIG, 28,035 houses (15.1%) for MIG, 2,388 houses (1.3%) for HIG and 3,612 houses (1.8%) for others.

5.26 HUDCO's own experience as well as that of Housing Boards shows that unless the houses meant for EWS or LIG are built at a really cheap cost, which they could afford to pay, the possibility is that such houses would be occupied by relatively better-off classes. Keeping this factor in mind, as well as its own limited resources position, HUDCO decided to place ceilings on cost of houses meant for different income groups to be eligible for its loan assistance. As a result of the new lending pattern, the loan available from HUDCO is 100% for a house costing upto Rs. 5,000 and the proportion decreases progressively with every increase in the cost of a house. HUDCO has evolved and circulated among the construction agencies designs for cheap houses, with a view to proving the practicability of these ceilings on costs.

5.27 With a view to overcoming the difficulties arising from the scarcity of traditional building materials and the high cost of construction, HUDCO is trying to standardise building components and encourage the use of cheap and locally available building materials. A Research & Advisory Committee set up by HUDCO reviews the latest construction techniques before recommending their adoption by the construction agencies. HUDCO also works in close liaison with research institutions like the Central Building Research Institute, the Structural Engineering Research Centre and National Buildings Organisation and passes on the benefits of their research to the construction agencies. Besides providing finance for housing, HUDCO also assists in the production and supply of building materials. Thus, to augment supplies of such materials, HUDCO has sanctioned loans for the production of good quality bricks, quick and hydrated lime and timber components.

5.28 Apart from acting as a financing institution, HUDCO has also undertaken construction of flats for weaker sections in Calcutta and handed them over to the

State Housing Board for allotment to eligible applicants. Besides, it is planning to provide financial assistance to the State Governments for building repairs and reconstruction.

5.29 To sum up, within a short span of its working, HUDCO has endeavoured to meet the housing needs of the EWS and LIG. However, further expansion in its activities depends upon its ability to raise additional financial resources. Its ability to raise the resources is somewhat limited, depending upon the availability of finance from the sources which it generally taps. Thus, HUDCO suffers from resources constraint. Secondly, HUDCO's cost of raising finance varies, depending upon from whom it is raised, the form of finance (direct or indirect) and when it is raised. This creates difficulties for HUDCO in framing its own lending rate policies. Finally, HUDCO needs to be strengthened organisationally if it has to play a still greater role in implementing a national housing policy in all parts of the country, particularly in rural areas.

Central and State Governments' Social Housing Schemes

5.30 Under the Indian Constitution, though the subject of housing falls within the State List, the assistance for housing is provided jointly by the Central and State Governments in view of the colossal size of the housing problem. Apart from setting up an apex housing finance institution viz, HUDCO discussed above, the Central Government has introduced, from time to time, various social housing schemes. The role of the Central Government vis-a-vis these schemes is confined to laying down broad principles, providing necessary advice and rendering financial assistance in the form of loans and subsidies to the State Governments/Union Territories and watching the progress of these schemes. The State Governments and the Union Territory Administrations have been vested with full powers to formulate, sanction and execute the projects under these schemes and also to release financial assistance therefor to the concerned construction agencies. Since the beginning of the Fourth Plan, all Central financial assistance is given to the States in the form of 'block grants' and 'block loans' for all State sector schemes (including housing schemes), without being tied to any particular head of development or scheme. The State Governments are thus free to utilise the Central financial assistance for any State Plan scheme according to their own requirements and priorities.

5.31 The salient features of the schemes formulated by the Central Government and implemented by the State Governments ar. briefly described below.

(a) Subsidised housing scheme for industrial workers and economically weaker sections of the ociety

5.32 Originally, when the Scheme was introduced n 1952, it was restricted only to eligible industrial workers whose wages did not exceed Rs. 350 per month. Subsequently, in April 1966, the housing programme for the economically weaker sections of the community was also integrated with this Scheme. All persons with income not exceeding Rs. 350 per month are entitled for allotment of houses under this programme, but the first priority is given to those whose monthly income is upto Rs. 250. The income limit for eligibility for initial allotment of houses built under this Scheme has now been raised to Rs. 500 p.m., subject to payment of some additional charges by allottees in the monthly income group between Rs. 350 and Rs. 500. All those agencies, which build houses for their workers and for the economically weaker sections of the society, are eligible for financial assistance in the following manner:

	Loan	Subsidy	
i) State Governments, Statutory Housing Boards and local bodies	50%	50%)	
ii) Registered co-operative societies of eligible		)	of the
industrial workers	65%	25%)	approved
iii) Industrial employers	50%	25%)	cost of houses

5.33 Industrial employers or co-operative societies willing to construct houses under the scheme are required to contribute a part of the cost of the housing project from their own resources and can apply for the remaining amount to their respective State Governments. For repayment of such loans to the Central Government, the State Governments are held responsible. As regards the loans given directly to the State Governments, these are repayable over a period of 15 years and the rate of interest is 8.5% per annum. The type of accommodation, standard of construction, ceiling costs and the rent of tenements built under the scheme are decided by the Ministry of Works and Housing.

5.34 As of March 31, 1977, 247,598 houses had been sanctioned for construction under this scheme and of these, 184,094 had been already completed.

(b) **Low Income Group Housing Scheme**

5.35 The scheme was introduced in 1954. It provides for loan assistance to persons whose annual income does not exceed Rs. 7,200 and to the co-operative societies formed by such persons for the construction of residential houses. Other bodies constructing houses for low income groups like co-operative tenancy societies, public institutions run on no-profit no-loss basis, health institutions, educational trusts and institutions, charitable institutions, local bodies, State Governments and Union Territory Administrations and their designated bodies are also eligible for loan assistance under this scheme.

5.36 In the case of individuals and their co-operative societies, the loan amount is restricted to 80 per cent of the cost of a house (including the cost of developed land) with a maximum of Rs. 14,500 ; as regards other borrowers referred to above, the loan assistance is 100 per cent of the cost of construction of a house (including the cost of developed land), subject to a ceiling of Rs. 18,0(0 per house. The loan is repayable in 20 equal annual instalments and the rate of interest is 7% per annum.

5.37 Upto March 31, 1977, loans were sanctioned for construction of 332,328 houses under this scheme and of these, 258,075 houses were already completed.

(c) **Subsidised Housing Scheme for Plantation Workers**

5.38 Originally, when the Scheme was introduced in April 1956, planters were given loans through the State Governments to the extent of 80 per cent of the ceiling cost of a house for their workers and the balance 20 per cent was to be contributed by the planters themselves. In July 1967, the scheme was modified to provide for financial assistance to the extent of 75 per cent of the approved cost, comprising 50 per cent as loan and 25 per cent as subsidy. Since the beginning of the Fourth Plan, the scheme has been transferred from the State sector to the Central sector, Now the loan assistance has been fixed at 50 per cent and the subsidy has been enhanced to 37.5 per cent, which means the planters have to find resources only to the extent of 12.5 per cent of the cost. Loan is repayable in 15 annual instalments and carries the interest rate of 6 per cent per annum.

5.39 Upto March 31, 1977, construction of 18,849 houses has been sanctioned under the scheme ; of these, 8,856 houses have been completed.

(d) **Slum Clearance and Improvement Scheme**

5.40 The Scheme, introduced by the Governmnet of India in 1956, provides for the acquisition of slum areas and the rehousing of families of slum dwellers whose income does not exceed Rs. 350 per month and the improvement of environmental conditions in existing slums. Under the scheme, the State Governments are given financial assistance to the extent of 87.5 per cent of the approved cost of the project (50 per cent as loan and 37.5 per cent as subsidy); the remaining 12.5 per cent is to be provided by the State Governments/local bodies as their share of subsidy. In addition to 37.5 per cent subsidy referred to above, another 12.5 per cent subsidy is admissible to the State Governments, if the slum dwellers to be rehoused belong to the scheduled castes/scheduled tribes.

5.41 Under this scheme, the State Governments and the local bodies provide open developed plots, skeletal houses, dormitory/hostel type of accommodation or pucca dwelling units to the slum dwellers. The cost of dwelling units ranges between Rs. 1,850 and Rs. 8,750 per unit and the subsidised rent varies between Rs. 6 and Rs. 39 per month, depending upon the type of construction and the location.

(e) Environmental Improvement of Slum Areas

5.42 The main objective of the scheme, introduced by the Government of India in 1972, is to provide basic amenities such as, water supply including drinking water taps, sewers, storm water drains, community baths, latrines, street lighting and widening and paving of lanes. The scheme is applicable only to those slum areas, which are not to be taken up for clearance during the next 10 years.

(f) Village Housing Projects Scheme

5.43 The scheme, which was introduced in 1957, provides for grant of loans to individuals and co-operatives for construction and improvement of their houses in villages. The amount of loan is restricted to 80 per cent of the cost of construction, subject to a maximum of Rs. 5,000 per house. The loan carries an interest rate of 7.5 per cent per annum and is repayable in easy instalments, spread over a period of 20 years.

5.44 Upto March 31, 1977, loans were sanctioned under this scheme for construction of 98,369 houses of which, 64,754 houses have been already completed.

(g) Middle Income Group Housing Scheme

5.45 Under this scheme, introduced in 1959, financial assistance is available to individuals in the income range of Rs. 7,201 to Rs. 18,000 per annum or co-operatives formed by such members for the construction of houses. The assistance is also available for construction of houses for selling them on outright cash basis or on hire purchase basis or for renting them to the eligible persons.

5.46 Individuals or co-operatives are eligible for loan assistance to the extent of 80 per cent of the cost of a house or Rs. 27,500, whichever is less. In the case of State Governments, local bodies and their designated agencies, constructing houses for the middle income groups, loan assistance to the extent of 100 per cent of the cost of construction of a house is granted. The loan is repayable in 20 equal annual instalments and carries the rate of interest of 8.5 per cent per annum.

5.47 As of March 31, 1977, loans had been sanctioned under this scheme for the construction of 48,446 houses, of which 38,392 houses had been already completed.

(h) Rental Housing Scheme for State Government Employees

5.48 The scheme was introduced in 1959 with a view to assisting the State Governments to provide adequate housing accommodation to their employees. The State

Governments are required to utilise the funds received under this scheme exclusively for the construction of houses for their employees. Since these houses are to be allotted by the State Governments to their employees on a rental basis, ownership of the houses continues to vest with the State Governments themselves. While undertaking the construction of houses, the State Governments are required to give first preference to the housing needs of their low paid cmployees.

5.49 Upto March 31, 1977, construction of 34,109 houses had been undertaken by the State Governments. Out of these, 29,935 houses had been already constructed.

(i) Land Acquisition and Development Scheme

5.50 The scheme, introduced in 1959, envisages grant of financial assistance to the State Governments for large scale acquisition and development of urban land to enable them to develop the plots and make them available at reasonable prices to those intending to build houses for lower income groups, specially to co-operative housing societies. The scheme is designed to stabilise land prices in urban areas, rationalise urban development and promote self-contained composite housing colonies in urban areas. Under the scheme, the State Governments are required to give out land on lease-hold basis to avoid speculation. So far, the State Governments have acquired 32,012 acres and developed 15,843 acres of land.

(j) Provision of House-sites to Landless Workers in Rural Areas

5.51 The scheme aims at assisting the State Governments and Administrations of Union Territories to provide house-sites free of cost to families of landless workers in rural areas, who do not have a house or a hut or land of their own. Landless workers are required to build their houses or huts on these sites with their own resources or with the assistance of voluntary organisations. The scheme, which was introduced as a Central Government scheme in 1971, was transferred to the State sector with effect from April 1, 1974.

5.52 The entire cost of acquiring and developing land for providing house-sites to the families of landless rural workers is met by the Government of India as 100% grant assistance and is made available to the State Governments outside their Plan ceilings. However, expenditure incurred for administering and implementing the scheme is to be borne by the State Governments/Union Territories from their own resources. The State Governments are required to include a specific clause in the agreement/deed transferring house-sites to the allottees that they are precluded from selling, mortgaging or otherwise transferring their rights in the plot to a third party. The States are also required to give preference to such Blocks in the Districts, which have a sizeable concentration of landless rural labourers, particularly those belonging to the scheduled castes and scheduled tribes.

5.53 According to the latest information, 18 States and 6 Union Territories are at present implementing this scheme and they have allotted so far nearly 7.5 million house-sites to the landless rural labourers.

(k) Other Assistance for Housing

5.54 Apart from providing financial assistance under the various social housing schemes referred to above, the Government of India also gives housing advances to its own employees. Since the inception of this scheme in 1956, till the end of March 1977, the Government of India has sanctioned loans to the tune of Rs. 101 crores to 51,426 employees.

5.55 Besides, the Central Government has constructed residential quarters at various important centres for allotment to its employees. The number of such dwelling units at the end of March 1977 was 52,128, of which 41,522 were in Delhi alone. Incidentally, this figure does not include the housing units built by various public sector undertakings, e.g., Railways, Posts & Telegraphs, Defence Department, etc., for their employees.

5.56 It will be seen from the above that the Central Government has framed several social housing schemes, which are administered and implemented by the State Governments and the Union Territories with the help of financial assistance provided by the Government of India. However, as pointed out in Chapter 4, despite larger allocation of financial resources by the Central and State Governments, the undeniable fact is that the share of housing in total investments has been declining continuously from Plan to Plan.

Role of State Governments in Providing Housing Finance

5.57 All the above housing schemes, excepting the one for plantation workers, which is in the Central sector, are implemented by the State Governments and the Administrations of the Union Territories with the help of financial assistance provided by the Central Government and by raising their own resources. Some States have formulated their own schemes for providing houses to the poor and those belonging to backward classes. In this connection, special mention may be made of housing schemes of the Governments of Kerala, Tamil Nadu, Andhra Pradesh, Gujarat, Assam and Karnataka. The State Governments provide funds for housing in three different ways, viz., (i) direct expenditure on construction of rental houses for Government employees, (ii) loans to State Housing Boards or other agencies for constructing houses for different income groups and (iii) advances to Government employees for construction of their own houses.

5.58 Statement 1 (pp. 70-73) presents the data on State Governments' expenditure on housing, along with their total expenditure on revenue and capital account during 1972-73 to 1976-77. It would be seen therefrom that in 1976-77, out of the 22 States, only 6 States spent relatively sizeable amounts on housing, viz., Maharashtra, Punjab, Tamil Nadu, Gujarat, Karnataka and Uttar Pradesh. Taking all States together, however, their expenditure on housing as a percentage of total expenditure on revenue and capital account was only 1.2% despite the fact that the expenditure on housing during 1976-77 was the largest so far.

5.59 Insignificant allocation of funds for housing indicates insufficient resources available with the States to meet their current and investment expenditure. Secondly, States generally attach more importance to sectors like irrigation, power and industrial projects than to housing, in accordance with the Plan priorities.

Role of State Housing Boards

5.60 At the State level, Housing Boards are the most important agencies which are instrumental in implementing the Government's housing schemes for EWS, LIG and MIG. So far, 16 State Governments and 3 Union Territories have set up Housing Boards. Draft Bills for setting up two more Housing Boards, one in Tripura and another in Union Territory of Andaman and Nicobar Islands, have been already prepared. Apart from building cheap houses for the weaker sections of the society as well as for low and middle income groups, in some States, the Boards are also entrusted with the execution of Government's Land Acquisition & Development Schemes and housing improvement or building schemes on behalf of local authorities or co-operative societies. In certain States, Housing Boards have also set up brick plants, stone crushing plants and plants for wood work. Besides, certain Housing Boards sanction long-term loans to housing co-operative societies or individuals for construction of houses on their own plots.

5.61 It would be seen from Statement 2 (pp. 74–77) that Housing Boards have diversified their sources of finance, following a large increase in their construction activities. In case of certain Housing Boards, like Maharashtra Housing Board, the element of internal resources is substantially high (74.6 per cent of the total in 1976–77). Some Housing Boards have also attempted to raise financial resources by accepting deposits from the public, e.g. in Tamil Nadu, Gujarat, Madhya Pradesh, but the amount of deposits so raised is not substantial. A part of their resources comes from the State Governments out of the financial assistance recived from the Central Government for implementing various social housing schemes. For the rest of their financial needs, Housing Boards issue bonds/debentures guaranteed by the State Governments or without a State Government guarantee—the latter carrying a relatively higher interest rate.

5.62 The need for unguaranteed bonds arises because of the State Governments' inability to provide adequate funds for housing out of the quota of market borrowings determined for each State. In this connection, it may be mentioned that the public borrowing programme of each State Government is determined by the Ministry of Finance in consultation with RBI and Planning Commission. Thus, it is the prerogative of each State Government to allocate funds so raised to various projects.

5.63 The Group has been informed that some Housing Boards find it difficult to avail themselves of the loans from HUDCO, which insists on mortgage of property or guarantee by commercial banks or State Governments. They have to give guarantee to HUDCO because they are not always in a position to provide the mortgage of their properties upto 133 1/3 per cent of the loan amount and heavy stamp duty adds to the cost of borrowing. On the other hand, State Governments cannot give a guarantee because RBI has put a ceiling of 8.5 per cent on interrest rate for loans to State-sponsored bodies (like Housing Boards) by LIC, HUDCO, etc.

5.64 Put in its correct perspective, only such loans as are meant for MIG and HIG housing would need to be covered by a mortgage. It is HUDCO's policy to encourage maximum investment in EWS and LIG housing, the loans for which carry interest at less than 8.5 per cent annum and can be covered by Government guarantee. If Housing Boards, etc., want loans from HUDCO at higher interest rates, there are two alternatives which can be suggested: (a) composite schemes can be devised on which the weighted average rate of interest works out to below 8.5 per cent, (b) stamp duties, etc., on mortgages for loans obtained by Housing Boards, etc., from HUDCO and other financial institutions can be waived or substantially reduced by State Governments.

5.65 The Group took note of the difficulties experienced by banks in giving guarantees for loans granted by HUDCO. Firstly, the amounts to be guaranteed are large, and, secondly, there is no collateral or counter guarantee to protect banks' interests.

5.66 By and large, Housing Boards have done quite a good job of providing houses to EWS, LIG and MIG. But their activities are confined mainly to urban areas and even in these areas they have touched only a fringe of the housing problem mainly due to constraints on their financial and organisational resources.[1] Some parties with whom the Group had discussions complained about the

1. Government of India, Ministry of Works and Housing has recently set up a Working Group to study in depth the problems being faced by the Housing Boards in India.

poor quality of houses built by the Housing Boards and about irregularities of accounts. Housing Boards, on their part, pointed out that the quality of of houses had to be lowered because of the paucity of resources. In fact, some of the Boards had to switch over their activities to construction of hire-purchase or ownership houses so that they do not have to face the problem of arrears of rent. It may also be noted that a few Housing Boards could not avail of the loan facilities offered by HUDCO and commercial banks because they did not have proper housing projects.

Role of Co-operative Agencies in Housing Finance

5.67 Private enterprise, which operates on the basis of profit, cannot be expected to cater to the housing needs of EWS, LIG, and MIG whose purchasing power and repayment capacity are very low. Government had, therefore, to intervene to fill up the gap and construct suitable houses for such people. However, despite the introduction of several housing schemes for poor and low income groups, the housing shortage in the country has continued to aggravate due to insufficient provision of financial resources by Government in the context of competing demands for funds from other priority sectors of the economy. Government, therefore, considered it necessary to use co-operative housing agencies for implementation of its housing policies and to encourage the people to solve their housing problem through their own efforts. This is how the co-operative housing movement was initiated in India about 60 years ago.

5.68 The co-operative housing societies have a two-tier structure : the State level apex finance society and primary societies. Primary societies are of three types, viz., (i) tenant ownership housing societies, (ii) tenant co-partnership housing societies, (iii) house mortgage societies or house construction societies. In the case of tenant ownership societies, land is held by the societies and houses are owned by the members. As for tenant co-partnership societies, both land and buildings are held by the societies and the members are given only the right of permanent occupation, subject to rules and regulations of the society. In the case of house mortgage societies, they lend money to their members, who in turn have to make their own arrangements for building their houses. House construction societies build houses for their members and the money so spent is recoverd as a loan from them.

Apex Housing Finance Societies

5.69 At the end of June 1975, there were seventeen[1] State level apex co-operatives in the country and 25,633 primary housing societies, The state level apex co-

1. Including one separate apex society in Karnataka for financing housing societies for scheduled castes and scheduled tribes,

operatives play a significant role in providing financial assistance to primary co-operatives in their respective States. They also provide guidance and advice in administrative, legal and technical maters, help them in procuring building materials and assist them in general coordination and supervision of their activities. Table 6 shows the latest available data for apex housing finance societies.

TABLE 6

Appex Housing Finance Societies (Position at end-June 1975)

(Amounts in Rs. Crores)

1.	No. of Apex Housing Societies	17
2.	Total Working Capital	223.57
3.	Paid-up Share Capital	24.10
4.	Total Borrowings	179.81
5.	Loans Outstanding	202.48

Source: Statistical Statements Relating to Co-operative Movement in India, 1974-75 (Part II).

5.70 It will be seen from the above Table that the total working capital of apex housing societies amounted to Rs. 223.57 crores, bulk of which comprised their borrowings (Rs. 179.81 crores). Their owned funds amounted to only Rs. 24.10 crores. LIC has been the most important source of borrowings for the apex societies; it accounted for as much as 87.4 per cent of their total borrowings. LIC grants loans to the apex societies on the guarantees of their respective State Governments. Incidentally, in certain States, Goverment guarantee is available to the apex societies on the condition that a fixed percentage of their loan amount is advanced to the primary co-operative societies formed by the low income groups.

5.71 The apex housing societies' ability to grant loans to the primary housing societies in their respective States depends upon the availability of funds with them. Occasionally, apex housing societies are compelled to curtail their operations due to uncertainty of securing necessary finance from LIC and their inability to raise funds from alternative sources. At the end of June 1975, apex housing societies' outstanding loans to primary societies amounted to Rs. 202.48 crores. While granting loans to the primary societies, apex housing societies prescribe certain conditions, which the former should fulfil. Loan is generally available only for construction of new houses by the primary societies for their members and not for purchase of land or for addition and repairs to existing houses. The maximum amount of loan admissible to a primary society is subject to a fixed proportion of the cost of construction and also a multiple of the income of members of the primary society. Most of the apex housing societies impose ceilings on the cost of construction of a dwelling as well as on the carpet area to be built. The loan amount sanctioned to the primary society is disbursed in three or four instalments at different stages of construction. Loans are to be repaid by the primary societies within a maximum period of 20 years, in quarterly or monthly instalments. Apex housing societies charge about 9 per cent interest on their loans to primary societies and the latter can charge to their individual borrowing members 1-1.5 per cent higher than the rate at which they themselves borrow from the apex societies. Apex societies grant loans to they primary societies against the security of land and building. For this purpose, English mortgage is obtained by creating a first legal charge in favour of the financing agency. In some States, there is also a system of securing the loan by an equitable mortgage.

5.72 Apart from granting loans to the primary societies, apex housig societies also help them in (i) the investigation of the title to land, (ii) drawing up of mortgage and other documents, (iii) scrutiny of plans and estimates of housing pro jects and (iv) inspection of housing projects through their technical experts, so as to ensure proper utilisation of the funds and to minimise the risk of their misappropriation

Primary Housing Societies

5.73 Table 7 shows the performance of primary housing societies, most of which function in metropolitan and urban areas.

5.74 It will be seen from this Table that nearly half of the borrowings by primary societies are from the apex housing societies. Another important source of their borrowing is District Central and State Co-operative Banks, mainly in the form of bridge finance. Primary housing societies also get financial assistance from the Central and State Governments towards the implementation of various social housing schemes. LIC and HUDCO also provide direct loan assistance to the primary societies. Other sources of their funds are acceptance of fixed deposits, loans from private sources, etc. Their borrowings from private sources are in the nature of temporary advances and as such do not meet the long-term investment needs of housing. Primary societies are also permitted to raise resources through issue of bonds/debentures but so far hardly any society has availed of this source of funds.

5.75 Apart from borrowing from various sources referred to above, primary housing societies also mobilise resources from their members in two ways. Firstly members of the primary society are required to contribute a certain amount towards share capital, which is linked with their borrowings from the society. Se-

TABLE 7

Primary Housing Societies (Position at end-June 1975)

(Amounts in Rs. Crores)

1. No. of Primary Housing Societies	25,633
2. Membership	16,36,441
3. Paid-up Share Capital	46.61
4. Reserve Funds and Other Reserves	12.28
5. Total Borrowings from :	**350.70**
a) Apex Housing Societies	157.89
b) Central & State Governments	38.83
c) District Central Co-operative Banks and State Co-operative Banks	74.63
d) LIC	4.49
e) HUDCO	3.86
f) Others	71.00
6. Total Working Capital	637.45
7. Loans Outstanding to Members	125.92
8. Investment in Land and Buildings	437.03
9. Total Housing Units Constructed	**3,52,283**
a) By Primary Societies	2,84,961
b) By Members	67,322

Source : Statistical Statements Relating to Co-operative Movement in India, 1974-75 (Part II)

condly, all members of the primary society are required to meet a part of the cost of housing project (20-40 per cent), as their initial contribution or down payment. If borrowings and owned funds of primary societies are excluded from their total working capital, the balance amount (Rs. 227.86 crores) represents the funds brought in by members for investment in housing.

State-wise Position of Primary Housing Societies

5.76 Table 8 shows the State-wise position of primary housing societies as on June 30, 1975.

TABLE 8

Primary Housing Societies State-wise Position

(At end-June 1975)

(Amounts in Rs. Crores)

		No. of Societies	Membership	Owned Funds	Outstanding Loans	Outstanding Borrowings
A.	**States**					
1.	Andhra Pradesh	1,133	1,63,032	2.50	–	14.71
2.	Assam	–	–	–	10.94	–
3.	Bihar	108	13,894	0.34	0.35	0.44
4.	Gujarat	5,914	1,95,554	16.99	47.29	134.02
5.	Haryana	109	9,285	0.29	0.31	0.35
6.	Himachal Pradesh	5	129	–	–	–
7.	Karnataka	1,104	2,55,389	4.02	16.42	17.85
8.	Kerala	145	21,247	1.05	3.20	3.64
9.	Madhya Pradesh	578	48,745	1.35	2.92	4.92
10.	Maharashtra	10,631	3,90,216	17.49	9.98	113.73
11.	Orissa	466	25,295	0.29	1.14	1.38
12.	Punjab	543	22,809	1.42	1.26	1.43
13.	Rajasthan	1,683	84,704	0.97	2.15	3.94
14.	Tamil Nadu	1,218	2,46,159	9.54	24.00	44.12
15.	Tripura	3	231	0.01	–	–
16.	Uttar Pradesh	806	38,998	0.40	0.34	0.39
17.	West Bengal	590	40,092	0.66	4.21	7.06
B.	**Union Territories**					
18.	Chandigarh	156	4,160	0.02	–	–
19.	Dadra& Nagar Haveli	3	60	–	–	–
20.	Delhi	393	73,042	1.23	0.48	0.96
21.	Goa, Daman & Diu	40	924	0.12	–	0.78
22.	Pondicherry	5	2,476	0.20	0.93	0.98
	Total	**25,633**	**16,36,441**	**58.89**	**125.92**	**350.70**

Source: Statistical Statements Relating to Co-operative Movement in India, 1974-75 (Part II).

5.77 It would be seen from Table 8 that the spread of co-operative housing movement is by and large concentrated in Maharashtra, Gujarat and Tamil Nadu, followed by Karnataka and Andhra Pradesh. These States together account for more than three-fourths of the number of primary societies organised in the country as well as members of these societies. The significant role played by these primary societies in financing housing construction in their respective States can be seen from the fact that they account for the bulk of the working capital and outstanding loans of all the primary societies in the country.

Urban Co-operative Banks

5.78 Apart from district and central co-operative banks which provide mainly bridge finance to primary housing co-operative societies, urban co-operative banks also play a useful role in the provision of housing finance. However, unlike commercial banks, urban co-operative banks can give loans only to their members. Secondly, they are prohibited from subscribing to non-guaranteed bonds of any institution like housing boards.

5.79 Despite these limitations, urban co-operative banks are playing a useful role in providing finance to their members to meet the requirement of margin money to acquire a house or to construct their own house. In the former case, only a bridge finance is extended against the guarantee of sureties or against the security of units of the Unit Trust of India, insurance policies, etc. In the latter case, since the loan is for construction of a house it is given for a maximum period of 7 years against the first mortgage of land and building constructed by the member. No data relating to housing finance provided by the urban co-operative banks are readily available. Nevertheless, their role is quite significant.

5.80 Till recently, some urban co-operative banks used to finance a few urban co-operative housing societies also. These loans were granted for a period of 7 years with a margin of 50 per cent against the first mortgage of land and buildings of the society. However, the Group was informed that urban co-operative banks are not permitted to give term loans for more than 7 years. In addition, ceilings have been placed on the allocation of resources for housing loans. Further, these banks have to obtain permission of the Registrar in case of each society for granting such loans. The Group suggests that these restrictions may be reconsidered by the authorlties in order to enable urban co-operative banks to continue to play their role in providing housing finance and also to grant such loans more expeditiously.

5.81 We have discussed above the important role played by various co-operative housing institutions in meeting the housing needs of the LIG, MIG, etc. However, their activities are confined mainly to urban areas and are concentrated in a few States. Their heavy dependance on LIC or HUDCO for borrowings and inability to raise additional resources on their own are the most important factors, which inhibit them from expanding their role in providing houses to the needy people. Also, there are complaints that the benefit of loans given by many co-operative housing societies has accrued to the well-to-do-sections of the society and that even private builders have managed to get loans from them.

5.82 Non-availability of finance in time forces many primary societies to suspend their construction projects. In the meantime, cost of building materials goes up and sometimes they are not at all available in the open market. This leads to a conflict with the building contractor entrusted with the construction job, when he demands higher rate or totally stops construction because his dues have not been paid. The consequent litigation between the two parties not only delays the project but also enhances its cost to a level which far exceeds the original estimate.

5.83 Primary societies have also to face the problem of dealing with some unscrupulous builders and contractors. Because of their inexperience, the promoters and members of the managing committee of the society get duped by such contractors. When this point was discussed with some builders, their reaction was that there are always some unscrupulous persons in every trade and it is the duty of the primary societies to deal only with reputed builders or contractors. According to them, builders' organisation tries to inculcate discipline and honest business practices among its members.

5.84 Another difficulty faced by the primary societies is about getting suitable land sites and building materials like cement, steel at reasonable rates. Both these problems can be solved if the Government makes available surplus land at its disposal for the primary societies and earmarks some quota of cement, steel, etc., exclusively for allotment to them.

Housing Advances by Provident Fund Organisation

5.85 A number of provident fund schemes are in vogue in the country, which cover wage and salary earners in both public and private sectors either under some statute or on voluntary basis. Provident fund collections under various schemes have increased from Rs. 357.83 crores during 1972-73 to Rs. 810.85 crores during 1976-77.[1]

5.86 Amounts collected from employees under various provident fund schemes are to be invested by the provident fund organisations as per Government's policy in this regard. Investment pattern prescribed by the Government for July 1975 to March 1976 and which continues to date is as follows:

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1. Provident fund collections by the Central and State Governments are not included in these figures because these are considered as resources committed by the Government for investment in various national developmental programmes. Also, 1976–77 figures are estimates.

(1)	Central Government securities	Not less than 25%
(2)	State Government securities	Not less than 25%
(3)	Post Office time deposits and small savings and approved securities	Not exceeding 30%
(4)	Special Deposit Schemes	Not exceeding 20%

Source: Employees' Provident Fund Organisation, Annual Report, 1975-76.

5.87 The provident fund represents a social security measure and hence its essential purpose is to accord protection to workers in a situation when they are unable to work because of illness, accidents, invalidity or old age. Another purpose of the provident fund is to enable the workers to meet their family responsibilities like marriage of their daughters, higher education of children, construction of a dwelling house, etc. Table 9 shows non-refundable advances given by the provident fund organisations to the employees for various purposes.

TABLE 9

Purpose-wise Classification of Non-Refundable Advances by Provident Fund Organisation

(Rs. lakhs)

		1974-75	1975-76
1.	Financing of LIC Policies	77.70	83.91
2.	House Building, etc.	215.08	288.50
3.	Purchase of shares of housing and other co-operative societies	0.41	0.18
4.	During temporary closure of establishment	24.16	116.43
5.	Illness of family members	42.97	66.99
6.	Daughters' marriage/higher education of children	268.86	555.22
7.	Damages to movable/immovable property due to certain exceptional calamity	0.30	30.68
8.	Unemployment relief to retrenched members	0.36	0.01
9.	Others	8.68	28.70
	Total	**638.52**	**1,170.62**

Source : Employees' Provident Fund Organisation, Annual Report, 1975-76.

5.88 It will be seen from the above data that out of total advances for various purposes during 1975-76, nearly 50 per cent were for daughters' marriages and higher education of children. Next in importance were advances for house building, etc., which accounted for about 25 per cent of total advances. However, the proportion of advances for housing to total provident fund collections was insignificant (vide Table 10).

TABLE 10

Advances for Housing by Provident Fund Organisation

Year	Advances (Rs. crores)	Housing Advances as % of total Provident Fund collections
1971-72	1.25	0.35
1972-73	1.53	0.39
1973-74	1.66	0.40
1974-75	2.15	0.43
1975-76	2.89	0.89

Source: Employees' Provident Fund Organisation, Annual Report, 1975-76.

5.89 The role of provident funds in providing assistance for housing is insignificant in relation to the size of annual net accretions to these funds. Their role can be expanded only if rules governing withdrawal of these funds are suitably amended. However, any alteration in investment policy with regard to these funds would affect other economic sectors and development projects in which these funds are presently being invested.

Housing Development Finance Corporation Ltd.

5.90 A new institution called the 'Housing Development Finance Corporation Ltd., (HDFC) sponsored by the ICICI has been registered under the Indian Companies' Act, 1956. It was inaugurated by the Minister of Finance on October 22, 1977. Its main objective is to provide loans for residential housing to individuals, groups, companies and co-operative societies in urban and rural areas. The Corporation will also consider housing estate development with a view to providing mass dwellings for the low and middle income families. Further, it will provide funds for construction of office buildings, shopping centres and other amenities, which form part of the housing schemes. In addition, the Corporation will provide loans to builders and contractors and will also consider proposals for major repairs to existing residential buildings. Thus, the Corporation will supplement the efforts of, and work in close co-operation with, existing agencies engaged in housing finance.

5.91 The Corporation's authorised share capital is Rs. 25 crores. But initially it will issue shares to the extent of Rs. 10 crores. This share capital will be taken up by financial institutions, LIC, GIC and industrial concerns. Later, the Corporation will offer a part of its share capital to the public. Some preferential treatment will be given to initial share-holders in providing them residential facilities. The Corporation would also mobilise resources by introducing attractive deposit schemes linked to assurance of housing loans or allotment of flats to such depositors. Besides, the Corporation expects substantial participation in its activities by the International Finance Corporation and large foreign commercial banks.

5.92 The Corporation would be managed by professionals and experts drawn from financial institutions, industries, etc. Normally, the Corporation would keep an average difference of 2 per cent between its borrowing and lending interest rates. Repayment of the loan would be in instalments extending from 5 to 20 years, depending upon the income of the borrower. Generally, a minimum margin of 20 per cent would be kept against the loan sanctioned by the Corporation.

5.93 In order to provide finance for low income group housing on reasonable terms, the Corporation would create a building fund by transferring every year 10 per cent of its profits after tax. This fund would be used for providing interest subsidy on housing loans extended to LIG.

5.94 The Corporation is expected to be commercially viable. Since it will have to compete for deposits with commercial banks and other institutions and will give loans at rates which will be 2 per cent higher on an average than the deposit rates, it will have to confine itself in the beginning to financing the construction of HIG and MIG houses.

Flow of Funds for Housing During the Next Five Years from the Existing Sources of Finance

5.95 We have reviewed above the performance of various agencies providing housing finance. We may now examine the prospects for flow of funds for housing during the next five years from these agencies.

5.96 LIC, which is the most important agency providing housing finance, had invested Rs. 81.35 crores in housing during 1976-77. Its investment in housing is estimated to be maintained at the same level during 1977-78. In the coming years, the investment is expected to be in the range of Rs. 90-100 crores at the most. This is based on the recommendations of the Working Group[1] appointed

1. Chairman : Shri V. B. Eswaran

by the Government of India in April 1975 to consider various aspects of LIC's investments in housing sector, it had suggested that LIC's investment in this sector should be consistent with the overall Plan priorities and keeping in mind the demand for funds from other important economic sectors like power, irrigation, etc.

5.97 As regards HUDCO, unless its resources are augmented sizeably, there is no possibility of any large increase in its loan assistance in the foreseeable future. Its financial resources inclusive of borrowings were of the order of Rs. 85.37 crores at the end of March 1977; as against this its own loan commitment is very large. It would not be out of place to mention here that during the greater part of 1975 HUDCO had to stop sanctioning new loans on account of the shortage of funds. However, it is making efforts to raise more resources for its expanding activities not only from within the country but also from international financial institutions like the World Bank. Secondly, the Working Group appointed by the Government of India in April 1975, to which reference has been made above, has recommended that LIC should grant more loans to HUDCO than hitherto. As in other countries, HUDCO should, in our view, develop into an apex housing bank so that it can co-ordinate the activities of other housing agencies and its own capacity to absorb funds is enhanced. We are also suggesting later that the State level and local specialised financial institutions affiliated to HUDCO should be developed.[1] The Group has made this recommendation because in its view the proposed institution would be able to mobilise fresh savings. At this stage, it is difficult to assess the precise quantum of such savings.

5.98 With regard to the Government's assistance for housing, an outlay of Rs. 600.92 crores is envisaged in the Fifth Plan on various housing programmes of the Central and State Government sectors. The actual outlays during the first three years of the Fifth Plan were Rs. 69.75 crores in 1974-75, Rs. 85.59 crores in 1975-76 and Rs. 99.85 crores in 1976-77. This means the balance amount of Rs. 345.73 crores would be available for housing in the next 2 years, i.e., 1977-78 and 1978-79. On this basis, we may assume that on an average about Rs. 150-175 crores per annum may be provided by the Central and State Governments during the next 5 years.

5.99 We have seen earlier that the main source of finance for primary housing co-operative societies is Apex Co-operative Housing Finance Societies and LIC. In turn, the Apex Co-operative Housing Finance Societies depend to a very large extent on loan assistance from LIC. However, the Eswaran Working Group

1. Refer Chapter 9

(referred to earlier) has *inter alia* recommended that in future, it would be desirable to restrict the flow of funds from LIC to Apex Co-operative Housing Finance Societies and, in turn, to primary housing societies, as major part of the funds flowing through them benefits comparatively well-to-do sections of the society. Consequently, in future, LIC's commitment may be limited to the financing of those Apex Societies, which take up housing schemes predominantly for low income groups and economically weaker sections of the society. If this recommendation of the Working Group vis-a-vis LIC's lending to Apex Societies is implemented, it may result in a reduction in the share of co-operative institutions in providing housing finance in future unless steps are taken to form co-operative societies of economically weaker sections of the society.

5.100 The role of provident fund organisations in providing housing finance has been extremely limited. We have seen earlier that non-refundable advances for housing were within the range of Rs. 1.25 crores and Rs. 2.89 crores during the five year period 1971-72 to 1975-76. Apart from these advances, provident fund organisations also invest a very small amount, say Rs. 2-3 crores, in the bonds and debentures of various Housing Boards. Under the circumstances, the share of advances from provident funds for housing sector cannot go up beyond the existing level unless the rules governing withdrawal and investment of these balances are liberalised, as recommended by the Working Groups on Resources for the Fourth and Fifth Five Year Plans.

5.101 The newly constituted HDFC projects to sanction Rs. 27 crores in the course of next five years. The attainment of this target will depend upon the resources it would be able to mobilise.

Summing up

5.102 The above analysis shows that there are various organisations in India which provide finance for housing but excepting HUDCO and Co-operative Housing Societies, none of them specialises in giving credit for the purpose of constructing or purchasing houses. LIC, which has provided the largest amount for the purpose, invests in the field as part of its overall investment policy which may not give overriding importance to the objective of solving the housing problem. This is true of provident funds too. In other words, these institutions are playing a useful role in providing housing finance but since they are not designed to work primarily as housing finance institutions, their policies do not have to coincide with the requirements of the solution to the housing problem. For instance, none of these institutions is active diretly in giving credit for rural housing. Interest rates on loans, which are very pertinent to investment in housing, are also determined with reference to the overall policy of these institutions and not primarily to the needs of the housing market.

5.103 Central and State Governments have a number of housing schemes, but considering the magnitude of the problem, they have not contributed significantly to reducing the shortage of housing in India. As pointed out in Chapter 4, the proportion of investment in housing to the total has tended to decline over the years.

5.104 HUDCO is a specialised institution and represents an effort to provide finance for housing in accordance with a national housing policy. However, this institution, too, has so far been active only in urban areas, although it now has plans to operate in rural areas also. The major constraint on the operations of the HUDCO is financial, more particularly the lack of consistent and even flow of funds. At the same time, the Group was informed during its discussions that in certain cases even when HUDCO was prepared to give loans to some Housing Boards or State Governments, the latter did not have suitable schemes to absorb the profferred facilities. Some States were of the view that insistence on uniform standards of housing in the context of vastly varying conditions in the country restricted the full utilisation of the loans made available by HUDCO. These are problems which can be solved by policy or procedural changes. The important point to notice is that HUDCO has to be provided with vastly increased resources if it is to meet the projected needs of housing credit.

5.105 This is true of co-operative housing finance societies also. As we have seen above, the performance of these societies in various States is very uneven. Also they have not penetrated the rural areas. There are also complaints of certain malpractices in the working of some co-operative housing societies. More important, the apex finance societies are not in a position to meet the demands from their members.

5.106 The upshot of the discussion, so far as the financial aspect is concerned, is that more resources have to flow to housing if the shortages are not to accentuate. Also, there is a lacuna in the institutional set up in India in so far as individuals do not find it easy to get direct loans from the institutions discussed above for building or constructing houses and undertaking repairs. Therefore, the institutional framework for the utilisation of funds will have to be developed and strengthened. The major financial institution, viz, commercial banks which are spread throughout the country have by and large not played a significant role in this field so far. The reasons for this phenomenon and the related apsects of the question are discussed in the following Chapters.

STATEMENT 1

State Government Expenditure on Housing

(Rs. Crores)

State	1972-73	1973-74	1974-75	1975-76	1976-77 (R.E.)
1. Andhra Pradesh					
a) Total Expenditure	518.46	566.61	597.43	782.88	933.16
b) Of which on housing	2.31	2.36	4.14	4.50	5.27
c) (b) as% of (a)	0.45	0.42	0.69	0.57	0.56
2. Assam					
a) Total Expenditure	213.13	216.73	203.50	240.11	269.24
b) Of which on housing	2.04	1.67	2.38	3.63	4.15
c) (b) as % of (a)	0.96	0.77	1.17	1.51	1.54
3. Bihar					
a) Total Expenditure	447.22	584.95	533.95	692.08	769.84
b) Of which on housing	N.A.	6.06	8.51	6.36	4.99
c) (b) as % of (a)	–	1.04	1.59	0.92	0.65
4. Gujarat					
a) Total Expenditure	429.70	472.35	548.30	581.00	729.27
b) Of which on housing	N.A.	5.46	7.18	8.27	10.79
c) (b) as % of (a)	–	1.16	1.31	1.42	1.48
5. Haryana					
a) Total Expenditure	198.89	233.33	257.50	304.14	349.55
b) Of which on housing	N.A.	1.39	1.58	2.08	2.32
c) (b) as% of (a)	–	0.60	0.61	0.68	0.66
6. Himachal Pradesh					
a) Total Expenditure	98.61	90.12	112.94	110.11	122.73
b) Of which on housing	0.85	1.40	1.80	1.45	1.43
c) (b) as% of (a)	0.86	1.55	1.59	1.32	1.17
7. Jammu & Kashmir					
a) Total Expenditure	154.73	170.58	168.55	217.80	248.00
b) Of which on housing	1.37	0.81	1.82	2.11	4.53
c) (b) as % of (a)	0.89	0.45	1.08	0.97	1.83

	1972–73	1973–74	1974–75	1975–76	1976–77
8. Karnataka					
a) Total Expenditure	473.03	560.19	513.86	646.40	721.24
b) Of which on housing	4.78	4.10	4.58	6.55	11.16
c) (b) as % of (a)	1.01	0.73	0.89	1.01	1.55
9. Kerala					
a) Total Expenditure	310.12	343.21	371.81	460.66	419.05
b) Of which on housing	5.33	3.40	3.92	2.52	3.43
c) (b) as % of (a)	1.71	0.99	1.05	0.55	0.82
10. Madhya Pradesh					
a) Total Expenditure	447.53	497.41	563.77	670.35	811.33
b) Of which on housing	4.86	5.88	7.15	5.34	7.61
c) (b) as % of (a)	1.09	1.23	1.27	0.80	0.94
11. Maharashtra					
a) Total Expenditure	880.22	1135.86	1105.26	1363.45	1606.67
b) Of which on housing	13.25	11.63	13.58	20.94	24.42
c) (b) as % of (a)	1.50	1.02	1.23	1.54	1.52
12. Manipur					
a) Total Expenditure	35.06	32.67	40.60	49.10	53.93
b) of which on housing	–	0.40	0.37	0.35	0.69
c) (b) as% of (a)	–	1.22	0.91	0.71	1.28
13. Meghalaya					
a) Total Expenditure	26.14	24.45	32.65	38.56	42.09
b) Of which on housing	–	0.11	0.56	0.72	1.00
c) (b) as% of (a)	–	0.45	1.72	1.87	2.38

	1972-73	1973-74	1974-75	1975-76	1976-77
14. Nagaland					
a) Total Expenditure	34.58	46.15	49.68	58.31	63.56
b) Of which on housing	2.61	1.41	2.34	2.45	1.69
c) (b) as % of (a)	7.55	3.06	4.71	4.20	2.66
15. Orissa					
a) Total Expenditure	292.36	299.46	298.30	379.33	448.00
b) Of which on housing	3.86	6.38	4.76	4.99	5.62
c) (b) as % of (a)	1.32	2.13	1.60	1.32	1.25
16. Punjab					
a) Total Expenditure	295.19	315.02	354.73	417.81	483.35
b) Of which on housing	0.82	3.13	6.24	8.52	10.27
c) (b) as % of (a)	0.27	0.99	1.76	2.04	2.12
17. Rajasthan					
a) Total Expenditure	374.69	441.47	419.36	500.63	607.81
b) Of which on housing	1.91	2.39	2.88	3.06	3.93
c) (b) as% of (a)	0.51	0.54	0.69	0.61	0.65
18. Sikkim					
a) Total Expenditure	-	-	-	12.10	19.94
b) Of which on housing	-	-	-	0.30	0.84
c) (b) as % of (a)	-	-	-	2.48	4.21
19. Tamil Nadu					
a) Total Expenditure	567.91	586.95	688.86	579.03	810.29
b) Of which on housing	N.A.	N.A.	11.35	14.73	11.69
(c) (b) as% of (a)	-	-	1.65	2.54	1.44

	1972–73	1973–74	1974–75	1975–76	1976–77
20. Tripura.					
a) Total Expenditure	37.30	38.53	39.47	44.37	48.84
b) Of which on housing	N.A.	0.15	0.14	0.38	0.63
c) (b) as % of (a)	-	0.39	0.35	0.86	1.29
21. Uttar Pradesh					
a) Total Expenditure	950.66	1043.77	1171.13	1264.10	1492.23
b) Of which on housing	9.29	13.18	6.34	6.05	15.92
c) (b) as % of (a)	0.97	1.26	0.54	0.48	1.07
22. West Bengal					
a) Total Expenditure	587.97	561.09	561.81	855.67	855.17
b) Of which on housing	5.94	6.18	8.51	9.27	9.79
c) (b) as % of (a)	1.01	1.10	1.51	1.08	1.14
Total					
a) Total Expenditure	7373.50	8260.90	8633.46	10267.99	11905.29
b) Of which on housing	59.22	77.49	100.13	114.57	142.17
c) (b) as % of (a)	0.80	0.94	1.16	1.12	1.19

Source : Budget documents of the State Governments.

STATEMENT 2

Financial Resources of Selected State Housing Boards in India

(Rs. Crores)

	1972-73	1973-74	1974-75	1975-76	1976-77
1. ANDHRA PRADESH					
a) Government loans, grants and subsidies	0.68 (3.9)	1.17 (26.0)	1.17 (33.3)	1.19 (32.0)	1.65 (17.9)
b) HUDCO	0.11 (5.4)	0.11 (2.4)	0.31 (8.8)	0.31 (8.3)	4.55 (49.5)
c) Debentures	—	0.55 (12.2)	0.55 (15.7)	0.55 (14.8)	0.55 (6.0)
d) LIC	0.75 (37.3)	1.00 (22.2)	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	1.07 (53.2)	1.67 (37.1)	1.48 (42.2)	1.67 (44.9)	2.45 (26.6)
Total ..	**2.01**	**4.50**	**3.51**	**3.72**	**9.20**
2. GUJARAT					
a) Government loans, grants and subsidies	1.41 (24.5)	1.51 (24.7)	1.36 (16.6)	1.53 (9.7)	N.A.
b) HUDCO		0.68 (11.1)	0.98 (12.0)	4.09 (26.0)	N.A.
c) Debentures		1.20 (19.6)	1.10 (13.4)	2.20 (14.0)	N.A.
d) LIC	4.35 (75.5)	—	—	—	N.A.
e) Banks		—	—	—	N.A.
f) Internal Resources ..		2.72 (44.5)	4.76 (58.0)	7.89 (50.2)	N.A.
Total ..	**5.76**	**6.11**	**8.20**	**15.71**	N.A.
3. HARYANA					
a) Government loans, grants and subsidies	—	0.53 (16.1)	0.14 (2.9)	0.07 (1.8)	0.15 (3.2)
b) HUDCO	—	2.60 (79.0)	3.77 (78.1)	2.02 (52.6)	1.77 (37.9)
c) Debentures	—	—	0.55 (11.4)	0.55 (14.3)	0.55 (11.8)
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	—	0.16 (4.9)	0.37 (7.7)	1.20 (31.3)	2.20 (47.1)
Total ..	—	**3.29**	**4.83**	**3.84**	**4.67**

	1972-73	1973-74	1974-75	1975-76	1976-77
4. KARNATAKA					
a) Government loans, grants and subsidies	1.40 (16.5)	1.32 (15.0)	1.74 (21.6)	1.37 (14.6)	3.62 (31.5)
b) HUDCO	—	0.47 (5.3)	0.35 (4.4)	1.61 (17.2)	2.92 (25.4)
c) Debentures	3.93 (46.4)	3.36 (38.2)	0.88 (10.9)	0.82 (8.8)	0.83 (7.2)
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	3.14 (37.1)	3.64 (41.4)	5.07 (63.1)	5.56 (59.4)	4.11 (35.8)
Total ..	**8.47**	**8.79**	**8.04**	**9.36**	**11.48**
5. KERALA					
a) Government loans, grants and subsidies	0.02 (1.4)	0.02 (0.8)	—	—	0.05 (1.8)
b) HUDCO	—	0.73 (30.3)	0.40 (16.4)	0.70 (26.2)	0.26 (9.6)
c) Debentures	1.10 (76.9)	1.10 (45.6)	1.10 (45.1)	1.10 (41.2)	1.10 (40.6)
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources ..	0.31 (21.7)	0.56 (23.2)	0.94 (38.5)	0.87 (32.6)	1.30 (48.0)
Total ..	**1.43**	**2.41**	**2.44**	**2.67**	**2.71**
6. MADHYA PRADESH					
a) Government loans, grants and subsidies	1.61 (41.9)	1.86 (33.2)	2.16 (18.8)	1.54 (13.1)	1.33 (6.9)
b) HUDCO	0.18 (4.7)	0.23 (4.1)	2.11 (18.3)	3.14 (26.6)	3.86 (20.0)
c) Debentures	0.83 (21.6)	0.83 (14.8)	0.82 (7.1)	1.92 (16.3)	4.58 (23.8)
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	1.22 (31.8)	2.69 (48.0)	6.42 (55.8)	5.20 (44.1)	9.50 (49.3)
Total	**3.84**	**5.61**	**11.51**	**11.80**	**19.27**

	1972-73	1973-74	1974-75	1975-76	1976-77
7. MAHARASHTRA					
a) Government loans, grants and subsidies	2.26 (12.9)	2.92 (25.3)	2.24 (22.6)	1.33 (12.2)	1.11 (8.6)
b) HUDCO	2.75 (15.8)	1.05 (9.1)	—	1.02 (9.3)	1.09 (8.4)
c) Debentures	1.10 (6.3)	1.10 (9.5)	1.10 (11.0)	—	1.10 (8.5)
d) LIC	3.00 (17.2)	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	8.32 (47.7)	6.49 (56.1)	6.59 (66.5)	8.57 (78.4)	9.70 (74.6)
Total ..	**17.43**	**11.56**	**9.93**	**10.92**	**13.00**
8. ORISSA					
a) Government loans, grants and subsidies	0.32 (68.1)	0.06 (33.3)	0.34 (66.7)	0.23 (74.2)	0.22 (10.0)
b) HUDCO	—	—	—	—	1.17 (53.9)
c) Debentures	—	—	—	—	—
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	0.15 (31.9)	0.12 (66.7)	0.17 (33.3)	0.08 (25.8)	0.78 (36.0)
Total ..	**0.47**	**0.18**	**0.51**	**0.31**	**2.17**
9. PUNJAB					
a) Government loans, grants and subsidies	—	0.60 (98.4)	1.60 (59.0)	2.20 (43.7)	5.75 (44.4)
b) HUDCO	—	—	0.56 (20.7)	0.92 (18.3)	3.31 (25.6)
c) Debentures	—	—	—	—	—
d) LIC	—	—	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	—	0.01 (1.6)	0.55 (20.3)	1.91 (38.0)	3.88 (30.0)
Total ..	—	**0.61**	**2.71**	**5.03**	**12.94**

	1972-73	1973-74	1974-75	1975-76	1976-77
10. RAJASTHAN					
a) Government loans, grants and subsidies	0.09	0.06	—	—	—
	(2.5)	(0.6)			
b) HUDCO	0.45	0.90	2.99	4.03	3.00
	(12.3)	(9.0)	(36.6)	(32.9)	(25.8)
c) Debentures	1.10	1.10	1.10	4.40	3.30
	(30.1)	(11.0)	(13.4)	(35.9)	(28.3)
d) LIC	1.25	—	—	—	1.25
	(34.2)				(10.7)
e) Banks	—	—	—	—	—
f) Internal Resources	0.76	7.90	4.09	3.81	4.10
	(20.9)	(79.4)	(50.0)	(31.2)	(35.2)
Total ..	**3.65**	**9.96**	**8.18**	**12.24**	**11.65**
11. TAMIL NADU					
a) Government loans, grants and subsidies	3.13	7.30	1.58	2.85	3.59
	(23.7)	(37.6)	(8.1)	(14.9)	(16.8)
b) HUDCO	0.97	1.04	2.10	4.50	6.00
	(7.3)	(5.4)	(10.5)	(23.5)	(28.2)
c) Debentures	1.10	1.10	2.42	2.62	2.00
	(8.3)	(5.7)	(12.1)	(13.7)	(9.4)
d) LIC	0.10	—	—	—	—
	(0.7)				
e) Banks	—	1.76	—	—	—
		(9.1)			
f) Internal Resources	7.93	8.21	13.83	9.15	9.72
	(60.0)	(42.2)	(69.4)	(47.9)	(45.6)
Total ..	**13.23**	**19.41**	**19.93**	**19.12**	**21.31**
12. UTTAR PRADESH					
a) Government loans, grants and subsidies ..	1.12	0.92	1.51	1.61	1.87
	(19.1)	(14.4)	(36.8)	(17.5)	(12.2)
b) HUDCO	0.10	0.75	0.43	1.46	3.88
	(1.7)	(11.3)	(10.5)	(15.9)	(25.3)
c) Debentures	3.29	1.10	—	2.75	5.00
	(56.1)	(17.4)		(29.9)	(32.7)
d) LIC	—	2.00	—	—	—
e) Banks	—	—	—	—	—
f) Internal Resources	1.35	1.62	2.16	3.37	4.56
	(23.1)	(25.4)	(52.7)	(36.7)	(29.8)
Total ..	**5.86**	**6.39**	**4.10**	**9.19**	**15.31**

N.B.: Figures in brackets are percentages to total.
Source : Budget documents of the State Governments.

CHAPTER 6

ROLE OF BANKING SYSTEM IN HOUSING FINANCE

Introduction

A DECADE AGO banks could not have considered extension of credit for house construction and other construction activity as a regular part of their business. Their reluctance can be ascribed to the following factors:

(a) The legitimate use of the bank credit was considered to be limited to financing the working capital needs of commerce, industry and trade.

(b) Banks were yet to develop consciousness of social responsibility towards the attainment of socio-economic objectives.

(c) Banks did not like to tie-up their resources, which were mainly short-term in nature to long-term uses like housing.

(d) Finance for housing or any other construction is generally made against the security of property which is to be developed. Most of such constructions are intended to be occupied for some purpose or the other. Any property which is so occupied has book value but negligible marketable value if it is not easily realisable. Owing to legal and other practical problems, banks found it difficult to realise the value of security in the event of default.

(e) Besides, in the absence of a national policy in regard to housing, authorities dit not induce banks to invest in this activity.

6.2 Since the introduction of social control over commercial banks in 1968 and the subsequent nationalisation of fourteen major commercial banks in July 1969, there have been significant changes in the outlook and lending policies of commercial banks. Their business attitude, which was till then almost solely profit-motivated, began to become more responsive to the social needs of the community at large; so also their age old security-based approach in respect of their advances gradually tended to be purpose-oriented and need-based. The aforesaid changes were deliberately brought about by banks in keeping with the changes in policies and directives of Government and Reserve Bank of India. The absence of any directive to banks in regard to credit for housing was taken as a discouragement for going into that field even during the post-nationalisation period when the quantum of bank credit to other sectors of the economy, particularly to the priority sectors was extensively being encouraged.

Reasons for Banks' Entry

6.3 The existence of a vacuum in the institutional finance, due to the absence of specialised credit institutions for housing and other construction activities and the inadequate flow of funds from existing institutions was felt for sometime more particularly because of the growing needs of housing due to increasing population and rapid urbanisation. It was felt that banks, which had successfully entered new fields like agriculture, could as well take up housing. Banks came face to face with the housing problem on account of two important developments viz., allotment of house sites to the landless and schemes for the creation of integrated settlements in rural and urban areas. The Reserve Bank in this context issued certain guidelines in June 1976 to banks with a view to involving them in providing finance for certain types of housing schemes, which could benefit weaker sections of the community.[1] Though these guidelines started the process of removing the inhibitions of banks in regard to their entry in the field of housing finance, even today their role is severely restricted.

6.4 Banks' entry into housing finance can be justified on one more important ground. The commercial banking system mobilises the major part of the community's savings and by extending its activities to various sectors of the economy is now tending to become virtually a super financial market. Hence, in the context of huge investment requirements for housing, banks should also contribute their share in the field of housing credit to the extent possible. In many other countries also, commercial banks play a significant part in providing housing finance.[2] Moreover, in a number of countries, developed as well as developing, there are specialised institutions for housing finance. Had there been such institutions in our country, they would have competed with banks and taken away a part of their term deposits.

Banks' present investment in housing

6.5 Before attempting an exercise about the feasibility of bank finance for housing, it would be interesting to know whether banks have so far directly or indirectly extended any finance in this field and if so, to what extent. At present, commercial banks' involvement in housing finance is mainly by way of their investment in bonds/debentures of HUDCO and State Housing Boards and loans to their employees. The figures in Table 1 indicate the quantum of direct and indirect finance extended by commercial banks for housing.

1. Refer Appendix VI.
2. Refer Appendix V.

TABLE 1

Total Direct Finance Extended by Commercial Banks

As at the end of December.

	1973	1974	1975
No. of accounts	11,996	16,432	21,839
Amounts (Rs. in Crores)	50.05	71.14	93.46

Source : Reserve Bank of India.

6.6 Sector-wise break-up of housing loans from commercial banks in 1974 and 1975 is given in Table 2.

TABLE 2

Commercial Banks' Loans for Housing (Sector-wise)

(Rs. in Crores)

	Outstanding at the end of	
	December 1974	December 1975
1. Public Sector		
i) Central and State Govt. owned undertakings ..	0.14 (0.2)	0.18 (0.2)
ii) Housing Boards and other quasi-Govt. bodies (local authorities, trusts, etc.)	2.18 (3.1)	0.62 (0.7)
2. Co-operative Sector	15.79 (22.2)	23.48 (25.1)
3. Private Sector		
i) Public & Private limited companies (Non-Govt.)	1.18 (1.6)	1.30 (1.4)
ii) Partnerships, proprietary concerns, joint families, associations, etc.	10.95 (15.4)	9.38 (10.0)
4. Individuals	40.90 (57.5)	58.50 (62.6)
Total ..	71.14 (100.0)	93.46 (100.0)

Source : Reserve Bank of India.

6.7 It will be seen from Table 2 that during 1975 almost 63 per cent of the amount of housing loans from commercial banks went to individuals, mostly the employees of commercial banks.

6.8 Table 3 gives the State-wise distribution of investments of commercial banks in bonds/debentures of Housing Boards and HUDCO.

TABLE 3

State-wise Investments of Scheduled Commercial Banks in Bonds/Debentures of Housing Boards and HUDCO

(In Lakhs of Rupees)

	As at the end of March						
	1971	1972	1973	1974	1975	1976	1977
Andhra Pradesh ..	—	—	—	55	104	134	Breakup not available
Assam	—	—	—	—	—	—	
Bihar	—	—	—	179	249	292	
Gujarat	292	629	511	487	588	641	
Haryana	—	—	10	95	144	194	
Himachal Pradesh..	—	—	—	—	—	—	
Jammu & Kashmir	—	—	—	—	—	16	
Karnataka	576	701	675	697	774	792	
Kerala	—	82	134	353	445	483	
Madhya Pradesh ..	—	110	156	219	277	339	
Maharashtra ..	72	81	141	183	267	245	
Orissa	—	—	1	—	—	—	
Rajasthan	48	127	241	344	466	553	
Tamil Nadu ..	154	193	283	393	556	613	
Uttar Pradesh ..	—	33	281	591	591	613	
West Bengal ..	—	—	—	129	174	174	
Delhi	—	—	—	115	6	25	
Other Union Territories ..	—	—	75	—	—	—	
Total	11,42	19,56	25,08	38,40	46,40	51,14	57,51
Investment in HUDCO Bonds ..	—	—	—	NA	NA	11,10	20,17
Grand Total ..	**11,42**	**19,56**	**25,08**	**38,40**	**46,40**	**62,24**	**77,68**

Note : The above figures exclude investments in unguaranteed bonds/debentures. Banks' investments in unguaranteed bonds amounted to Rs.1.22 crores at the end of March 1975, Rs. 12.96 crores (end-March 1976) and Rs. 29.58 crores (end-March 1977).

Source : Reserve Bank of India.

6.9 On the basis of the trends emerging from the above two Tables, it appears that commercial banks' involvement in housing sector, including their loans and investments in bonds/debentures, may rise by about Rs. 25 crores per annum.

Feasibility Aspects

6.10 The question of feasibility of bank finance for housing can be considered from the following angles viz., (i) possibility of extending credit from the existing resources of banks and (ii) by raising additional funds from hitherto untapped sources. Before proceeding further, it would be better to have some idea about the competing demands on banks' resources.

6.11 Two most important demands on banks' resources are (i) statutory requirements and (ii) priority sectors. Banks are required at present to maintain 6% of their total demand and time liabilities in cash reserves. Further, since January 1977, 10% of their incremental deposits are impounded by the Reserve Bank. In addition, banks are required to maintain liquid assets in cash, gold or unencumbered Government and other approved securities amounting to not less than 33% of their total demand and time liabilities. Thus, out of every increase of Rs. 100 in banks' resources (mainly deposits) 49 per cent will be accounted for by statutory pre-emptions. Further, a substantial proportion of banks' resources is absorbed by advances to priority and preferred sectors, which include agriculture, small-scale industries, small borrowers, food procurement operations, exports, etc. The balance amount goes to meet the requirements of, among others, large and medium industrial undertakings and trading concerns in public and private sectors. Thus the scope for lending to any new activity is very marginal unless it is done by depriving some other sector of the economy.

6.12 The question of involvement of banks in housing finance was discussed by the Group with a cross section of bankers. The views expressed and suggestions made by them are discussed in the following paragraphs.

Inclusion of Housing in Priority Sectors

6.13 According to the Government's present directive, 33$\frac{1}{3}$ per cent of the advances of banks are required to be given to priority sectors by the end of March 1979. In this context, it has been suggested to the Group that housing and other construction activities should be accorded the same priority as agriculture, small-scale industries and other small borrowers. It is argued that this would impart some flexibility to operations of those banks which have been lagging behind in attaining their targets. However, the question arises in regard to those banks that have already attained or exceeded this target. Therefore, a modified suggestion was made. In terms of that, along with the inclusion of housing in priority sectors, there should be an increase in the aforementioned target of $33\frac{1}{3}$ per cent, the addition to be earmarked for housing. This, it was pointed out, would enable banks which might have already reached the target to extend some credit for housing.

6.14 There is one major objection to the above suggestion. Banks may try to go for soft options by lending in bulk for housing particularly in metropolitan and urban areas and neglecting small borrowers, where the task of follow-up and recovery is much more difficult. At the same time, fear is also expressed that banks which have better expertise and organisation for agriculture and other small borrowers may neglect housing altogether.

6.15 With a view to obviating the difficulty, another suggestion has been made that while raising the overall target for priority sectors, a minimum percentage may be specified for housing credit. However, at present, housing is not a part of priority sectors and its inclusion depends on the policy of the Government of India, Planning Commission and the Reserve Bank. The authorities may like to review the position in this regard.

Change in Statutory Liquidity Ratio (SLR)

6.16 It has been suggested that as in certain foreign countries, e.g., Malaysia, loans extended by banks for housing should be excluded from their total deposits for computing the statutory liquidity requirements. As an alternative to this, it has also been suggested that bank credit extended for housing directly or indirectly should be treated as assets for the purpose of statutory liquidity requirements. For giving effect to this suggestion, RBI may have to raise the minimum SLR. As both these suggestions have a bearing on monetary policy, the Group does not find itself competent to make any comments.

Earmarking of a Proportion of Bank Deposits/Lendable Resources for Housing

6.17 Suggestions have been made that housing credit from the banks should constitute (i) a fixed percentage of total desposits or of the annual incremental deposits, (ii) a fixed percentage of the total lendable resources, or of the annual incremental lendable resources, or (iii) a fixed percentage of the total lendable resources of the banks to be earmarked at the first instance and thereafter a fixed percentage of incremental lendable resources to be added thereto every year. Implications of these suggestions are discussed in the following paragraphs.

6.18 To examine the above suggestions, it is necessary to have some idea of the bank deposits, advances, their growth rates and the sectoral deployment of bank credit. These are given in Table 4 and 7.

TABLE 4

Growth rates of deposits and advances

(Rs. in Crores)

Last Friday of December	Deposits		Advances	
	Amount	Growth Rate per cent	Amount	Growth Rate per cent
1971..	6,922	21.73	5,047	13.44
1972..	8,380	21.06	5,570	10.36
1973..	10,087	20.37	7,062	26.79
1974..	11,439	13.40	7,814	10.65
1975..	13,628	19.14	9,874	26.36
1976*	17,132	25.71	12,909	30.74
1977*	20,679	20.32	14,333	11.03

*Figures are provisional.

Source : Reserve Bank of India.

6.19 As regards the first suggestion to earmark a percentage of total deposits or the annual incremental deposits for housing, the Group proceeds on the assumption that the bank deposits will grow at an annual rate of 20 per cent (average of the last five years) during the next 5 years. Specifically it was suggested that 1 per cent of total outstanding deposits or 5 per cent of annual incremental deposits should be devoted for housing. It was further suggested that this should exclude housing loans by banks to their employees as well as their investments in the guaranteed bonds of HUDCO and Housing Boards. Implications of these suggestions can be seen from Table 5.

TABLE 5

Estimates of housing advances on the basis of Deposits

(Rs. in Crores)

At the end of	Deposits	Increase over the year	Increase in housing advances		Outstanding housing advances at end year	
			1% of (2)	5% of (3)	According to Col. (4)	According to Col. (5)
1	2	3	4	5	6	7
Base year ..	20,000	—	—	—	—	—
First year ..	24,000	4,000	240	200	240	200
Second year ..	28,800	4,800	288	240	528	440
Third year ..	34,560	5,760	346	288	874	728
Fourth year	41,472	6,912	415	346	1,289	1,074
Fifth year ..	49,766	8,294	498	415	1,787	1,489

Note : In the cumulative totals, repayments, if any, have not been taken into account because they are not likely to be large in the first five years.

6.20 In the estimates made in the above Table we have assumed that the banks' advances for housing are negligible. We have also excluded banks' investments in the guaranteed bonds of HUDCO and Housing Boards.

6.21 It will be seen from Table 6 that if the above suggestions are accepted at the end of the first year itself, banks will have to lend Rs. 200-240 crores for housing. Banks have expressed the view that considering the demands on their resources, it would not be possible for them to earmark these amounts for housing. In fact, to link any kind of advances to deposits without taking into account SLR pre-emption is unrealistic. Hence we proceed to examine the next suggestion, namely, to link housing advances to total or incremental lendable resources.

TABLE 6

Estimates of housing advances on the basis of lendable resources

(Rs. in Crores)

At the end of	Lendable resources on the basis of Deposits@	Increase over the year	Increase in housing advances		Outstanding housing advances at end year		Increase in housing advances according to suggestion (iii)*
			1% of (2)	5% of (3)	According to column (4)	According to column (5)	
1	2	3	4	5	6	7	8
Base year ..	11,800	—	—	—	—	—	—
First year	14,140	2360	142	118	142	118	142
Second year ..	16,992	2828	170	142	312	260	284
Third year	20,390	3398	204	170	516	430	454
Fourth year ..	24,468	4078	245	204	761	634	658
Fifth year	29,362	4894	294	245	1055	879	903

@It is estimated that 41% of total deposits will be pre-empted on account of SLR

*i.e. 1% of total lendable resources in the first year and 5% of additional lendable resources in each subsequent year.

Note ; In the cumulative total, repayments, if any, have not been taken into account because they are not likely to be large in the first five years.

6.22 Table 6 shows that linking housing advances from banks to their total outstanding lendable resources or annual increment therein will imply, even at the end of the first year, an additional outflow of resources from banks to the extent of Rs. 118—142 crores. By the end of 5 years, a total of Rs. 879—1055 crores, would have been advanced. In these figures, repayments have not been taken into account, as they are not likely to be large during this period.

6.23 While this linkage will impart a certain flexibility as regards housing advances from different banks, the amount will vary with lendable resources, which depend on changes in reserves and liquidity ratios.

6.24 What has been stated above will apply also to suggestion (iii), according to which 1 per cent of total lendable resources in the first year and 5 per cent of additional lendable resources in each year thereafter may be earmarked for housing. Implications of this suggestion are illustrated in Column 8 of Table 6.

6.25 To sum up, it will be useful to think of a suggestion whereby commercial banks may earmark a certain amount for housing advances every year which may have to vary, depending upon the resources of banks and absorptive capacity of the housing market.

6.26 Against the background of the examination of different suggestions, it is useful to see how resources of the banks are deployed at present. This is given in Table 7.

TABLE 7

Data Relating to Sector-wise Deployment of Bank Credit (provisional)

16.2
25.9
7.6
49.7
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		As on last Friday of October 1977	
		Amount (Rs. in crores)	Percentage to total
1.	Credit for food	2271	16.2
2.	Credit to priority sectors (excluding export)	3645	25.9
	a) Agriculture	1440	10.2
	b) Small-scale industries	1463	10.4
	c) Others	742	5.3
3.	Exports	1070	7.6
4.	Other sectors e.g., large and medium industries in public and private sectors and commerce, trade, etc....	7077	50.3
5.	**Total bank credit**	**14063**	**100.0**

Source : Reserve Bank of India.

6.27 In the earlier paragraphs, we have discussed at length that after meeting the requirements of the priority sectors and statutory provisions, only a small proportion of the incremental deposits remains with the banks for deployment in industry and trade sectors.

6.28 It is also clear that it is not possible to divert a sizeable flow of bank resources to any new sector without depriving some others. What is more, most of the banks are far short of the target of 33.3 per cent of advances to the priority sectors, which they have to reach by March 1979. As the time available is short, and the present level is around 26 per cent, the banks will be required to divert a substantial portion of their incremental deposits to the priority sectors in the next year. Also, they have to attain credit-deposit ratio of 60 per cent in respect of their rural and semi-urban branches by the end of 1978-79. Taking all these factors into consideration, the Group came to the inevitable conclusion that resources would remain the most important constraint in the entry of banks in the housing field in a significant way.

6.29 The position, therefore, which emerges from the above discussion is that on the one hand, commercial banks should contribute some part of their resources for the housing sector, and, on the other, they face major constraints of resources. In addition, there is also the question of changing credit requirements of the economy in accordance with the Government policies. Most of the commercial banks have suggested that roughly an additional amount of Rs. 100 crores per annum may be advanced by the banking system as a whole for housing purposes.

6.30 This will include housing loans made by them to their employees. At present, these loans are estimated to be 1 per cent of banks' annual incremental lendable resources. Besides, in terms of Pillai Committee's recommendations, the outflow of funds for housing for their staff may increase further. However, it is outside the terms of reference of the Group to make any recommendations about these loans because they will depend on agreements between banks and their employees. Keeping in view the demand for housing loans from the public, the Group, however, recommends that out of Rs. 100 crores mentioned above, commercial banks may invest in the housing sector every year at least an additional amount of Rs. 75 crores, excluding (a) investments in bonds/debentures of HUDCO and Housing Boards which are eligible for SLR and (b) housing loans for bank employees.

6.31 The Group recommends that RBI may allocate to each bank its share in the proposed housing finance, which may be linked to the magnitude of individual bank's deposits. The Group further suggests that such an allocation may be made among all the scheduled and non-scheduled commercial banks, including foreign banks, subject to Reserve Bank's policy in regard to the latter. Since urban co-operative banks have also mobilised fairly large deposits, the Group suggests that they may also be involved in housing finance by allocating share to them in the proportion of their deposits. We had suggested in Chapter 5 that authorities may review the restrictions, if any, imposed on these banks in regard to housing loans. As regards Regional Rural Banks, the Group is of the view that at the present stage of their development they may not be in a position to give loans for housing schemes, particularly because their limited resources will have to be used for financing small and marginal farmers, landless labourers, rural artisans, etc. But as suggested in the following Chapter, their machinery may be utilised by the commercial banks in channelling their direct housing loans in rural areas, where they themselves do not have branches. The Group also recommends that the banks may gradually raise this amount by Rs. 5 crores per annum and the position may be reviewed after 5 years.

6.32 All the banks may not find it easy to reach the target mentioned in paragraph 6.30 because of (a) organisational difficulties, (b) they are expected to reach a target of $33\frac{1}{3}$ per cent of their total advances to priority sectors and as also to raise their credit-deposit ratio to 60 per cent in respect of their rural and semi-urban branches by 1978-79 and (c) utilisation of funds will also depend upon the absorptive capacity of borrowers, particularly housing agencies, which will have to prepare housing schemes. Since the demand for bank credit for housing may take some time to pick up, the Group recommends that the banks may earmark the suggested amount (Rs. 75 crores) every year but the shortfall in the target need not be carried forward for three years. After this period, however, shortfall, if any, in reaching the annual target may be carried forward to the subsequent years.

6.33 In the foregoing paragraphs, we have examined in detail the feasibility of bank finance for housing in the context of various constraints on their financial resources. We may now discuss other aspects of housing loan proposals which banks may have to take into account before granting the loan viz., (i) technical feasibility (ii) economic feasibility (iii) financial feasibility and (iv) managerial capacity.

Technical Feasibility

6.34 In the context of housing schemes, this refers to the location, size and nature of constructions and certain other factors. While considering the loan proposals for large scale housing schemes, a bank may take into account the advantages or disadvantages of developing a settlement or township in a particular area, the availability of adequate land, water supply, electric power, etc. Generally, no settlement or township should be developed at a place far away from the place of employment and markets which are essential for the new settlers unless a good and reasonably cheap public transport is available.

6.35 Housing projects also need to be examined from the angle of building technology employed. The building technique could be the conventional one based on the use of traditional building materials like cement, steel and iron. Alternatively, it could be a new building technology developed as a result of research conducted in this field by the NBO and similar other institutions, making use of factory produced prefab/precast components. While prefab technology might be desirable and economical in the case of mass housing schemes, in other cases the use of locally available material and labour might be preferred.

6.36 The Group has been given to understand that the cost of transport, crane charges and breakage in transit constitute an important part ofc onstruction cost. Hence, it has been suggested to the Group that plants for prefabricated houses can be established in the neighbourhood of mass housing schemes. In our discussions at Hyderabad, we were informed that the State Government is thinking along these lines both in the context of solving their housing problem as well as creation of employment opportunities.

6.37 Thus, while extending credit for any housing scheme, the bank will not only have to take into account the aforementioned factors but will also have to ensure that the concerned schemes have been thoroughly scrutinised by some competent person, who is not in any manner concerned with their preparation, execution, etc.

Economic Feasibility

6.38 While it is a matter of common knowledge that demand for houses in India is far in excess of their supply, it is necessary to go into details about the source of such demand i.e., whether it is from EWS, LIG, MIG or HIG. Since bulk of the demand will naturally be from the poorer people, the banks will have to achieve some balance between the demand for housing loans from different income groups, keeping in view their limited financial resources. Obviously this will call for greater priority to the demands of poorer sections of the community. But at the same time, banks cannot ignore the needs of MIG or HIG because it is essential for the banks to give housing loans to these people in order to cross-subsidise the interest rate on housing loans to EWS and LIG.

6.39 As would be discussed in the next Chapter, banks should consider granting loans for the maintenance, repair and carrying out of improvement and reconstruction of the existing houses because this would help conserving the present housing stock and to that extent reduce demand for new houses.

6.40 While considering the economic feasibility of the proposal, a bank may also look into the social benefits accruing therefrom. Thus, it should not only satisfy itself about the safety of its funds and the return of principal and interest when due, but also examine whether the benefits would accrue to a large number of the society or to a limited few. It would be desirable for the bank to ensure that the houses constructed with its loan assistance, would be made available to the persons for whom they are intended. If more or less similar housing schemes have already come up, whether with or without financial assistence from some bank, it would also be worthwhile for the lending bank to look into the working of these schemes. Further, while considering the proposal for finance, if the bank finds some lacuna in the preparation or execution of the housing scheme, it should point it out to the concerned borrowing party and get it rectified in time.

Financial Feasibility

6.41 While considering financial feasibility, the bank should thoroughly scrutinise the estimated cost of the housing scheme for which term loan has been asked for. It should ensure that the cost estimates have been based on the current market prices of various kind of materials and the labour charges involved in the construction work. In the scrutiny, the bank should allow for a reasonable escalation in the construction cost including wage rates. This is essential in view of the fact that several projects have got stuck up due to underestimation of cost. In certain cases, where the borrower requires additional finance to complete the project, the lending bank may have to extend further credit to salvage the project and recover its own locked up funds. In this connection the lending bank may exercise adequate ~~is~~ care that it does not provide excessive finance disproportionate to the scheme's real requirements, as over-lending may prove detrimental to the interest of the beneficiaries of the scheme and may also bring the bank into trouble. It may be pertinent to add here that if the bank is fully satisfied about the bankability of a housing scheme and the quantum of finance required for carrying it through, it should give adequate loan assistance as any curtailment of the amount may jeopardise the completion of the scheme and may affect the bank's interests. In this context, it would be in the bank's interest to study all the means of financing the housing scheme, as the repayment of its loan would also depend upon the other credit liabilities created in connection with the completion of the scheme.

6.42 Ater satisfying itself about the estimated cost of the housing scheme and the means of financing it from different sources, the bank should next find out how the borrower proposes to liquidate/repay the loans. This would call for the assessment of the borrower's income from various sources and his repayment capacity.

6.43 In the case of houses meant for self occupation, the bank may take into account the rent saved by the occupant in assessing his repayment capacity. If the houses constructed with the bank loan are to be provided on rental basis, the source of income would be the amount of rent to be received from the beneficiaries These amounts, after deduction of various service charges, municipal and other taxes, etc., would generally be available towards repayment of the loan taken for construction from the bank as well as other sources. The bank should, however, ensure that these amounts would be sufficient for the purpose.

Managerial Capacity

6.44 Many good commercial projects come to a grinding halt for want of managerial skill on the part of those undertaking them and bring the institutions financing them to grief. This is quite true in the case of housing schemes as well. It is in this context that managerial capacity of an individual or managing committee of a housing co-operative society, etc., assumes importance. This is especially true of co-operative housing societies, whose office-bearers have hardly any experience about housing. Again, there are also instances of some unscrupulous promoters and office-bearers of housing societies, who deceive their members.

CHAPTER 7

ELIGIBILITY CRITERIA, FORMS AND TERMS OF BANK FINANCE

IN THE LAST Chapter we dwelt at some length on the role, feasibility and mode of bank credit for housing construction and other construction work, to be undertaken in both public and private sectors. In this Chapter, we may first examine various categories and types of residential building and other construction activities and thereafter consider the eligibility criteria for extension of credit from the banking system as a whole i. e., commercial and co-operative banks. For this purpose, we may have to look into the entire gamut of construction activities envisaged in the terms of reference of the Working Group.

Construction Covered by Terms of Reference

7.2 Broadly, construction activities can be divided into two categories: (a) building construction and (b) other construction. Building construction can be further classified according to the use to which it is put i.e., (i) residential buildings and(ii) non-residential buildings. Similarly, other construction can, if necessary be placed into more classes on the basis of their purposes. In this connection it is pertinent to add that on seeking clarification from the Reserve Bank regarding the exact importance of the term "other building construction" the Working Group was advised that the said term would comprise construction activities which necessarily emanate from or are adjunct to housing.[1] The intention here is to indicate precisely, the ambit of "construction work" covered by the terms of reference of the Working Group and to determine eligibility of different categories and types of construction for bank finance. With this objective in view, let us first briefly indicate what falls within the abovementioned categories of construction.

Categories of Construction

(i) Residential Buildings

7.3 These will comprise all buildings used for habitation or dwelling, irrespective of the fact whether they are pucca, semi-pucca or kutcha structures, palatial sky-scrapers or small houses, situated in urban, semi-urban or rural areas, owned by users or otherwise. These would also include hostels, lodging and boarding houses either attached or unattached to institutions and hotels with staying facilities, all of which, in a way, form a separate class by themselves.

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1 Refer Appendix I (B).

(ii) Non-residential Buildings

7.4 Though all buildings other than those which are used for residential and alike purposes, as indicated earlier, can be included in this category, we may, having regard to the purpose in view, classify non-residential buildings into two groups: (a) buildings which are essentially concomitant to residential settlements, i.e., those purported to facilitate the overall development and progress of residential settlements/townships and carry out activities for betterment of human life therein and (b) buildings which are only incidental to residential settlements.

7.5 The first group mentioned under (a) includes buildings which are utilised or a major portion of which is utilised exclusively for purposes like schools/colleges or other educational facilities, hospitals, clinics, shopping complexes, markets, social and cultural centres. Certain other construction activities which are non-building activities but are related to basic amenities in a settlement or township, such as, providing water supply facilities, community latrines/baths, drainages, sewers, fixing street lights and repair work of buildings would also fall in this group.

7.6 A number of other building constructions, which cluster around residential settlements, like buildings for cinema/entertainment places, commercial or business establishments, private and Government offices would be covered under the second group mentioned under (b). Besides, this group would also include consstructions for factories, workshops, industrial estates, chemical laboratories, printing presses, etc., which form a distinct class by themselves.

(iii) Other Construction

7.7 Construction in this category is independent of housing e.g., construction of public roads outside residential settlements/towns, dams, bunds, ports, harbours, jetties, warehouses, godowns, cold storages, bridges, etc.

7.8 Having indicated the ambit of 'construction work' covered by the terms of reference of the Group, we may proceed to consider the different types of construction works that should be deemed eligible for bank finance. In the subsequent paragraphs, we shall make a distinction between the following categories: (i) those which should be deemed ineligible for bank finance, (ii) those which should be deemed eligible for bank finance, but should not form part of the quantum which the Group has recommended as housing finance, and (iii) those which should be deemed eligible for housing finance from banks within the quantum mentioned in the preceding Chapter.

Construction not eligible for Bank Finance

7.9 Some banks have been financing infrastructural construction like public roads, bridges, harbours, dams, even when such construction is undertaken by Government departments or specialised agencies constituted for the purpose. In the Group's view, expenditure for such construction should legitimately be financed out of Government resources. Likewise, banks should not finance the construction of buildings meant purely for private commercial offices or Government/semi-Government offices, including municipal and panchayat offices. However the following exceptions may be made to the above:

a) Bank credit which will be refinanced by institutions like ARDC and REC e.g., credit for minor irrigation and rural electrification schemes.

b) Companies or individuals, who contract to undertake infrastructural construction. They may continue to be provided with credit for working capital purposes.

Construction eligible for Bank Finance but not as Housing Finance

7.10 The following are the categories of construction, which in the Group's view, should be eligible for being financed by banks. However, such credit should not form a part of the quantum of housing finance to be earmarked by banks in accordance with the Group's recommendations, because they do not belong to the category of housing construction:

a) Suggestions have been made by certain quarters that industries manufacturing material for construction works (e.g., brick laying, lime, tiles, etc.) being complementary to building construction activities should be deemed eilgible for bank credit as part of housing credit. The Group considered the suggestion and came to the conclusion that since such manufacturing industries formed part of industrial activity, and as such have already been receiving finance from banking and other channels, they should continue to receive credit as part of credit to the industrial sector but may not be deemed eligible for bank credit as part of housing finance. The same applies to construction of factory buildings and industrial estates.

b) The Group is also of the view that construction of warehouses, including those to be constructed for Food Corporation of India, godowns and cold storages may be allowed the benefit of bank credit on commercial considerations and merit and if the economic and social criteria are satisfied. However, credlt for these activities should not be considered as a part of housing loans.

c) Buildings which do not form a part of housing project (colonies/townships, etc.,) like hospitals, clinics, schools, colleges, hostels, community halls, social and cultural centres, markets, shopping centres, and cinema houses should also belong to this category. However, the Group recommends that the financing of construction of cinema houses and other entertainment places should be accorded a low priority.

d) Construction of hotels, accommodation for tourists and commercial offices should continue to be financed by banks, as at present on a commercial basis.

Building Construction Eligible for Bank Credit as Housing Finance

7.11 Following types of building construction should be eligible as a part of housing finance to be extended by banks:

a) Residential houses to be constructed by public housing agencies like HUDCO and Housing Boards, Local Bodies, individuals, co-operative societies or employers. Priority should be given for financing construction of houses meant for EWS, LIG and MIG. However, as we recommend later in this Chapter, banks in order to cover the cost of their funds may have to extend a part of their credit to HIG also. In the finance given for construction of houses, the cost of land may also be included.

b) Educational, health, social, cultural or other institutions/centres, which are a part of a housing project and which are necessary for the development of settlements or townships should also be eligible for bank credit as part of housing finance.

c) Shopping complexes, markets and such other centres catering to the day-to-day needs of the residents of housing colonies and if they form a part of a housing project should be eligible for bank credit as part of housing finance.

d) So far as the question of eligibility of different types of dwellings is concerned, the Group is of the view that while giving credit, banks should take into account the durability of the construction that they would finance. In urban areas, most of the houses will be multi-storeyed and pucca because they are constructed not only for self occupation but also for renting out. The problem will arise mainly in rural areas where houses constructed for EWS, LIG and MIG are mostly either kutcha or semi-pucca. In deciding the eligibility as well as quantum and repayment period of the loan, the banks will have to take into account the durability of the house in this case. In its discussions with various Housing Boards as well as other parties, the Group was given to understand that merely the use of locally available materials like palm leaves, grass for roofing or timber for walling does not necessarily reduce the life of a house. Factors like these will have to be taken into account by banks.

e) Skeletal houses, which we have discussed in earlier Chapters, should be eligible for bank finance.

f) The problem of slums which has been causing anxiety to the town planners and other authorities in urban areas deserves a special treatment. To check the mushroom growth of slums, many State Governments have created special bodies like Slum Imporvement Boards which are tackling the problem in two ways:-

   i) By demolishing the existing slums and shifting the occupants to other places where alternative accommodation is provided to them; or

   ii) By upgrading the slum areas through providing amenities like supply of drinking water, common latrines, improving roads, drainage, sewage, etc. Since the improvement of slums is a part of the Government's programme of removing poverty and improving ecological conditions, commercial banks are already supplementing the efforts of State Governments. In the course of its discussions with various authorities, the Group was informed that co-ordination of efforts between the State Governments and commercial banks in improving the slum area has yielded good results. For instance, a change has been brought about in the social behaviour of slum dwellers, who have also opened accounts with commercial banks in many cases Although the Central Government gives substantial assistance to the State Governments for improving slums, State Governments have to find the balance of resources.[1] The Group is of the view that, in the light of the experience already gained, commercial banks should extend credit either directly to the slum dwellers on the guarantee of the Government or indirectly to them through the State Governments.

g) To meet the ever increasing demand for residential houses it is necessary to increase the life of existing residential buildings as long as possible by timely repairs and maintenance. Minor repairs can be undertaken by the owners or residents of buildings or both with mutual understanding among themselves but major ones cannot be carried out without outside assistance. The Group recommends that banks should extend credit as part of housing fi-

1. Refer Chapter 5.

nance, to the bodies constituted for undertaking repairs. The Group also recommends grant of bank credit for repairs and additions undertaken by individuals, either singly or collectively, in building owned and occupied by themselves, provided that the credit is sufficiently backed by security/gurantee to the satisfaction of the banks concerned.

7.12 Taking into account the constraints on the resources of banks and the social and economic phenomena, the Group came to the conclusion that a large proportion of the recommended bank finance for the purpose of housing construction should go to the EWS and LIG. However, as will be discussed later in this Chapter, it will be useful if commercial banks give such finance at a relatively low interest rate to intermediaries like Housing Boards, HUDCO or Apex Co-operative Housing Finance Societies, which are the major agencies expected to cater to the housing needs of EWS and LIG. The balance amount may be given directly to persons belonging to other income groups at semi-commercial interest rates so that banks are able to recover a part of subsidy involved in subscribing to low interest bonds or term loans extended to various intermediaries referred to above. The Group, therefore, recommends that a large proportion of bank finance for housing should be channelised through those housing agencies which cater mainly to the requirements of relatively less well to do sections of the population.

7.13 Having given an indication of the type of constructions and persons to be considered eligible for bank credit, it is necessary to stress that a house should not only suit the occupant's requirements but his resources as well. Allowing a person to own a house beyond his means by giving loans which he would be incapable of returning is not without risk, as it tends to give temptation to the beneficiary to sell the house for gain. Most of the bankers who had expressed their opinion either in writing or in oral evidence have concurred with this view. The Group, therefore, recommends that the main criterion for allowing bank credit for housing should be the repaying capacity of the borrower in which the subsidy, if any, obtained by him should also be taken into account. In cases where banks give direct credit to persons belonging to EWS or LIG whose repaying capacity is very low, Government will have to step in with capital subsidy (e.g., in the form of free land) or with interest subsidy or with subsidy in some other form. Banks can give concessions to such borrowers by way of longer repayment period and preferential rates of interest.

7.14 Some commercial banks have expressed concern about the recovery of loans directly given by them to the beneficiaries. A suggestion has been made in this connection that housing loans should be given only if they are linked to other productive loans. On the other hand, some other banks felt that the housing loan can be given to a borrower without necessarily linking it to credit for his main business. This point is discussed in the following paragraphs.

7.15 In this connection a reference may be made to the conditions stipulated by the Credit Guarantee Corporation of India (CGCI) so far as guarantee of housing loan under Small Loans Guarantee Scheme is concerned.

7.16 The said condition is that housing loans, for being eligible for the Corporation's guarantee, should be an integral part of the credit extended to the borrowers for their main business or activities. The amount of credit extended in this regard and the period of repayment should not exceed Rs. 5,000/- and 10 years, respectively.

7.17 Some commercial banks pointed out to the Group that this stipulation makes it difficult for them to give loans for housing in those cases where the borrower does not need credit for his main occupation. We referred this suggestion to the CGCI for its comments.

7.18 It will be useful in this connection to give a background of the guarantee cover provided by CGCI. The Small Loans Guarantee Scheme, 1971 was originally introduced in the context of small borrowers, particularly for the neglected sectors of the society, who were finding it difficult to have access to institutional credit without some sort of gurantee support. It was initially extended to loans for acquiring houses or tenements mainly to be used for business or production activity, but was subsequently extended to cover houses for dwelling purposes as well on condition that the credit facilities granted for the purpose should form an integral part of the credit extended for the main business activity of the borrower and the amount should not exceed Rs. 5,000 (being meant only for people who cannot offer security) and the period of repayment, ten years from the date of availment. The purpose of restricting the amount is to keep the credit within the bounds of the small borrower's repaying capacity. The object of linking housing loans with loans for financing the main business activity of its borrower is to ensure recovery by augmenting his income. In other words, the view taken was that, house being an unproductive asset, recovery can be ensured only if the housing loan is made an integral part of the credit for improving the income of the borrower. CGCI also expressed the view that the above conditions did not prevent the banks to lend outside the scheme.

7.19 While the Group appreciates the strength of the argument put forward by CGCI and agrees that generally housing loan should be part of other productive loans to get the benefit of guarantee cover it may also be noted that, as pointed out above, there are cases where the borrower needs a loan only for a house. Although such cases may be very few, the condition in this regard dissuades some banks from meeting the borrowers' requirements. Hence, the Group suggests that CGCI may consider such cases referred to it by banks on merits and extend guarantee cover in deserving cases, provided the bank is satisfied about the repayment of loan.

Form of Credit

7.20 The Group has been asked "to make recommendations about the form of assistance which the banks may give to institutions engaged in housing activities, i.e., whether assistance should be direct (by way of term loans) or indirect (by way of subscription to their debentures/bonds)".

7.21 In the interest of clarity and analysis, the Group has approached the quection by defining the credit which commercial banks give to the beneficiaries as direct finance and the credit which they route through intermediaries like HUDCO, Housing Boards, etc. as indirect finance.

7.22 As has been pointed out in Chapter 2, it is necessary to have a national housing policy as a part of an overall policy to meet the essential needs of the community. Given this objective and considering the constraint of resources, it is desirable that the limited resources available for housing finance are used in accordance with the State policy and norms. This can be ensured if one or two institutions designated for the purpose give the bulk of housing finance. For the reasons mentioned here as well as the limitation of organisational resources of commercial banks, the Group is of the view that it will be advisable for the bulk of housing finance provided by commercial banks to be routed through an intermediary like HUDCO or Housing Boards. Most of the commercial banks also expressed preference for extending indirect finance. As pointed out in Chapter 6, commercial banks are not at present in a position to allocate very large resources for housing credit. This is an additional reason why the Group feels that these limited resources should be channelised through specilalised institutions.

7.23 Another consideration which has made commercial banks prefer indirect finance is the question of cost. Giving finance directly to the borrowers for the purpose will involve them in scrutinising a very large number of applications, examining legal documents and following up a large number of individual cases. So far as the specialised institutions like HUDCO, Apex Housing Finance Societies and Housing Boards are concerned, they would also like banks to channelise their credit through them because all of them are faced with shortage of financial resources.

7.24 At the same time, the Group recognises that housing conditions in the country vary a great deal. Also, some commercial banks in certain places may have the organisational capacity to give finance directly to beneficiaries. Some bankers, while extending their preference for indirect finance, have also pointed out that they have undertaken programmes for integrated credit in rural areas where they would like to extend credit for housing as part of the programme. Another reason for the preference for direct finance in certain cases is also the advantage which may accrue to commercial banks in the form of direct contact with their borrowers.

7.25 Considering the above factors, while the Group is in agreement with the view that bulk of commercial bank credit for housing should be routed through intermediaries, it recommeds that it may be left to individual banks concerned to allocate the proportion of their credit between direct and indirect finance. This allocation will depend on a bank's organisational capacity to deal directly with borrowers or the the availability of housing schemes in its areas of operation. Alternatively, RBI should decide at the beginning of each year the quota for direct and indirect finance which each bank may take up.

7.26 As pointed out above, indirect finance will be routed through some intermediary. This could take many forms. Commercial banks may either subscribe to the bonds and debentures floated by HUDCO and Housing Boards or they may give term loans to these institutions and Apex Co-operative Housing Finance Societies. In this connection, the question of floatation of unguaranteed bonds by several bodies deserves examination. HUDCO and Housing Boards have been floating unguaranteed bonds and debentures in recent years in order to raise additional finance. Commercial banks are generally against investment in these unguaranteed securities because this is tantamount to their extending clean term loans at rates lower than the market rates. Moreover, they cannot follow up the end use of such credit . Indian Banks' Association is understood to have decided that banks should not subscribe to unguaranteed bonds in future.

7.27 In view of the above, the Group makes the following suggestions:

a) Banks may refinance the loans extended by HUDCO. The advantage will be that the end-use of credit will be ensured.

b) HUDCO and Housing Boards may consider issue of special Bonds/Debentures for Housing and banks may subscribe to them by securing a charge against book debts and other assets. These special bonds/debentures which may have maturities of 10-15 years may be redeemed in annual equated instalments. They should be backed by book debts or other assets and stamp duty, if any, should be either totally abolished or substantially reduced. Where a charge on assets is not possible or feasible, Government can guarantee these special bonds/debentures but they may not be deemed as approved securities. The main advantage of developing these bonds/debentures will be that a new instrument carrying a reasonable interest rate will be created which can be traded in the secondary mortgage market. Also, banks will prefer this form of credit because it will be readily marketable.

c) Banks may give term loans to HUDCO, Housing Boards and Apex Housing Finance Societies. These loans can be secured by assets or can be given on a clean basis in special cases for short periods. The interest may be calculated on a quarterly basis. In these cases banks should preferably have an idea of the housing schemes which are going to be financed with their funds; however, follow-up action should be left to the concerned agency.

7.28 In the case of loans to co-operative housing societies, commercial banks will have not only to look into the feasibility of housing schemes to be financed but also have to take up follow-up action. Banks should not make loans against individual flats without the consent of the society because they are not transferable. Banks should ensure before granting loan to a co-operative housing society that its bye-laws and regulations have been suitably amended to empower the society to evict the defaulting member from the premises occupied by him and then allot it to another person who undertakes to meet the outstanding liability.

7.29 Commercial banks may also consider channelising their credit for rural housing through existing institutions like Regional Rural Banks, Viliage Co-operative Societies, Panchayats and other semi-official or voluntary agencies, whose help may be taken in assessing the credlt-worthiness of the beneficiary as well as in follow-up and recovery of loans. This will be useful particularly in those rural areas where commercial banks do not have branches.

Terms of Finance

7.30 The question of recovery of loans leads us to a discussion of terms on which housing finance may be given by banks.

7.31 Before going into details of terms and conditions on which housing finance should be extended by banks, it would be necessary to set out the principles by which we have been guided.

7.32 The Group is fully aware that investment in housing sector requires a considerably long period of repayment of loans at relatively lower rate of interest·

This is because to acquire a house heavy investment is necessary which is many times larger than an individual's monthly income or saving capacity. Secondly, since housing does not generate direct income for its occupant-it only saves expenditure on rent-the borrower cannot afford to pay a commercial rate of interest on housing loans.

7.33 On the other hand, commercial banks, whose deposits are of relatively short-term nature and which run on commercial principles and hence are expected to make profits, cannot afford to extend housing finance for very long periods and at low rates of interest. However, being the repositories of community's savings, they have certain social obligations, which they should fulfil by contributing their mite. In the circumstances, the Group feels that commercial banks should extend housing finance on no-profit no-loss basis. In other words, they should extend housing finance recommended earlier at a rate of interest, which would cover their costs.

Cost of funds

7.34 The rate of interest charged by commercial banks on their advances depends on many factors, like supply and demand of lendable resources within the framework of the Reserve Bank policy and the cost of raising funds as well as other costs; the last can further be sub-divided into —

(a) cost of funds raised both by way of deposits and borrowings;

(b) cost of establishment and other costs;

(c) statutory reserves and liquid assets on which commercial banks do not get any interest or get relatively low rates of interest.

So far as housing finance to be extended by commercial banks is concerned, the Group is aware that most of the borrowers will not be able to pay market rate of interest. Therefore, while making its recommendations, the Group has kept in mind this factor as well as the criterion that banks should charge interest rate, which would at least cover their average cost of funds and other costs. So far as loans for commercial constructions like, shop complexes, cinema halls, etc. are concerned, banks may charge market rate of interest.

7.35 The PEP[1] Report estimated that total cost of raising funds (deposits, borrowings and other costs) for all commercial banks was 10.8 per cent in 1975. Taking the present deposit-wise structure of rate of interest and the other costs, the total cost of funds for the banking system in 1976 has been estimated by us at 11.2 per cent, as indicated in Table 1.

1. Report of the Working Group on Productivity, Efficiency and Profitability in Banks : RBI, 1977 (unpublished)

TABLE 1
Scheduled Commercial Banks
Cost of funds—Estimate for 1976

	Pattern of deposits (%)	Amount outstanding (Rs. crores)	Interest Rate (%)	Interest Expenses (Rs. crores)
	(1)	(2)	(3)	(4)
A. INTEREST COST ON DEPOSITS				
1. Current	18	2,741	—	—
2. Savings	26	3,959	5 .0	197
3. Fixed	**56**	**8,528**	**8 .6**	**737**
Of which maturing in				
a) less than 6 months ..	4	609	5 .5	33
b) 6 months and above but less than one year ..	3	457	7 .0	32
c) 1 year and above but upto and inclusive of 3 years	21	3,198	8 .0	256
d) More than 3 years but upto and inclusive of 5 years	7	1,066	9 .0	96
e) Above 5 years	21	3,198	10 .0	320
Total (1+2+3) ..	100	15,228		934
4. Weighted average rate for all deposits			6 .1	
B. INTEREST COST ON BORROWINGS		**1,100**	**12 .0**	**132**
Total Interest Cost (A+B) ..		**16,328**	**6 .5**	**1,066**

Total Cost of Raising Funds, 1976

		Per cent
1.	Total interest cost	6 .5
2.	Establishment cost	3 .5
3.	All other costs	1 .2
4.	**Total costs**	**11 .2**

7 .36 Banks are of the view that in 1977 there has been a further rise in cost of deposits because of shift to longer term deposits. On this basis, we have estimated the total cost of funds for the commercial banks at 11 .5 per cent. This represents only the cost of funds and other costs. It may be added that charging this interest rate will involve banks in a loss because the average return on cash reserves and

liquid assets which they are required to maintain does not cover their costs. Hence, in order to break even, they have to charge higher interest rates on advances. Taking this as a guideline, the Group is of the view that banks should get an average return of 11.5 per cent on their proposed housing finance. As pointed out earlier, even this rate will involve an element of subsidy from the banks since it does not take into account the loss of income to banks on account of their low-interest or non-interest bearing statutory investments. Commercial banks with deposits of less than Rs. 25 crores and urban co-operative banks may be allowed to charge an additional rate of 0.25 per cent, because Reserve Bank has allowed them to pay higher interest rates on their deposits. The Group is aware that there are variations in costs between different banks. At the same time, it is of the view that too great a variation in interest rates charged by different banks will not be in the interest of beneficiaries.

7.37 The Group is well aware that even if the bank finance for housing is extended at a bare minimum cost of 11.5 per cent per annum it would be beyond the reach of bulk of the borrowers belonging to EWS or LIG. Therefore, mainly with a view to bringing the commercial bank finance for housing within the reach of these categories of people, the Group recommends that commercial banks should extend at least 70 per cent of the proposed housing finance at a rate of interest lower than 11.5 per cent by subscribing to the special bonds/debentures or by giving term loans or providing refinance to the Housing Boards, HUDCO, Apex Co-operative Housing Finance Societies, etc., which cater to the housing needs of EWS, LIG and MIG. The balance 30 per cent amount may be given by the banks directly to the borrowers by charging them slightly higher interest rate so that banks' average return on total housing finance remains 11.5 per cent per annum. This suggested bifurcation of housing finance will suit the requirements of both commercial banks as well as the housing agencies referred to above. This is because banks will be spared from dealing with hundreds of small individual borrowers, scrutiny of their loan applications, follow-up of the end-use of credit and the problem of recoveries. This will also suit housing agencies like Housing Boards, HUDCO and Apex Housing Finance Societies, which are short of funds, as they will be able to raise finance from the banks on relatively easier terms than at present.

7.38 It has been stated above that banks should be allowed to get an overall return of 11.5 per cent per annum on the proposed housing finance. They can get this return by charging differential interest rates on indirect finance (70 per cent) and direct finance (30 per cent). A few possible interest rate combinations are given below :

Combination	Proportion of Investment in Housing		Rate of Interest (%)
I	(a)	70	9.0
	(b)	30	17.33
	(c)	**100**	**11.5**
II	(a)	70	9.5
	(b)	30	16.18
	(c)	**100**	**11.5**
III	(a)	70	10.0
	(b)	30	15.0
	(c)	**100**	**11.5**
IV	(a)	70	10.5
	(b)	30	13.83
	(c)	**100**	**11.5**

(a) Indirect finance.
(b) Direct loans.
(c) Weighted average rate of interest for total housing finance.

7.39 It will be seen from the above that the lower the interest rate on indirect finance, the higher the rate will have to be on direct loans in order to get an average return of 11.5 per cent. Thus, if 9 per cent is charged on the former, banks will have to charge an interest rate of 17.33 per cent on direct loans in order to get an average return of 11.5 per cent (Combniation I). This is simply not acceptable as this rate exceeds even the maximum lending rate prescribed by the Reserve Bank. Even Combination II cannot be accepted, as the banks will have to charge 16.18 per cent, which is very close to the ceiling on interest rate (16.5 per cent) prescribed by the Reserve Bank. As regards Combination III, though rate of interest on direct loans works out to 15 per cent per annum, the Group is inclined to reject it because at this rate of interest the benefit of such loans will accrue only to persons having very high incomes. The Group, therefore, recommends Combination IV, which is more practicable than the previous three. This is, however, only a guideline and banks may charge differential rates of interest even on their direct loans.

Terms for Indirect Finance

7.40 In terms of Combination IV, the Group recommends that banks should give 70 per cent of the proposed housing finance at the rate of interest of 10.5 per cent per annum. As already stated, this indirect finance could be in the form of (i) subscription to special bonds/debentures of housing agencies like HUDCO, Housing Boards, other statutory corporations dealing with housing, (ii) refinancing the loans given by these bodies or (iii) direct term loans to these agencies including Apex Co-operative Housing Finance Societies, secured by their assets and/or Government guarantee. Other terms of indirect finance, such as, repayment period, margins, etc., would be more or less the same as in the case of direct finance discussed in the following paragraphs.

7.41 The Group recommends that term loans to these institutions as well as other direct loans for housing should be exempted from interest tax on the lines of term loans for agricultural and industrial development.

Terms for Direct Finance

7.42 In the following paragraphs, we propose to discuss the question of margins, security, scale of finance, repayment period and rate of interest for direct finance.

Margins

7.43 As in any commercial project, so also in the case of housing, the borrower must contribute his mite whether in money or in kind, as his stake. This apart, even if full security of any kind for covering a loan for the entire scheme is offered a bank would insist on keeping some margin, depending on the prevailing market price of security. This margin would also depend upon the kind of security offered, the type of mortgage, marketability of the security, availability of collateral security/guarantee and above all, integrity of the borrower.

7.44 While a few bankers have expressed their desire to have high margins in certain cases of housing loans, users of bank credit for housing like Housing Boards, have represented that the margins in respect of mass housing schemes should not exceed 10-20 per cent. The Group feels that banker handling the loan proposal would be the best judge of the repayment capacity of the borrwer, the magnitude of his stake, his past performance, etc., and as such the banker should decide the level of margin on merits within the range of 20 to 40 per cent.

Security

7.45 We have discussed the problem of security in regard to indirect finance at appropriate places. In the case of direct loans for housing, the security will normally be the mortgage of land and property to be valued by approved valuers. While assessing the value of a house as a security, the expected life of the building should be taken into account. We are elsewhere recommending the development of a mortgage paper as an instrument of credit. Once it is developed and a secondary market in such paper is created, it would be easier to negotiate and transfer the security backing a loan. In the case of loan for repairs, banks may also accept collateral security and guarantee.

Scale of Finance

7.46 The scale of finance to be given by banks should be neither too low in relation to the cost of construction, nor too high in relation to the repaying capacity of the borrower. It is, therefore, necessary that a realistic assessment is made of the cost of construction, including the labour or material contributed by the beneficiary. So far as ceilings on individual loans are concerned, they should be related to the income of the borrower. The World Bank has suggested that the repayment of the instalments of the loans should be around 15-20% of the income of the borrower. HUDCO has evolved certain norms in this connection, taking into account the income of various categories of borrowers as well as the carpet area and cost of construction. The scale of finance given by HUDCO to different categories has been indicated in Chapter 4 (Table 5).

7.47 Some bankers were of the view that the ceilings prescribed by HUDCO were too restrictive and unrealistic and hence suggested higher ceilings. Taking the above into consideration, the Group recommends that HUDCO ceilings may be used as guidelines by banks but may be adjusted as and when necessary. Banks should also take into account factors like variations in the conditions of demand, availability of land and preferences of borrowers. Since these factors will change over time, the Group also recommends that ceilings should continue to be reviewed by RBI in consultation with HUDCO. In other words, the minimum and the maximum amounts of finance to be prescribed by banks for an individual borrower should be flexible and realistic, taking into account the factors discussed above.

Repayment Period

7.48 Repayment capacity of a borrower depends not only on his own income from all sources but also the income of his family members in certain cases. Taking the repaying capacity as the main criterion, a maximum period for repayment can be fixed. In this context most of the banks which have submitted their views to the Group have suggested repayment period varying from 7 to 15 years. A study of the experience of banks in selected countries shows that the period of repayment varies depending on whether there is a secondary mortgage market and a speclialised housing finance institution. Since[16] in India we do not have a secondary mortgage market, commercial banks may have to give housing loans for longer periods. Though the Group has taken note of the fact that banks which borrow short cannot afford to lend long, it is also aware that the persons who would borrow from them for their requirements of housing cannot be expected to repay large amounts of loans in a short time. Also, banks are already giving long term loans (upto 10 years or even longer) to finance development schemes like coffee plantations. Repayment instalments should be fixed on monthly, quarterly, half-yearly or even on annual basis to suit the borrower as suggested by many banks. A man's working life, which is usually taken to be limited to 60 years of age in India, should also be taken into account in fixing instalments. Considering all the relevant factors, the Group recommends that the maximum period of repayment should be fixed at 15 years, which in certain exceptional cases may be allowed to be extended to 20 years.

7.49 In the context of repayment, some banks have suggested that after the disbursement of a loan, a period of moratorium or holiday may be allowed to the borrower after which the repayment of the loan instalment should begin. Taking these and other factors into account, the Group is of the view that the repayment holiday should be allowed upto the completion of construction of a house or eighteen months from the disbursement of the first instalment of the loan, whichever is earlier.

Rate of Interest

7.50 On the basis of earlier discussion, the Group recommends that commercial banks may charge an average interest rate of 13.8 per cent per annum on their direct loans for housing so as to get an average return of 11.5 per cent per annum on their proposed total housing finance. It may be reieterated that looking to the cost of funds and other costs, an average return of 11.5 per cent on housing loans will mean some sacrifice on the part of the commercial banks. Hence, within the quantum of direct finance (30 per cent of the total) recommended by us, there is little scope for charging concessional rates of interest. However, in certain deserving cases like housing loans to artisans, landless labourers, etc., and building loans to charitable public institutions like hospitals, hostels, educational bodies and the like which form part of a housing project, banks may like to give loans at a concessional interest rate of 11 per cent per annum. We suggest that in no case should this category of loan exceed 10 per cent of the total housing credit extended by a bank. Also a loan to an individual in this category should not exceed Rs. 2,500. If a bank extends 70 per cent of its total housing credit by way of indirect finance at interest rate of 10.5 per cent and 10 per cent amount at interest rate of 11 per cent, the remaining 20 per cent of the credit will have to be extended at an interest rate of 15 per cent to enable the bank to earn an average return of 11.5 per cent on its housing credit. The Group is fully aware that many borrowers of housing loans would find the interest rate costly. It may, however, be stressed that most of the borrowers at this interest rate (i.e. 15%) will belong to relatively higher income groups and the bulk of housing finance from commercial banks will be indirect at relatively low rate of interest—the beneficiaries of which will be EWS, LIG and MIG.

7.51 If a bank wants to extend all its housing credit indirectly, it would be free to do so, although it may be noted that in such a case the gap between the average cost of funds and average return on loans will be greater.

7.52 We have already suggested that interest rates on loans meant for commercial constructions like market complexes and to professional builders should be the same as are applied to other commercial loans. However, loans for the construction of buildings meant for socially desirable purposes like public hospitals and nursing homes, public schools etc., may be charged the proposed interest rate of 13.8 per cent.

7.53 A suggestion has been made that average interest rate on housing loans should be variable and should be linked to the Bank rate. So far as linking of interest rate on housing loans with the Bank rate is concerned, there will be some advantages. First, the Bank rate is a pivotal rate and rates of interest on deposits and advances generally vary with it. Secondly, commercial banks will be able to vary the interest rates in accordance with the rates that they themselves have to pay on the funds that they borrow or raise by way of deposits. On the other hand, there are certain disadvantages in accepting the suggestion. Bank rate is changed mainly on account of considerations of monetary policy. Therefore, if the interest rate on housing loans is to be insulated from these considerations, linkage with Bank rate may not suit the requirements of many borrowers. Also, an element of uncertainty will be introduced because the borrower would not be sure of the extent of his liability, which he would have to incur for payment of interest. Having considered different aspects carefully, the Group is of the view that varying interest rates with the Bank rate, may be considered only if there are basic structural changes in the interest rates applicable to deposits.

7.54 It will be seen that the Group has suggested the above guideline on the basis of the current conditions. The interest rate should change with large changes in average interest rate on deposits and/or administrative and other expenses.

7.55 Another suggestion has been made that different institutions which are connected with housing finance should charge the same rate of interest to different categories of borrowers in this field. This suggestion will be very difficult to implement because the returns on funds provided by different institutions have to conform to the objectives of the respective institutions. For instance, LIC has to ensure a certain rate of return on its funds in the interest of its policy holders. Commercial banks have to take into account the cost of raising funds and their establishment charges. Hence, if the suggestion is to be implemented a centralised fund may have to be created for subsidising the rate of interest charged by different institutions.

7.56 Both bankers and others have expressed the view that consideration of caste or creed for charging concessional rate of interest on housing finance should be discarded. It has been suggested in this context that any concessions in respect of housing finance, whether by way of rate of interest or in any other way, should be based on the income of the borrower and not his caste. The Group sympathises with this view.

Guidelines issued by RBI

7.57 It may be recalled that pending examination in depth by the present Working Group, which was then proposed to be appointed, RBI had taken a tentative view in regard to bank finance for housing and issued certain guidelines[1] in June 1976, to the scheduled commercial banks, in the matter. Those guidelines covered the following aspects:

i) Categories of schemes which could be considered eligible for bank finance,

ii) Proportion of bank credit to the total cost of schemes,

iii) Security,

iv) Period of loan and

v) Rate of interest.

These guidelines would now require to be changed if RBI accepts the various recommendations which have been made in the foregoing paragraphs.

1. Refer Appendix VI.

CHAPTER 8

LEGAL CONSTRAINTS IN PROVIDING HOUSING FINANCE

WE HAVE SEEN in the preceding Chapters that housing activity requires (a) large investment in relation to one's monthly income or savings and (b) long-term finance at low rate of interest, as housing is not an activity which generates income directly. We have also seen that, due to constraints on their financial resources, banks cannot enter into the field of housing in a big way. Assuming that banks are induced to spare a part of their financial resources for housing and to lend them on reasonable terms, there are still some legal hurdles which will inhibit them from entering into the field of housing finance. In the present Chapter, we discuss some of these legal hurdles.

Nature and Adequancy of Immovable Property as a Security

8.2 A banker has to reconcile with three aims which are at times conflicting, viz., liquidity, safety and profitability of his funds. The adequacy of a security is judged mainly by the margin that exists between the market value of the security offered against a loan and the amount of loan advanced. While adequate security might ensure safety of his funds, the question of liquidity still remains. A banker usually classifies the securities offered to him from the stand point of their liquid, semi-liquid or inflexible character. This classification, in turn, depends upon the simplicity or otherwise with which the security could be realised or appropriated towards repayment of loan. While banks are prepared to grant loans against the security of fixed deposits, gold ornaments, Government securities, shares, goods, etc. because of their relatively liquid and easily marketable nature, they are generally reluctant to do so when land or a house is offered as a security due to certain legal impediments connected therewith, the more important of which are discussed below.

Transfer of Property Act, Urban Land (Ceiling and Regulation) Act and Income Tax Act

8.3 While the procedure for transfer of ownership of liquid and semi-liquid securities like gold ornaments or Government securities is quite simple, that of immovable properties is much tardy, time-consuming and expensive. In this connection, firstly, the mortgagee is required to take a search of the property for a preceding period of more than 30 years with a view to finding out whether the title is clear and marketable and also to ascertain whether any charge or encumbrance has been created on the property that is being mortgaged. Secondly, for making a mortgage valid and complete, any mortgage of immovable property worth Rs. 100/- or more must be registered as per the provisions of Section 17 (b) of the Indian Registration Act. Besides, if the instrument or the document is not specifically exempted, stamp duty is required to be paid. Moreover, the physical possession of immovable property continues to be with the mortgagor (borrower) and not with the mortgagee (bank). This fact, in the case of house property, creates a lot of difficulties for the lending banker if and when he wants to realise the security as it becomes difficult to get vacant possession of such property. Further, when the immovable property proposed to be mortgaged with the bank comes under the purview of the Urban Land (Ceiling and Regulation) Act, the borrower is required to obtain, prior to the mortgage, permission from the Competent Authority under Section 27 of the Act. Obtaining such permission involves a lot of delay. Under Section 230A of the Income Tax Act, a mortgagor is also required to produce an income tax clearance certificate if the value of the document drawn to be registered in respect of the property to be mortgaged exceeds Rs. 50,000/-. This is another time-consuming factor.

Ownership of Flats Act, Ownership of Apartments Act and Co-operative Societies Act

8.4 We have noted above what procedural difficulties are to be faced even if the mortgagor has a sole transferable right in the immovable property. In the case of house-property it is quite possible that the mortgagor may possess a title jointly with others or his interest in the property itself might be non-transferable For instance, under the State Co-operative Societies Acts, or Ownership of Flats Acts, the so-called owner of a flat has only a right of occupancy and the ownership in the flat/property vests with the co-operative society. However, in the case of Ownership of Apartments Act, this lacuna has been removed and the interest which a person acquires in an apartment is expressly made heritable and transferable. The Group suggests that similar provision for transferability of interest should be made in the Acts governing Ownership of Flats and the Co-operative Societies Unless this is done, banks will not be inclined to advance loans against individual flats or apartments. Besides, the marketability of an occupied house is quite restricted. In the event a bank decides to sell such a property to recover its loan, no bidder may come forward to purchase it, there being no prospects of getting vacant possession of the property.

Realising the Security : A Time-consuming Process

8.5 When a mortgagor fails to pay the principal/interest which has fallen due, the mortgagee has to resort to legal remedies as provided under the Transfer of Property Act such as, instituting a suit for the recovery of mortgage debt or foreclosure of the mortgage (Section 67) or sale of the mortgaged property without intervention of the Court as per Section 69 ibid. Generally, when banks advance loans against immovable property, they take either an English Mortgage or an Equitable Mortgage. In the event of the borrower's failure to repay the loan/interest, English Mortgage entitles the mortgagee to make a sale of the mortgaged property by auction without the intervention of the Court. However, this remedy is available to the mortgagee only if the mortgaged property is situated in the Presidential towns like Bombay, Madras and Calcutta, unless the State Governments agree to notify under the provision of Section 69 of the Transfer of Property Act to cover other areas to enable the bankers to have their mortgages in all places in the form of English mortgages.

8.6 It is to be noted that Equitable Mortgage (i.e., mortgage by deposit of title deeds) cannot be created in all the places of our country, particularly in rural areas. To enable banks to grant loans under Equitable Mortgage this facility should be extended to all parts of the country. In case the bank has taken only an equtitable mortgage, the process of realising the security is a long-drawn out and expensive one. Equitable mortgage does not entitle the bank to dispose of the mortgaged property straight away. Therefore, the bank has to seek the aid of the Court to recover its dues which would mean long litigation. For instance, if the amount of mortgage money exceeds Rs. 20,000/ , a suit will have to be instituted on the original side of the High Court. A court decision in this regard would take not less than 10 years from the date of filing the suit. This procedure is not only time-consuming but expensive as well. It clearly shows why banks are indifferent towards granting loans against immovable property like house, land, etc.

Conclusions

8.7 In order to remove the difficulties experienced by the banks and with a view to encouraging them to provide housing finance, a few remedial measures listed below seem necessary :

(a) The procedure for creating a mortgage on immovable property in favour of a bank and other agencies granting housing loans should be simplified so as to reduce the delay and the cost involved in it.

(b) Special and simplified procedure for registration may be provided in case of mortgages in favour of banks and other agencies granting housing loans by creating a general charge on a simple declaration, as is done in the case of co-operative credit societies advancing agricultural loans.

(c) Banks and other agencies granting housing loans should be exempted fully or partially from the levy of stamp duty and registration fees in respect of mortgages drawn in their favour.

(d) Charge in favour of banks and other agencies granting housing loans created out of their finance against the mortgaged property should be allowed to take priority over all other charges in respect of such property.

(e) The mortgagor who has defaulted the repayment should be treated as a licencee of the mortgagee bank from the date of default of repayment of loan.

(f) Where the number of suits arising out of default of banks' and other financial agencies' dues of housing loans is very large, the question of appointing Special Courts to decide such cases should be considered. Also, a simplified procedure for expeditious disposal of such money claims, like summary procedure, should be evolved as in the case of similar suits of co-operative credit societies.

(g) Banks should be exempted from the provisions of the Rent Control Act in respect of the properties mortgaged to them as security for housing loans.

(h) In order to facilitate loans to co-operative societies,the Co-operative Societies Acts should be amended to provide for eviction of a member of a society from the premises allotted to him on his defaulting in the payment of dues of the lending institution.

CHAPTER 9

CO-ORDINATION BETWEEN EXISTING INSTITUTIONS AND NEED FOR NEW MACHINERY AND INSTITUTIONS

Need for Co-ordination

THE ROLE OF different institutions providing housing finance in India has already been discussed in Chapters 5 and 6. In this Chapter we shall discuss the question of co-ordination between these institutions. Also, the question whether there is any need for a specialised housing finance institution in India will be discussed.

9.2 As pointed out in Chapter 5, none of the institutions giving housing finance, except HUDCO and Apex Housing Finance Societies, specialises in giving credit for constructing or purchasing houses. LIC, which is the largest lender in the field, invests in housing partly as a part of its social responsibility but mainly in accordance with its overall investment policy. Commercial banks extend credit for housing mainly by way of investment in debentures and bonds floated by HUDCO and Housing Boards and in the form of loans to their employees. A few urban co-operative banks also grant small loans to their members for housing. However banks on the whole have not involved themselves to any significant extent in directly financing housing even where they are organisationally suited to do so. Government and Semi-Government agencies and employers in the private sector give loans for housing mostly to their employees. Besides, Government also contributes funds to HUDCO and Housing Boards. Thus, with the exception of HUDCO, other institutions do not, as a rule, invest in housing as a part of a national housing policy.

9.3 Since the funds required to cover the investment gap in housing are large and resources are meagre,an attempt should be made to co-ordinate the activities of different agencies so that the limited funds can be used to the maximum advantage. Also, the purpose should be to optimise the use of the organisational resources of the different institutions.

9.4 HUDCO is a central institution which in a short period has contributed effectively to public housing programmes but has yet to develop its organisation in different parts of the country. Housing Boards and Apex Co-operative Housing Finance Societies have acquired experience in constructing and financing houses but some of them are afflicted by financial indiscipline. LIC, which is the largest contributor in the field and has also considerable experience in construction, can in collaboration with GIC contribute more effectively by developing a scheme of mortgage insurance and the creation of a secondary mortgage market. Provident Funds and Pension Funds, which have large long-term resources, have been allowed to devote only an insignificant part of their resources to this sector by giving loans to their members. They, too, could have played a more active role in developing secondary mortgage market. Commercial banks, which have the necessary spread of branches and are also mobilising a considerable part of community's savings, have not involved themselves in the housing field for reasons already discussed.

9.5 What emerges from this analysis is that various organisations mentioned above are strong in some respects and weak in others. Admittedly, some of them have not been able to play a more important role because of legal and financial constraints which we have discussed in previous Chapters. The important point to note, however, is that the strength of each of the aforesaid organisations can be fully exploited only if their activities are well co-ordinated.

9.6 There are various possibilities of co-ordination, e.g., the banks and Housing Boards can co-ordinate some of their activities on the same lines as the activities of the banks and State Financial Corporations. Further, in regard to the promotion of small-scale industries, collaborative arrangements are being worked out with State Development Corporations like, MSSIDC, SICOM, MIDC in Maharashtra. Likewise, in respect of specific and well designed projects requiring large amounts of money, consortium approach involving commercial banks, LIC, HUDCO, etc., could be considered. At this stage when there are significant gaps in institutional finance for housing, one could only give broad ideas which could take a concrete shape later. The ideal arrangements will be when on the side of supply of funds, organisational modalities are evolved which should suit the particular institutions and on the side of demand, variations in economic and social conditions in different parts of the country as well as differences in income and wealth are fully taken into account. What we have in mind is that commercial banks, to the extent they can afford to involve themselves in the field, give short and medium term credit whereas agencies like LIC, Pension and Provident Funds give long-term credit in a co-ordinated way. Also some institutions, e. g., HUDCO, should evolve such guidelines relating to size and cost of houses that variations in the demand conditions stated above are taken into account. This kind of co-ordination will require special efforts and may take time. Towards the end of this Chapter we have attempted to present a scheme by way of an illustration to ensure co-ordination between the lenders and users of credit. The essence of co-ordination lies not merely in working out mechanical arrangements among the institutions, but in their ultimate effectiveness in achieving results.

9.7 The question of co-ordination between different instituions leads us to a discussion of a co-ordinating agency. At present there is no such agency. HUDCO, which is a central financing agency in the country, plays neither the part of co-ordinating agency nor belongs to the category of specialised housing finance instituions that have been developed in many other countries.

Specialised Housing Finance System

9.8 There is no well arranged housing finance system in India unlike many other countries, which have specilised housing finance instituions like Building Societies in the U.K. and Saving and Loan Associations in the USA.[1] Another feature which emerges from a comparison of our institutions with foreign institutions is the total absence in our country of mortgage insurance and secondary mortgage market. Naturally, the queston arises whether we should also establish specialised institutions of this type. Bankers expressed different views on the question.

9.9 As stated in an earlier Chapter, commercial banks are spreading their activities to new fields. Through their rapidly increasing branch net-work they are also reaching far-flung places in the country. They have the necessary expertise to scrutinise financial aspects of proposals for housing loans. Thus, they are in fact tending to become the super financial market of the country. Hence, according to this veiw, commercial banks could take upon themselves the task of financing housing in co-ordination with other agencies like HUDCO and LIC. Some bankers have expressed a view that there is no need for specialised housing finance institutions if commercial banks can be assured of adequate resources through refinance facilities from Reserve Bank or the Government. Thus, according to this argument the mere creation of another institution will not solve the housing problem.

9.10 On the other hand, a need for specialised housing institutions is felt by many bankers. This was also the view expressed by Banking Commission (Chairman : Shri Saraiya).

9.11 The Study Group appointed by the Banking Commission had noted that in India there is no institutional framework to meet the objective of encouraging saving for the purpose of investment in housing; nor is there any system responsive to the characteristic of housing market.

9.12 The Study Group felt that the basic requirements of an appropriate housing finance system should be the following :—

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1 Refer Appendix V,

i) Specialised institutions, the main functions of which may be to encourage saving and giving housing loans on reasonable terms, may be created;

ii) Since conditions in the housing market vary greatly from place to place, it would be desirable to have local institutions. This will have the advantage of using local savings for local development.. As in the USA, such institutions may be knit into system through a Central institution, which may help them and supervise their functions;

iii) There should be a machinery to offer suitable guarantee and insurance to cover the risk involved in providing housing finance;

iv) Conditions may be created to develop a secondary mortgage market;

v) Steps may also be taken to ensure the availability of short-term construction credit to builders of houses to undertake new construction pending sale to the ultimate purchasers; and

vi) The Central institution should have power to borrow from the Government and/or the Reserve Bank of India. For this purpose, the Reserve Bank may consider the creation of a fund specially for such loans.

9.13 Since the case for creating a specialised housing finance system is often advocated on the basis of experience of other countries, we studied the working of such institutions in some selected countries.[1] The rationale of these institutions in general may be stated as follows.

9.14 The mobilisation and expansion of financial resources for housing is generally facilitated by the establishment of special public financial institutions, which stimulate and support the activities of all bodies concerned with housing. In addition, it has been found that variation in housing conditions, as well as in demand for housing can be successfully dealt with only by local institutions specialising in housing finance which are federated with national housing finance institutions.

9.15 Having considered both the views, for and against the establishment of specialised institutions for housing, the Group feels that the housing problem in India is so colossal that it needs a specialised system to cater exclusively to housing finance. The experience of foreign countries also lends support to this view. The thrust which is needed for tackling the various financial, legal and non-financial problems that are faced in financing housing, can be dealt with only by a specialised housing finance system.

1. Refer Appendix V.

9.16 The Group is thus in agreement with the suggestion that India needs institutions like the Saving and Loan Associations of the U.S.A. The system should have two tiers with Apex Central Housing Finance Corporation at the top and local housing finance institutions at regional or district level sponsored by the local community. The function of the Corporation will be to charter, encourage and supervise the local housing finance institutions and to extend short term finance to them as and when required. There is, however, no need to establish a new agency at the apex level as we have a central housing finance institution in HUDCO. HUDCO should be organisationally strengthened and should sponsor the establishment of local institutions at the regional or district level. The main aim of these local housing finance institutions will be to provide credit at reasonable interest rates and to mobilise resources by offering attractive instruments of savings linked with housing. The sources of funds for the apex body will have to come from the Government in initial stages and later it will have to raise resources from the open market and loans from the Life Insurance Corporation. The Corporation should also have power to borrow from the Government, Reserve Bank and the commercial banks. The Group recommends that the Reserve Bank may create a fund for housing on the lines of National Industrial Credit (Long-Term Operations) Fund and the National Agricultural Credit (Long-Term Operations) Fund for this purpose.

9.17 In order to induce the financial institutions, such as, banks, insurance companies, provident funds, UTI, investment trusts, etc., to lend to HUDCO in some form or the other, it would be necessary to create conditions for the development of mortgage market. For this purpose, a scheme of mortgage insurance should be prepared. The scheme has been discussed in the later part of this Chapter.

9.18 At the State level, there are already Apex Co-operative Housing Finance Societies, and most of the housing co-operatives in the State are affiliated to this Society. These co-operative societies should serve mainly the needs of EWS, LIG and MIG in the urban areas. They should borrow from HUDCO as some have already done. They should also be made eligible to borrow from the proposed fund for housing.

9.19 Since one of the objects of creating specialised housing finance institutions will be to mobilise fresh savings, an important point to be examined is the possible competition between the specialised agencies and the other financial institutions for attracting the deposits from the public. If the saving schemes brought out by the specialised institutions are more attractive than the schemes of the commercial banks, LIC, UTI, Provident Funds, etc., it would be natural that some part of savings will be diverted to the specialised institutions. The basic point is to tap additional savings for the purpose of house construction and not merely transfer savings from one institution to another. The Group feels that imaginative schemes can be thought of and new instruments created by fully exploiting the strong motivation to own a house. Moreover, the proposed institutions should be allowed to accept deposits for longer period than the commercial banks do. Thus, the competition for available savings will be restricted.

9.20 Housing Boards, which are essentially construction agencies, should not normally be involved in extending housing finance. The Group was informed that some Housing Boards had introduced deposit schemes but without much success.

9.21 Investment in housing can be encouraged by giving fiscal incentives as is being done in some foreign countries. For instance, in the United Kingdom under the "Save-As-You-Earn Monthly Savings Scheme" any member of a Build ing Society, who saves regularly each month for five years, is entitled to a bonus equivalent to 14 months' savings and on this bonus, neither the saver nor the building society is liable to pay any tax. The Building societies, which accept funds and in turn lend them for house construction pay tax on their incomes at a special lower rate, called the composite rate, which is the average rate of tax paid by all investors of the building society. Tax relief in full is given to owner occupier of a house on the interest incurred on morgaged loans upto a stipulated amount. In Sweden, among the different categories of investors in house property, owner occupiers can deduct in their income tax return, the interest paid in respect of the housing loan against the notional income calculated in a standard manner. Since this concession has the effect of reducing the cost of the house to owner occupiers, it has led to an increase in the demand for ownership houses.

9.22 In order to attract more resources for programmes of house constructon, particularly for the weaker sections of society, the Union Budget for 1976-77 provided exemption from wealth tax for five years to new dwelling units with a plinth area upto 80 Sq. metres and constructed after April 1, 1976. Further, in terms of Finance Act, 1977 Section 54E has been added to the Income Tax Act, 1961, which provides for exemption from income tax in respect of capital gains arising from the transfer/sale of a capital assets, including residential house, under certain conditions. In case new institutions of the kind that the Group has recommended are established, some further fiscal concessions may have to be given both to the institutions and their depositors, at least in the initial stages. This may call for certain amendments to the present Income Tax Act, 1961. For instance, income of the specialised housing institution may be exempted from the payment of income tax, as is allowed in the case of Unit Trust of India.

Since the deposits of specialised financial institutions will be of a longer duration than those of commercial banks, they will have to pay higher interest rates. On the other hand, a large amount of their funds will be extended for relatively long period and they may have to charge interest rate lower than the market rate for term loans. Taking these factors into account, the Group recommends that statutory liquidity ratio in their case may be considerably lower than that applied to the banks.

Insurance of Mortgage Loans

9.23 Immovable property mortgaged with the lending institution as a security against housing loan satisfies nearly all the characteristics of a safe investment. Unlike in the case of hypothecated goods, the borrower cannot run away with the mortgaged property. Despite this, as pointed out in previous Chapter ,financial institutions are reluctant to enter into mortgage transactions because (i) liquidity of investment is totally absent and (ii) in the event of default by the borrower the mortgagee may not find it easy to foreclose the mortgage and realise his money because of difficulties in getting vacant possession of a residential house.

9.24 Apart from these two difficulties in the mortgage loan transaction, there are two other possible risks viz., (i) the borrower may not be in a position to pay loan instalment and interest when they fall due, and (ii) the title of the borrower to the immovable property, which constitutes a security for the loan, may turn out to be defective. However, both these probable risks are such that they can be pre-determined, calculated and accepted by a mortgage insurance agency. Such an agency can easily determine the risk involved in the mortgage transaction by finding out whether (a) the borrower has a clear title to the property offered as a security for the mortgage, (b) the lending institution has adequate machinery and expertise for the scrutiny of the title, (c) lending institution has advanced loans only against such properties which are certified by the competent legel experts as having good title, (d) the amount is lent only to such persons whose income is commensurate with their borrowing capacity, and finally (e) the borrower's interest in the mortgaged property and his ability to develop that property has been properly examined from the amount of down payment brought in by him and invested in land or construction. This could be further checked up from the arrangements made by the borrower to execute the housing project by producing approval of building plans by the appropriate authorities, the permission for commencement of the work granted to him and the appointment of a contractor by him to execute the work.

9.25 The availability of mortgage insurance facility would not only provide necessary protection to the mortgagee, but it would also expand the scope of existing primary mortgage market and pave the way for creation of a secondary mortgage market in the country. For instance, some institutions, which have surplus funds, may be attracted to invest in these insured mortgages. The existence of a secondary market is expected to encourage the financial institutions to invest more in insured mortgages, because they would be in a position to discount the mortgage paper in the market in case they need funds urgently. Such mortgage insurance schemes are already in existence in a number of foreign countries like the USA, Canada, Japan, etc., where they have played an important role in solving the housing problem.

9.26 Thus, the Group is of the view that LIC and GIC, which have some expertise in mortgage lending, should devise a scheme for giving guarantee for the mortgage loans made by the financial institutions. If necessary, the laws under which these institutions operate should be changed. In order to impart liquidity and attractiveness to mortgage paper, a proper legal framework should be evolved which would cover such matters as land title, mortgage instruments and procedures for their enforcement. The object should be to develop a uniform, simple and familar mortgage paper. The Group has not gone into the question of modalities of creating a secondary mortgage market and mortgage insurance, because it is understood that another group has been appointed by the Government to examine the issues.

9.27 It will be appreciated that the major problem of housing finance is that of resources. In India, as in other developing countries, the saving ratio is too low to meet the development needs. Hence, if larger resources are to flow to the housing sector, new schemes to mobilise additional savings will have to be devised and arrangements thought of to put the existing resources to maximum use.

9.28 If the recommendations made in the above paragraphs are accepted, an integrated system can be developed to cater to the credit needs of housing the country. The establishment of new institutions will, however, take time. Given the urgency of the problem, we may have to consider some schemes for immediate adoption.

9.29 It may be pointed out in this connection that some commercial banks like Punjab National Bank, Syndicate Bank, United Bank of India and Indian Bank have introduced deposit schemes linked with housing loans. The essential feature of the schemes is that a depositor is expected to deposit a certain amount or increasing amount periodically for a specified number of years (say, ten years). At the end of this period, he is entitled to take a loan equal to the amount of de-, posit outstanding to his credit provided that the loan is used exclusively for the construction or purchase of a house. In addition, he can of course withdraw his own deposit for the purpose. It is understood that the working of some of these schemes in the last few years indicates that they have not evoked much response. The major reason is that by the time a depositor becomes entitled to take a housing loan from the bank, prices of houses or of building material, labour, etc., would have gone up so high that he might not be in a position to have the house which he had planned.

9.30 On the basis of this experience as well as the study of schemes introduced in some foreign countries, it is observed that the success of deposit schemes linked with housing loans is predicated on the assurance of a house to the depositor. Keeping this in view, the Group suggests the following arrangements.

9.31 It may be stated at the outset that an essential condition for the success of the scheme is development of a simple negotiable mortgage paper.[1] Since commercial banks' resources are essentially of a short term nature, whereas LIC and Pension and Provident Funds have long-term resources, the object of the scheme is to co-ordinate the activities of these institutions in a way which suits also the requirements of the borrowers. Normally, the saving capacity of a person can be expected to grow over a period of time of his career. Hence, the commercial banks may introduce schemes under which a young man or a couple may undertake to deposit a certain amount in his/their account at regular intervals for a specified period. In return the bank should ensure that after a short period, say three to five years, a depositor will be able to get a house, in accordance with his income and repaying capacity of the loan that could be advanced to him. The bank can give this assurance if it formulates schemes of building houses in collaboration with Housing Boards and professional builders. Two or three year loans may be given to them to construct houses in accordance with the preferences of the depositors referred to above. After the houses are completed the bank may give a loan to the depositor against the security of the house which will be transferred by the builder to him. The builder in turn will get the money from the purchaser of the house and repay the loan to the bank. The bank may keep the mortgage paper representing the title to the property for five to seven years, after which it may be sold in the market. The buyers for this paper will be the insurance companies, LIC and Pension and Provident Funds. These institutions will become the new lenders to the house occupants. Thus, the depositor will have got a house with a loan which he will repay over a period of twenty/

1 Please see Chapter 7 for the creation of special bonds/debentures to be issued by housing agencies.

twenty five years. As pointed out above, his income is expected to increase over this period and he may be able to repay the loan earlier than the stipulated period. There is a greater chance of success of the scheme if the banks finance projects involving housing complexes, rather than individual houses.

9.32 The details of the schemes relating to interest rates, etc., can be worked out later if the principle is accepted. It may be noted that various schemes have been suggested to link savings with construction of houses. For instance, the Committee on Industry and Labour, appointed by the National Savings Central Advisory Board, has recently recommended two schemes, viz., (i) Savings- cum-Housing Scheme and (ii) Janata Provident Fund-cum-Insurance Scheme.

9.33 There are many suggestions made to increase the flow of existing resources to housing sector by way of increasing loans from LIC, Provident Funds, giving tax incentives and so on. We understand that the Ministry of Finance had appointed a Study Group in March 1976 under the Chairmanship of Shri R. D. Thapar to examine in depth the various aspects, including, particularly, the means of raising and channelling resources having a bearing on the question of giving a fillip to housing for economically weaker sections, the low income group and the middle income groups. Hence, we have not gone into these questions.

CHAPTER 10

CONCLUDING OBSERVATIONS

IN THE FOREGOING Chapters of the Report we have discussed mainly the question of the flow of financial resources to the housing sector from various institutions, and particularly banks.

10.2 We would like to emphasise that the provision of adequate credit, even on modest terms, will not by itself solve the housing problem. We have discussed earlier the non-financial constraints, like scarcity and high cost of building material, legal hurdles, etc. The point to which we would like to draw attention here is that the capacity of the borrowers to absorb credit is as important as the lending capability of institutions.

10.3 Basically, the effective demand for houses, as for other goods and services, depends on the income of a person. The vast majority of people with very low incomes may not be able to use the resources set aside by commercial banks and others for providing credit for houses. The Group has been informed that credit sanctioned to statutory housing institutions was not utilised by them in many cases, partly for lack of effective demand for houses constructed by them for the groups in low income categories.

10.4 This creates a difficult situation. The magnitude of the housing shortage is so large and the pressing demands on the scarce resources of the economy so many that apparently the problem cannot be sovled in the near future. On the other hand, the majority of the population cannot utilise these resources because of their poverty and consequent extremely limited capacity to repay loans. At the same time the solution to the problem of providing shelter to the houseless masses cannot wait till the incomes of the large majority of people have increased.

10.5 The answer to the problem clearly lies in constructing mass houses at low cost. This will mean that larger number of houses will be built with limited resources and also they will be within the reach of a larger number of persons. Solutions along these lines have been tried in various States in India in the form of skeletal houses, hutments built with self help on land developed by official agencies, lowering of cost through the use of local materials, etc. Further efforts need to be made to develop these piecemeal approaches into an imaginative and co-ordinated initiative involving Government, local bodies, housing agencies, industries manufacturing building materials, research organisations and financial institutions. This will also entail giving of subsidy from public funds by way of providing infrastructural facilities, cross subsidising interest rates, giving free land or a straight cash subsidy. In other words, the success of the measures suggested by our Group depends not only on the availability of larger funds at low interest rate but also on the creation of conditions to utilise them for building mass houses at low cost, which would be within the financial means of the borrowers.

CHAPTER 11

SUMMARY AND RECOMMENDATIONS

THE BASIS AND rationale of our recommendations and suggestions have been explained in the Report. In the following paragraphs, an attempt is made to bring together our major conclusions and recommendations. The figures within brackets refer to the relevant paragraphs containing the conclusion or recommendation.

11.2 It is recognised that the backlog of housing shortage is increasing every year as the rate of construction has not kept pace with the population growth. (2.3)

11.3 The rapid pace of urbanisation has accentuated the housing problem in urban areas. The major cause of housing shortage in urban areas is the scarcity of land and continuous inflow of migrants from rural areas. (2.4 and 2.16)

11.4 In rural areas the nature of housing problem is somewhat different because availability of land is not much of a problem and houses are built for self occupation rather than letting out. There is a steady deterioration in the quality of housing and repairs and replacement are badly neglected. In these areas, the approach to the problem should be to make greater use of the local materials and involve self-help of the dwellers. (2.5 and 2.16)

11.5 At present, housing is accorded a low priority in allocation of funds. A long run policy should be evolved in this context, so that there is an even flow of resources to the housing sector. (2.6)

11.6 The Group is of the opinion that investment in housing should be decided not only on the basis of economic calculus but also with reference to its effect on social welfare. (2.10)

11.7 The Rent Control Act should prevent exploitation of tenants by landlords but should not act as a deterrent to private investment in housing. (2.20)

11.8 Certain provisions of the Urban Land (Ceiling and Regulation) Act, 1976 have adversely affected the construction activity. As a result, the shortage of housing in urban areas has been further aggravated. In its review of the working of the Act, the Government should take into account the difficulties faced in its application. (2.25)

11.9 The solution to the housing problem is rendered more difficult by the scarcity of conventional building materials at controlled prices and shortage of skilled workers. (2.26)

11.10 With a view to economising the use of conventional building materials, the use of pre-fabricated housing technology should be considered wherever feasible and in particular for mass housing constructions. (2.30)

11.11 Construction of luxury apartments involves use of large resources and materials which are scarce; hence, such construction should be discouraged. (2.29)

11.12 An ordinary person in India cannot build a house with his own savings and credit is not available to him on terms which he can afford. (2.35)

11.13 NBO has estimated the housing shortage at 15.6 million units at end-March 1974, of which 3.8 million was in urban areas. (3.8)

11.14 The housing needs at the end of March 1979 and end-March 1984 have been estimated at 29.1 million units (rural 20.8 million and urban 8.3 million) and 42.6 million units (rural 29.8 million and urban 12.8 million), respectively. (3.9)

11.15 On the basis of the present level of investment in housing, the housing shortage in rural and urban areas is expected not only to continue, but further increase over the next decade. (3.10)

11.16 Assuming that the shortage of houses on the eve of the Fifth Plan period is to be eliminated in a phased manner over a period of 20 years, and after taking into account the requirement of new houses and replacement needs, the number of houses required to be constructed each year is estimated to be 7.12 million. (3.15)

11.17 If the present rate of house building in urban areas (i.e., 0.6 million units per annum) persists, the shortage would increase from 3.8 million at the beginning of April 1974 to 8.5 million units at the end of March 1979. (3.16)

11.18 During the same period, in rural areas too, the shortage would increase from 11.8 million to 37.2 million units. (3.17)

11.19 Investment in housing declined from 34.2 per cent of total investment in the First Plan to 9.8 per cent in the Fifth Plan. Its percentage share in national income also declined from an average of 2.31 per cent in the First Plan period to 1.29 per cent in the Fourth Plan period. (4.2 and 4.3)

11.20 To encourage private investment in housing, an investor should be assured of a net rate of return which is at least higher than that available on a safe investment like long-term deposits with banks. (4.16)

11.21 For clearing the backlog of housing in 20 years, and meeting the replacement needs and demand for additional units, the required annual investment in housing has been estimated by the Group at Rs. 1,729 crores in urban areas and Rs. 3,245 crores in rural areas; in the rural areas the cost can, however, be substantially reduced. (4.29, 4.31, 4.36 and 4.38)

11.22 On the basis of the estimated investment requirement and the actual investment allocated during the Fifth Plan, the annual investment gap in housing amounts to about Rs. 4,000 crores. (4.37)

11.23 In view of the limitations on organisational and financial resources, the policy alternatives are: (a) the programme of housing may be spread over a longer period, (b) the area norms of housing may be lowered and (c) improved building technology may be adopted to reduce costs without lowering the standards. (4.40)

11.24 LIC's investment in housing has increased continuously in absolute figures and also as a percentage of its total investments. (5.3)

11.25 The investment in housing by LIC is the second largest, next only to its investment in Central Government Securities. (5.4)

11.26 Notwithstanding the significant role of LIC in providing housing finance, its investment in housing sector is incidental to its overall investment policy and its interest rate policy is attuned towards obtaining a fair return on its investment and subserving the interests of its policy holders, which do not necessarily coincide with those of housing sector. Also, it can raise its share of housing investment only by depriving funds to other socially-oriented schemes. (5.14)

11.27 In terms of Central Government guidelines, GIC is required to invest more than one-third of the fresh accrual of funds for housing loans to State Governments and subscription to bonds, debentures and preference shares of HUDCO. (5.16)

11.28 There are not only wide differences in the quantum of loans sanctioned by HUDCO to various States but the funds released in several cases also fall short of amounts sanctioned partly due to constraints on absorptive capacity of various States. (5.24)

11.29 Apart from acting as a financing institution, mainly for constructing houses for EWS and LIG, HUDCO has undertaken construction of flats for weaker sections and handed them over to the State Housing Boards. It has recently entered the field of rural housing and proposes giving loans to State Governments for building repairs and reconstruction. (5.28)

11.30 HUDCO needs to be strengthened organisationally and financially if it is to play a still greater role in implementing the Government's social housing schemes, particularly in rural areas. (5.29)

11.31 The Central Government, besides establishing an apex institution like HUDCO, has formulated various social housing schemes for EWS, industrial workers, etc. Almost all the schemes are implemented by the State Governments which are provided financial assistance by the Centre. However, these schemes have touched only the fringe of the housing problem. (5.30)

11.32 A few States have also introduced housing schemes for the benefit of economically weaker sections and backward classes. However, the expenditure on housing during 1976-77 by all the States was only 1.2 per cent of their total expenditure on revenue and capital account. (5.58)

11.33 Insignificant allocation of funds for housing by the State Governments indicates insufficient resources to meet their current and investment expenditure and their attaching more importance to sectors like irrigation, power and industrial projects than to housing. (5.59)

11.34 Housing Boards, which are expected to cater to the housing needs of the less well-to-do classes, find it difficult at times to avail themselves of loans from HUDCO because of their inability to offer mortgage of their properties upto $133\frac{1}{3}$ per cent of the loan amount or *in lieu* thereof a guarantee by State Governments. (5.63)

11.35 Housing Boards find it difficult to obtain loans from HUDCO, LIC, etc., at interest rates exceeding 8.5 per cent because of the RBI ceiling on interest rates on loans made by these institutions to State-sponsored bodies. If Housing Boards, etc., want loans from HUDCO at higher interest rates, the Group has suggested the following two alternatives: (a) Composite schemes can be devised on which the weighted average rate of interest works out to below 8.5 per cent and (b) Stamp duty, etc., on mortgages for loans obtained form HUDCO and other financial institutions can be waived or substantially reduced by State Governments. (5. 63 and 5. 64)

11.36 The activity of the Housing Boards is confined to urban areas and they have touched only the fringe of the housing problem because of constraints on their financial and organisational resources. (5.66)

11.37 Apex Co-operative Housing Finance Societies are heavily dependent on borrowing from LIC and hence occasionally compelled to curtail their operations due to uncertainty of securing necessary finance from LIC or alternate sources. (5.71)

11.38 The spread of co-operative housing movement is concentrated in the urban areas of Maharashtra, Gujarat and Tamil Nadu, followed by Karnataka and Andhra Pradesh. (5.77)

11.39 Many primary societies are forced to suspend their construction projects owing to non-availability of finance in time. Meanwhile the cost of building materials goes up or they are not available in the market. Some of these difficulties can be solved if Government makes available to primary societies surplus land at its disposal at cheap rates and earmarks some quota of cement, steel, etc., exclusively for allotment to them. (5.82 and 5.84)

11.40 The urban co-operative banks play a limited role in providing housing finance. However, they are not permitted to give term loans for more than 7 years. In addition, ceilings have been placed on allocation of resources for housing loans granted by these banks to co-operative housing societies. Further, these banks have to obtain special permission of the Registrar in case of each society for granting such loans. The Group suggests that these restrictions may be reconsidered by the authorities in order to enable urban co-operative banks to continue to play their role in providing housing finance and also to extend such loans more expeditiously. (5.80)

11.41 While the advances by Provident Funds for house building constitute about 25 per cent of the total advances for all purposes, their proportion to total Provident Fund collections is insignificant. (5.88)

11.42 The recently constituted Housing Development Finance Corporation Ltd., which will raise resources from financial institutions, industrial concerns and the public, expects to sanction Rs. 27 crores in the course of the next five years. (5.90 and 5.101)

11.43 A study of the existing sources of housing finance shows that more resources will have to flow to housing, if the shortages are not to accentuate. Secondly, there is a lacuna in the institutional set up in India insofar as individuals do not find it easy to get direct loans from institutions for building or constructing houses and undertaking repairs. (5.106)

11.44 Historically, the reluctance on the part of banks to extend credit for house construction may be attributed to: (a) the view that bank credit should be restricted to working capital needs of industry, (b) the desire not to tie up their resources which are mainly short-term in nature to long-term uses like housing, (c) the view that house property is not a safe security owing to legal and other problems, and (d) lack of a national policy on housing. (6.1)

11.45 Banks came face to face with the housing problem, when the Reserve Bank issued tentative guidelines to banks in June 1976 regarding grant of finance for housing schemes which benefit mostly the weaker sections. (6.3)

11.46 The justification for banks' participation in housing finance arises from their important role as mobiliser of the community's savings and the fact that had there been specialised housing finance institutions in India, a portion of deposits accruing at present to banks might have gone to them. (6.4)

11.47 Presently, the involvement of commercial banks in housing finance is mainly in the form of their investment in guaranteed and unguaranteed bonds/debentures of HUDCO and State Housing Boards and loans to their employees. (6.5)

11.48 Constraints on financial resources of commercial banks arise from the fact that a bulk of their incremental deposits are accounted for by statutory pre-emptions and by way of advances to prioriy sectors, financing of food procurement, exports, etc. It is from the residual portion that credit needs of large and medium industries, trading concerns and others are met. Thus, the scope for lending to any new economic activity is very marginal unless it is done at the cost of some other sector of the economy. (6.11)

11.49 A suggestion was made to the Group that housing and other construction activities should be included in the list of priority sectors for which a target of $33\frac{1}{3}$ per cent of banks' advances has been fixed. Since this suggestion may adversely affect advances to other priority sectors, an alternate suggestion made to the Group was that the target of $33\frac{1}{3}$ per cent to be attained by banks before March 1979 may be raised, the addition to be earmarked for housing. Acceptance of either of these suggestions is dependent upon what priority is accorded to housing by Government, Planning Commission and Reserve Bank of India. (6.13 and 6.15)

11.50 It was suggested to the Group that, as in certain other countries, loans extended by banks for housing should be treated as liquid assets for the purpose of statutory liquidity requirements. As this suggestion has a bearing on Reserve Bank's monetary policy, the Group does not find itself competent to make any comments. (6.16)

11.51 During our discussions, banks did not respond favourably to a suggestion that a fixed percentage of total deposits/lendable resources or of the annual incremental deposits/lendable resources of banks should be allocated for housing credit, as both are subject to various statutory pre-emptions. (6.17 to 6.24)

11.52 After having considered the various suggestions made to increase the flow of resources from banking sector to housing it appears useful to think of a suggestion whereby commercial banks may earmark a certain amount for housing sector every year, which may vary, depending upon the resources of banks and the absorptive capacity of the housing market. (6.25)

11.53 In view of the constraints on banks' financial resources, it is not possible to divert a sizeable flow of funds to a new sector without depriving some other sectors. Moreover, in order to achieve the target of 33.3 per cent by the end of March 1979, banks will be required to divert a substantial portion of their incremental lendable resources to priority sectors. Further, banks have been advised to attain a credit-deposit ratio of 60 per cent in respect of their branches in rural and semi-urban areas by the end of March 1979. (6.28)

11.54 In view of the above, the Group recommends that roughly an additional amount of Rs. 100 crores per annum may be advanced by the banking system as a whole for housing sector. This will include banks' (i) housing loans mainly to their own employees and (ii) banks' subscription to guaranteed bonds/debentures of HUDCO and Housing Boards. These two are together rising at an average rate of Rs. 25 crores per annum. Thus, excluding this normal increase, banks' additional involvement in housing finance would be about Rs. 75 crores per annum. The Group recommends that banks may contribute an additional amount of Rs.75 crores in the first year and gradually raise it by Rs. 5 crores per annum during the next five years, after which this arrangement may be reviewed (6.29, 6.30 and 6.31)

11.55 The Group recommends that the RBI may allocate to each individual bank the amount that it will invest in or lend to the housing sector on the basis of its deposits. (6.31)

11.56 The banks may earmark the suggested amount (Rs. 75 crores) for housing every year for a period of 3 years on a non-cumulative basis. After this period of 3 years, the shortfall, if any, in the annual target may be carried forward to subsequent years. (6.32)

11.57 Before granting loans for housing, banks may examine different apsects of the credit proposal, viz., technical feasibility, economic feasibility, financial feasibility and managerial capacity. (6.33)

11.58 In the Group's view, expenditure for construction of infrastructure facilities like public roads, bridges, harbours, dams, etc., should legitimately be financed out of Government resources. Similarly, banks should not finance the construction of buildings meant purely for private commercial offices or Government/ Semi-Government offices, including municipal and panchayat offices. However, banks may grant loans (a) for activities which will be refinanced by institutions like ARDC and REC, and (b) to companies or individuals, who contract to undertake infra-structural construction (7.9)

11.59 In the Group's view, the following categories of construction should continue to be eligible for being financed by banks on commercial considerations but the amount advanced to them should not form a part of the quantum of housing finance recommended by the Group: (a) industries manufacturing building materials for construction, (b) construction of warehouses including those to be constructed for Food Corporation of India, godowns and cold storages, (c) buildings which do not form a part of housing project like hospitals, clinics, schools, colleges, markets, shopping centres and cinema houses, subject to the condition that cinemas and other places of entertainment should be given a low priority and (d) construction of hotels, accommodation for tourists and commercial offices. (7.10)

11.60 The Group recommends that the following types of building construction should be eligible as part of housing finance to be extended by banks: (a) residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies or employers, priority being accorded for financing construction of houses meant for EWS, LIG and MIG, (b) educational, health, social, cultural or other institutions/centres, which are part of a housing project and which are necessary for the development of settlements or townships, (c) shopping complexes, markets and such other centres catering to the day-to-day needs of the residents of the housing colonies and forming part of a housing project and (d) construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum dwellers on the guarantee of the Government or indirectly to them through the State Governments. (7.11)

11.61 The Group recommends that banks should extend credit as part of housing finance (i) to the bodies constituted for undertaking repairs and (ii) for repairs or additions undertaken by individuals, either singly or collectively, in buildings owned and occupied by themselves, provided the credit is sufficiently backed by security/guarantee to the satisfaction of the banks concerned. (7.11)

11.62 The Group recommends that the bulk of bank finance for housing should be channelled through housing agencies, which cater mainly to the requirements of relatively less well-to-do sections of the society and rest of the amount may be given directly for financing residential construction benefiting persons in other income groups. (7.12 and 7.23)

11.63 In some cases, the banks are not averse to granting direct finance to housing as they may have adequate organisational capacity to do so or they might have undertaken programme for integrated credit in rural areas and in that process would like to extend credit for housing as part of the programme or they might anticipate advantages to accrue to them due to their direct contact with the borrowers. (7.24)

11.64 While the Group is in agreement with the view that bulk of the bank finance for housing should be routed through intermediaries, it recommends that it may be left to individual banks concerned to allocate the proportion of their finance between direct and indirect finance. Alternatively, RBI should decide at the beginning of each year the quota for direct and indirect finance, which each bank may take up. (7.25)

11.65 The Group recommends that the main criterion for giving direct bank credit for housing should be the repaying capacity of the borrower in which the subsidy, if any, obtained by him should also be taken into account. For instance, in cases of persons belonging to EWS or LIG, whose repaying capacity is very low, Government will have to step in with capital subsidy (i.e. in the form of free land) or with interest subsidy or subsidy in some other form. Banks can give concessions to such borrowers by way of longer repayment period and preferential rates of interest. (7.13)

11.66 While the Group agrees that generally housing loan should be part of other productive loans to get the benefit of guarantee, it suggests that in order to help borrowers who need only housing loans, CGCI may consider cases referred to it by banks on merits and extend guarantee cover in deserving cases, provided the bank is satisfied about the repayment of the loan. (7.19)

11.67 Most of the commercial banks expressed preference for extending indirect finance to housing as it will save them from the problems of scrutinising a large number of applications, examining legal documents and following-up of individual cases. The specialised institutions like HUDCO, Apex Finance Societies and Housing Boards would also like the credit to be channelised through them because they are faced with shortage of resources. (7.23)

11.68 The Group suggests that banks may (i) refinance the loans extended by HUDCO, or other statutory agencies dealing with housing, (ii) subscribe to the special bonds/debentures of these bodies by securing a charge against book debts and other assets, or (iii) may give term-loans to them. The loans can be secured by assets or given on a clean basis in special cases for short periods. (7.27)

11.69 In the case of loans to co-operative housing societies, commercial banks should not only look into the feasibility of housing schemes to be financed but should ensure before granting a loan to a co-operative housing society that its bye-laws and regulations have been suitably amended to empower the society to remove the defaulting member and allot his flat to another person who undertakes to meet the outstanding liability. (7.28)

11.70 Commercial banks may consider extending credit for rural housing with the help of existing institutions like Regional Rural Banks, Village Co-operative Societies, Panchayats and other semi-official or voluntary agencies, whose assistance may be taken in assessing the credit worthiness of the beneficiary as well as in follow-up and recovery of loans. (7.29)

11.71 The cost of raising funds for all commercial banks is estimated to be 11.5 per cent in 1977. Taking this as a guideline, the Group is of the view that banks should get an average return of 11.5 per cent on their proposed housing finance. It may be pointed out that even this rate will involve some subsidy from the banks since it does not take into account the loss of income to banks on account of their low-interest bearing statutory investments. (7.36)

11.72 The Group recommends that 70 per cent of the housing credit of Rs. 75 crores per annum to start with may be extended through the intermediaries like HUDCO, Housing Boards and other statutory housing agencies at the rate of interest of 10.5 per cent per annum and 30 per cent direct finance to other borrowers at an average rate of interest of 13.8 per cent per annum. This combination will ensure an average rate of return of 11.5 per cent per annum to banks on their total housing finance. While the bank credit for meeting the needs of EWS, LIG and MIG will be given by way of indirect finance, the Group recommends that within the quantum earmarked for direct finance banks may give loans to the deserving borrowers at a concessional rate of interest of 11 per cent, provided that such credit does not exceed 10 per cent of the total funds earmarked for housing and the amount of a loan given to an individual does not exceed Rs. 2,500. (7.37)

11.73 Loans to professional builders and for commercial constructions may be given at commercial rates. (7.52)

11.74 Term loans given to housing agencies or individuals by banks may be exempted from payment of interest tax. (7.41)

11.75 The Group recommends that commercial banks may charge margins, which may vary within a range of 20–40 per cent for different categories of borrowers, depending upon the repayment capacity of the borrower, his stake in the project, past performance, etc. (7.44)

11.76 The Group recommends that banks may use as guideline ceilings on carpet area, cost of construction, etc., evolved by HUDCO, though they may adjust them in suitable cases. (7.46 and 7.47)

11.77 The Group recognises that repaying capacity of the borrower should be the main criterion for determining repayment period. At the same time, Group recommends that the maximum period of repayment should be ordinarily fixed at 15 years and extended to 20 years in exceptional cases. (7.48)

11.78 The Group is of the view that on housing loan, repayment holiday should be allowed upto the completion of construction of a house or 18 months from the disbursement of the first instalment of loan, whichever is earlier. (7.49)

11.79 As regards the suggestion that the average interest rate on housing loans should be variable and linked to the Bank rate, the Group is of the view that varying interest rates with the Bank rate can be considered only if there are basic structural changes in the interest rates applicable to deposits. Notwithstanding the above, interest rate on housing loans should change with large changes in average interest rate on deposits and/or administrative and other expenses. (7.53)

11.80 It has been suggested that any concessions in respect of housing finance should be based on the economic strength of the borrower, i.e., his earning capacity, rather than on consideration of caste or creed. The Group sympathises with this view. (7.56)

11.81 The tentative guidelines issued by the Reserve Bank in June 1976 to banks in regard to bank finance for housing would require to be changed if the various recommendations made above are accepted by the Bank. (7.57)

11.82 Not only constraints on their financial resources but also legal hurdles inhibit banks from entering into the field of housing finance. (8.1)

11.83 While banks are prepared to grant loans against the security of fixed deposits, gold ornaments, government securities, shares, etc., because of the liquidity imparted to them by laws relating to their transfer of ownership, they are generally reluctant to do so against the security of immovable property due to its illiquid nature created by certain laws relating to transfer of property therein (8.2)

11.84 The procedure for converting immovable property into an appropriate security is much tardy, time-consuming and expensive. (8.3)

11.85 In order to induce banks to advance loans against the security of residential houses, the Group suggests that a suitable provision on the lines of the one existing in the Maharashtra Ownership of Apartments Act should be made in the State Co-operative Societies Acts and Ownership of Flats Acts in regard to transfer of a borrower's interest in the property mortgaged to the lending institution. (8.4)

11.86 In the event of the borrower's (mortgagor) failure to repay the loan/interest the lending (mortgagee) institution can make the sale of the mortgaged property without the intervention of the court if it has taken on English Mortgage. But this remedy is available only if the mortgage is made in the Presidential towns like Bombay, Madras and Calcutta. The Group suggests that this facility of English Mortgage should be extended to all other parts of the country. (8.5)

11.87 Similarly to enable banks to grant loans under Equitable Mortgage the facility of creating such a mortgage which is at present confined to certain areas, should be extended to all parts of the country. (8.6)

11.88 (a) The procedure for creating a mortgage on immovable property in favour of a bank and other agencies granting housing loans should be simplified so as to reduce the delay and the cost involved in it.

(b) Special and simple procedure for registration may be provided in case of mortgages in favour of banks and other agencies granting housing loans by creating a general charge on a simple declaration as is done in the case of co-operative credit societies advancing agricultural loans.

(c) Banks and other agencies granting housing loans should be exempted fully or partially from levy of stamp duty and registration fees in respect of mortgages drawn in their favour.

(d) Charge in favour of banks and other agencies granting housing loans created out of their finance against the mortgaged property should be allowed to take priority over all other charges in respect of such property.

(e) The mortgagor who has defaulted in the repayment should be treated a licencee of the mortgagee bank from the date of default of repayment of loan.

(f) Where the number of suits arising out of default of banks' dues of housing loans is very large the question of appointing special courts to decide such cases should be considered. Also a simplified procedure for expeditious disposal of such money claims like summary procedure, should be evolved as in the case of similar suits of co-operative credit societies.

(g) Banks should be exempted from the provisions of the Rent Control Act in respect of the properties mortgaged to them as security for housing loans.

(h) In order to facilitate loans to co-operative societies, the Co-operative Societies Acts should be amended to provide for eviction of a member of a society from the premises allotted to him on his defaulting in the payment of dues of the lending institution. (8.7)

11.89 Since the funds required to bridge the investment gap in housing are large and resources available are meagre, there is a need to co-ordinate the activities of different agencies so that the limited funds can be used to the maximum advantage. (9.3)

11.90 LIC, which is the largest contributor in the field of housing finance and has also considerable experience in construction, can in collaboration with GIC, contribute more effectively by developing a scheme of mortgage insurance and creating a secondary mortgage market in the country. (9.4)

11.91 Mortgage insurance scheme is quite feasible, as the risks involved in mortgage loan can be pre-determined. The advantages of the mortgage insurance facility would be provision of protection to the mortgagee and expansion in the scope of existing primary mortgage market, thus leading to the creation of a secondary mortgage market in the conutry. (9.25)

11.92 The secondary mortgage market is expected to encourage the financial institutions to invest more in insured mortgages, since they would be in a position to discount the mortgage paper in the market in case they need funds urgently. (9.25)

11.93 A uniform, simple and familiar mortgage paper should be developed to impart liquidity and attractiveness to mortgage paper. (9.26)

11.94 A consortium approach can be adopted involving commercial banks, LIC, HUDCO, Housing Boards, etc., for specific projects involving large amounts. (9.6)

11.95 It will be useful if commercial banks give short-term and medium-term credit, while the institutions like LIC, Pension and Provident Funds give long-term credit in a co-ordinated way. (9.6)

11.96 Unlike in certain foreign countries, we do not have specialised housing finanec institutions, mortgage insurance and secondary mortgage markets in India .(9.8)
11.97 As regards the need for specialised housing finance institutions, the Group is of the view that such institutions should be created in India to mobilise fresh savings and to impart a thrust to the solution of housing problem. (9.12 and 9.14)

11.98 If HUDCO is strengthened organisationally and financially it can perform the functions of a specialised institution at the apex level. It should sponsor the local institutions at the regional or district level to provide credit at reasonable rates and to mobilise savings linked with housing. (9.16)

11.99 The Group recommends that the Reserve Bank may create a Housing Fund on the lines of National Industrial Credit (Long-Term Operations) Fund and the National Agricultural Credit (Long-Term Operations) Fund. (9.16)

11.100 The object of the proposed specialised housing finance system should be to tap the additional savings for house construction and not merely transfer of savings from one institution to another. (9.19)

11.101 The Group feels that imaginative schemes can be thought of and new instruments created to fully exploit the strong motivation to own a house. The proposed institutions mobilising deposits for longer period and their depositors should be given fiscal incentives similar to those allowed in some other countries. (9.19)

11.102 Savings schemes linked with housing loans should be introduced by banks. A few banks have already introduced such schemes but the response thereto is stated to be not encouraging. It is observed that the success of such schemes is predicated on the assurance of a house to the depositor. (9.29 and 9.30)

11.103 The Group has suggested a scheme under which this condition is fulfilled by co-ordinating the activities of commercial banks, LIC, GIC and professional builders. (9.31)

11.104 The success of the measures suggested by the Group depends not only on the availability of larger funds for housing at low interest rate, but also on the absorptive capacity of borrowers which can be raised by building mass houses at low cost. (10.5)

(R. C. Shah)

(B. T. Acharya)	(R. Narayanan)
(M. N. Buch)	(R. Pichai)
(O. P. Mathuria)	(P. W. Rege)
(J. Matthan)	(K. K. Sachdev)
(D. D. Naik)	(A. Hasib)

Chairman's Remarks on the Occasion of the Presentation of the Report to Dr. K. S. Krishnaswamy, Deputy Governor, Reserve Bank of India

I have great pleasure in submitting the 'Report of the Working Group to examine the Role of Banking System in providing Finance for Housing Schemes', appointed by the Reserve Bank on Janauary 13, 1977. The Report could not be submitted earlier because we had to arrange discussions with a number of commercial banks, Planning Commission, State Governments, Housing Boards and others. Also, some of our members went abroad in the course of their official duties. Even today, you would notice, two of our members Shri J. Matthan and Shri K.K. Sachdev are not present, as they had to go abroad. However, both of them have approved and signed the Report.

Before I formally submit to you this Report, I would like to make a few observations about the task entrusted to the Group. Though housing is one of the three basic necessities of man, next only to food and clothing, it has not perhaps received the priority which it deserves. Though the Group is not called upon to make any comments on the policies of the Government of India, Planning Commission or the Reserve Bank of India, I would like to point out that the proportion of investment to total investment has consistently declined in successive Plans.

The magnitude and intensity of the housing problem in India is so great that, to clear the backlog even over a period of 20 years, 7.12 million houses will have to be constructed every year. This will call for considerable step up of investment in housing sector, compared to the negligible flow of funds going into it at present. On the basis of some assumptions, we have estimated that the annual investment gap in housing may be around Rs. 4,000 crores, though I venture to suggest that this figure can be brought down by imaginative low cost housing schemes.

While talking about finance, I would like to draw your attention to the major institutional gap in India insofar as housing finance is concerned. The Group has, therefore, suggested the setting up of a well developed housing finance system in the country to solve the housing problem in the long run. Essentially our suggestion in this respect is the same as that made by the Saraiya Banking Commission, except that we have recommended that HUDCO can be made specialised apex housing finance institution, which will sponsor local institutions. In making this suggestion we have been guided by the considerations that housing requires a major thrust, and the strong probability that new savings can be mobilised by the proposed institutions. It will be useful for the RBI to create a special fund to help the creation and growth of the proposed system.

Pending the establishment of new housing finance institution/s, the Group has suggested the urgent need for proper co-ordination among the existing financial institutions, providing housing finance, so that limited financial resources at present flowing into the housing sector are put to better use for meeting the housing needs of the maximum number of people.

Keeping in view the vast financial resources required for solving the housing problem, we have recommended greater involvement of commercial banks in the provision of housing finance. You are well aware that commercial banks have major financial and organisational constraints. However, taking into account the immensity of the problem and the fact that commercial banks mobilise the bulk of financial savings of the country, we have suggested that banks should take up the social objective of providing limited finance for housing. After considering various alternatives we have come to the conclusion that to begin with, commercial banks may earmark Rs. 100 crores per annum for housing. Excluding housing loans to their employees and banks' subscription to guaranteed bonds/debentures of statutory housing agencies, banks' additional investment in housing credit would be around Rs. 75 crores per year, which may increase over a period. We have also recommended that the bulk of this amount should be by way of indirect finance through statutory housing agencies, so that the benefit goes to the deserving sections of the community.

I would like to emphasise that mere availability of finance will not help in solving the country's housing problem. The financial resources should be utilised for constructing such houses for which there is a great demand. Since bulk of the demand for houses is going to be from the poorer sections of the society with little or negative saving capacity, the solution to the housing problem of India lies in constructing mass houses at low cost, which the people can afford. We are convinced that such mass housing schemes can be taken up only by statutory housing agencies like HUDCO, Housing Boards, etc. For this purpose, they will have to gear up their administrative machinery to absorb the additional financial resources expected to flow into housing sector and by strengthening their organisational capacity. We are convinced that provision of housing to poorer sections of the people will require subsidy from the State either in the form of interest, capital or in any other form in order to bring even low-cost housing within their reach.

The Group, in the course of its correspondence and discussions with various parties, has collected considerable material, not all of which has been used in this Report. For the purpose of this Report, we have utilised only a part thereof, which was directly relevant to our terms of reference. However, myself and my colleagues are of the opinion that the material already received could be further processed and analysed and some sort of permanent arrangements should be made in future to receive such information on a regular basis for research purposes. Such material would be handy and prove useful at a later date, when specialised housing finance system recommended by us becomes a reality.

Housing is such a fascinating subject that it affects the imagination of one and all. Precisely because of this, mere appointment of our Working Group by the Reserve Bank has created a tremendous interest and expectations among all concerned, who are looking forward to the submission of our Report with keen interest. We shall consider ourselves fortunate if our Report succeeds in satisfying their expectations even in part.

Finally, I would like to thank the Reserve Bank on behalf of the Group for the task entrusted to us, the inspiration and guidance that we got from you and the arrangements made for secretarial help.

Bombay,
6th February 1978.

R.C. Shah
Chairman

APPENDIX I
(A) MEMORANDUM

THE RESERVE BANK OF INDIA appoints the following persons to constitute a Working Group to examine the role of the banking system in providing finance for housing schemes:

i)	**Shri R. C. Shah,** (Chairman, Bank of Baroda, Bombay)	Chairman
ii)	**Shri B. T. Acharya,** (Director, Vaikunthbhai Mehta Smarak Trust, Bombay)	Member
iii)	**Shri M. N. Buch,** (Secretary to the Government of M.P., Housing & Environment Department and Chairman, M.P. Housing Board, Bhopal)	Member
iv)	**Shri O. P. Mathuria,** (Assistant General Manager, Punjab National Bank, New Delhi)	Member
v)	**Shri J. Matthan,** (Executive Director (Investment), Life Insurance Corporation of India Central Office, Bombay)	Member
vi)	**Shri B. K. Mookerjea,** (Deputy Managing Director, State Bank of India, Central Office, Bombay)	Member
vii)	**Shri R. Narayanan,** (Assistant General Manager, Indian Overseas Bank, Madras)	Member
viii)	**Shri R. Pichai,** (General Manager, Credit & Administration, United Commercial Bank, Calcutta)	Member

ix)	**Dr. P. W. Rege,** (Chairman, Saraswat Co-operative Bank Ltd., Bombay)	Member
x)	**Shri K. K. Sachdev** (Chief (Finance), HUDCO, New Delhi)	Member
xi)	**Shri A. Hasib,** (Director, Division of Industrial Studies, Economic Department, Reserve Bank of India, Central Office, Bombay).	Member–Secretary

2. The terms of reference of the Working Group will be as follows:

i) To identify the various facilities presently available for financing house construction and other types of building construction activities from various agencies and to review relative significance of these agencies in the overall context.

ii) To consider the types of house construction and other building activities, which may be deemed eligible for institutional credit generally and of these the activities which may be considered eligible for bank credit.

iii) To determine the various sources of indirect finance presently available for construction activities and the quantum thereof.

iv) To assess the requirement of finance for house and other building construction activities in the next five years or so and to identify the gaps in the context of the facilities presently available for the purpose.

v) In the light of the foregoing, to assess the need and the scope for direct finance for house construction and other building activities and the different sources of such finance.

vi) In the context of the constraint on the lendable resources of banks, to consider the feasibility of bank finance for housing and to determine the basis of allocation of bank credit for housing schemes vis-a-vis the demand for such credit from the different priority sectors and the customary users of credit.

vii) To make recommendations about the form of assistance which the banks may give to institutions engaged in housing activities, i.e., whether assistance should be direct (by way of term loans) or indirect (by way of subscription to their debentures/bonds).

viii) To consider the broad terms and conditions, i.e., rate of interest, period of repayment, security, etc., for bank finance (direct and indirect) for different types of construction activities.

ix) Taking into consideration the various sources of indirect and direct finance for house construction and the overall requirement of finance for the purpose, to consider the scope for setting up new institution/s for providing housing finance and to determine the sources of finance of such institutions.

x) To consider the mechanism of co-ordination between banks and other institutions in providing housing finance.

xi) To make recommendations regarding any other matter germane to the subject of finance for housing and other building construction activities.

3. The Working Group will devise its own procedure and may call for such information and organise such discussion as it may consider necessary.

4. The Working Group will submit its report by end June 1977.

Sd/ K. S. KRISHNASWAMY
Deputy Governor
13-1-1977

(B) CLARIFICATION OF THE TERM "OTHER TYPES OF BUILDING CONSTRUCTION ACTIVITIES"

In the terms of reference of the Working Group set up by the Reserve Bank for examining the role of the banking system in providing finance for housing schemes, we have indicated the coverage of the Group's study as house construction and other types of building construction activities. According to the Member Secretary of the Group, the term "other types of building construction activities" requires elaboration.

2. In this connection, it may be stated that where banks extend term facilities to industries, they also finance construction/expansion of factory buildings but such financing becomes a part of the total package i.e., the total project cost. Banks also extend working capital facilities to companies, like Gammon India Ltd., Hindustan Construction Co. Ltd., S. B. Joshi & Co., which are engaged in activities such as construction of bridges and dams.

3. In our circular letters DBOD. No. EFS. 213 and 1068/C. 249-68 dated the 13th February and 19th June 1968 respectively, we have advised banks that they may finance construction of warehouses or godowns by private agencies.

4. As regards the financing of industrial estates, the Working Group set up by the Reserve Bank of India in October 1970, had gone into the question of the role of banks, etc., in financing these estates and made certain recommendations in its report submitted in 1972. The Working Group emphasised the need for the financial institutions such as banks and SFCs financing industrial estates in urban and semi-urban centres. The Working Group was of the opinion that the responsibility of financing industrial estates in rural areas should rest largely with the respective State Governments. The Group further suggested that the State Governments should also play a crucial role in establishing inudstrial estates in the urban and semi-urban centres where there was considerable scope for setting up industrial sheds.

5. The role of banks in the above types of construction activities is thus clear.

6. Credit facilities are also being sought for construction of dwelling houses. Further, requests are also received under CAS for allowing advances for construction of shopping complexes, office buildings, hostels, hospitals, etc. However, there is no clear policy regarding extension of bank credit for such purposes. The construction activity other than house construction referred to above can arise in two ways; thus, for the overall development of a residential township, it may be necessary to construct shopping centres, schools, community halls, hostels, hospitals, etc., and provide internal services and infrastructural facilities like drainage, lighting, etc. Also repair work relating to such building construction is required to be undertaken. The other category of building construction activity arises independent of housing construction. The focus of the Working Group may be on the former viz., housing and other construction activities arising therefrom. However, where such other construction activity is arising independently of housing activity, it would be helpful if the Working Group could give its observations on the relevance or otherwise of bank finance for such activities in the context of the bankability of such projects.

Reserve Bank of India,
Bombay,
March 9, 1977.

APPENDIX II

QUESTIONNAIRE FOR DISCUSSION WITH BANKS

A. Feasibility of Bank Finance and Eligibility Criteria

GIVEN THE STRUCTURE of resources of banks and the traditional use of bank funds, do you think it will be feasible for banks to extend credit for financing construction of houses and other buildings ?

2. On the one hand, there is a need for financing mass housing at low cost and, on the other, there is a cost constraint on banks' lending. Given this situation, what do you think should be the criteria for financing housing construction ? Should the following types of construction be eligible for bank finance ?

a) Government office buildings, construction of houses for Government and semi-Government employees, hospitals, hostels, school/college buildings, public conveniences, houses for employees of industrial houses, markets, cinema houses, bridges, roads, sewages and water works.

b) Houses for landless labourers and marginal farmers in the rural areas (marginal farmers may be assumed to have a monthly income not exceeding Rs. 250/-)

c) Houses in urban and rural areas for :

   i) Economically Weaker Sections of the community (EWS may be defined as persons having a monthly income not exceeding Rs. 350/-).

   ii) People belonging to Lower Income Group (LIG may be defined as persons having an income not more than Rs. 600/- per month).

   iii) Persons belonging to Middle Income Group (MIG may be defined as persons having an income not exceeding Rs. 1,500/- per month).

   iv) Persons belonging to Higher Income Group (HIG may be defined as persons with an income exceeding Rs. 1,500/- per month).

3. Some banks have felt it necessary to lay down a minimum regular income to make a person eligible for allowing bank finance for housing. What should be the minimum income of a person to make him eligible for bank finance ? On the other hand, due to constraints on banks' lendable resources, should a person beyond a certain income become ineligible for bank finance for house construction ?

4. Commercial banks may get proposals for building houses from professional builders or potential owners of houses. Professional builders may need finance for a shorter period whereas potential owners of houses may require credit for a longer period. Should the commercial banks finance both or any one of them ?

5. The public sector is engaged in mass housing construction programme through different agencies like HUDCO and Housing Boards. The construction takes the

form of new houses, slum improvement, slum clearance and repair of old houses. To what extent these programmes should be eligible for financing by commercial banks ?

6. Since there are constraints on banks' lendable resources, it is felt that their distribution should be done in such a way as to meet maximum social and economic justice. Should bank credit, therefore, be extended only for construction of houses where the cost of construction does not exceed a certain maximum amount per unit ? If so, what should be such maximum ? Should the cost of construction be inclusive of cost of land ? Alternatively, should the rationing of credit be done on the basis of built-up area i.e., should the bank credit be extended only for construction of houses where the built-up area does not exceed a fixed stated limit ?

7. Credit Guarantee Corporation has taken a stand about the loans covered by its guarantee scheme that housing loans to be eligible for a guarantee cover should be an integral part of production credit from the same bank. What are your views on this ?

B. Proportion of Bank Resources for Financing Housing and Other Building Construction

1. Given the constraint on the resources of banks, as well as certain pre-emptive uses like liquidity ratio, priority sector advances, credit to FCI, do you think that it will be practicable for the banking system, as a whole, to ear-mark a certain proportion of its resources for the purpose of financing housing construction ?

If so, should the proportion be in terms of :

a) total deposits,
b) incremental deposits,
c) total lendable resources,
d) incremental lendable resources ?

2. A certain opinion has been expressed to the Group that considering the shortage of housing stock and the increasing demand for houses in India, banks should set aside a minimum of 5 per cent of their incremental lendable resources every year for financing house construction, inclusive of housing loans to their own employees. What is your reaction to the proposal ?

3. Assuming that a certain proportion of bank resources is earmarked for the above purpose, how should it be distributed among the different categories of demand for house construction : e.g., (a) urban, rural (b) EWS, LIG, MIG, HIG and (c) public and private housing ?

4. Should the quantum of bank credit be a fixed percentage of the cost of construction ? If so, what should it be? Should the precentage be different when it is given to an individual than to an organisation, say, a housing society or housing board, on the lines of the guidelines issued by RBI to commercial banks, in June 1976 ?

C. Additional Resources

1. Certain banks in India have devised special housing deposit schemes linking such deposits with extension of credit for housing. Can you suggest any such scheme in order to raise additional resources for banks ?

2. A suggestion has been made to the Group that the creation of a secondary mortgage market for institutional finance for housing will ensure a quicker turnover of resources lent out for the purpose. In other words, if a mortgage paper is created, it can be bought and sold in a market consisting of financial institutions and individuals. Will it help the banks in financing house construction on a larger scale? Do you think that such a market can be created in India ? What, in your view, are the conditions which should be satisfied for the creation of such a market? What steps should be taken to create such a market?

3. In many countries an essential ingredient of the secondary mortgage market is a scheme for guaranteeing the redemption of mortgage paper. Do you think that such a scheme can be introduced in India and if so, which agency can extend such a guarantee ?

4. Some banks have indicated preference for direct finance for public as well as private housing as they feel that this gives them an opportunity to process the borrowers' request and thus look into its/his financial soundness. It also enables a check on the end-use of the funds lent by them. Besides, the houses built with the help of loans create a security for the banks' loans. On the other hand, some others prefer extending indirect credit either by subscribing to the bonds/debentures of or by extending term loans to organisations like HUDCO and Housing Boards or routing the loans through co-operative societies or such other bodies which take on themselves the responsibility of repayment. This, according to them, would ensure a reasonable return on their investment and save the cost and trouble of processing and scrutiny of individual requests. Which of the above two views would be advantageous to banks on considering the merits and demerits of both? Would it be necessary for banks to know the financial position of the borrowing parties irrespective of the mode of finance (direct or indirect) extended to them ?

5. A view has also been expressed to the Group that banks should refinance HUDCO and other agencies like Housing Boards rather than subscribe to their debentures or give them term loans. Do you agree with this view ?

6. Some concern has been expressed by banks on the issue of non-guaranteed bonds by Housing Boards. What are your views on this?

7. In the case of your bank, what will be the expected cost of processing and scrutinising the proposals for direct credit for house construction received from borrowers?

8. Do banks require specialised staff for scrutinising applications for financing housing and other building construction activities? In other words, whether expertise required for processing porposals for housing loans is different from that required for processing other kinds of loans? As in the case of agricultural schemes, where the financing banks are given expert advice by ARDC, will it be necessary to have a similar agency in respect of housing schemes?

D. Terms And Conditions For Housing Loans

1. What in your view should be the minimum and the maximum period of repayment of a housing loan? Should it vary with the income of the borrower i.e., longer period of repayment for Lower Income Group and shorter period for Higher Income Group? Should there also be a period of repayment holiday, if so, what should be the period?

2. Should the repayment be monthly, quarterly, half-yearly or annual?

3. Should the durability of a house have any bearing on the repayment period?

4. Should the lending bank ask the borrower to take life insurance cover? Should there be a fire insurance for houses to be constructed in rural areas, with bank credit? Alternatively, will only Government/Private guarantee for the loan be sufficient?

5. Would it be necessary for banks to obtain the help of Government machinery, say, Taluka Development Officer, Talati, Tehsildar, etc., for recovering the loan amounts as arrears of land revenue?

6. What should be the minimum rate of interest on bank credit for housing without allowing for any profit margin?

7. Should the interest rate charged to the borrower depend upon his income or should it be linked with the amount of loan to be availed of? Could there be two or more different rates of interest depending upon the income of the borrowers, the amount of loan to be availed of and the different rates to be charged on different slabs?

8. In the case of agencies undertaking public housing, what should be the security for direct finance? Should the security be the mortgage of the property or should there be Government or other guarantee for the loans? Or should there be both ? Or should there be any other securtiy?

9. The problems of housing in urban areas are different in many respects from those in the rural areas. In what way credit for housing in the two sectors be channelised ? Would it be different only in the mode of credit or also in other respects ? Would the banks like to route finance for housing through some agencies, whether Government or otherwise?

E. Need For New Institutions

1. It has been suggested that in India we need specialised housing finance system consisting of an apex housing bank at the Centre and regional housing banks either in different States or in different regions on the pattern of U.S.A. Do you think in India also we need a system like this? On the other hand, a view has been expressed that banks in India are like super financial markets and, therefore, they should be able to cater to the needs of housing finance. Which of the two views do you agree with?

2. It has been suggested that HUDCO should be converted into Apex Bank for extending credit for housing and other building construction activities and all bank finance should be routed through this institution. Do you agree with this view?

3. It has also been suggested that HUDCO should refinance bank loans directly given to borrowers. What are your views on this suggestion?

F. Other Matters

1. Are there any legal hindrances in the way of banks extending credit for house construction and other building activities? If so, what are such hindrances? What changes in laws at the Centre and State level are required to be made for encouraging bank credit in this direction?

2. Does the present policy of RBI regarding housing finance hinder, in any way, banks making housing loans? Does the present policy need any change? If so, what change is called for?

3. Would you like to make any other suggestion for encouraging banks to finance house construction and other building activities?

APPENDIX III

LIST OF RESPONDENTS WHO REPLIED TO OUR REQUEST FOR VIEWS

(A) Central Government

1. Central Statistical Organisation, New Delhi.
2. Housing and Urban Development Corporation Ltd., New Delhi.
3. Indian Standards Institution, New Delhi.
4. Ministry of Works and Housing, Government of India, New Delhi.
5. Planning Commission, Government of India, New Delhi.

(B) State Governments (Housing Departments)

1. Government of Andhra Pradesh.
2. Government of Assam.
3. Government of Bihar.
4. Government of Haryana.
5. Government of Himachal Pradesh.
6. Government of Karnataka.
7. Government of Kerala.
8. Government of Maharashtra.
9. Government of Nagaland.
10. Government of Tamil Nadu.
11. Government of Uttar Pradesh.
12. Union Territory of Lakshadweep.

(C) State Housing Boards

1. Andhra Pradesh Housing Board, Hyderabad.
2. Assam State Housing Board, Gauhati.
3. Bihar State Housing Board, Patna.
4. Goa, Daman & Diu Housing Board, Panaji, Goa.
5. Gujarat Housing Board, Ahmedabad.
6. Himachal Pradesh Housing Board, Simla.
7. Haryana Housing Board, Chandigarh.
8. Karnataka Housing Board, Bangalore.
9. Kerala State Housing Board, Trivandrum.
10. Madhya Pradesh Housing Board, Bhopal.
11. Maharashtra Housing Board, Bombay.
12. Orissa State Housing Board, Bhubaneswar,
13. Rajasthan Housing Board, Jaipur.

14. Tamil Nadu Housing Board, Madras.
15. West Bengal Housing Board, Calcutta.

(D) Registrars of Co-operative Societies of

1. Andhra Pradesh, Hyderabad.
2. Haryana, Chandigarh
3. Himachal Pradesh, Simla.
4. Kerala, Trivandrum.
5. Mizoram, Aizawl.
6. Pondicherry, Pondicherry.
7. Rajasthan, Jaipur.
8. Tamil Nadu, Madras.
9. Tripura, Agartala.
10. Union Territory of Lakshadweep, Kavaratti.
11. Uttar Pradesh, Lucknow.

(E) Provident Fund Commissioners

1. Central Provident Fund Commissioner, New Delhi.

Regional Provident Fund Commissioner of

2. Andhra Pradesh, Hyderabad.
3. North Eastern Region, Shillong.
4. Bihar, Patna.
5. Gujarat, Ahmedabad.
6. Karnataka, Bangalore.
7. Madhya Pradesh, Indore.
8. Maharashtra and Goa, Bombay.
9. New Delhi.
10. Orissa, Cuttack.
11. Punjab, Haryana and Himachal Pradesh, Chandigarh.
12. Uttar Pradesh, Kanpur.

(F) Commercial Banks

i. State Bank and its Subsidiaries

1. State Bank of India, Bombay.
2. State Bank of Bikaner and Jaipur, Jaipur.
3. State Bank of Hyderabad, Hyderabad.
4. State Bank of Indore, Indore.
5. State Bank of Mysore, Bangalore.
6. State Bank of Patiala, Patiala.
7. State Bank of Saurashtra, Bhavnagar.
8. State Bank of Travancore, Trivandrum.

ii. Nationalised Banks

1. Allahabad Bank, Calcutta.
2. Bank of Baroda, Bombay.
3. Bank of India, Bombay.
4. Bank of Maharashtra, Pune.
5. Canara Bank, Bangalore.
6. Central Bank of India, Bombay.
7. Dena Bank, Bombay.
8. Indian Bank, Madras.
9. Indian Overseas Bank, Madras.
10. Punjab National Bank, New Delhi.
11. Syndicate Bank, Manipal.
12. Union Bank of India, Bombay.
13. United Bank of India, Calcutta.
14. United Commercial Bank, Calcutta.

iii. Other Banks

1. Andhra Bank Ltd., Hyderabad.
2. Bank of Cochin Ltd., Cochin.
3. Bank of Karad Ltd., Karad.
4. Bank of Madura Ltd., Madras.
5. Bank of Thanjavur Ltd., Thanjavur.
6. Bharat Overseas Bank Ltd., Madras.
7. Catholic Syrian Bank Ltd., Trichur.
8. Corporation Bank Ltd., Mangalore.
9. Dhanalakshmi Bank Ltd., Trichur.
10. Federal Bank Ltd., Alwaye.
11. Ganesh Bank of Kurundwad Ltd., Kurundwad.
12. Hindustan Commercial Bank Ltd., Kanpur.
13. Jammu and Kashmir Bank Ltd., Srinagar.
14. Karur Vysya Bank Ltd., Karur.
15. Kumbakonam City Union Bank Ltd., Kumbakonam.
16. Laxmi Commercial Bank Ltd., New Delhi.
17. Nainital Bank Ltd., Nainital.
18. New Bank of India Ltd., New Delhi.
19. Oriental Bank of Commerce Ltd., New Delhi.
20. Parur Central Bank Ltd., N. Parur.
21. Punjab and Sind Bank Ltd., New Delhi.
22. Purbanchal Bank Ltd., Gauhati,
23. Sangli Bank Ltd., Sangli,

24. South India Bank Ltd., Tirunelveli.
25. United Industrial Bank Ltd., Calcutta.
26. United Western Bank Ltd., Satara.
27. Vijaya Bank Ltd., Bangalore.

(G) State Co-operative Banks

1. Bihar State Co-operative Bank Ltd., Patna.
2. Delhi State Co-oPerative Bank Ltd., New Delhi.
3. Gujarat State Co-operative Bank Ltd., Ahmedabad.
4. Haryana State Co-operative Bank Ltd., Chandigarh.
5. Jammu & Kashmir State Co-operative Bank Ltd., Srinagar.
6. Kerala State Co-operative Bank Ltd., Trivandrum.
7. Maharashtra State Co-operative Bank Ltd., Bombay.
8. Nagaland State Co-operative Bank Ltd., Dimapur.
9. Punjab State Co-operative Bank Ltd., Chandigarh.
10. Tamil Nadu State Co-operative Bank Ltd., Madras.
11. Tripura State Co-operative Bank Ltd., Agartala.
12. West Bengal State Co-operative Bank Ltd., Calcutta.

(H) Apex Co-operative Housing Finance Societies

1. Andhra Pradesh Co-operative Housing Societies Federation Ltd., Hyderabad.
2. Bihar State Co-operative House Construction Financing Society Ltd., Patna.
3. Goa, Daman and Diu Co-operative Housing Finance Society Ltd., Goa.
4. Kerala Apex Co-operative Housing Society Ltd., Cochin.
5. Madhya Pradesh State Co-operative House Building Finance Society Ltd., Bhopal.
6. Maharashtra Co-operative Housing Finance Society Ltd., Bombay.
7. Punjab State Federation of Co-operative House Building Societies Ltd., Chandigarh.
8. Rajasthan State Co-operative Housing Finance Society Ltd., Jaipur.
9. Uttar Pradesh Sahkari Avas Sangh, Lucknow.
10. West Bengal State Housing Finance Co-operative Society Ltd., Calcutta.

(I) Regional Rural Banks

1. Bilaspur-Raipur Kshetriya Gramin Bank, Bilaspur, M.P.
2. Bolangir Anchalik Gramya Bank, Bolangir, Orissa.
3. Cauvery Grameena Bank, Mysore, Karnataka.

4. Cuttack Gramya Bank, Cuttack, Orissa.
5. Farrukhabad Gramin Bank, Farrukhabad, U.P.
6. Kosi Kshetriya Gramin Bank, Purnea, Bihar.
7. Kshetriya Gramin Bank, Hoshangabad, M.P.
8. Magadh Gramin Bank, Gaya, Bihar.
9. Marathwada Gramin Bank, Nanded, Maharashtra.
10. Nagarjuna Grameena Bank, Khammam, A.P.
11. North Malabar Grameena Bank, Cannanore, Kerala.
12. Rae Bareli Kshetriya Gramin Bank, Rae Bareli, U.P.
13. Samyukta Kshetriya Gramin Bank, Azamgarh, U.P.
14. Shekhawati Gramin Bank, Sikar, Rajasthan.
15. South Malabar Gramin Bank, Malappuram, Kerala.
16. Tripura Gramin Bank, Banamalipur, Agartala.
17. Tungabhadra Gramin Bank, Bellary, Karnataka.

(J) State Financial Corporations

1. Assam Financial Corporation, Shillong.
2. Bihar State Financial Corporation, Patna.
3. Haryana Financial Corporation, Chandigarh.
4. Maharashtra State Financial Corporation, Bombay.
5. Punjab Financial Corporation, Chandigarh.
6. Rajasthan Financial Corporation, Jaipur.
7. Tamil Nadu Industrial Investment Corporation Ltd., Madras.
8. West Bengal Financial Corporation, Calcutta.

(K) Builders

1. B. G. Shirke & Co. Ltd., Pune.
2. Builders' Association of India, Bombay.
3. Hind Finance Industries and Investment Ltd., Nagpur.
4. K. Raheja Pvt., Ltd., Bombay.
5. Siporex India Ltd., Pune.
6. Thomas Stephen & Co. Ltd., Quilon, Kerala.

(L) Other Institutions

1. Cement Research Institute of India, New Delhi.
2. Madras Metropolitan Development Authority, Madras.
3. Tata Institute of Social Sciences, Bombay.
4. The Indian Institute of Architects, Bombay.

(M) Embassies/Consulates

1. British Deputy High Commissioner, Bombay.
2. Canadian High Commissioner, New Delhi.
3. Consulate General of Switzerland, Bombay.
4. Royal Danish Embassy, New Delhi.
5. Royal Norwegian Embassy, New Delhi.
6. Swedish Embassy, New Delhi.
7. Turkish Embassy, New Delhi.
8. International Bank for Reconstruction and Development, Washington, D.C.
9. Embassy of India, Berne, Switzerland.
10. Embassy of India, Copenhagen, Denmark.

(N) Individuals

1. Shri S. S. Bharwani,
   Senior Analyst,
   Agricultural Refinance and Development Corporation,
   Bombay.
2. Shri K. D. Bhatia,
   Director,
   Bureau of Economics & Statistics,
   Delhi Administration,
   Delhi.
3. Shri Xavier de Monte Furtado,
   P.O. Box 213,
   Panjim, Goa.
4. Shri C. S. Jacob,
   Senior Accountant,
   Chemicals and Fibres of India Ltd.,
   Thane.
5. Shri R. S. Jahagirdar,
   Chairman,
   Sholapur District Co-operative Housing Federation Ltd.,
   Sholapur.
6. Shri A. P. Joag,
   N-2, Nirant Colony,
   686/3A, Bidvewadi,
   Pune 411 009.
7. Shri B. R. Joshi,
   9/100, Ramkrishna Nagar,
   2nd Hosangabad Road,
   Khar (West)
   Bombay 400 052.

APPENDIX IV

NAMES OF PARTIES WITH WHOM WE HAD DISCUSSIONS

(A) Officials of the Central Government Ministries and HUDCO

1. Shri J. B. D'Souza,
Secretary,
Ministry of Works & Housing,
Government of India,
New Delhi.

2. Shri Ajit Majoomdar,
Secretary,
Planning Commission,
Government of India,
New Delhi.

3. Shri S. K. Govil,
Adviser (F.R.),
Planning Commission,
Government of India,
New Delhi.

4. Shri Gangadhar Jas,
Director (Housing),
Ministry of Works & Housing,
Government of India,
New Delhi.

5. Shri N. K. Prasad,
Chairman & Managing Director,
Housing and Urban Development Corporation Ltd.,
New Delhi.

(B) State Governments and State Housing Boards

ANDHRA PRADESH

1. Shri G. V. Ramakrishna,
Secretary (Housing),
Municipal Administration & Urban Development Department.

2. Shri K. V. Natarajan,
Secretary-Designate (Housing),
Municipal Administration & Urban Development Department.

3. Shri Amjad Ali Khan,
Chairman,
Andhra Pradesh Housing Board.

4. Shri Williams,
Deputy Secretary,
Institutional Finance.

5. Shri K. S. Ramachandran,
Deputy Secretary.
Housing, Municipal Administration & Urban Development Department.

6. Shri S. M. S. Subramanyam,
Housing Commissioner,
Andhra Pradesh Housing Board.

7. Shri K. Krishna Murthy,
Regional Housing Engineer (Planning).

8. Dr. G. Surya Rao,
Director,
Urban Community Development & Habitat-Hyderabad.

9. Shri Ghulam Yazdani,
Chief Accounts Officer,
Andhra Pradesh Housing Board.

10. Shri M. V. Madhavrao,
Jt. Registrar & Managing Director,
Andhra Pradesh Co-operative Housing Societies' Federation.

11. Shri S. Sitaram,
S.O.,
Finance & Planning Department.

12. Shri D. G. Rama Rau,
Project Officer,
Habitat-Hyderabad.

ASSAM

1. The Secretary (Housing)

2. Shri M. N. Bora,
Commissioner,
Assam Housing Board.

BIHAR

Shri S. B. P. Sinha,
Chief Engineer,
Bihar State Housing Board.

KERALA

1. Shri J. S. Badhan,
Secretary,
Labour & Housing.

2. Shri K. H. Nambudripad,
Additional Secretary,
Board of Revenue.

3. Shri S. Arumugham Pillai,
Joint Secretary,
Planning & Economic Affairs Department.

4. Shri V. K. Kuttai,
Joint Secretary,
Housing.

5. Shri V. Vijayachandran,
Secretary,
Kerala Housing Board.

6. Shri V. K. Joseph,
Jt. Registrar & Managing Director,
Kerala Apex Co-operative Housing Society.

7. Shri Thomas Poulose,
Senior Town Planner and Rural Housing Engineer.

8. Shri Mathew Vaylur,
Chief Town Planner.

9. Shri T. N. Kuriakos,
Project Adviser to Government,
Planning & Economic Affairs Department.

10. Shri Balan Jacob,
Registrar of Co-operative Societies.

11. Shri K. Kesavan Nayar,
Additional Registrar of Co-operative Societies.

MAHARASHTRA

Shri S. S. Tinaikar,
Secretary (Housing),
Chairman, Maharashtra Housing Board.

TAMIL NADU

1. Shri C. V. S. Mani,
Commissioner and Secretary to the Government of Tamil Nadu and
Chairman, Tamil Nadu Housing Board.

2. Shri N. Jagannathan,
Additional Registrar of
Housing Co-operative Societies.

3. Shri B. Ramakrishnalal,
Joint Registrar of Co-operative Societies
and Special Officer,
T. N. Co-operative Housing Societies.

4. Shri V. S. Ramakrishnan,
Chief Engineer,
Tamil Nadu Housing Board.

5. Shri K. S. Logavinayagam,
Chief Engineer,
Tamil Nadu Slum Clearance Board.

6. Shri R. Venkatachar,
Superintending Engineer,
Tamil Nadu Housing Board.

7. Shri S. Kumaresan,
Superintending Engineer,
Tamil Nadu Housing Board.

8. Smt. May George,
Superintending Engineer,
Tamil Nadu Housing Board.

WEST BENGAL

1. Shri V. Misra,
Secretary (Housing).
2. Shri P. B. Sen,
Commissioner,
West Bengal Housing Board.
3. Shri S. K. Chakraborty,
Assistant Commissioner,
West Bengal Housing Board.
4. Shri M. N. Nandi,
Director,
West Bengal Housing Board.
5. Shri N. Paul,
Joint Director,
West Bengal Housing Board.
6. Shri M. K. Moitra,
Calcutta Metropolitan Development Authority.
7. Shri S. K. Roy,
Calcutta Metropolitan Developmet Authority.

(C) Banks

1. Shri S. K. Datta,
Managing Director,
State Bank of Hyderabad.
2. Shri P. F. Gutta,
Chairman & Managing Director,
Central Bank of India.
3. Shri K. P. Hormis,
Chairman,
Federal Bank Ltd.
4. Shri Inderjit Singh,
Chairman,
Punjab and Sind Bank Ltd.

5. Shri C. E. Kamath,
Chairman & Managing Director,
Canara Bank.

6. Shri J. N. Kaul,
Chairman,
Jammu & Kashmir Bank Ltd.

7. Shri L. C. Mistry,
General Manager,
Union Bank of India.

8. Shri M. K. Kini,
Assistant General Manager,
Union Bank of India.

9. Shri D. Moitra,
Deputy General Manager,
United Bank of India.

10. Shri S. D. Nadkarni,
Chairman,
Shamrao Vithal Co-operative Bank Ltd.

11. Shri B. S. Nawathe,
Chairman,
State Bank of Saurashtra.

12. Shri Z. G. Rangoonwala,
Managing Director,
Bombay Mercantile Co-operative Bank Ltd.

13. Shri S. S. Sahni,
Managing Director,
State Bank of Patiala.

14. Shri Satya Dev,
Managing Director,
State Bank of Bikaner & Jaipur.

15. Shri C. P. Shah,
Chairman & Managing Director,
Bank of India.

16. Shri K. Venkatarama Iyer,
General Manager,
Indian Bank.

17. Shri B. K. Vora,
Chairman & Managing Director,
Dena Bank.

(D) Financial Institutions

1. Shri G. V. Kapadia,
Chairman,
General Insurance Corporation of India,
Bombay.

2. Shri H. T. Parekh,
Chairman,
Industrial Credit & Investment Corporation of India Ltd.,
Bombay.

(E) Builders

1. Members of Builders' Association of India:

(i) Shri B. E. Billimoria
(ii) Shri R. G. Gandhi
(iii) Shri P. H. Mistry
(iv) Shri K. J. Sapra

2. Shri Y. H. Kamat,
Siporex India Ltd.,
Pune.

3. Shri C. L. Raheja,
K. Raheja Pvt. Ltd.,
Bombay.

4. Shri B. G. Shirke,
B. G. Shirke & Co. Ltd.,
Pune,

APPENDIX V

HOUSING FINANCE SYSTEM IN SELECTED FOREIGN COUNTRIES

A. CANADA

Introduction

The present National Housing Act (NHA), which was introduced in 1954, is the principal piece of Federal legislation dealing with housing and urban development. Under its provisions, the Federal Government has aided in the building of more than 50 per cent of Canada's new housing in recent years - much of which is social housing. The principle is that the Federal Government should stimulate and support housing while not assuming direct responsibilities, which are constitutionally allocated to other levels of government or which can be borne by private enterprise. Subsequent amendments to the Act have broadened the provisions of the Act and introduced a definite change in emphasis, representing not only an attack on housing problem but also Government's response to the need for a plan for the development of urban life in Canada.

The Central Mortgage and Housing Corporation (CMHC) is the Crown agency charged with carrying out Federal housing legislation. The Corporation assists construction activity in two ways: by guaranteeing the loans made by private approved lenders for house construction and by granting direct loans under its various schemes. It is responsible to the Government through the Minister of State for Urban Affairs and reports to Parliament through the Minister. The Minister is authorised to advance money to the Corporation out of the Consolidated Revenue Fund for purposes specified in the National Housing Act and CMHC Act. As security for these advances, CMHC issues to Government debentures undertaking to repay the advances with interest. It is from these advances received from the Government that the Corporation makes direct loans. The Corporation's income is derived from the interest earned on direct loans from property rentals, application fees for insured loans, fees earned for services to Government agencies, profits from real estate sales, etc. Operating expenses include the maintenance of rental properties, administration, including salaries and office upkeep, real estate depreciation and interest on money borrowed from the Government. The Corporation transfers all its profits to the Federal treasury.

Mortgage Insurance Fund

Federal assistance for ownership housing and rental housing projects built by private entrepreneurs is provided for the most part through a system of mortgage insurance introduced in 1954. Under this arrangement, loans are advanced wholly by about 190 private approved lenders authorised by the Government to lend under the Act. Most life insurance companies and trust and loan companies as well as the chartered banks and Quebec savings banks are lenders under the Act. The guarantee on their investment is provided by CMHC through the operation of a Mortgage Insurance Fund built up from fees paid by NHA borrowers. Since NHA mortgage loan may cover up to 95 per cent of the lending value of the property, the down payment is usually smaller than that required for a conventional mortgage. The 5 per cent equity each borrower must provide from his own resources may consist of cash, land or his own labour or a combination of these elements. This, in turn, may be reduced by the amount of any provincial or municipal housing grant to which the purchaser may be entitled.

Lending institutions find NHA mortgages attractive, because in addition to the Government insurance feature, they offer a good return in a comparatively stable market. The borrower pays a fee of about 1 per cent into a special insuranec fund. From this fund, the CMHC undertakes to repay the lender upto 100 per cent of the principal and interest outstanding in the event of a default by the borrower. In such cases the property concerned reverts to the fund. The percentage of defaults has been very low since the scheme began in 1954.

Insured mortgage loans are normally available to individual home-owner applicants, to builders constructing houses for sale or for rent and to some special groups such as co-operative housing associations. Loans are also available for existing housing which the purchaser intends to occupy. As the loans must be made in accordance with terms set out in the Act, borrowers can usually obtain a longer period and a lower rate of interest than is available in the conventional lending field.

The interest rate for loans made by approved lenders is by agreement between the borrower and the lender and may vary among lenders and according to locality and other conditions. Loans are usually for a period of 25 years, but the term may extend even upto a period of 40 years under certain circumstances.

Direct Assistance by CMHC

In addition to serving as an insurer for loans made by approved lenders, CMHC is authorised under the National Housing Act to make direct loans on new and existing units for home ownership and for new rental housing where assistance is not available from the approved lenders. Since most of the funds advanced by Government go to meet the more pressing requirements of social housing, the amount available for home ownership is necessarily limited. As a result, CMHC encourages activity through the approved lenders as much as possible and acts in this field as a residual lender. Through its loan insurance and direct loan provisions, CMHC has made a strong impact on Canadian housing. Since 1954, 45 per cent of the almost three million units built have benefited from NHA financing either through direct CMHC lending or lending by approved lenders. Further, by setting building standards and carrying out inspections, CMHC has been able to influence the quality as well as the quantity of housing.

Details of certain important schemes under which direct CMHC assistance is made available are given below.

Assisted Home-Ownership Programme

CMHC provides interest reduction loans to any purchaser regardless of his income who wants to buy moderately priced new housing. This assistance is available both to families with children and to households of two or more persons purchasing houses financed by NHA insured loans, by CMHC direct loans or by privately insured loans. Loans are interest-free for the first five years and repayable with interest after that time, or when the house is sold or refinanced. The loans will cover the difference between market interest rates and interest at 8 per cent. Another type of assistance is in the form of grants upto $ 750 available only to the families with children who need help to keep their monthly payments under 25 per cent of their income. The programme encourages the building industry to construct houses in the low and medium price ranges, on a continuing basis.

The Low-Rental Housing Assistance

CMHC may make a loan to any organisation, corporation or individual wishing to undertake a low-rental housing project through either new construction or purchase and improvement of existing buildings. This loan is available as a ratio to the lending value (upto 100 per cent in the case of certain types of non-profit organisations) at a preferred interest rate and for long terms. Accommodation provided under these arrangements is intended to serve families and individuals of limited means, particularly the elderly and other special groups. Since 1975 CMHC is authorised to lease land at favourable interest rates to any one willing to undertake a low-rental housing project.

Assisted Rental Programme

CMHC makes interest-free loans for a period of 10 years, to owners of new rental housing projects who get private, NHA insured loans, if they are prepared to enter into an agreement regarding rents and other conditions, i.e., project should conform to CMHC's construction standards and the house should not be sold without CMHC's consent. The loans are intended to bridge the gap between what the owner must pay for the capital he borrows and an interest rate which would allow him to build units for renting at reasonable rents. This programme is designed to attract more private capital into the construction of moderately priced houses and to stimulate the building of rental housing.

Municipal Incentive Grants

This programme provides an incentive for municipalities to develop land for modest size housing units and generally to encourage the economic use of land. It is also designed to encourage municipalities and provinces to examine their development standards and bye-laws in the light of accelerated costs and to speed up the housing approval process. For each unit of eligible housing unit constructed, municipalities are provided a Federal grant of $ 1,000.

Land Assembly Assistance

Sections 40 and 42 of the National Housing Act provide for financial assistance at preferential interest rates by Central Mortgage and Housing Corporation to provinces and municipalities wishing to acquire and develop land for residential and associated purposes or to establish land banks for future development of a predominantly residential nature. The loan amount covers 90 per cent of the cost, repayable over 15 years or earlier if the land is sold. Alternatively, residential land development may be undertaken by the Federal and Provincial Governments in partnership. In that case, costs, profits and losses would be shared on a 75:25 basis.

Rural and Native Housing

CMHC's policy is to encourage rural residents to plan, build and manage their own housing projects so that they will acquire not only a house but new skills and economic security as well. The resources of various Federal Government programmes are channelled to rural areas for this purpose. An innovative aspect of the scheme is to allow rural inhabitants to buy their homes with monthly instalments related to their incomes.

Summary

In Canada, the Federal Government has been actively involved in promoting housing and urban development. Its direct and indirect assistance facilitates flow of funds to housing construction. The housing policies framed by the Federal Government are reflected in the National Housing Act. These are implemented by other organs of Government, such as, the provinces, municipalities or even by private enterprise wherever the responsibilities can be borne by them. The Federal responsibility for housing is discharged by the Central Mortgage and Housing Corporation (CMHC), set up under the National Housing Act.

CMHC which obtains all its resources from the Government by way of advances aids housing in two ways. It guarantees the loans advanced by private approved lenders. The Corporation undertakes to repay the lender upto 100 per cent of the pinicipal and interest outstanding in the event of a borrower defaulting. The borrower pays a fee of 1 per cent into a special insurance fund. In this manner, CMHC encourages approved lenders to make direct loans for house ownership and is content to act as a residual lender. Direct loans are also granted by CMHC under its various schemes to individuals, provinces, municipalities etc., where owing to the nature of the project finance is not forthcoming from approved lenders or the projects are considered important from the society's point of view.

(B) KOREA

Introduction

In Korea, there are eight special banks for specific purposes. These banks play a significant role in the Korean economy. One of these banks i.e., The Korean Housing Bank (KHB) was set up in 1967 under the Korea Housing Bank Act, with a total paid-up capital of 5,050 million won, which increased to 10 billion won in 1976. Of the total paid-up capital of 10 billion won, 8,251 million won is contributed by the Government, 1,349 million won by the banking institutions and 400 million won by insurance companies. Prior to the establishment of the KHB, the Korea Development Bank advanced loans to the Korea Housing Corporation, local Governments and individuals on long-term basis at low interest rates in conformity with the Government policies on housing projects. The need for setting up the KHB arose because housing funds from the Government steadily decreased due mainly to the reduction of U.S. AID counterpart funds, while the demand for housing funds increased continuously.

Scope of Financing

Under the Korea Housing Bank Act, the KHB is required to give loans and manage funds for the construction of houses, purchase of newly-built houses and development of housing sites. The KHB also advances loans to the local Government and small and medium scale enterprises for the production of low-cost housing materials and equipments.

Sources of Funds

The funds required for these purposes are obtained mainly from two sources, viz., Government and public (Table I). KHB can raise funds in accordance with the provisions of the Housing Costruction Promotion Act, through the issue of National Housing Bonds, borrowing from the Government of Korea and foreign Governments as also through sale of housing lotteries. The deployment of these funds is made in conformity with the annual National Housing Construction Plan and Management Guide-Lines issued by the Minister of Construction.

As an example of the terms on which KHB borrows from the Government, it may be mentioned that during 1975, the KHB borrowed 2,000 million won from the Government, raising its total borrowing from the Government to 12,304 million won. The loan is repayable in 15 years with 5 years of grace period at the annual interest rate of 4 per cent. The KHB repaid 254 million won, leaving an outstanding balance at 12,050 million won.

Housing lotteries are issued by the KHB for the purpose of mobilising funds to finance housing construction on comparatively easy terms. Fiscal and other concessions are offered to the winners of lotteries. Advances out of the amount collected by way of lotteries are mainly made to the bereaved families of war dead and members of low-income group (Table 2E). The repayment of the funds advanced is generally spread over 20 years at 4 per cent interest rate. It will be seen from Table I that in 1976 the amount raised by way of lotteries accounted for 3.7 per cent of the total amount raised by KHB.

The National Housing Bonds are issued in pursuance of the objectives of the National Housing Construction Promotion Law. The terms and conditions of the bonds are governed by the KHB Act. The bonds are redeemable in 5 years at a compound interest rate of 6 per cent per annum. During 1976, the KHB issued 25,308 million won of housing bonds, accounting for 38 per cent of total funds. Other sources of funds are mainly through the receipt of a variety of deposits such as housing instalment savings deposits and issue of debentures (Table 2D).

Among the varied savings mobilisation schemes, Housing Instalment Savings Deposit is a contractual savings deposit scheme, directly linked with housing loan extension, which is offered solely by the KHB. There are two types of housing instalment savings deposits. Under one, the subscriber makes monthly instalment payments for a certain period to qualify for a housing loan, whereas under the other, monthly instalments are made for the repayment of principal and interest on the housing loans already advanced. The former scheme is useful for the purchase of house or housing improvements, while the latter operates mainly for financing owner-occupied housing construction. Besides, there are other two schemes viz., 'Welfare Housing Instalment Deposit Scheme' and, 'Salary and Wage Earners' Fortune Formation Savings Deposit Scheme. Under these schemes, depositors are paid an attractive rate of interest on their deposits and they are eligible for housing loans. Details of the schemes are given in the Annexure.

The KHB issues debentures in terms of Article 30 of its Act. These debentures may be issued up to 20 times the aggregate amount of capital and reserves of the KHB. The repayment of principal and interest are guaranteed by the Government. Investors are attracted to these debentures because the dividends payable thereon are exempted from tax. They can also be used as a bid bond or deposit money.

Uses of Funds

In addition to the housing construction loan, the KHB advances loan for housing site development, production of housing materials and commercial loan. Since its inception in 1967 through the end of 1976, the KHB has advanced loans of 213,325 million won for the construction of 244,909 housing units, development of 882,000 pyeong of housing sites and production of standard housing materials (Table 3). The total loans outstanding at the end of 1976 stood at 178,499 million won.

The lending rate varies according to the sources as well as the uses of the funds. From the following Table it is apparent that the rate ranges from 8 per cent to 15.5 per cent.

Lending Rates of the Korea Housing Bank
(As at the end of September 1974)

	Per cent per annum
Housing Funds	
For Public entities	8.0
For depositors of instalment	10.0 to 15.5
For non-depositors	15.5
Housing site development funds	15.5
Construction material production funds	15.5

Evaluation of the Performance

The KHB started business in 1967 with an initial paid-up capital of 5,050 million won, comprising 3,847 million won invested by the Government, formerly managed by the Korea Development Bank for financing housing construction and 1,203 million won contributed by banking institutions and insurance companies. Since then, there has been periodical contribution from the Government for boosting its capital base. With the result that as at the end of 1976 the total paid-up capital stood at 10 billion won. In addition KHB has raised substantial resources from the public by way of debentures, bonds and deposits. It has made significant contribution in alleviating the housing shortage in Korea. It has so far extended 187,479 million won of credit to low and moderate income groups during the first decade of its operation. These funds have been used for constructing 244,909 housing units, development of house sites and production of standard housing materials.

ANNEXURE

(a) Welfare Housing Instalment Savings Deposit Scheme

One of the stumbling blocks to the solution of housing in terms of loan is that most of homeless households have low down payment with little assets accumulation. The low down payment inevitably leads to exclusion of many homeless households from housing loan market, under the current home loan system in which a part, say, 30 per cent to 50 per cent of the construction cost required is only available to them. Extending of loan benefit to those families would require hike in ceiling of loan, which causes inevitably increase in a level of monthly payment on account of amortisation, thus entailing another nagging problem of borrower's capacity to pay. The circumstances stated above prompted the Bank to institute "Welfare Housing Instalment Deposit" scheme in May, 1975 more conducive to the wealth accumulation of low and moderate income brackets. The new "Welfare Housing Instalment Deposit" scheme pays higher interest rate of 15 per cent per annum and in addition subscriber to the scheme is eligible for housing construction loan, or housing-site purchase loan or house purchase loan at lower rate of interest, (14 per cent per annum.)

Welfare Housing Instalment Savings Deposit :

a) Type of Contract Amount : 100,000 won, 500,000 won, 800,000 won, 1,000,000 won, and 2,000,000 won
b) Contract Period : 2 years, 2½ years 3 years, 4 years, and 5 years
c) Interest Rate : 15 per cent per annum.

Monthly Instalment Table

(In won)

Contract Amount/Term of contract	100,000	500,000	800,000	1,000,000	2,000,000
2 year term	3,610	18,050	28,880	36,100	72,200
2½ year term	2,800	14,000	22,400	28,000	56,000
3 year term	2,260	11,300	18,080	22,600	45,200
4 year term	1,600	8,000	12,800	16,000	32,000
5 year term	1,210	6,050	9,680	12,100	24,200

(b) Fortune Formation Savings Deposit Scheme

"Fortune Formation Savings Deposit" scheme which was offered by the Bank on April 1, 1976 played an important part in the savings increase over the course of the year. During the year, Government put the savings deposit scheme into practice with primary purpose of fostering the salaried and wage earners' fortune formation. Advantages of the same type of savings schemes, adopted in some of the advanced countries, were introduced to become an integral part of the new scheme. Government entrusted the new savings deposit scheme with a weighty responsibility of raising a portion of the funds required for a successful implementation of the Fourth Five-Year Economic Development Plan, and for that purpose, many advantages in taxation and interest rates on that deposit were rendered to the subscribers to the deposit scheme.

Salary or wage earner who has monthly income of less than 250,000 won is eligible for subscription to the deposit scheme, and he may save up on monthly instalment basis a fixed amount of money, but less than 30 per cent of his monthly income, on this deposit account for 3 years or 5 years. On the maturity date of the deposit contract, the subscriber receives a legal bounty and voluntary bounty, if any, in addition to the contracted interest paid on monthly instalment, thus enjoying higher rate of return on his investment. Interest paid on instalments and bounties are exempted from tax.

The scheme adopted is a mixture of Japanese and German types. Japanese type is characterised mainly by the preferential treatment in taxation and German type by Government's direct support of bounty payment. French type puts emphasis in support by business enterprise. Government envisaged 2,500 thousand salaried men and wage earners participating in this scheme in 1976. At the end of 1976, subscribers to the scheme totalled 803 thousand with the contracted amount reaching 232,800 million won and total paid-in instalments amounting to 27,100 million won. Korea Housing Bank alone had 325 thousand subscribers, 85,459 million won of contracted amount and 10,519 million won of paid-in instalments.

The Terms of Fortune Formation Savings Deposit Contract

1. Eligibility

(a) Salaried man or wage earner who has monthly income, excluding bonus payment, below 250,000 won.

(b) Salaried man or wage earner who is employed in foreign country and has monthly income below 500,000 won.

(c) Daily wage earner whose daily income is less than 16,000 won.

(d) Two-year term contract is available only to female worker.

2. Maximum amount of monthly instalment and method of instalment savings

(a) Maximum amount of monthly instalment is limited to less than 30 per cent of monthly income.

(b) Monthly instalment is fixed at an amount in any multiples of 500 won with the least amount of 1,000 won.

(c) Payment of monthly instalment may be made by subscriber himself or by his proxy.

3. Terms and Interest Rates

Term	Interest Rate p. a.	Legal bounty	Rate of Return	Voluntary bounty, if any p. a.
2 year	13.2%	10.6% (11.0%)	23.8%	2%
3 year	14.2%	10.0% (15.0%)	24.2%	3%
5 year	16.2%	12.0% (30.0%)	28.2%	5%

Note : Figures in parenthesis represent the rate of return on the total instalment payment.

(c) Housing Instalment Savings Deposit Scheme

Housing instalment savings deposit is a type of contractual savings deposit scheme directly linked with housing loan extention, and offered solely by the Korea Housing Bank. The Bank offers two types of housing instalment savings deposit: type "GAP" and type "EUL". Under the type "GAP", subscriber must meet the requirement of a certain period of monthly instalment payments in order to apply for loan. Under the type "EUL", monthly payments are made for the repayment of principal and interest on loan extended.

Type "GAP" operates mainly for the financing of housing purchase. "Welfare Housing Instalment Deposit" scheme, introduced in 1976, is classified into the type "GAP". This scheme is a type of time instalment deposit linked with housing loan, mainly working for financing of dwelling house construction, dwelling house purchase, and housing-site purchase. It is desirable to encourage prospective borrowers to participate in this scheme keeping in view the national housing policy and to give a boost to self-help housing construction.

At the end of 1976, the net gain of housing instalment payments registered 2,706 million won, up by 35.2 per cent from the projected amount of 2,000 million won, due largely to a remarkable increase in the receipt of overdue monthly payments and to the rise in new subscriptions.

TABLE 1

Sources and Uses of Funds during 1976

(In million won)

		% to total
A. SOURCES		
Capital	3,860	5.8
Deposits received	12,670	19.0
Fortune Formation Savings Instalment Deposit ..	10,309	15.5
Housing Instalment Deposit	2,706	4.0
Housing Debentures	—3,529	—5.3
Housing Lotteries	2,507	3.7
National Housing Bonds	25,308	38.0
Borrowings from Government	120	0.2
Loans Collected	7,167	10.8
Accrued Interest from HID and other Reserves ..	4,975	7.5
Other Liabilities	519	0.8
Total ..	**66,612**	**100.0**

	Amount loaned	% to total	Units of Houses built
B. USES			
National Housing Construction Loan from National Housing Bonds ..	28,723	43.1	24,593
National Housing Construction Loan from Housing Lottery	2,663	4.0	6,672
Private Housing Construction Loan ..	18,652	28.0	11,425
Company House Construction Loan ..	882	1.3	1,262
Housing Materials Proudction Loan ..	—	—	—
Sub-Total ..	50,920	76.4	43,952
Commercial Loan	2,912	4.4	—
Investment in National Investment Bonds	6,665	10.0	—
Other Investment	6,115	9.2	—
Sub-Total ..	**15,692**	**23.6**	—
Grand Total ..	**66,612**	**100.0**	**43,952**

TABLE 2

A. National Housing Bonds Issued

(In million won)

Period	Amount
1973	9,347
1974	14,601
1975	18,168
1976	25,308
Total	**67,424**

B. Outstanding Borrowings from Government

(In million won)

Period	Amount
1967	500
1968	1,500
1969	2,000
1970	2,800
1971	5,800
1972	7,714
1973	10,271
1974	10,237
1975	12,170
1976	12,050

C. Housing Instalment Deposits Outstanding

(In million won)

Period	No. of Accounts	Amount of contract	Instalment received
1967	3,847	890	96
1968	17,955	6,768	950
1969	27,903	14,479	1,791
1970	29,722	16,952	2,131
1971	35,468	22,295	2,902
1972	46,136	31,013	4,321
1973	57,597	44,802	5,927
1974	63,074	52,057	7,204
1975	69,020	61,120	8,787
1976	80,393	84,330	11,493

D. Housing Debentures

(In million won)

Period	Issued	Redeemed	Balance Outstanding
1968	4,748	1,013	3,735
1969	3,232	1,170	5,797
1970	8,087	5,789	8,095
1971	9,366	5,813	11,648
1972	12,000	7,621	16,027
1973	7,211	3,504	19,734
1974	7,025	7,521	19,238
1975	6,785	9,704	16,319
1976	6,514	7,766	15,067
Total	64,968	49,901	

E. Housing Lotteries Issued

(In million won)

Period	Amount issued	Funds netted
1969	200	97
1970	497	232
1971	1,088	498
1972	1,834	735
1973	3,860	1,386
1974	4,586	1,937
1975	5,247	2,116
1976	5,952	2,507
Total	**23,264**	**9,508**

TABLE 3

Loans Made, by Use, 1967 through 1976

(In million won)

Classification	Total	Percentage to total
Loans for Housing Construction	187,479 (244,909)*	87.9
Loans for Housing-site Development	2,442 (882)§	1.2
Loans for Housing Materials Production	374	0.2
Commercial Loans	12,262	5.7
Loans for Enterprise Financial Structure Improvement	2,414	1.1
Subscription to Nat'l Investment	8,354	3.9
Total	**213,325 (244,909)* (882)§**	**100,0**

* Number of housing units constructed.

§ Size of housing plot developed, in thousand "pyeong"

(C) SINGAPORE

Among the various agencies engaged in developing/financing of housing in Singapore, the most important are Housing and Development Board and Housing and Urban Development Corporation - both statutory bodies. In the private sector, finance companies play an important role in financing construction of residential properties. Besides these, commercial banks, Post Office Savings Bank and insurance companies also make funds available to their customers for housing.

The Housing and Development Board, constituted under Housing and Development Act, has done pioneering work in building several Housing Estates with high-rise buildings of flats which are almost in the nature of self-contained townships. The Board derives the funds from Government through budgetary grants, market borrowings (raised by Government by floatation of bonds), subsidies and rental income from flats. The flats are sold to families whose income is less than S. $ 1,500 per month, either on rental or ownership basis. The flats are allotted on long lease for 99 years to the applicants and the ownership vests with the Board. A token rent of S.$ 1 is collected yearly by the Board to maintain its legal ownership. The Board has no objection to accept the full sale price of the flat in one instalment outright. However, if the allottee wants to avail of the loan facility, he must pay the initial minimum deposit of 8 per cent of the purchase price of the flat and the balance by instalments. In the case of instalments, the Board grants a loan upto S.$ 35,000 repayable within a maximum period of 20 years by mortgage of the lease. The purchasers have to pay an interest of 6.25 per cent. Alternatively, instalments can be met out of the accumulation of funds in the purchasers' respective Central Provident Fund Accounts (comprising their share and employer's share). The purchaser is not allowed to sell or transfer the flat for 5 years from the date of purchase. After 5 years, the purchaser can transfer or sell the flat to any other person with the consent of and at the price approved by the Board.

The Housing and Urban Development Corporation develops housing flats in urban areas and Central business districts, which are in a way luxury flats, for upper middle class and higher income group whose family income exceeds S $ 1,500 per month. The sources of its funds are budgetary grants and market borrowings. The norms, procedures and financing are basically the same as those of the Housing and Development Board.

Finance Companies play an important role in developing and financing of residential and commercial properties in Singapore. The source of funds for their activities is deposits accepted from the public. The loans for residential housing are granted for sums not exceeding 65 per cent of the value of the property, to be repaid within a maximum period of 15 years, at the rate of interest ranging from 9 to 10.5 per cent per annum on the security of the legal mortgage of the property. Interest on loans for purchasing commercial properties is slightly higher. Housing loans provided by finance companies outstanding at the end of 1975 amounted to S $ 354 million, i. e., nearly 40 per cent of their total loans. Commercial banks do not provide any finance to these companies nor is there any secondary mortgage market in Singapore.

The Commercial Banks play only a marginal role in providing housing finance. They extend housing loans only to their selected customers, who have other business dealings with them. Housing loans are given purely on commercial terms; the rate of interest charged on these loans varies from customer to customer, but is always atleast 1 per cent over the prime rate. Banks fight shy of making long-term commitments of 10-20 years and hence, their loans are repayable within 3-4 years against mortgage of the properties, subject to a margin of 40 to 50 per cent. With a view to encouraging the commercial banks to expand their advances for housing, in 1975/1976, the Monetary Authority of Singapore allowed them to include finance provided for housing as an item eligible to rank as a secondary asset for computation of liquidity base.§

Post Office Savings Bank (POSB) gives 90 per cent mortgage loan to its depositors under its 'home ownership scheme'. The amount is repayable in monthly instalments over a maximum period of 20 years. The rate of interest on the loan varies from 9.5 per cent to 10.5 per cent depending upon the duration of the loan. The home ownership scheme has proved immensely popular; nearly half the increase in total housing loans by all banks and finance companies in 1975 was attributable to POSB. The POSB does not grant loan for buying commercial properties.

The Insurance Companies also advance loans for housing but the amount involved is small and the loans are restricted to policy holders of the company. Amount advanced is 50 to 60 per cent on the approved valuation, for a maximum term of 10 years at 10 per cent interest on yearly rests.

Summary

In Singapore, there are two types of established institutions which finance house construction. The Housing and Development Board and the Housing

§ In Malaysia also, the Bank Negara Malaysia has issued guidelines to all banks in September 1976 requiring them to grant a minimum amount of new loans (10%) for housing. In addition, banks have been asked not to charge interest rates of more than 10% to individual customers buying a house worth not more than M $ 200,000.

and Urban Development Corporation – both of them statutory bodies–come under the first category. While the former builds blocks of flats exclusively for sale to low-income families, the latter constructs costly flats of luxury type for higher income group. They derive their funds mainly from Government through budgetary grants and market borrowings. The flats can be purchased outright or the loan facility from the Board/Corporation can be availed of. The purchaser can alternatively meet the instalment payments from out of the funds in his Central Provident Fund Account.

The second type of institutions includes finance companies, banks, Post Office Savings Bank and insurance companies. Finance companies are active in developing and financing residential and commercial properties. They give loans for housing repayable over 15 years at 9 to 10½ per cent interest. The source of funds for their activities is the deposits made by the public with them and they do not get bank finance. Banks play a marginal role in this field and their advances are restricted to selected customers. The Monetary Authority of Singapore, to encourage banks' participation in housing finance, has recently permitted loans for housing granted by them as an eligible item to rank as a secondary asset for computation of liquidity base. The Post Office Savings Bank, under the 'home ownership scheme', grants to depositors 90 per cent mortgage loan repayable by instalments upto 20 years and this scheme has proved very popular. A secondary mortgage market is non–existent is Singapore.

(D) SWEDEN

Sweden is one of the few countries in the world, where housing construction has attracted large-scale investment since the sixties. In fact, the growth rate of housing construction has slowed down in the last few years, primarily due to the fact that demand for new houses could be satisfied from the existing stock of houses. The virtual elimination of housing shortages from the country may be attributed to the successful implementation of housing policy, which has been actively supported by fiscal and monetary measures taken by the Swedish authorities.

Housing Policy

The main foundations of Sweden's housing policy may be summarised as follows:

i) well-organised municipal planning,
ii) active municipal land policy,
iii) rational housing production,
iv) State aid in the form of loans and grants for the construction and modernisation of dwellings,

v) grants to groups of people with limited economic resources or special housing needs and
vi) rent legislation.

The implementation of housing policy is based on co-operation and a division of work between the State and the municipalities. The State is mainly responsible for the economic resources in the form of loans and subsidies for housing in order that dwellings could be let out on reasonable rents. By means of their planning and control of the supply of land, the municipalities have the responsibility for ensuring that housing construction is on an adequate scale and appropriate orientation and that the stock of substandard housing is demolished or improved. The role of local authorities in housing policy is determined under a special Act of 1947, which stipulates that they have the right to grant subsidies to reduce housing costs for local inhabitants.

Planning of Housing Construction

Each year, the Riksdag (Parliament) approves a housing construction plan for the next three years, which indicates the proportion of total resources of the society that could be allocated for housing construction. The plan stipulates the maximum amount of dwellings and complementary facilities, in terms of square metres, for which State housing loans may be granted and the extent to which housing construction, not subject to State loans, may be permitted. A similar plan is also approved with regard to State support for renewal and modernisation of existing houses.

The National Housing Board, in consultation with the National Labour Market Board, is responsible for the allocation of the amounts ratified by the Riksdag between the 24 counties and the three metropolitan regions of the country. The County Administrative Boards then decide on the further allocation of the amounts allotted to the various municipalities on the basis of recommendations by the County Housing Boards.

The housing construction programmes, which the municipalities are obliged by law to draw up every year, constitute an important instrument in conjunction with this allocation. The municipalities are required to assess the demand for housing construction and indicate for the next five-year period the suitable extent and orientation of both new construction and modernisation of housing and complementary facilities.

Land Policy

Under the Building Act, the municipalities are responsible for development planning. They have planning monopoly and thus determine the way in which land is to be used and the place and time when development may take place. However, to render it possible for the municipalities to exert a real influence on the supply of housing, it was considered essential that they should have also access to the land required for development. Land policy has in this way become an essential part of housing policy, and in order to stimulate and facilitate increased municipal land ownership, several land policy reforms were put into effect during the sixties and the seventies. Thus, by means of an active land policy all municipalities are authorised to acquire land reserves, which will be sufficient for them to exert a dominant influence on planned construction and prevent speculation in land prices.

Loans for acquisition of land

A special loan fund from which the municipalities can obtain State loans for their land acquisition was set up in 1968. Land acquisition loans amounting to a total sum of S. Kr. 120 million were granted to about 80 municipalities in 1975. A loan can be obtained for the whole amount paid for the land, provided that the price of the land is not in excess of what would be considered reasonable in conjunction with expropriation. The amortisation period is 7 years, but deferment of capital repayments can be granted during the first two years. For land disposed of under leasehold, the municipality receives a fixed annual ground rent which is subject to review every ten years. The rate of interest is the same as that for the State housing loan. In order to make it easier for municipalities to lease land for development, they can be granted special leasehold loans by the State. A total of about S. Kr. 270 million was paid in such loans in 1975 to about 30 municipalities. A leasehold loan can be granted upto 95 per cent of the capitalised value of the lease rental. The loan is given for a period of 40 years and is free of capital repayments during the first ten years. The rate of interest is the same as that for the State housing loan.

Main Categories of Investors

The responsibility which the municipalities have for the provision of housing also includes the right of deciding how municipality-owned land is to be allocated to different categories of investors. The land ownership conditions in a municipality therefore play a decisive role with regard to the allocation of housing construction to different categories of investors and developers.

One of the goals of housing policy ever since the end of the forties has been that construction and management of housing, in respect of multi-dwelling houses, should be dominated by companies which work on a non-profit basis and in collaboration with the municipalities. The State loan regulations have therefore, been formulated in such a way as to promote the creation of these "cost-price" companies, the two principal types of which are the municipal housing companies and the co-operative housing companies.

The municipal housing companies have in most cases been formed on the initiative of a municipality and it is stipulated that the municipality should have decisive influence; for instance, by appointing the majority of the board of directors of the company. The dwellings are generally let on a tenancy basis. In the country as a whole, there are about 250 major municipal housing companies.

The co-operative housing companies consist of tenant-owner associations, which let the dwellings to their members for an unlimited period in return for their contribution by way of deposit towards financing these dwellings. The co-operative sector is dominated by two country-wide organisations of tenant-owners' associations, namely, HSB (National Association of Tenants' Savings and Building Societies) and Svenska Riksbyggen (Co-operative Housing Organisation of the Swedish Trade Unions).

The municipal housing companies have gradually achieved a dominant position in the construction of blocks of flats; they were responsible for almost 74 per cent of multi-dwelling construction in 1975. On the other hand, the share of new house construction undertaken by the co-operative companies has been on the decline over a long period, owing to the increasing difficulties in finding a market for new dwellings. The same applies to the share of multi-dwelling construction undertaken by the private sector. However, there has been considerable increase in the construction of single-family houses, in which field the private investors are in a completely dominant position with a share of 97 per cent in 1975.

Housing Finance

One of the most important means of Swedish housing policy over the whole of the post-war period has been the State housing loan system, primarily for the construction of new dwellings and also for the conversion and improvement of the existing houses. The intention of this support has been to guarantee the availability of loan capital and to bring housing costs to a reasonable level by means of favourable interest and amortisation conditions and subsidies of variable form and size.

Finance for the construction of new dwellings is provided in two stages. During the period of construction short-term bridging loans are made available by commercial banks and savings banks and these are replaced after completion of the building by long-term loans by way of mortgages or State housing loans. These private credit institutions are guaranteed by the State Delegation on Housing Finance that the necessary long-term credits will be granted for the planned housing construction. The long-term loans are repayable over a period of 60 years. The rate of interest is often unchanged for a long period, for instance 10 years. These loans are known as the first mortgage and each loan amounts to about 70 per cent of the capital.

The function of the State loan system is to supply all or part of the capital required over and above that provided by the first mortgage. The State loan is granted at varying percentages of the capital required to different categories of investors. Investors in the public sector and co-operative sector obtain loans corresponding to 30 per cent and 29 per cent respectively, of the capital requirement, while in the private sector their loan for people building their own houses amounted to 25 per cent and for others to 15 per cent. With regard to both the first mortgage and the State loan, the developer must furnish security in the form of mortgage amounting to 100, 99 or 85 per cent of the value of the property. The difference between the cost covered by the State housing loan and the actual production cost constitutes the capital investment of the developer himself.

State Housing Loans

State housing loans are granted for new construction as well as for modernisation or conversion of dwellings and complementary facilities such as neighbourhood shops, day nurseries and recreational premises. In general, it is a necessary condition for the granting of State housing loans that the planned project should meet a permanent need at the site. The credit value and also the estimated production costs of the project are assessed. If these exceed what is regarded as a reasonable figure, no loan will be granted. Among other conditions, the contract for project must have been awarded on the basis of a tendering procedure, unless construction is to be carried out by the developer's own labour force.

The State financing system consists of housing loan with interest subsidies. The intention is to lay the foundations for a reasonable level of housing costs and for equalisation of housing costs between different forms of housing and between equivalent dwellings of different ages.

Housing Allowances

Individual housing subsidies, such as State housing allowance, a joint State-municipal housing allowance to families with children and households without children respectively, municipal housing allowance to old-age pensioners are granted to eligible persons. These subsidies enable the households with low incomes and/or a large number of dependants to live in modern and sufficiently large dwellings. Approximately one half of all families with children are in receipt of a housing allowance at present.

The State housing allowance is payable only to families with children below the age of 17. The maximum amount to be granted for each child in the family is S. Kr. 75 per month, i. e., S. Kr. 900 annually. This form of subsidy is primarily to be regarded as a pure consumption aid.

Municipalities, which have introduced supplementary housing allowances for families with children or which pay such allowances to people with low incomes and without children, are given a State grant amounting to 72 per cent of their costs; to be eligible for this allowance, the applicant must have his own dwelling and the cost of the accommodation must reach a certain minimum.

From January 1, 1977, 100 per cent housing allowance is granted when the annual income assessed for State income tax does not exceed S. Kr. 26,000 in the case of households without children and S. Kr. 32,000 in the case of families with children. When the income is higher, the allowance is reduced by a certain proportion of the income above the limit according to a progressive scale. The wealth of the applicant is also taken into account in the means test.

The municipal housing allowance is payable to retired people as an additional support over and above the basic old-age pension. This allowance is reduced if the pensioner has an income in addition to the pension in excess of S. Kr. 2,000 p.a. in the case of single person and S. Kr. 3,000 p. a. in the case of a married couple. The municipalities are entirely responsible for financing this allowance and they themselves lay down the criteria for its payment to beneficiaries.

Assessment of Housing Policy

Swedish housing policy has been successful in eradicating housing shortage. The annual production of dwellings has been at a very high scale by international standards and has attracted a large proportion of national resources. For instance, the share of housing in gross investment was as high as 20.4 per cent in 1973. The aforesaid orientation of housing policy has also had certain unintended and unfavourable consequences. Certain companies which manage properties have had serious losses as a result of the difficulties in letting their flats. The Riksdag had, therefore, to pass a resolution to extend a special State loan to such companies to cover the losses in rent incurred over the period 1971-74.

Summary

As a result of a well-formulated housing policy in operation, Sweden has achieved a State of near self-sufficiency in meeting the demand for houses from its citizens. The core of the State housing policy has been a well-organised municipal planning, land policy and State-aid to people with limited means or requiring special housing needs. Both the State and the municipalities are charged with the implementation of the housing policy in the respective spheres allocated to them. The State makes available economic resources for housing programmes, while the municipalities by means of planning and control of supply of land ensure that the construction of houses and the aid to special groups procceed on planned lines.

Riksdag decides the resources of the economy to be set apart for housing in a comprehensive plan drawn up for a three-year period. The National Housing Board thereafter allocates the amounts between the counties and metropolitan regions of the country. The municipalities are by law required to draw up each year a house construction programme and also make an estimate of the anticipated housing needs, including new construction, modernisation and complementary facilities, for the next five-year period. The municipalities are empowered to acquire land for future development of housing and for this purpose they can avail of loans from the State. They have also a deciding voice in the allocation of municipality-owned land among different categories of investors.

The State, by means of its lending rules, has encouraged the growth of 'cost-price' companies which work on a non-profit basis and under the direction of the municipality in regard to construction and management of housing. In Sweden, municipal housing companies have accquired a dominant position in the construction of blocks of flats. In the field of construction of single-family houses, private investors play a prominent role.

Credit institutions grant loans for housing repayable over a period of 60 years and extending up to 70 per cent of the capital. The rate of interest is often unchanged for a long period, say, 10 years. These loans are known as first mortgage. The aim of the State loan is to supplement the capital needs over and above that provided under the first mortgage and different categories of investors are eligible for varying limits of assistance. However, projects planned to meet a permanent need at the site like modernisation, conversion of dwellings and introduction of complementary facilities are eligible for direct State housing loans. In addition to the State loan, there is a scheme of providing housing allowance by the State and the municipalities to households with low incomes or having large number of dependants so that they may live in modern and large dwellings.

(E) UNITED KINGDOM

Introduction

In the UK, both public and private sectors participate in the housing activities. The public sector plays an important role by (a) encouraging the construction of owner-occupation dwellings, (b) providing publicly-owned rented accommodation to the needy and (c) protecting tenants. The Central Government stipulates construction standards, decides the number of buildings and layout of townships. The local authorities implement the Central Government's directives and policies. They also build houses for sale to the private sector. More pertinently, they have an obligation to provide dwellings to the needy and for this purpose they have powers to acquire houses.[1] The private sector is served by a number of institutions to promote house construction activities. Apart from the building societies, these institutions include housing associations, housing societies and co-ownership societies.

Thus, public and private sectors together strive for the orderly promotion of housing activities. In this context, the role of Joint Advisory Committee (JAC), established in October 1973, with representatives from the building societies, the Bank of England, the Treasury, the Department of the Environment and the Registry of Friendly Societies, needs to be mentioned. The JAC's objectives are to encourage the growth of owner-occupation, to maintain sufficient funds to enable the housing sector to plan for a high and stable level of activities, to work towards the stabilisation of house prices and to maintain an orderly housing market.

Structure of Housing Market

That these objectives have been achieved is corroborated by data for 1975. At the end of 1975, there were 19.9 million dwellings, including an estimated 40,000 surplus houses, and the number of persons per dwelling worked out to 2.82 (as against 5.60 for India). In 1975, permanent dwellings completed numbered 322,113; of these 167,417 (51.8 per cent) were in the public sector,[2] the rest being in the private sector. In the same year, about 52.8 per cent of the dwellings were occupied by the owners, the rest being rented out to tenants by the local authorities (31.3 per cent) and by private owners (15. 9 per cent).

Over the period, the trend towards owner-occupation has risen, while the ratio of privately rented dwellings has shown decline. This is attributable to the substantial concessions granted to owner-occupation by the Government, the imposition of rent control, which affected the rate of return, and the rise in the proportion of publicly-rented accommodation. Within the public sector,

1. The Housing (Homeless Persons) Act of 1977 imposes stricter obligation on the local authorities who, if necessary, have to provide temporary accommodation in guest houses to the needy. Financial Times, Nov. 15, 1977, p. 8.
2. Comprises local housing authorities, the Commission for the New Towns, Commission for the New Towns Development Corporations, the Scottish Special Housing Association, the Northern Ireland Housing Trust, the Northern Ireland Housing Executives and Government Departments.

the share of 'industrialised construction' or prefabricated housing declined due probably to the preference for cottage type houses, achievement of which is made possible by the rising per capita incomes.

Financing of Housing Sector

Almost the entire credit requirements of housing in the private sector are met by institutions. Table 2 (p.198) sets out the details of loans from these sources and the trends over the last decade. The share of building societies in the total net credit for housing remained close to 90 per cent upto 1971 but declined thereafter to touch a low of 65.4 per cent in 1974, before reaching the peak of 91.8 per cent in 1976. The downward trend in the building societies' share in the early seventies was due to spurt in credit extended by other institutions, viz., local authorities, including public sector agencies such as the Housing Corporation,[1] and the banking sector. The rise in the share of public sector agencies in the early seventies was due to the boom in the housing sector in those years. Further, the local authorities' responsibility to provide houses to the needy enables them to lend to the prospective owner even if he is considered a bad risk. Finally, the authorities have the powers to lend to the private owners even for meeting the latter's share in the house improvement expenses.

The surge in the banking sector's lending to housing in 1972 and 1973 was due to the change in the techinques of monetary control. In contrast to the quantitative ceilings on bank credit, the Competition and Credit Control (CCC) arrangements followed by the Bank of England since 1971 enabled the banking sector to expand their credit without ceilings but subject to minimum reserve requirements. Thus, the spurt in bank loans to housing in those years and subsequent decline synchronised with the overall expansion or decline in bank credit. The decline was brought about by the introduction in December 1973 of a supplementary scheme for credit control, which penalised any growth in the banks' interest-bearing deposits above a specified level by requiring the banks to place matching non-interest-bearing supplementary special deposits at the Bank of England on a progressively increasing scale. This limited the banks' ability to lend.

Building Societies

A detailed study of building societies is essential not only because they are committed, in conjunction with the Government, to maintain a high and fairly

1. Established in 1964 as a Government-financed body to promote the development of housing societies and to stimulate the building of new houses either for occupation on a co-ownership basis or for letting at fair rents, the Housing Corporation can now lend up to £ 750 million. The interest charged on the Corporation's mortgages to co-ownership societies is usually 0.25 per cent above the rate charged by the building societies.

stable level of credit but also because they are one of the most important non-banking financial intermediaries. There are about 382 permanent building socities of which 243 are members of the Building Societies' Association, which ensures the efficient functioning of the societies. These societies are regulated by the Building Societies Act of 1962, which imposes certain conditions affecting their functions and confers certain previleges.[1]

The Societies' main sources of finance are subscription to their shares and deposits by the investors. The societies offer a wide range of shares. Ordinary shares or paid-up shares enable a saver to invest irregular amounts at any time and facilitate withdrawals virtually on demand. The subscription shares carry a slightly higher rate of interest but involve regular savings. Conditions are imposed either on the period of savings or on the amount or on both. Withdrawals during the saving period are normally not allowed. The term shares involve the investment of a lump sum over a period of years. Withdrawals before maturity are possible only under exceptional circumstances. A higher rate of interest is payable on these shares, but it may not be at a uniform rate for the entire period. Deposit shares carry lower rate of interest, but the investor has the first lien on the assets of the society in case of dissolution. The "Save-As-You-Earn Monthly Savings Scheme" (Second Issue) is especially attractive to high tax payers. Under this scheme, any one who saves regularly every month for five years becomes entitled to a bonus equivalent to 14 months' savings and, on this bonus, neither the saver nor the society is liable to any tax. The bonus is equivalent to a compound rate of interest of 8.3 per cent tax-free. If the savings are left with the society for a further period of two years, the tax-free bonus is doubled, thus raising the overall annual compound interest rate to 8.6 per cent. Some societies also have "Life Insurance linked Scheme", which requires a monthly contribution. The shares of a building society are neither fixed nor quoted on the stock exchange. No dividend is declared, but interest is payable.

From the resources thus raised, the building societies lend to the buyers of houses on the security of freehold or leasehold property and for each advance

1. The initial building societies were only terminating societies. The members, by paying fixed monthly sums over the period of the existence of the Society, gradually accumulated funds to buy land and construct a house. After every member had acquired his own house and every house had been paid for by the members' subscriptions, the society was dissolved. However, the present day societies function as mobilisers of savings from all those who are able to save and lend to those who want to buy a house and hence there is no need to terminate themselves. This aspect, however, has resulted in two types of membership - investors comprising depositors and share holders on the one hand and borrowers on the other - although many investors are also borrowers. At end - 1975, the former category membership was 18.6 million and the latter 4.4 million.

a mortgage deed is drawn up giving the society a legal interest in the property until the loan is repaid. The eligibility criteria for granting mortgages are flexible and differ from one society to another. All building societies insist on ascertaining the borrower's capacity to repay, but in other respects the societies' rules vary widely. Some stipulate that the borrower should invest in their shares for a minimum period of 12 months, whereas some others insist on an investment amount with them in a fixed percentage to the proposed loan. A few do not stipulate any of these criteria.

Within the overall availability of loanable funds with a society and the prevailing interest rates, the quantum of individual loans is decided by a number of factors. First, as the societies' objective is to extend credits to as many people as possible, larger individual loans are rather restricted to a certain percentage of total lending of a society at any particular point of time. Second, the size of the advance is based on a percentage of the valuation of the property, usually, 80 per cent, though it could go upto 95 per cent in exceptional cases. Finally, a variety of methods are used to arrive at the loan limit to an individual. The most common of them is a multiple of the borrower's salary income and part or all other income.

Normally, the loans are repayable in monthly instalments over a period ranging from 20 to 25 years. In the early years, interest element is higher in the repayments and principal replaces it in the later years. In practice, however, the loans are cleared in seven years on an average consequent upon resale.

Other methods of repayment are the endowment mortgage scheme, low cost scheme, fixed instalment mortgage scheme and standing mortgage scheme. The 'endowment mortgage scheme' involves taking out an endowment life assurance policy for the same term and amount as the loan by the borrower, who then has to pay only interest till the maturity date. A variant of this is the 'low cost scheme', which, when taken with profits, involves less amount, the expected profit compensating the likely shortage. The fixed instalment mortgage scheme envisages an annual repayment of a fixed capital sum plus the interest on the amount outstanding. As per standing mortgage scheme, there is no regular repayment of the loan. Interest is charged on the entire amount borrowed for the whole term.

Since the building societies operate on banking principles, i.e., accepting lonable funds and lending them, they set two basic interest rates designed to match the inflow and outflow of funds and to provide a margin for expenses, taxes and a small surplus to add to reserves. Both the rates are market-related, as the societies have to compete with other financial intermediaries.

In the *inter se* competition among the financial intermediaries soliciting investible funds, building societies appear to have an edge over others. Notwithstanding some of their drawbacks such as time lag in implementing the changes in the interest rates and the absence of saving facilities (as understood in India), they attract sizeable funds because of (a) the social consciousness, (b) easy accessibility and (c) the preferential treatment in granting loans to the depositors. More pertinently, the societies innovate new schemes to attract funds. Introduction of term shares is an example. Fiscal incentives to the societies are also equally important. They pay tax on their incomes at a special rate called the composite rate, which represents, the average rate of tax paid by all investors of the building society. This composite rate is slightly lower than the basic tax rate, which the society pays on behalf of its investors. This tax deduction at source in respect of interest earned on investments with the building societies at the basic rate is an incentive to those in higher income brackets and a disincentive to non-tax payers.

Under a stable monetary situation, the rates offered by the societies compare favourably with other forms of investment. In January 1976, for instance, the societies offered a gross return i.e., inclusive of basic income tax, of 10.77 per cent on their ordinary shares to the standard rate tax payer, compared with a rate of 10 per cent for three-month deposits with the local authorities and a net rate of about 5.5 per cent for seven-day deposits offered by the clearing banks. The rate of interest on mortgages is relatively rigid partly because of the self-imposed duty on the building societies to maintain the rate at the lowest possible level and partly because of the expenses and technicalities involved in changing the rate. In 1975, the rate was 11.08 per cent.

Besides, the Government also helps in maintaining the interest rates. In April 1973, for instance, it announced a Bridging Grant Scheme, whereby it agreed to provide a grant of about £ 5.6 million per month for three months to building societies in order to prevent the mortgage interest rate rising to the then prevailing levels.

Public Expenditure on Housing

Trends in public expenditure on housing and the pattern of its financing are presented in Table 1 (pp.196–197). Between 1965-66 and 1975-76, the total expenses on current and capital account increased nearly five-fold from £ 953 million to £ 4,500 million. Current expenditure increased sharply from £ 175 million to £ 1,534 million due mainly to increase in Central Government subsidies and grants. Similarly, capital expenditure more than tripled from £ 778 million to £ 2,966 million, which was shared almost equally by the local authorities, public corporations, improvement grants and net lending for house purchase.

In relation to total public expenditure on social services and to national income, public expenditure on housing fluctuated but, on the whole, moved upwards. The occasional declines noticed were due not to a reduction in the level of expenditure on housing but to a relatively large rise in the denominators.

Grants and Concessions to Housing Sector

A spectrum of grants and concessions are available to the housing in the private sector. The tax relief in full available to the owner-occupier on the interest incurred on mortgages upto £ 25,000 is probably the only form of consumer debt in which interest is allowed for tax relief.[1] In effect, this reduces the net interest rate according to each person's marginal rate of tax. But, by its very nature, a substantial portion of the benefit accrues to the people in the upper income group, which fails to meet the social welfare criterion. Therefore, the option mortgage scheme was introduced in 1967, in which the borrower pays a lower rate of interest to the qualified institutional lender, the Government making up the difference by way of a subsidy. The system also enables the lender to advance money to low income people. Over the years, the option mortgage scheme has become attractive. In the first year of its operation (1968-69), grants under this head amounted to £ 7 million, but by 1975-76 the amount rose to £ 109 million.

A discriminating incentive to investors in the building societies through concessional income tax rates is also provided. Poor and needy tenants, living in the private sector accommodation, are entitled to a rent allowance from the local authorities, provided they meet the stipulated conditions. Introduced in 1973, this allowance rose sharply to reach £ 85 million in 1975-76.

Assistance to public sector engaged in construction activities is more comprehensive. Under the new housing subsidy scheme, which came into effect in 1975, not only the increase in charges on current housing debt is subsidised, but the expenditure on construction of new buildings, improvement of existing stock and the acquisition of land and housing are also met to a certain extent. In 1975-76, the Central Government subsidies mainly under this head to the local authority amounted to £ 863 million. Analogous to the rent allowance scheme, a rent rebate scheme is operative in the public sector. The difference is that 75 per cent of the deficit incurred by the local authorities on account of the payment of these rebates is met by the rent rebate subsidy from the Central Government.

Four types of house renovation grants are available to both the public and private sectors. The size of the grant is based on a fixed percentage of the eligible expenses for each grant. It varies from 50 per cent in the normal cases to 90 per cent in respect of hardship.

1. Staffard, D. C.; Government and the Housing Situation, **Quarterly Review of National Westminster Bank,** November 1976, p. 10.

Improvement grants are paid by the local authorities for the improvement of existing houses to a relatively high standard and for the conversion of houses into flats. The maximum level of expenses admissible is £3,200 for a normal dwelling and £3,700 for the conversion of a building of three or more storeys.

The intermediate or standard grants are available for the provision of standard amenities such as a bath, wash basin, sink, water closet, etc., which a dwelling may lack. These are given as of right for the provision of each amenity upto a maximum of £700. In addition, grants may be given to cover the cost of repair and replacement upto £800, provided that the local authority is satisfied that these works are necessary.

Special grants are given at the discretion of local authorities for the provision of standard amenities, which will be shared in houses with multiple occupants and where there is no immediate prospect of converting the said house into separate dwellings. The quantum is related also to the number of standard amenities provided.

The repair grants are available only within housing action areas and general improvement areas. These are made at the discretion of local authorities for works of repair or replacement not associated with works of improvement or conversion, and are confined to applicants whom the local authorities consider could not otherwise finance the cost of the work without undue hardship. Local authorities determine the eligible expenses upto a maximum of £800.

The total value of housing subsidies and tax relief in 1973 is estimated at £5,000 million (marginally lower than the social security expenditure of £5,525 million, of which about £4,750 million comprised subsidies by Central and local Governments.[1] The purpose of such heavy expenditure is to extend benefit to the poor who always find it difficult to pay rent and to secure finance for purchasing a house.

Summing-up

The foregoing brings out three salient features of the housing sector in the U.K. viz., the complementary role of the private and public sectors in providing houses, the predominance of building societies and the extensive financial assistance from the Government.

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1. Staffard, D. C.; op. cit.

TABLE 1

Public Expenditure on Housing

(Year ended 31st March)

(£ million)

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
a) **Total current expenditure***	**175**	**194**	**209**	**248**	**303**	**336**	**348**	**485**	**714**	**1,190**	**1,534**
b) **Total capital expenditure**	**778**	**858**	**892**	**886**	**881**	**971**	**917**	**1,121**	**1,896**	**3,109**	**2,966**
By local authorities..	573	690	763	774	776	741	673	721	1,187	1,896	2,041
By public corporations	46	61	67	73	88	103	73	28	131	212	298
Improvement grants	16	15	16	17	17	30	53	109	169	176	75
Net lending for house purchase, etc. ..	143	92	46	22	—	97	118	263	409	825	552
A. **Total public expenditure on housing** (a+b) ..	**953**	**1,052**	**1,101**	**1,134**	**1,184**	**1,307**	**1,265**	**1,606**	**2,610**	**4,299**	**4,500**
Financed by ..	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Central Government	110	121	136	158	190	232	258	329	429	868	944
	(11.5)	(11.5)	(12.4)	(13.9)	(16.0)	(17.8)	(20.4)	(20.5)	(16.4)	(20.2)	(21.0)
Local authorities ..	791	861	885	890	892	963	921	1,219	1,997	3,085	3,031
	(83.0)	(81.8)	(80.4)	(78.5)	(75.3)	(73.7)	(72.8)	(75.9)	(76.5)	(71.8)	(67.4)
Public corporations..	52	70	80	86	102	112	86	58	184	346	525
	(5.5)	(6.7)	(7.2)	(7.6)	(8.7)	(8.5)	(6.8)	(3.6)	(7.1)	(8.0)	(11.6)
B. **Total public expenditure on social services** ..	**6,647**	**7,242**	**8,053**	**8,772**	**9,438**	**10,569**	**11,901**	**13,859**	**16,499**	**22,198**	**28,279**

C. National Income† ..	**28,795**	**30,380**	**31,983**	**34,146**	**35,937**	**39,487**	**44,574**	**49,679**	**57,915**	**66,574**	**83,060**
A as percentage of B	14.33	14.53	13.67	12.93	12.55	12.37	10.63	11.59	15.82	19.37	15.91
A as percentage of C	3.31	3.36	3.44	3.32	3.29	3.31	2.84	3.23	4.51	6.46	5.42

Note : Figures in brackets are percentages to total.

*Consists of Central Government housing subsidies, local authorities, net current expenditure on housing (Loan charges + other expenses + grants under rent rebate scheme—rates and rents received — Central Government subsidies), grants under rent allowance scheme, under option mortgage scheme and for mortgage interest relief, and other expenses.

†Relates to the calendar year 1965 onwards.

Source : C.S.O.: Annual Abstract of Statistics, 1976, HMSO.

TABLE 2

Sources of credits to private sector for house purchase*

(£ million)

Year	Building societies	Local authorities	Other public sector agencies	Insurance companies	Banking sector	Total
1966 ..	667	53	12	61	—25†	768
	(86.9)	(6.9)	(1.6)	(7.9)	(—3.3)	(100.0)
1970	1,088	72	10	36	40	1,246
	(87.3)	(5.8)	(0.8)	(2.9)	(3.2)	(100.0)
1971	1,600	107	12	13	90	1,822
	(87.8)	(5.9)	(0.7)	(0.7)	(4.9)	(100.0)
1972	2,215	199	22	2	345	2,783
	(79.6)	(7.1)	(0.8)	(0.1)	(12.4)	(100.0)
1973	1,999	355	46	121	310	2,831
	(70.6)	(12.5)	(1.6)	(4.3)	(11.0)	(100.0)
1974	1,490	465	113	119	90	2,277
	(65.4)	(20.4)	(4.9)	(5.3)	(4.0)	(100.0)
1975	2,768	502	135	67	60	3,532
	(78.4)	(14.2)	(3.8)	(1.9)	(1.7)	(100.0)
1976	3,647	141	105	7	70	3,970
	(91.8)	(3.6)	(2.6)	(0.2)	(1.8)	(100.0)

*Net of repayments.

†Repayments are higher than advances.

Note : Figures in brackets are percentages to total.

Source : C.S.O. : National Income and Expenditure, 1966-76, HMSO, London, September 1977.

(F) U.S.A.

The objects and functioning of important Federal agencies, such as, the Federal Housing Administration (FHA), the Veterans' Administration (VA) and the Federal National Mortgage Association (FNMA) are discussed in Section I. In Section II, roles of the chief financial institutions are discussed and an evaluation of the entire housing finance system with particular reference to the functioning of the mortgage market is made in Section III.

I

Though the major financial institutions such as commercial banks, life insurance ompanies, Savings and Loan Associations (SLAs) and Mutual Savings Banks provide funds for construction activities, the federal agencies, such as, the FHA, VA and FNMA have made significant contribution in the development of the mortgage market. The first two viz., FHA and VA respectively, insure and guarantee mortgage bonds, whereas the last one sells mortgage bonds and buys from the investors/lenders.

Federal Housing Administration

The Federal Housing Administration (FHA) was established in 1934. Its main objectives are to provide a sound pattern of mortgage lending, to encourage wider home ownership and to upgrade housing standards in the USA. These purposes are achieved by insuring mortgage loans made by lenders in accordance with the FHA housing and credit standards. Such loans are made after a careful scrutiny of the long-term value of the security and the prospective borrower's ability to pay. The FHA charges $\frac{1}{2}$ per cent per year fee to the borrower. In case of default, the FHA pays to the lender, after the mortgagee obtains clear title to the property, principal, interest and other incidentals, such as tax advance, in the form of debentures which are guaranteed by the Government. In addition, the investor receives a certificate of claim for necessary foreclosure expenses. Under this scheme only approved mortgagees are permitted to make FHA loans. Approved mortgagees should have a net worth of $ 100,000 and the capital funds in the form acceptable to the FHA. The loan originating and servicing procedures of the approved mortgagees are under the FHA supervision.

In order to make the plan popular and workable, mortgage forms were standardised and criteria for credit qualifications were uniformly adopted. With the standardised appraisal and underwriting and with the Federal insurance behind, these loans could be sold to major financial institutions.

In the beginning, the Treasury advanced funds to FHA for its operation but they were repaid and the FHA has now become financially independent. Its income comes from fees and monthly insurance premia.

Federal National Mortgage Association

With the establishment of the FHA, the need for an agency to distribute the mortgage money on national basis arose. Accordingly, in 1938 the Federal National Mortgage Association (FNMA) was formed. The FNMA's entire capital stock of $ 10 million and $ 1 million paid-in-surplus were subscribed by the Reconstruction Finance Corporation. The FNMA is also authorised to borrow funds privately by issuing debentures and short-term discount notes with the approval of the US Treasury but they are not guaranteed by the US Government. The objects of the FNMA are to maintain an active market for insured mortgage paper at relatively favourable interest rate and of providing an avenue of investment for individuals and institutions. In 1954, the FNMA was rechartered and directed to have three separate operations providing for (1) a secondary market for federally underwritten residential mortgages, (2) assistance for financing selected types of mortgages originating under special housing programmes, and (3) management and liquidation of mortgages held or acquired by contracts under its previous charter.

The FNMA purchases only marketable mortgages from private institutional lenders. There are generally two types of purchase contracts. Under the 'immediate purchase contract', the seller offers mortgages for immdediate purchases; the FNMA purchases them after scrutiny. Such contract is known as an 'Over-the-Counter-Transaction'. The 'Stand-by Commitment' contract provides for the future purchase of mortgage by FNMA. The seller of the mortgage pays 1 per cent commitment fee to FNMA at the time of offering application for commitment. Often the seller obtains on option contract under which the seller promises to repurchase specific mortgages at the same price within a nine-month period. The investment of FNMA insured and VA-guaranteed mortgages amounted to $ 18.9 billion and $ 9.2 billion, respectively, at the end of 1976. The investment in conventional mortgages at the end of 1976 amounted to $408 billion. An organisation from which FNMA purchases mortgages is required to service them if it has qualified as an eligible servicer and has executed a servicing agreement. The FNMA servicer has to collect mortgage instalments, insurance deposits and other levies. For this work, the servicer is allowed to retain an amount payable from collections equal to $\frac{1}{2}$ of 1 per cent per annum on the unpaid principal balance of each mortgage involved.

Under the special assistance programme, the FNMA purchases certaint ypes of mortgages which are not readily marketable and which the institutional investors are slow to accept. The purchase under the special assistance is to act as an anti-recessionary measure and stimulate the sagging economy. However, in 1968, the Government National Mortgage Asosciation was set up to attend to the function of special assistance for Government housing programme and the management and liquidation of the portfolios of mortgages acquired on Government account during 1954.

Veterans' Administration

In 1940, the Congress passed a legislation which permitted the Veterans' Administration (VA) under Title III of the Act (GI Home Loan and the Loan Guaranty Programme) to guarantee mortgage loans to the extent of 60 per cent or $7,500 whichever is less. The guarantee is payable in cash. The veteran is required to repay the loan in full. In case of default, the outstanding is deducted from any future benefits that he may receive from the Veterans' Administration. The maximum permissible interest rate is below the competitive market rate for other long-term investments of like risk. The maximum period of amortisation varies from 20 to 30 years. The loan cannot be approved if the application is not accompanied by application of Home Loan Guaranty, credit report on veteran, certificates of eligibility, copy of construction/sales contract, etc.

II

After having provided agencies which insure and guarantee mortgages and an agency to sell and buy mortgage bonds, the Federal Government left it to the private major financial institutions to purvey credit for construction activity. In the USA, bulk of the mortgage bonds are subscribed by Savings and Loan Associations (SLA) followed by commercial banks, life insurance companies and Mutual Savings Banks. The outstanding estate credit provided by various financial institutions amounted to $647.3 billion at the end of 1976. (Table 1, p. 202). Of this, the amount held by SLAs aggregated $323.1 billion (or 49.9 per cent of the total credit supplied by the financial institutions). The share of the commercial banks was 23.3 per cent whereas, the balance was accounted for by the life insurance companies (14.2 per cent) and Mutual Savings Banks (12.6 per cent). In respect of the federally underwritten mortgages at the end of 1975 (i.e. FHA-insured and VA-guaranteed), SLAs' investment amounted to $ 30.6 billion, followed by Mutual Savings Banks ($27.4 billion), LICs ($11.8 billion) and commercial banks ($ 9.4 billion) (Table 2, p. 203).

Savings and Loan Associations

The part played by SLAs and Mutual Savings Banks is noteworthy in the housing finance market. The SLAs in the United States are the direct descendants of the British building societies. They are chiefly concerned with the welfare of savers and their concern is prompted by the need to secure funds to support home financing and home ownership. A SLA may be defined as a locally owned and privately managed thrift and home financing institution. Most of them are mutual institutions that is, owned by savers. As such they accept savings from individuals and other sources, and invest these funds principally in monthly payment amortised loans for the construction, purchase or repair and modernisation of homes specially in urban areas. By and large, the SLAs' business is urban. Over 70 per cent of them operate under state charters and are supervised by respective state governments. The federally chartered associations are supervised by the Federal Home Loan Bank and their average assets exceed $ 18 million.

TABLE 1

Mortgage Debt Outstanding by Type of Holder

(In billion dollars)

	End of year					
	1971	1972	1973	1974	1975	1976
Savings and Loan Associations	174.3	206.2	231.7	249.3	278.6	323.1
Commercial Banks	82.5	99.2	119.1	132.1	136.2	150.9
Life Insurance Companies ..	75.5	77.0	81.4	86.2	89.2	91.6
Mutual Savings Banks ..	62.0	67.6	73.2	74.9	77.3	81.7
Total	**394.3**	**450.0**	**505.4**	**542.5**	**581.3**	**647.3**

Notes : Based on data from various institutional and Government sources, with some quarters estimated in part by Federal Reserve in conjunction with the Federal Home Loan Bank Board and the Department of Commerce. Separation of nonfarm mortgage debt by type of property, if not reported directly and interpolations and extrapolations where required are estimated mainly by Federal Reserve.

Source : Federal Reserve Bulletins.

The lending policy of SLAs is determined by their boards of directors. Being the main suppliers of home mortgage credit, their loans are essentially on residential properties, typically owner-occupied by single family homes. The SLA is limited by its charter and regulatory provisions as to the percentages of property value that may be loaned. The specified maximum percentages range from 50 per cent to 90 per cent of the appraised value of the property and the average life of a mortgage is six to seven years. They generally adhere to a policy of investing for income rather than for price appreciation. It can be seen from Table 3 that over 80 per cent of their investment is in home mortgage. At a time when the building activity is at its peak and the demand for funds far exceeds the supply, SLA examines the liquid assets and makes appropriate adjustments. If the liquid assets are not adequate to meet the demands for funds, the SLA looks upto FHLB for temporary accommodation. At times it also rations credit by tightening loan terms, hiking interest rates and becoming selective in commitments. If the imbalance between supply of and demand for funds still persists, the SLA may even withdraw from the market.

TABLE 2

Major Holders of FHA-Insured and VA-Guaranteed Residential Mortgage Debt

(In billion dollars)

Holder	End of year				
	1971	1972	1973	1974	1975
Savings and Loans Assns.	24.3	28.9			
FHA	13.7	15.4)	29.7	29.9	30.6
VA	10.6	13.5)			
Mutual Savings Banks ..	28.2	28.6	28.4	27.5	27.4
FHA	16.1	16.0	15.5	14.8	14.7
VA	12.1	12.6	12.9	12.7	12.7
Life Insurance Companies	15.8	14.7	13.6	12.8	11.8
FHA	10.8	10.0	9.2	8.6	7.9
VA	5.0	4.7	4.4	4.2	3.9
Commercial banks.. ..	11.3	11.7	11.5	10.4	9.4
FHA	8.3	8.5	8.2	7.2	6.3
VA	3.0	3.2	3.3	3.2	3.1
Others	41.2	47.2	52.1	59.9	67.8
FHA	32.4	36.5	—	—	—
VA	8.8	10.7	—	—	—
All holders : Total ..	**120.8**	**131.1**	**135.0**	**140.3**	**147.0**
FHA	**81.3**	**86.4**	**85.0**	**84.1**	**85.4**
VA	**39.5**	**44.7**	**50.0**	**56.2**	**61.6**

Source : Federal Reserve Bulletins.

SLAs specialise in the conventional type of mortgage loans as distinguished from FHA-insured and VA-guaranteed loans. Of the $ 278.6 billion invested in mortgage at the end of 1975 by SLAs, only $ 30.6 billion or about 11 per cent were invested in the federally underwritten mortgages. The comparatively low investment in government-backed loans is due to their concentration of operation in their own local areas and confining to the one-to-four family first mortgage loans.

Mutual Savings Banks

As mentioned above, the function of the Mutual Savings banks is to encourage thrift and invest funds, 90 per cent of which represent depositors' claims, consistent with their safety in the most productive avenues. They are largely confined to the north-eastern part of the country and normally operate under the laws of the State in which they are chartered although they have had laws introduced which would allow them to function under Federal Charters.

To a large number of mutual savings banks, mortgages are the most lucrative type of investments, followed by US Government securities, corporate bonds and state and municipal bonds. Nevertheless, the relative importance of each type of security varies widely among the states due to differences in legal investment powers, policies of state banking supervisors, local investment outlets, competitive conditions and liquidity requirements. In order to reduce risks of loss on their investments to a minimum, mutual savings banks carefully select individual investments within each major category and seek adequate diversification among the various categories of investments. In their mortgage investments, for instance, mutual savings banks have sought to minimise credit risk by concentrating on federally insured and guaranteed loans. Further, in respect of conventional mortgages, in most of the states, their investments are restricted to properties located within their jurisdiction. Local mortgage lending operations permit greater flexibility than out-of-state lending because mutual savings banks prefer to negotiate directly with local borrowers for small amounts of loans.

TABLE 3

Savings and Loan Associations

(In billion dollars)

End of year	Assets			Total assets/ liabilities	(2) as % of (5)
	Mortgage	Cash and Investment Securities*	Other		
(1)	(2)	(3)	(4)	(5)	(6)
1971	174.3	21.1	10.7	206.1	84.6
1972	206.2	24.4	12.6	243.2	84.8
1973	231.7	21.1	19.1	271.9	85.2
1974	249.3	23.2	23.0	295.5	84.4
1975	278.7	30.9	28.8	338.4	82.4
1976	323.1	35.7	33.2	392.0	82.4

*Excludes stock of the Federal House Loan Bank Board; compensating changes have been made in 'other assets'.

Source : Federal Reserve Bulletins.

According to the latest available data, mutual savings banks' investments in mortgages at the end of 1976 amounted to $81 .5 billion representing a share of 60 .5 per cent of their total assets (Tabe 4). Out of this total of $81 .5 billion a little less than one-third is invested in FHA-insured and VA-guaranteed mortgages. Their relatively larger investment in the federally underwritten mortgages in comparison with other institutions such as commercial banks, LICs and SLAs is due to the introduction of out-of-state lending legislation in 1950. In their out-of-state lending activity large mutual savings banks have been placing most of their funds in capital deficient areas where market for real estate and construction have been expanding rapidly and where mortgage demand is large, offering attractive yields

Commercial Banks

American commercial banks are privately owned, profit seeking institutions. By statute and tradition they seek assets more liquid than mortgage as investment outlets for their demand deposits. Therefore, they prefer to use a substantial portion of their savings deposits in mortgage lending, because long-term amortised mortgages ensure them stable income. Real estate credit or mortgage lending activities of commercial banks have grown in importance from what they used to be in the mid 1920's. This is largely due to institutional changes which have improved the quality of mortgage as investment instrument, progressive relaxation of restrictions governing commercial banks' mortgage lending and strong post-war demand for mortgage credit. The salutary effects of these developments in the area of banks' participation in home mortgage lending are reflected in the rise of their outstanding mortgage debt (Table 1). Commercial banks generally prefer to make conventional loans of not more than 50 per cent of the appraised value of the property with a maturity not exceeding five years provided there is no repayment requirement on instalment basis. Further, they do not lend on properties outside the areas. Hence their investments in FHA-insured and VA-guaranteed are not substantial. During 1975, commercial banks' loans (gross) amounted to $ 546 .2 billion of which $136 .2 billion were towards conventional and federally backed mortgages. Commercial banks' total deposits during 1975 aggregated $786 .2 billion ; thus over 17 per cent were invested in mortgages.

Life Insurance Companies

As against the investment policy of commercial banks, life insurance companies concentrate their investments in assets which are generally long-term in nature. Their investment decisions are based on the philosophy of maximising their rate of return with due regard to the security of funds invested and within the bounds of state investment laws. They are one of the largest purveyors of residential mortgage funds particularly under the insurance and guarantee programme of the FHA, and VA, respectively (Table 5).

TABLE 4

MUTUAL SAVINGS BANKS

(In billion dollars)

End of Period	Loans		Securities		Cash	Other Assets	Total Assets liabilitiel and general reserve accounts	(2) as % of (8)
	Mortgage	Other	Government	Corporate & other†				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1971	62.1	2.8	3.7	17.7	1.4	1.7	89.4	69.4
1972	67.6	3.0	4.4	21.9	1.6	2.1	100.6	67.1
1973	73.2	3.9	3.9	21.4	2.0	2.3	106.7	68.6
1974	74.9	3.8	3.5	22.5	2.2	2.7	109.6	68.3
1975	77.1	4.0	6.3	28.0	2.4	3.2	121.0	63.7
1976	81.5	5.2	8.3	33.7	2.4	3.6	134.7	60.5

Note : Estimates of National Association of Mutual Savings Banks for all savings banks in United States. Data are prepared on a gross-of-valuation reserve basis.

† Also includes securities of foreign Governments & international organisations and non-guaranteed issues of U. S. Government agencies.

Source : Federal Reserve Bulletins.

The principal eligibility standard for mortgage loans by LICs is the loan-to-value ratio. On conventional mortgage loans a large number of states have set a maximum limit of $66\frac{2}{3}$ per cent loan-to-value ratio. Recently, a number of states have raised the limit to 75 per cent on one or two family dwellings, depending upon the size of the loan and amortisation period. In the case of FHA-insured and VA-guaranteed loans the state investment laws allow the basic loan-to-value ratio. In recent years there has been a decrease in activity in FHA-insured and VA-guaranteed loans because the LICs have become less interested in the fixed rate on insured and guaranteed loan. Another factor which is, by and large, responsible for lesser prominence attached to the mortgage loans in their investment portfolios is the keen competition not only with other mortgages, such as,

TABLE 5

LIFE INSURANCE COMPANIES

(In billion dollars)

End of Period	Total Assets	Govern-ment securities	Business securities	Mortgage Bonds	Real Estate	Policy Loans	Other Assets
1971	222.1	10.3	100.4	75.5	6.9	17.1	11.8
1972	239.7	10.6	113.7	76.9	7.3	18.0	31.1
1973	252.4	10.5	118.6	81.4	7.7	20.2	14.1
1974	263.3	10.9	119.6	86.2	8.3	22.9	15.4
1975	289.3	13.7	135.3	89.1	9.6	24.5	16.9
1976	321.6	17.9	157.2	91.6	10.5	25.8	18.5

Source : Federal Reserve Bulletins.

FHA, VA, conventional residential or conventional business loans but also with other investment outlets such as, corporate securities. Further, lesser importance to the mortgage loans is attributable to competition from other institutions for home loans.

III

From the above discussion it follows that about three-fourths of the money for residential mortgages comes from three institutional sources viz, savings and loan associations, mutual savings banks and commercial banks. These institutions mobilise the savings of depositors and use this capital to provide credit in the most profitable way possible, consistent with the Government regulations that limit their investment options. Other sources of mortgage funds include insurance companies, pension and retirement funds, Federal, State and local Governments, and more recently the securities market which has been encouraged to invest in mortgage through the development of federally guaranteed pools of mortgage-backed securities marketed by the Government National Mortgage Association.

To back up the primary mortgage market, the Federal Government has an array of agencies and programmes. These include the Federal House Loan Bank Board and its 12 regional banks, the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation to protect depositors in various types of savings institutions and a secondary mortgage market which permits mortgage investors to sell mortgages in their portfolios or convert them into securities acceptable to other segments of the investing public.

As stated above, although the chief participants in the mortgage market are SLAs, mutual savings banks, commercial banks and LICs, individual investors, local retirement funds, pension funds, etc. also play a significant role in the market's functioning; their total mortgage holding as at the end of 1975 amounted to $ 119.6 billion. There is, however, little uniformity in the operations of the different types of financial institutions, reflecting largely the vital differences in their structure, experience and development, inter-state and federal laws. SLAs have invested more than 80 per cent of their total funds in residential mortgages and have shown relatively little interest in the government-endorsed mortgages. They have concentrated their investment in conventional mortgages because they offer a comparatively higher return than the federally underwritten mortgages. Although the SLAs are spread throughout the United States they are restricted by law to orginating mortgages on properties situated within the narrow range of their home offices. Thus, they could not and have not played a direct role in transferring funds from capital surplus area to capital scarce area. Mutual savings banks, one of the important constituents of the mortgage market, on the other hand, are essentially long-term investors in mortgage credit. They are important traders in government endorsed mortgages in sharp contrast to the SLAs which have shown preference for conventional mortgages. Commercial banks extend mortgage loans of all types-conventional, FHA-insured and VA-guaranteed. It is observed that conventional mortgages made by them frequently have harder terms than those by other lenders. LICs operate on a national basis, but they have relatively lesser mortgages, accounting for only 15.4 per cent of the aggregate mortgage investment.

The smooth functioning of the mortgage market is impeded by factors like (i) interest rate rigidities in government-endorsed mortgages; (ii) the personal and local element of the conventional mortgages; (iii) variations in the terms of lending among various financial institutions; (iv) differences in the investment latitude granted by various lenders and (v) variations in inter-state laws regarding mortgage credit.

By far the most significant cause for the slow development of secondary market in conventional mortgages is that conventional mortgage tends to be a personal and highly differentiated claim whereas the mortgages backed by government in the form of insurance and guarantee have a far more impersonal status. As such, the former cannot be easily traded in the secondary market because at present the mortgage market is highly compartmentalised. Every conventional mortgage differs from every other conventional mortgage as to borrower, property, collateral and policies and practices of the lenders. Consequently, differences in inter-state laws governing such matters have accentuated difficulties for the natural development of a secondary market. Therefore, some authorities on the subject are of the view that mortgages as an instrument of credit—both in the primary and secondary market—must be made effective so that they can compete on an equal footing with other instruments of credit for the available supply of funds.

Ideally, an effective secondary market requires uniformity in the primary market. The growth of a true secondary market depends on both legal and institu tional changes. Legal changes conducive to the growth of the healthy secondary market include the repeal of regulations limiting the area within which lenders can own mortgages, standardisation of mortgage instruments, greater similarity in rules of foreclosure and the ability of foreign corporations to operate in local markets. The fact that the FHA and VA had standardised the instruments and made them egal to operate on national basis led to the establishment of a secondary market and the relative success of the FHA and VA programmes.

A smoothly operating market would adjust the prices of existing mortgages to other forms of loans. It would give a better determination of mortgage prices and yields and the allocation of resources in different investments would consequently improve. A better secondary market would lower the liquidity risk and increase competition among mortgage lenders. Increased liquidity would attract more lenders, such as, pension funds.

APPENDIX VI

BANK FINANCE FOR HOUSING SCHEMES–GUIDELINES ISSUED BY RBI IN JUNE 1976

Reserve Bank of India
Central Office
Department of Banking Operations and Development
Post Box No. 1030
Bombay-1.

Ref. DBOD. No. CAS. B. C. 65/C. 446-76. **June 23, 1976**

Ashadha 2, 1898 (Saka)

To

All scheduled commercial banks

Dear Sir,

Bank finance for housing schemes for the economically weaker sections of the community

You will recall that Governor had indicated at his last meeting with bankers held in May 1976 at Calcutta that a Study Group would be appointed to examine the role of the banking system in providing finance for housing schemes (vide paragraph 8 of Governor's circular letter CPC. No. BC. 10/279A-76 dated the 10th May 1976). However, in view of the importance assigned to housing for the weaker sections of the community under the 20-Point Economic Programme, Reserve Bank has taken a tentative view in the matter, pending examination in depth by the Study Group of the broader issue of extension of bank finance for housing. Accordingly, with a view to involving banks in providing finance for such housing schemes, the Reserve Bank has drawn up the following tentative guidelines:–

(i) Categories of schemes which should be considered as eligible for bank finance

(a) Rural housing schemes;
(b) Housing as well as hostels for Scheduled Castes and Scheduled Tribes;
(c) Slum clearance schemes;
(d) Family planning clinics and rural health centres covered under public health programmes; and
(e) Urban housing schemes for low income groups.

(ii) Proportion of bank credit to the total cost of the scheme

The bulk of the cost of each housing project should be financed from sources other than bank finance, e. g., budgetary allocations of Governments, internal resources of housing boards/local bodies, contributions made by the beneficiaries, etc., and bank credit should only supplement such resources. Generally, bank credit should not exceed 40% of the total cost of each project and may be provided either by way of direct term assistance and/or subscription to debentures/ bonds, guaranteed by Government.

Where the schemes provide for sanction of direct loans by banks to the beneficiaries under the schemes, the individual loans should not exceed 80% of the total cost of each tenement/house.

(iii) Security

Banks may secure the loans either by Government guarantee or mortgage of property.

(iv) Period of loan

The loans/bonds should be repayable within a period of around ten years.

(v) Rate of interest

The rate of interest on bank credit for promotion of housing schemes and hostels specifically intended for the benefit of the Scheduled Castes and Scheduled Tribes should not exceed the rate prescribed under the Differential Interest Rate Scheme. The rate of interest in respect of the other categories of housing schemes should be moderate and in keeping with the priority assigned to this activity. The minimum lending rate directive will not apply to loans covered by this circular letter.

2. It may be noted that finance provided by banks for housing schemes would not be eligible for refinance from the Reserve Bank. Also, banks will have to obtain Reserve Bank's prior authorisation under the Credit Authorisation Scheme, where necessary.

3. Please acknowledge receipt.

Yours faithfully,

K. S. Krishnaswamy
Deputy Governor

APPENDIX VII

LIST OF SECRETARIAL STAFF

Deputy Directors

Shri N. J. Bhatia
Shri J. M. Lopez
Shri M. H. Jauhari*

Banking Officer

Shri A. M. Dalvi

Research Officers

Shri N. Gopalaswamy*
Shri N. Nagarajan*

Staff Officer

Shri R. Venkataraman

Ecconomic Assistants

Smt. M. C. Mandlik
Smt. M. S. Borgaonkar
Shri P. N. Karkera

Clerks Grade II

Shri A. P. Bhanu
Shri S. B. Bhosle
Shri M. R. Shinde
Shri N. A. Kadu

Stenographer Grade I

Shri K. A. Oommen

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* These persons worked for a part of the tenure of the Working Group.