

# Credit Access and Affordability: A Critical Analysis of the Housing Finance Sector's Response to India's Housing Shortage

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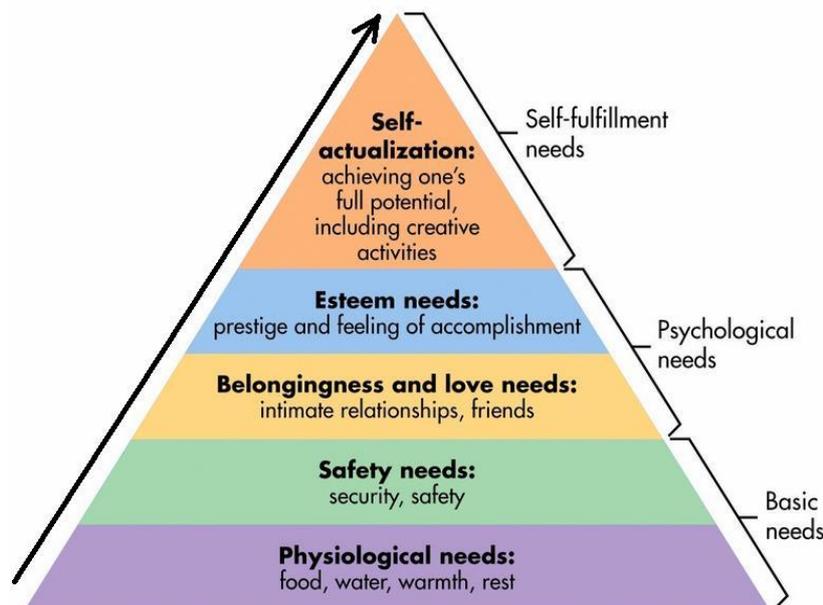
## Abstract:

Housing is universally recognized as one of the most fundamental human needs, alongside food and clothing, providing essential security, privacy, and a foundation for socio-economic development. In India, fulfilling this need presents an unprecedented challenge. With a population exceeding 1.3 billion and projected to grow, the demand for adequate housing is immense. The core objective for urban planners and policymakers is not only to augment the national housing stock but to overcome a significant existing shortage. This paper critically examines the central role of the housing finance sector in this endeavour. By analysing the sector's contemporary challenges and assessing current and projected housing shortages, this study evaluates the feasibility of achieving the goal of affordable housing for all.

**Keywords:** Housing Finance, Housing Shortage, Challenges in Housing Finance Sectors.

## 1. Introduction

As we know that house is one of the most important basic human needs. Providing a person with four walls and a roof does not mean that the person is provided with a house; a proper house is that in



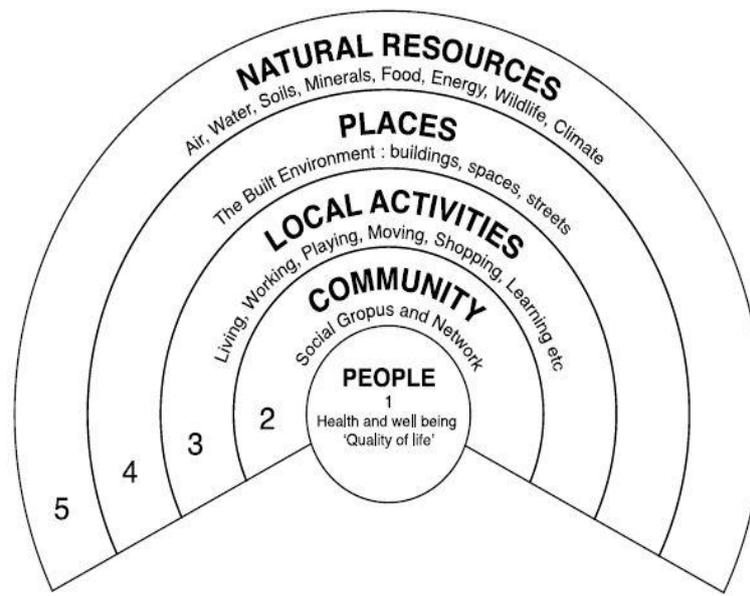
**Fig. 1: Abraham Maslow's Human Need Pyramid**

which a person has the chance to stay with having a proper interaction with the community, has the availability of basic services like water supply sanitation, solid waste disposal, electricity and other services which are essential to live a healthy and better quality of life. To be a proper house it should provide easy

accessibility to local activities and should pose affordability and offers a person the preference of individuality.

Abraham Maslow the famous psychologist who defined the human need pyramid; according to him the basic needs of human beings comprises with physical and safety needs. Unless those needs are satisfied others will not get developed at all.

As per the eco-system model of neighbourhood, the five elements of planning are people, community activities, place and environment. To attract people to a place to stay the only way is to choose a proper environment and a area and design the place in such a way that the local activities like walking, playing, shopping, learning etc. and interactions at a community level can take place without minimum difficulty. Ultimately the neighbourhood grows up and it will attract more people to settle.



**Fig. 2: Ecosystem Model of Neighbourhood**

The role of a planner or a policy maker is to control this growth of settlement in such a way that it can accelerate the pace of overall development of the region.

## 2. Objectives

The objectives of this research paper are

- To analyse the housing shortage in India.
- To discuss the contribution of the housing sector in Indian economy.
- To analyse the development of the Housing Finance sector in India and identification of the issues and problems regarding it.
- Suggest solutions for a better future.

## 3. Methodology

The paper is entirely based on secondary source information and information from the Government of India and United Nations report.

## 4. Housing Scenario in India

The shift towards a predominantly urban world made the process of urbanization, one of the most significant Global Trends of the early 21st century. After the Second World War, there was a wave of national Independence movement throughout the world. The newly independent countries had a very strong desire to change their own fates to improve their economic and living conditions. As a developing nation India after independence gave maximum priority to agriculture and industries. The industrial sector is the sector which has the ability to generate maximum revenue and it will also attract a huge amount of foreign currency reserve for the country. On the other hand it requires a huge labour supply for its growth. The Urban population is not at all sufficient for this large requirement. So due to this reason people from rural areas migrated towards the

industrial areas. But these rural populations were having very low levels of skill and education which forced them to opt for low wage works. Due to less availability of money in hand, these people barely satisfy their basic needs of food and clothing and having a proper shelter was like a dream for them. In this way the problems of informal settlements like slums and squatters originated in urban areas.

The housing shortage is defined as the gap between the total population of the country and number of housing stock available for them. If we look at the housing shortage or surplus in India in different time periods then we can able to assess the gravity of this housing shortage problem.

Year	Housing Shortage or Surplus (Million)
1901	+1.8
1941	-1.7
1971	-14.6
1981	-23.3
1991	-22.9
1996	-13.66
2001	-19.4
2007	-24.71
2012	-18.78
2017	-20

**Table 1. Housing Shortage in India**

It is very much clear to us now that after getting Independence the housing shortage remains and with the increase of the population it will reach a huge value in upcoming years. As per the recent 12th Five Year Plan Report the housing shortage has been calculated based on the three criterias; these are: (1). Homelessness, (2). Obsolescence Factor and (3). Congestion Factor. The report tells that there are 2,285,935 number of households who are living in unserviceable or obsolete structures; there are more than 6 billion households who are living in severe congestion in dwelling unit of size less than or equal to 300 sq.ft. i.e. one couple share their room with other adult members of their families. The total number of houseless population reported as 1.06 million. According to the report of the Technical Group Uttar Pradesh is having the maximum housing shortage with 3.07 million households, after that Maharashtra with 1.94 million, West Bengal with 1.33 million and Andhra Pradesh with 1.27 million stands.

As per the Government data in urban areas 1 individual out of 6 do not have a livable home; in rural areas this ratio is 1 in 10. The reason behind this difference is that in urban areas people basically are migrants who do not have ownership of the houses they live in, but on the other hand for rural areas this is not present to some extent.

The report also revealed that the housing shortage is very much high with almost 96% of total housing shortage within the Lower Income Group and Economically Weaker Section of people, whereas the demand in H.I.G and M.I.G people, is only about 4% of total shortage. But if we see the situation from the supply side the scenario is totally opposite with 85% of supply for H.I.G and M.I.G population and 15% of supply for L.I.G and E.W.S people. So the situation is that the economic class of people who have high demand of housing actually are getting allocated with a minimum number of houses.

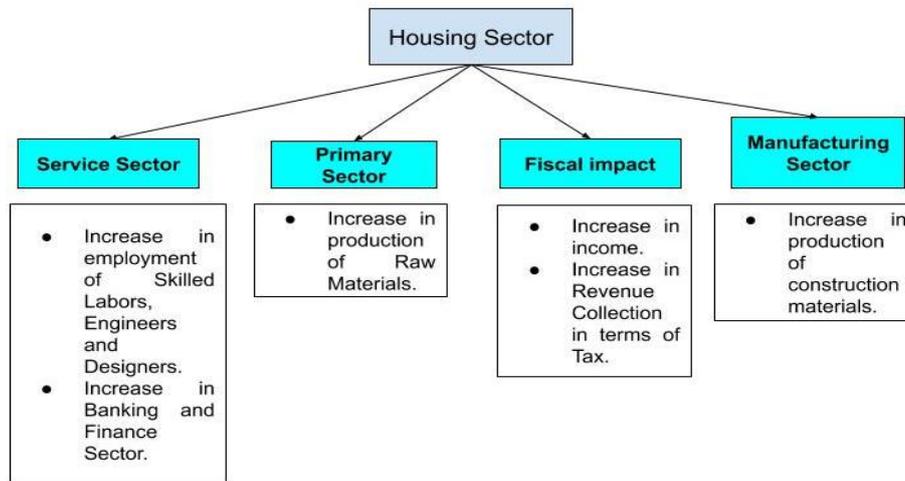
Another big problem associated with the growth of housing shortage is the delivery of the housing projects. Mainly in our country we adopt labor oriented traditional in-situ construction methods which are much time

and cost consuming. One housing project in India requires 3 to 5 years to get completed fully and in the meantime the cost of the project rises which ultimately raises the individual cost of the dwelling units. On the contrary Land value is also added up in the final cost; thus a person with low income could hardly afford this kind of house.

### 5. Contribution of Housing Sector in Indian Economy

Meanwhile in India the contribution of the service sector in total gross domestic product is 54.15% in the financial year 2018-19. This situation in the economy informs us that the employment is basically concentrated in a particular portion of the total population who are having money in their hand and having sufficient skill to avail the job in this sector. It is not at all desirable for the economy as it is increasing the overall employment indirectly.

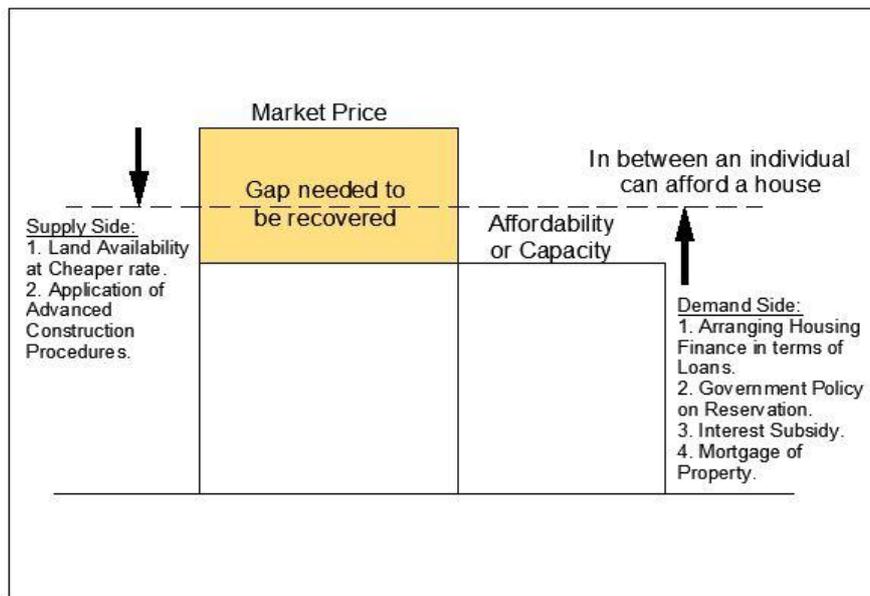
The Government of India in the recent years is trying to shift the share of service sector to the industrial sector to generate more job opportunities and solve the unemployment problem in the country. One of the ways to achieve the objective is to increase the contribution of the housing sector in GDP. Currently the contribution of the housing sector in GDP is 7.4 % in the Financial Year 2018-19, which has increased from 6.2% in the Financial Year 2017-18 by almost 20%. As we know that investment in this sector, like other sectors, is having a multiplier effect in the generation of income and employment.



**Fig. 3. Multiplier Effect of Housing Sector**

### 6. Housing Affordability and Housing Finance

Before going to the discussion of Housing Finance it is important to elaborate the concept of Housing Affordability. Affordability is a relative concept which tells us about the capacity of an individual to afford a service or facility through his or her own income; in this case it is the house. It is relative in the sense that, presently, a person who is not able to afford a house due to his or her low income, it is not true that he or she will never be able to afford a house in future.



**Fig. 4. Supply and Demand Side of the Production in Housing Stock**

From the above figure we can say that the gap between market price of housing stock and affordability limit of an individual can be recovered in two ways

- Reducing the Market Price.
- Enhancing the Capacity of people.

In this paper the ways to improve the affordability of a person is discussed. Housing Finance plays an important role in improving the capacity of an individual to afford a house. The objective of housing finance is to make funds available to the people to buy houses.

The Housing and Urban Development Corporation (HUDCO) was established with the objective that it can develop technical and innovative solutions in terms of technology, plans and designs and also share the knowledge, training and research outcomes regarding housing production, delivery with the state governments. In the year 1977, the Housing Development and Finance Corporation (HDFC) was set up as a financial institution which is responsible to provide housing loans to the people and to the developers of housing to boost up the total production of housing stock in the country.

After the formation of National Housing Bank (NHB) in 1987 more and more numbers of housing finance institutions started to form which created an enabling environment for investment in the housing sector. At present there are around 97 housing finance institutions in India. The mortgage market today is worth Rs.19.1 lakh crore, of which HFIs have a market share of 36% as of March 2019. In the financial year 2017-18 the NHB has provided Rs.13,283 crore worth of refinancing to the HFIs. (Earlier NHB was owned by RBI but recently in the year 2019 the RBI divested its entire stake of NHB to the Government of India).

Year	H.F.Cs (in Crore)	S.C.Bs (in Crore)	C.Ss (in Crore)	Total (in Crore)
2011-12	5302.1	8851.4	236.3	14389.9
2012-13	7694	9848		17542
2013-14	9633	8223		17856
2014-15	7390	14367	90	21847
2015-16	10852	10275	463	21590

2016-17	16779	5696	209	22684
2017-18	13283	11508	130	24921
2018-19	21736	3300	141	25177

**Table 2. Refinance Disbursements by NHB**

If we look at the data presented in the above table we can able to find out that from the financial year 2011-12 to present time, NHB has increased the refinance disbursement amounts over the years in case of Housing Finance Companies (HFCs), their share increased from 36.85% to 86.33% whereas the share of Scheduled Commercial Banks (SCBs) reduced from 61.51 % to 13.11%.

The reason behind this situation lies, in the Eleventh Five Year Plan Report in which the emphasis has given more on the development of infrastructure throughout the country. Due to this the banks started investing in the infrastructure oriented projects in terms of loans. On the other hand the central government has announced Housing for All by 2022 which resulted in the increase in the importance of these housing finance institutions in providing housing loans. We all know that the process of project execution and delivery in our country is very time-consuming which caused enormous amounts of delay. Due to this problem funds which are allocated are not getting repaid to the banks properly and it resulted in an increase in the proportion of Non-Performing Assets in the banking sector. To cope up with this the National Housing Bank after 2011-12 financial year started to refinance more in the Housing Finance Companies to sustain the market.

## 7. Types of Home Loans Provided

The two most widely used types of home loans are fixed-rate loans and adjustable rate loans. A fixed-rate loan keeps the same interest rate for the life of the loan, which means that the principal and interest portions of the monthly payment stay the same. Adjustable-rate mortgages begin with a lower interest rate for the first few years and then adjust to market rates after the initial period is over.

**(i).Home Purchase Loan:** It is provided to the borrower to buy a home.

**(ii).Home Construction Loan:** It is basically provided to the borrower for the construction of a house.

**(iii).Home Improvement Loan:** For the renovation purpose it is given.

**(iv).Home Extension Loan:** If the borrower wants to construct a new portion on his existing house then he is given this loan.

**(v).Home Conversion Loan:** If the applicant wants to convert some part of his or her house to another use he or she can apply for this loan.

**(vi).Land Purchase Loan:** It is simply given to purchase a land for making a house.

**(vii).Bridge Loans:** Bridge loans are designed for people who wish to sell the existing home and purchase another one. The bridge loans help finance the new home, until a buyer is found for the home.

**(viii).Refinance Loans:** By taking this type of loan one can repay the previous as well as new loan amount.

The Eligibility in getting these home loans depends on the policy intervention of the HFIs. Sometimes these institutions give loans on the condition of Collateral Security. At present in 2019 the interest charged on home loans is about 9.5% p.a and the maximum repayment period provided is 30 years.

## 8. Changes of Government Policies towards Housing Sector

From the year 1950 the focus of the central government had started to shift towards the housing sector. If we distinguish the government's role in this sector in different phases of time, then we can find out that after 1950 to 1990 the role of the government was to provide people with housing; after introduction of national housing policy in the year 1988 the government role was changed from a 'provider' to an 'enabler' and after 2010 onwards it is facilitating the process of housing production, delivery and investment.

In the first phase (1950-1990), the aim of the government was to relocate the people from the city towards the peripheral areas of the city by providing them funds to build their own houses and also providing them the basic services like water supply, electricity, sanitation, access road etc. The major steps that were taken in that time were the formation of HUDCO, HDFC and National Housing Bank (NHB). During this time period

the Government had figured out some problems in the process of housing construction and delivery. These are:

- Lack of housing affordability.
- Unavailability of advanced and time-consuming technology and system.
- Problems in land allocation.
- Requirement of institutional and policy framework.
- Lack of constant supply of building materials.
- Unavailability of skilled labor.

After getting familiar with these problems the government has improvised its approach in providing the houses with basic services without dismantling the existing structure or without resetting the Slums to the other place and by creating the opportunities of income generation. The major step had taken in this phase was introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which had become a flagship programme in urban poverty alleviation from the year 2005. With the objective in providing the basic services for the poor and the urban infrastructure for everyone in the city, this scheme talks about a comprehensive approach where each and every state government in the city level should have to prepare a Comprehensive City Development Plan for housing and infrastructure. The strategy of the government got changed from individual scheme driven approach to piecemeal approach where firstly the City Development Plan has to be prepared and then the individual projects should be implemented.

In the year 2009 Rajiv Awas Yojana (RAY) was declared by the government with the objective to achieve Slum Free India. The major difference between JNNURM and RAY is that, in case of JNNURM the people who have the ownership of their land got benefited but RAY was proposed for those people who did not have ownership of the land. RAY for the first time proposed a curative as well as a preventive approach to restrict further formation of slum and quarter settlement. It directed each and every Urban Local Body (ULB) to prepare a Slum Free City Plan which contained all details of existing slums in the city, housing typologies, structural quality, land tenure and quality and quantity of basic services provided to them. With the plan report any ULB could propose a slum redevelopment plan for the migrating people and the provision for rental housing was introduced for the first time for these people.

After 2010 onwards governments' focus got shifted from 'enabler' to 'facilitator'. During this phase government is not getting directly involved in the process of housing construction and delivery rather than the government allocating the fund in terms of loans to the individual and the Real Estate Developers with the provision of Interest Subsidy, Mortgage Guarantee, Regularization of housing finance market etc. On the other hand, the government has also got involved in submission of new technology which will reduce the time of housing construction up to 1 to 1.5 years. In the year 2014-15 government announced the most important scheme Pradhan Mantri Awas Yojana (PMAY) with the objective of achieving Housing for All by 2022. All the preventive approaches of RAY are merged in PMAY and the government gives more focus on providing rental housing by the formation of Draft Rental Housing Policy, which discusses the type of migrating population, their requirement for housing and what should be planners' strategy to satisfy the demand of these transitional people.

## 9. Problems Emerging in Housing Finance Sector

The recent higher economic growth and rapid urbanization coupled with the government's enabling policy initiatives have also led to the emergence of a booming housing market in India. Since housing is capital intensive construction activity, it requires huge investment. Along with the fast growth of the housing finance sector there are some problems which are emerging out, require immediate solutions otherwise these will create a major threat to this sector in the future.

**(a) Lack Accessibility for the LIG and EWS people:** As it is discussed earlier that the supply of housing is majorly concentrated to MIG and HIG people who have an authentic record of income. But for the LIG and EWS people banks are not that much liberal in providing loans.

**(b) More Dependency towards Collateral Security:** To avoid bad loans the banks are getting more and more dependent on collateral security in terms of mortgage of property. But poor people of urban areas who do not have their own property to provide as a mortgage are the worst sufferers.

**(c) Lack of Transparency and Accessibility in Loans from Informal Sectors:** Due to the previous reasons the poor people of slums in urban areas and in villages as well are forced to take help from the local

money lenders who provide them loans with a very high rate of interest. In the post-independence period this has become a grave issue which is raising the problem of debt trap.

**(d) Non Repayment of Loans:** Recently in the year 2018 two well-known HFCs named as DHFL and India Bulls Housing Finance Limited have faced a huge loss which forced them to sell a large amount of their market share. The problem arises because these companies are giving long term loans and raising money through short term gains. When loans are provided for long term the chances of generation of Non-Performing Assets also become high. Non-Performing Assets (NPA) are those bad loans in which repayment has not been done in a continuous manner. If a loan has not received repayment for a time being then after a certain period of time it will convert into NPA and the HFCs are given the authority by the Government to acquire the properties of the borrower and sell them to satisfy the loss, under the provision of SARFAESI Act. But submission of fake title deeds and fake salary certificates make this problem so much aggravated. According to one of the studies conducted by CRISIL, explored that out of the 22 HFCs 9 had bad loans of over 4%. As per the Financial Stability Report of 2019 the Gross NPA of our country is 9.1% of total loans provided and HFCs have 1.8% of GNPA. This figure has increased from 1.6% in FY2018 and if it continues to grow in this trend then it will reach around 3% which will not at all desirable for the growth of the housing finance sector.

**(e) Lack of Flexibility in Repayment Process:** As we stated it before, that LIG and EWS people of urban as well as of rural areas have not benefited desirably through the housing loans because their income is not fixed; in some months they earn sufficient amounts and in other months they may not. So, repaying a fixed amount in each month for the loan is not possible for them, if this process bears the characteristic of Flexibility then these people will be benefited.

## 10. Solutions Regarding These Problems in Housing Finance Sector

If we focus on the solutions related to the Housing Finance Sector only, then our scope of analysis will become limited but if we enlarge our scope and consider the overall housing sector then we can better anticipate these problems.

- (i) The whole Housing Finance Sector exists to provide people with funds for purchasing, constructing of new houses. If the people do not have income to satisfy their needs of food and cloth then they hardly think about having a home. Providing home loans to them will increase their problem and the HFC as well because the money which is invested will never be returned. So the only solution that will be possible is through the generation of more employment which will increase the overall income. That is why the Government of India is giving more and more importance to the skill development programs presently. And the Government strategy is to raise the share of the Industrial sector in the GDP of the nation.
- (ii) Introduction of an adequate population control policy for the nation. If the Population will get increased in a predetermined rate then the estimation of future housing demand will become easier and housing stock generation and delivery process become steady through this sustainable use of resources can also be achieved.
- (iii) The formal procedure of Bank Loans is quite critical for a person who is illiterate; for them the whole process of bank loan should be made user friendly which indirectly encourages them to take loans. On the contrary, diverse loan options should be available for them and the repayment procedure should be made flexible so that these people can pay the loan amount freely within the given time period.
- (iv) Imposition of Strict verification rules for checking the credentials of borrowers, who take a large amount of loan, to avoid the cases of frauds, and make the collateral security mandatory for them.
- (v) The problem of Asset Liability Mismatch can be resolved by Securitization of the Market to a large extent and by maximizing the saving deposit of the bank. But saving deposit maximization will solve the problem on a temporary basis and Securitization will provide a permanent solution. But on the other hand it will discourage poor people from taking loans. So, a mixed strategy should be adopted by the HFCs and Banks.
- (vi) Reduction of Stamp Duty and making the Stamp Duties uniform for every state. Also the Legal Land Acquisition process should be made easier and less time consuming otherwise almost 30 to 45% in cost of house will get increased due to these which ultimately raise the final price of the house.
- (vii) The tendency of giving Loans to the HIG and MIG people should be changed and more focus should be given to the rural areas and to the urban slums as well.

(viii) During the construction phase of houses more importance should be given to the technology driven construction methods rather than labor intensive construction methods. Recently Building Material and Technology Promotion Council (BMTPC) has identified 16 new technologies which reduce the construction time, but these technologies are under trial in various research labs throughout the country. These should be made available to the market as early as possible.

## 11. Conclusion

In the recent years Indian Housing Finance sector has been witnessing some problems which slowed down the growth of this sector to half of the previous years in FY 2018-2019. But now it is showing some indications of improvement. As per the experts from the housing finance and banking industries, the Indian government and the regulator have taken concrete steps to improve the conditions. In a conference of India Mortgage Leadership Conclave (IMLC) in Mumbai, Mahesh Misra, CEO, India Mortgage Guarantee Corporation (IMGC), spoke about measures for reviving housing finance's sector growth. He said :” Housing finance regulation has converged with the Reserve Bank of India and it has two sets of benefits. Firstly, we can expect a more consistent, uniform regulation, which is likely to create a level-playing field with 58% of mortgage originations being done by banks; there was a case for regulation to move to the RBI. Secondly, this also leaves NHB with a far greater bandwidth to play the sponsor role for development of the housing finance sector and we already have a slew of government initiatives where NHB is the principal anchor”. Recently the Finance Ministry Government of India has announced a housing booster of Rs.25,000 crore stress-fund for completion of stalled affordable and middle-income housing projects that haven't been classified as NPAs. SBI Chairman Sri Rajnish Kumar said that the cost of the land and the duties or the charges on it, made it a very costly affair and since affordability was an issue, some relief there would be a welcome move. As affordability is the key aspect and millions of Indians aspire to own homes, thus it is showing a promising feature in commercial and residential markets to grow and become affordable in future, he added. Basically all the leaders of the Housing Finance sector insisted on the creation of Rental Housing and Senior Citizen Housing schemes which are able to satisfy the housing demand to a large extent.

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