



Housing Finance System in India

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ABSTRACT

Housing finance may be defined as the need to reconcile the three partially conflicting objectives of affordability of households, viability of financial institutions and resource mobilization for the expansion of housing sector and of the national economy. In this paper mainly concentrated of housing finance system in India. The rapid increases in population and migration of rural people to urban areas and expansion of industrial and commercial activities have created huge demand for housing in urban centers. The problem is actually felt in urban areas and the worst affected are the migrants from rural areas belonging to the low income groups. The critical problem of housing finance is that of capital mobilization for construction purpose. Both private and public agencies are invested in construction of housing sector.

Keywords: Housing Finance, housing finance under planning periods, various housing finance institutions in India.

HOUSING FINANCE SYSTEM IN INDIA

Every economic activity requires finance or it can be stated that economic development is the function of finance. The scarce financial resources are to be allocated and utilised in such a way that it should lead to overall economic development of the nation. But the allocation of funds to various sectors depends upon the urgency and the policy of the government, which is influenced by the philosophy of the political party at line helm of affairs. As a result, there will be a symmetrical development in some sectors and they demand for more funds to meet the emerging challenges. Especially the social services are paid less attention in the allocation of funds by the successive governments, as seen in the budgets of state and central governments.

Housing being one among the several social services has been suffering from inadequate financial resources since a long time. There is no financial assistance at required level either from the public sector or from the private sector. The individual household savings are not sufficient to construct dwelling units of their own and as a result, there is a huge gap between the demand and supply of dwelling units. It is estimated that Rs. 1, 50,000 crore will be needed merely for wiping out the deficit at the end of the present millennium. So there is need for a conscious, co-coordinated and relentless exercise by individuals, financial institutions, state governments, the union Government and various agencies operating in the field of housing finance to eliminate the deficit.

ORIGIN AND GROWTH OF HOUSING FINANCE SYSTEM IN INDIA

Housing Finance system in India is an important subject. The Central Government formulates the plans and schemes and the State Governments are expected to implement them. The Indian financial system expanded rapidly and, at the same time, experienced reasonable stability since independence days. It should be noted that at the time of Independence, India's financial system was rather small although both savings and investment rates were around 10 percent and 11 per cent respectively to GDP. The rapid increases in population and migration of rural people to urban areas and expansion of industrial and commercial activities have created huge demand for housing in urban centers. The problem is actually felt in urban areas and the worst affected are the migrants from ru-

ral areas belonging to the low income groups. The following table shows that urban and rural population growth in India.

The increasing urban population naturally leads to more demand for housing units in the urban areas of the country. After getting Independence the Government of India have been given a major priority to housing from the First Five Year Plan to till date. But in the last three to four decades there has been significant institutional development in the areas of housing finance in our country. In 1970 a national level public sector institution, Housing Urban Development Corporation (HUDCO), was established for catering to all income groups in an integrated and financially viable composition. In the private sector, the Housing Development Finance Corporation (HDFC) was established in 1977 and it is the first primary housing institution catering to individual loan requirements and there are moves to setup more HDFC type institutions in the country. In the last few years there has been a large increase in the number of Housing finance institutions (HFIs) both in the public as well as in private sector. National Housing Bank has been set up by the Government of India with the primary objective of mobilising deposits required for the housing sector through local savings etc. Deliberations are at an advanced stage to promote a separate Company to take on the job of introducing mortgage insurance in India.

Rural and Urban Population in India
(In millions)

Year	Rural population	Urban population	Total population
1951	300 (83)	61 (17)	361 (100)
1961	360 (82)	79 (18)	439 (100)
1971	438 (80)	110 (20)	548 (100)
1981	526 (77)	157 (23)	683 (100)
1991	626 (74)	220 (26)	846 (100)
2001	739 (72)	288 (28)	1027 (100)
2011	733 (63)	431 (37)	1164 (100)

Source: Hand Book of Housing statistics, Govt. of India, New Delhi, 1991 and 2011

Provident fund resources are also made available to the housing sector at a reasonable cost. In addition to the housing development finance extended as a part of governmental regulations on investment pattern, the institutions such as Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC), and commercial banks have established specialized housing finance subsidiaries to undertake direct household mortgage loan operations.

At state level, apart from the state Housing Boards, a number of development authorities with jurisdiction over specific urban areas have been and are being established. Now an attempt is made to further augment the institutional structure at state level by establishing specialised agencies for various purposes like rural housing, slum up gradation, weaker section housing and police housing. Some of these have become effective organizations where as the others exist only for name sake.

A number of state Housing Development Authorities are now with HUDCO's assistance moving into the area for cash loans for providing housing on a greater extent than before. The introduction of loan-linked deposit scheme by the HDFC can emerge as a significant programme at the institution level. It will, on the one hand, increase the flow of household savings into the housing sector and, on the other strengthen the financial base of having financial institutions.

The Co-operative housing movement in India will stand greatly strengthened in the years to come as HUDCO has decided to extend its support to it in a positive manner. Even though the budgetary allocations to housing have remained static or without any significant upward trend, the flow of credit to the housing sector has shown phenomenal growth mainly on account of contributions of HUDCO, HDFC, LIC, GIC, HFIs and Housing co-operatives which have emerged as significant institutions in the housing finance system. It may be noted that despite the recent growth in housing finance as organised activity, the informal sector continues to be an important segment. The informal sector, on the other hand, represents the contributions through various sources for self-help housing including self generated resources such as personal savings in cash or in kind, sale of personal assets such as jewels, land and agricultural property, and borrowings from friends and relatives etc. Housing is contributing to employment generation. So re-formation is essential in the housing finance system to make it competent to cater to the goals set in the National Housing Policy (NHP).

HOUSING AND GOVERNMENT PROGRAMME

The Government of India was involved in housing programmes started long ago and it began with providing accommodation to the employees of Government, particularly in cities, in view of the acute shortage of housing in metropolises. At first, the Mumbai Presidency was the one which took the lead in 1921 by starting a project to reclaim land to construct 50,000 one room dwelling units and to organise the supply and distribution of building materials. Further, many regulations were brought out through a number of Acts for controlling rent, particularly in cities.

The constitution of India has not mentioned specifically the role of government in housing. So the planning Commission indicated from time to time the roles of the central and state governments in housing development. From the view point of

attraction and vastness of the states, the central government has taken responsibility for financing the housing development programmes. In other words, the role of central government is confined to laying broad principles providing necessary advice and financial assistance in the form of loans and subsidies to the state government and monitoring the progress achieved. Whereas the state governments have been vested with full powers to formulate, sanction and execute the projects under various schemes of housing

Housing policy and programmes through Five Year plans

Government had given importance of housing in the national economy after immediate Independence. The government has taken steps to formulate a national housing policy. For the development of housing by the government the successive five year plans have been formulated.

Percentage of Investment in Housing to Total Investment during Plan Periods

(Rs. In crores)

Plan period	Total Investment in the economy (In Rs.)	Investment in Housing (In Rs.)	Percentage of investment in Housing to total investment
1st Plan (1951-56)	3360	1150	34.2
2 nd plan (1956-61)	6750	1300	19.2
3 rd plan (1961-66)	10400	1550	14.9
4 th plan (1969-74)	22635	2800	12.4
5 th plan (1974-79)	47561	4436	9.3
6 th plan (1980-85)	156000	19491	12.49
7 th plan (1985-90)	349148	28450	8.15
8 th plan (1992-97)	767296	97500	12.70
9 th plan (1997-02)	1212802	151000	12.45
10 th plan (2002-07)	1525639	726300	47.60
11 th plan (2007-2012)	3644000	1122334	30.79

Source: 1. India's Five year plans, Government of India, New Delhi.

2. Prominent facts on Housing, National Building Organization, 1997 m p.11.

3. Planning commission of India.

The critical problem of housing finance is that of capital mobilization for construction purpose. Both private and public agencies are invested in construction of housing sector. Since the beginning of plan periods in India, the investment by private and public sector on housing is shown in the following table.

Conclusion

The Indian financial system expanded rapidly and, at the same time, experienced reasonable stability since independence days. It should be noted that at the time of Independence, India's financial system was rather small although both savings and investment rates were very low. The rapid increases in population and migration of rural people to urban areas and expansion of industrial and commercial activities have created huge demand for housing in both urban and rural centers. Indian government had also decrease the demand for housing through formulated five year plans.

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