



Lending Practices of the National Housing Bank - A Review

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Abstract: Housing being one among the three basic needs of human beings always remains to be in the top priority of the Government policy in India. The Government of India has been striving hard to strengthen the housing sector by implementation of various housing schemes for both the rural and urban population since the first five year plan. At this pace, Government of India has started an apex level institution 'National Housing Bank' in 1988 which is fully owned by Reserve Bank of India. National Housing Bank extends refinance to Primary Lending Institutions (PLI's) i.e., Housing Finance Companies, Scheduled Commercial Banks, Regional Rural Banks, and Co-operative Banks etc. It also regulates and supervises the activities of organisations providing housing finance. In this backdrop, an attempt is made in this paper to understand the lending practices of National Housing Bank.

Key Words: Housing finance, foreign banks, technology

I. Introduction

Housing finance plays a major role in gaining equitable economic growth through poverty reduction and prevention of slum proliferation in the economy. The increased demand for housing left the government to aim at meeting the growing housing requirements. So, it is essential to finance the housing requirements to achieve the targeted aim. Home loan is the fund which the buyer has to borrow either from a bank or from other financial institutions for purchasing a property. A debt owed on owning a home is regarded as mortgage loan. The rate of interest charged by the lender i.e. banks or other financial institutions to the home owner is the mortgage rate. Housing finance in practice which varies across regions and countries. The term housing finance differs from a developed country to the developing country.

II. Objectives of the Study

1. To have an overview of Housing Finance Institutions in India
2. To understand the role of National Housing Bank in housing
3. To study the refinance operations of National Housing Bank.
4. To offer suggestions if any based upon the findings of the study.

III. Institutional framework of housing finance in India: In India, informal sources dominated the housing sector till late eighties. Life Insurance Corporation of India, Housing Development Finance Corporation (HDFC), Housing and Urban Development Corporation and Apex Co-operative housing finance societies are the few lenders of housing finance with no support extended from the formal sector. Channelization of resources, especially to the economically weaker sections was the main aim.



A robust growth was seen in housing finance industry during the last few years due to the huge increase in financial institutions offering attractive loan packages to the customers. Government of India is striving hard for strengthening the housing sector by introducing various housing schemes to address the needs of rural and urban population.

The major housing finance institutions fulfilling the home loan needs of the people in India are:

1. Scheduled Commercial Banks.
2. Housing Finance Companies.
3. Scheduled Co-operative Banks (at State, District, and Urban Level).
4. Regional Rural Banks.
5. Agricultural and Rural Development Banks.
6. State Level Apex Co-operative housing finance societies.

Informal sector including money lenders, friends and relatives also play a significant role in the field of housing finance other than the above mentioned institutions. Indian banks are classified into public sector, private sector banks and foreign banks.

Public Sector Banks: With the nationalisation of imperial bank of India in 1955, the Government of India made its entry into the banking business. Reserve Bank of India has taken 60 percent stake and named the new bank as State Bank of India (SBI). With the nationalisation (1969) the seven other state banks have become the subsidiaries of the new bank and later fourteen major banks were nationalised. Leading banks

like State Bank of India, Canara Bank, Indian Overseas Bank, Bank of Baroda, and Oriental Bank of Commerce etc. consists of 70 percent of aggregate branches in the public sector banks.

Private Sector Banks

There are two types of private sector banks namely old and new generation banks. Banks which are operated prior to Banking Nationalisation Act, 1969 are old private sector banks. Few banks were not nationalised due to the smaller in size and regional operations which are now facing a tough competition from the new private sector and the foreign banks. Some of the leading private sector banks are Centurial Bank limited, HDFC bank limited, IDBI bank limited, ICICI bank limited etc.

Foreign Banks in India: Foreign banks with the latest technology and banking practices made the Indian banking system more efficient. Some of the leading foreign banks in India are HSBC Limited, Standard Chartered Bank, American Express Bank Limited, and City Bank etc.

Housing Finance Companies: The major constituent of housing finance institutions in India are the housing finance companies which were registered and regulated by the National Housing Bank under the provisions of National Housing Bank Act 1987. Some of the leading housing finance companies are HDFC, DHFL, India Bulls housing finance etc.



Classification of Registered Housing Companies				
Sectors	Years			
	2012	2013	2014	2015
Public	47	48	50	51
Private	7	8	8	14

Source: Annual Report of National Housing Bank

National Housing Bank granted Certificate Of Registration (COR) for 65 housing finance companies as on 31-3-2015 under section 29A of NHB Act, 1987. Of these, 51 were public limited companies and 14 were private limited companies. Among these 18 Housing Finance Companies were given permission to accept deposits from public.

Co-operative Banks: These banks utilize funds from a pool of resources to assist various needs of its members. In Indian scenario, Co-operative banks exhibit lot of reluctance in providing loans for housing finance. The high risk and illiquidity in providing house loans from common corpus are the major reasons behind their reluctance.

Regional Rural Banks: The Regional Rural Banks are inactive in providing home loans like Co-operative banks to the customers due to the huge amounts and low credit worthiness involved leading to losses.

Agriculture and Rural Development Banks: As the major function of Agriculture and Rural Development Banks is the upliftment of rural people of India by increasing the credit flow for agriculture and non-farm sector needs, it doesn't give importance for provision of housing finance.

Apex Co-operative Housing Federations: The Apex co-operative housing federations are responsible for providing

the reasonable amount of credit to the housing sector in India. They provide housing loans through primary co-operative societies affiliated under them. A few ACHF's started providing home loans directly to both the individuals and professional builders. These housing co-operatives work under the National Co-operative Housing Federation of India (NCHF).

IV. Role of National Housing Bank (NHB): The seventh five year plan (1985-1990) identified the problems coming up from non-availability of long term finance to individual households. It was felt an immediate need to set up a national level institution which takes care of the housing needs. Under the chairmanship of the then deputy Governor Dr. C. Gangarajan, in 1988 the National Housing Bank (NHB) an apex level institution for housing was proposed. Under the National Housing Bank act 1987, National Housing Bank was set up. It is wholly owned by the Reserve Bank of India which has contributed the entire paid-up capital. NHB consists of board of directors who take care of the general superintendence, Direction and Management of NHB affairs and businesses. It had its headquarters located at New Delhi and offices in Mumbai, Bangalore, Hyderabad, Chennai, Lucknow, Kolkata and Ahmedabad. NHB has different departments like department of



Regulation and Supervision, Risk Management Department, Credit Guarantee Fund, Trust Cell, Legal Department, Accounts Department, Business Planning and Promotion Department, Refinance Operation Department etc. other than NHB Residex cell. According to National Housing Bank Act, 1987, NHB is expected to work in the interest of public by regulating the housing finance system of the country to the best of its advantage or to prevent the harmful affairs of any housing finance institution which is conducting in a manner that is detrimental to the interest of the depositors.

National Housing Bank determines necessary policies and directs the housing finance institutions and the auditors in the best possible manner. Besides the normal regulatory issues, NHB issued Housing finance companies directions 2001 and guidelines for Asset, Liability Management System in Housing Finance Companies. It periodically updates the information to the banks and financial institutions through circulars and notifications. Entry level regulation is achieved through registration of housing finance companies.

Financing

Financing is the major function of National Housing Bank. It supports the housing finance sector by providing refinance to different primary lenders who are eligible for providing housing loans to individual beneficiaries and the project loans to various implementation agencies.

It finances the projects undertaken by the Government of India

for construction and development of housing and related infrastructure. It acts as a special purpose vehicle for securitizing the home loan receivables.

The table - 1 above shows the disbursements made by NHB during 1999 to 2015. An increasing trend from year by year can be observed from the above statistics. NHB disbursed a total of Rs.1,42,332 crores rupees till date to various home loan providers like Housing Finance Companies, Scheduled Commercial Banks, Co-operatives etc.

The table-2 above depicts the statistics related to the refinance disbursements made from 2010-15. In 2010-11, 2011-12, 2012-13 and 2014-15 the majority of the money is funded to Scheduled Commercial Banks followed by Housing Finance Companies. But in 2013-14, majority of the money is used to finance the home loan needs of housing finance company's followed by the Scheduled Commercial Banks. Decreasing trend is observed in case of the Regional Rural Banks after 2012-13.

Though there was no disbursements done for Co-operative banks in 2012-13 and 2013-14, 90 Crores were disbursed in 2014-15. From the table - 3, it is evident that the total disbursements made by NHB is Rs. 1,42,332 crores as on June-30, 2015. Scheduled Commercial Banks covered the maximum share with Rs. 79,082 crores(55.56%), followed by Housing Finance Companies with Rs. 58,959 crores(41.42%), Co-operatives and RRB's with Rs.2,615 crores(1.84%) and Rs.1,676 crores(1.18%) respectively.



Table – I: NHB's refinance disbursements during 1999 and 2015 (Rs. Crores)

Year	Disbursement	Cumulative Disbursement
1999-2000	842	4,235
2000-01	1,008	5,243
2001-02	1,025	6,268
2002-03	2,710	8,978
2003-04	3,253	12,231
2004-05	8,062	20,293
2005-06	5,632	25,925
2006-07	5,500	31,425
2007-08	8,587	40,012
2008-09	10,854	50,866
2009-10	8,108	58,974
2010-11	11,723	70,697
2011-12	14,390	85,087
2012-13	17,542	1,02,629
2013-14	17,856	1,20,485
2014-15	21,847	1,42,332

Source: Trend and progress of housing in India, Annual Reports of NHB

Table – 2: Refinance disbursements to different categories of PLI's (Rupees in Crores)

HFI's	2010-11	2011-12	2012-13	2013-14	2014-15
Housing finance companies	3,308.67	5,302.13	7,693.51	9,632.99	7,390
Scheduled commercial banks	8,112.00	8,851.42	9459.33	7,942.72	14,114
Regional rural banks	134.12	143.04	388.80	280.47	253
Co-operative banks	168.00	93.32	0.00	0.00	90
Total	11,722.79	14,389.91	17,541.64	17,856.18	21,847

Source: Trend and Progress of Housing in India, NHB Annual Reports

Table – 3: PLI wise Breakup of Cumulative disbursements as on June-30, 2015

PLI's	Amount (Rs. in crores)	Percentage of Total
Housing finance companies	58,959	41.42
Scheduled Commercial Banks	79,082	55.56
Regional rural banks	1,676	1.18
Co-operatives	2,615	1.84
Total	1,42,332	100



Table – 4: Refinance disbursements based upon size of individual home loans during 2010 - 2013

Amount	2010-11	Per cent	2011-12	Per cent	2012-13	Per cent
Upto 2 Lakhs	290.35	2.48	1,115.85	7.75	1,206.62	6.88
2 to 5 lakhs	3,816.53	32.55	3,792.71	26.36	2,924.34	16.67
5 to 15 lakhs	5,740.29	48.97	5,974.39	41.52	6,231.57	35.52
15 lakhs and above	1,875.62	16	-	-	-	-
15 to 25 lakhs	-	-	984.76	6.84	2,218.66	12.65
Over 25 lakhs	-	-	2,522.21	17.53	4,960.45	28.28

Source: Trend and progress of housing in India, Annual Reports of NHB

The table - 4 depicts the refinance disbursements based upon the size of individual home loans for 2010-13. From the above, we can understand that in 2010-11, 2011-12 and 2012-13 majority of the people (i.e. 48.97%, 41.52% and 35.52%) have taken 5 to 15 lakhs.

Table – 5: Refinance disbursements based on size of individual home loans during 2014- 2015

Amount	2013-14	Percentage	2014-15	Percentage
Upto 2 lakhs	1,455.33	8.15	1,190	6
2 to 5 lakhs	2,004.93	11.23	2,203	10
5 to 10 lakhs	2,712.37	15.19	6,317	29
10 to 15 lakhs	6,188.34	34.66	1,845	8
15 to 25 lakhs	2,249.51	12.6	1,893	9
Over 25 lakhs	2,930.7	16.41	7,931	36
Prospective	315	1.76	468	2
Total	17,856.18	100	21,847	100

Source: Trend and progress of housing in India, Annual Reports of NHB

From the above table – 5 it is clear that the major portion of disbursements in 2013-14 were in the loan slab of 10 to 15 lakhs (34.66 percent), followed by the loan slab of over 25 lakhs (16.41 percent) and in 2014-15, the majority of the customers who acquired home loans are in the slab of



over 25 lakhs (36 percent) followed by 5 to 10 lakhs (29 percent). The increased real estate prices showed a large impact on the borrowings of the customers. To meet the increased expenditure arising from the increased real estate prices people are relying much on the housing finance companies. This shows that the increased housing prices are directly proportional to the increased individual home loans.

V. Conclusion

From the study we can understand the rigorous efforts the NHB has put in for ensuring housing for all. Regional Rural Banks and Co-operative banks which are very close to the rural population of India need to be encouraged more with respect to the housing finance. There is an immense need to implement more and more programmes by the Government of India to achieve 'Housing for all'.

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