

# Making Mortgage Finance Work

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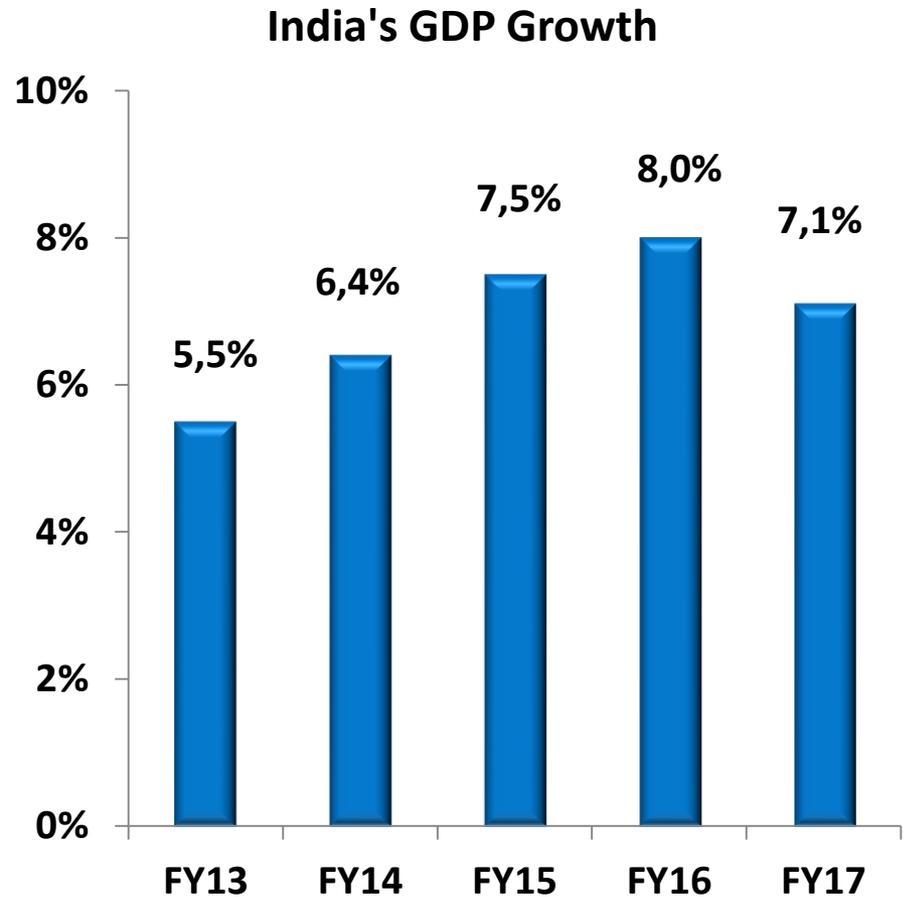
# Making Mortgage Finance Work

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- No country or region can claim to have solved their housing or mortgage problems
- No universal solution
- Free market, government intervention
- Extent of disintermediation
- Regulatory and supervisory policies
- Mobilisation of funds
- Housing and the economy are inextricably linked
- Key to making mortgage finance work is to keep it simple

# Housing & the Economy in India

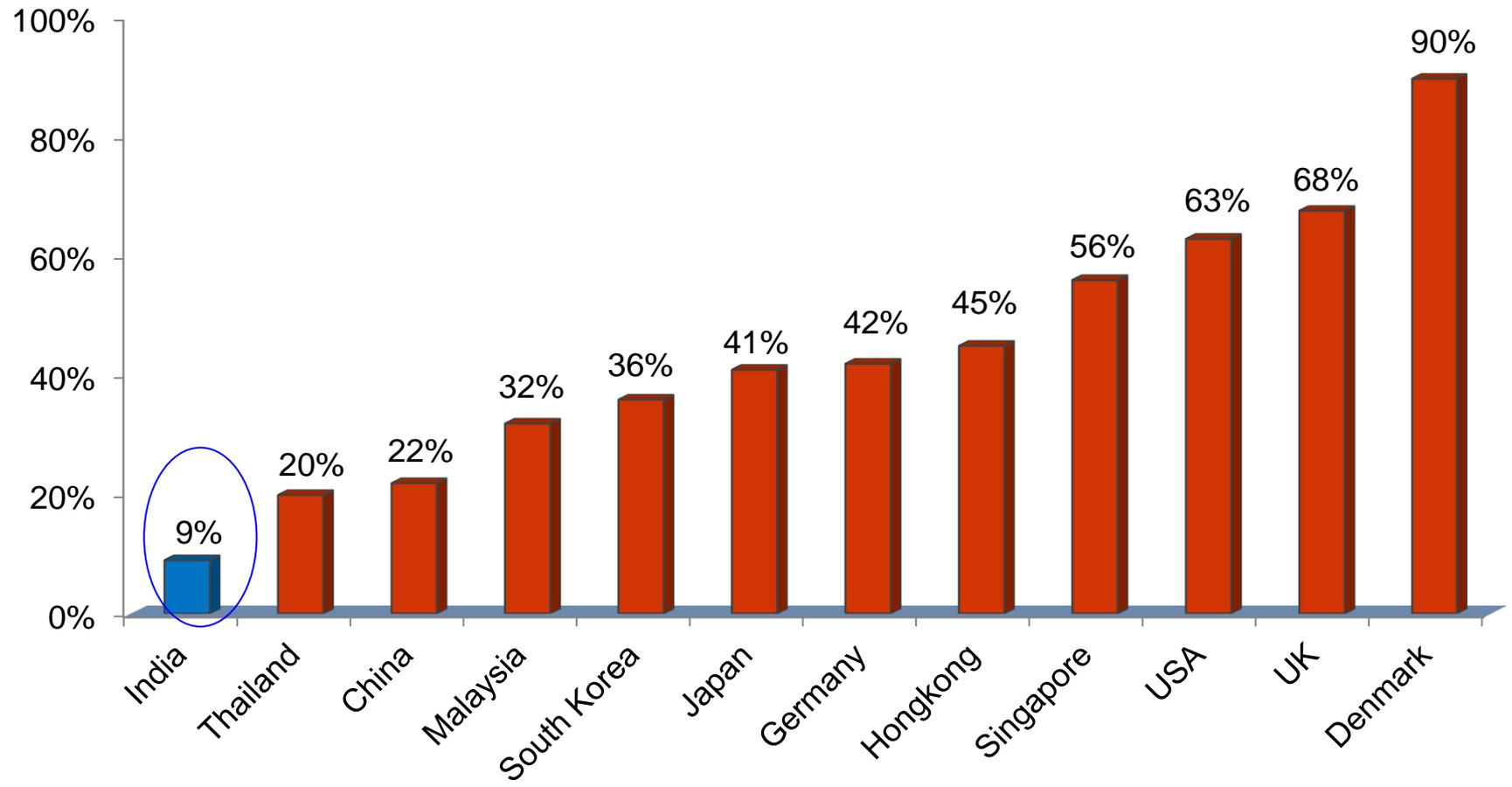
- India continues to be amongst the **fastest growing major economies** in the world
- India is a **domestic, consumption** driven economy
  - **Urbanisation** – currently 32% of total population, estimated at 40% by 2030
  - **Favourable demographics** – 66% of the population is under 35 years of age
  - **Rapid rise of the middle-class** – Between 2015-2022, 380 million Indians will be added to this segment
  - Acute shortage of housing
- Housing has strong direct and indirect linkages with several sectors
  - Supports **core sectors** like steel and cement and other industries
  - Employment generator



Source: Central Statistical Office

# Low Penetration Implies Room For Growth

## Mortgages As A Percent Of Nominal GDP



Source: European Mortgage Federation, HOFINET & HDFC estimates for India

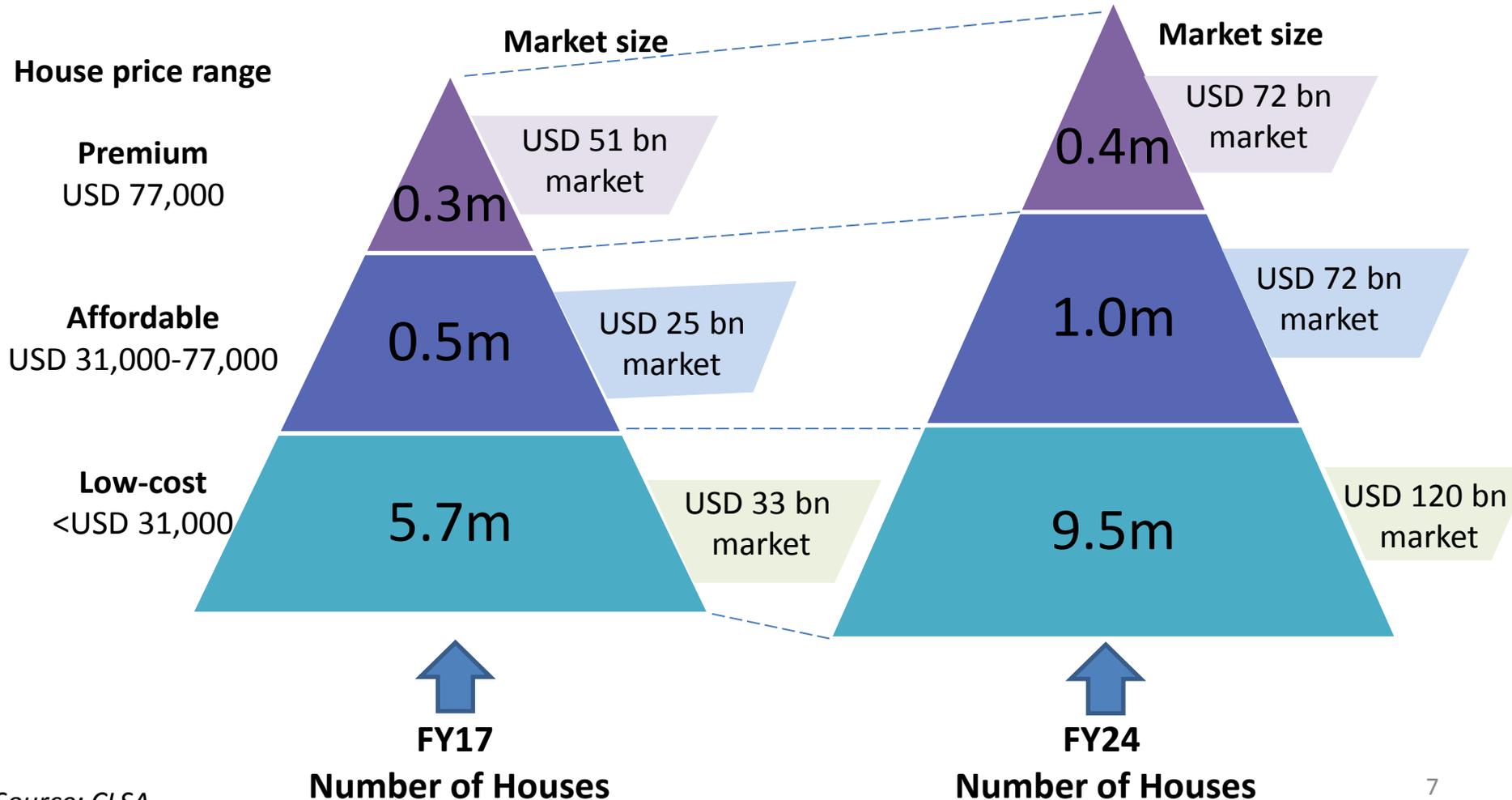
# Housing in India - Key Drivers

- **Improved affordability**
  - Rising disposable incomes
  - Relatively stable property prices
  - Lower interest rates
  - Fiscal incentives on the interest and principal amount on a home loan
- **Immense government support – focus on affordable housing**
  - Government’s flagship programme ‘Housing for All by 2022’
  - Government’s Credit Linked Subsidy Scheme extended to the middle-income group in addition to the under privileged groups
    - Interest subsidy is paid upfront to the beneficiary, thereby reducing the amount of the equated monthly instalment (EMI)
  - Subscribers to the Employees’ Provident Fund can now withdraw up to 90% of their accumulated funds for the down payment for a home loan or service the EMI through their fund. This helps increase the loan eligibility for the borrower.
  - Increased allocations for home loan refinance
  - Mortgage lenders have increased sources of funding -- external commercial borrowings, masala bonds, higher allocations from insurance, provident funds and mutual funds

# Changing Dynamics

Affordable & low cost housing markets expected to grow rapidly

The housing market size is expected to grow 2.4x over the next 7 years



# Mortgage Market in India

- Mortgage players include dedicated housing finance companies, banks and non-bank financial companies
- Number of new niche housing finance players – typically small players who focus on specific geographies. Many are backed by private equity players or impact investing funds.
- Increased lending now covering both, salaried and self-employed customers
- Wider targeting of customers from both, the formal and informal sectors
- Indians are still relatively debt averse, prefer to pay off their home loans as soon as they can
- Housing loans form the largest component of retail loans
- Asset quality in home loans has remained strong
- While the key demand is for housing loans, the market for loans against property is also growing
- In the immediate period post demonetisation (withdrawal of specified bank notes) in November 2016, there was a slowdown in individual disbursements across the industry. By February 2017, the growth trajectory had normalised.
  - Demonetisation did not have any impact on real estate prices
  - Some stress seen in the loan against property portfolios of certain players

# Supporting Institutional Frameworks

- **National Housing Bank – established in 1988**
  - Plays a combined role of regulation and development
  - Provides refinance of home loans
- **Credit Bureaus**
  - India's first credit bureau was established in 2000. India now has 4 credit bureaus
  - Helps lenders access accurate credit information on the customer
- **Foreclosure Norms**
  - Foreclosure norms in place since 2002
  - Helps enforce security held as collateral in case of default without going to the court; useful tool for willful defaulters
- **Central Mortgage Registry**
  - Central mortgage registry established in 2011
  - Prevents frauds involving mortgage security
- **Real Estate Regulatory & Development Act, 2016**
  - Creation of real estate regulators
  - Objective is to ensure compliance on the part of developers and provide consumer protection

# The HDFC Strategy

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## **Retail led housing finance model**

- Pioneer of retail housing finance in India
- Strategy to cater to all customer segments
- Unique model for sourcing of loans
- HDFC, besides being a mortgage finance company has also promoted a commercial bank, life and general insurance company, asset management, property funds and other value added property related services.

## **Funding the supply side**

- Offers construction finance loans to developers
- Property funds provide equity funding for housing projects

## **Sharing expertise**

- Belief that mortgage expertise must be shared and thus has helped in the development of nascent mortgage finance markets in Asia and Africa
- Key objective is to help nurture local based talent
- Provide training, consultancy and technical advisory services in the field of mortgage finance
- Small equity stakes in greenfield housing finance companies in Asia and Africa

# Loan Features & Customer Profile

## Home Loan Features

Mainly plain, vanilla home loans

Predominance of floating rates

Repayment: amortising loans

Primary Security: mortgage of property financed

Genuine home buyers, not speculators

## Customer Profile

Salaried and self-employed

Largely first time home buyers

Average Age: 38 years

Average Loan: US\$ 39,500

Average Loan Tenor at Origination: 13 years

Average Loan to Value Ratio: 66% (at origination)

# Way forward for the housing market

- 'Infrastructure status' accorded to affordable housing will help access long-term, lower cost funding
- Strong government thrust to reduce black money in real estate transactions – e.g. demonetisation, introduction of goods & services tax, amendments to the act to prevent fictitious owners of property, establishment of real estate regulators
- Digitisation Thrust
  - India is moving towards a smarter future - pre-empting needs of younger, convenience-seeking customers
  - India has the world's largest biometric database which enables e-verification of a customer
  - Data analytics to gain traction as it offers deeper insights into understanding customer requirements
  - Brick and mortar and on-line models likely to co-exist in the mortgage finance space
- Need to reduce land prices
  - If banks and housing finance companies were allowed to fund land transactions, costs would come down for the customer
- Single window clearances for speedier building approvals
  - States need to focus on fast-tracking building approvals
  - Help in the ease of doing business
- Need to encourage pre-fab technologies to ensure speedier construction cycles & green buildings

**Thank you**