The Indian Housing Finance System

by P.P. Vora

DEMOGRAPHIC INFORMATION

Situated in the Northern Hemisphere, India has one of the world's oldest civilizations, with kaleidoscopic variety and a rich cultural heritage. India is the seventh largest country in the world, covering an area of 3,287,263 square kilometers. It is the second most populous country, and her population as of March 1, 1991 (the last census conducted) was 846.3 million, which accounts for 16% of the world's population.

The average annual exponential growth rate as per the 1991 census was 2.14%, with 74.3% of the population (628.8 million) living in rural areas and the remaining 25.7% (217.5 million) in urban areas. The rural population accounted for 89.2% in 1901 and has dropped since. In 1991, India had 23 cities with a population of more than a million each, and the total population of these cities accounted for nearly 33% of the urban population. The density of population which was 77 persons per square kilometer in 1901 steadily increased over the years and stood at 267 persons in 1991. The estimated mid-year population during the year 1996-97 was 936 million.

The Indian Union now comprises 25 states and seven union territories. Each of the states is governed by an elected body.

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PHYSICAL FEATURES

The country can be divided into four distinct regions, *viz.*, the great mountain zone, plains of the Ganga and the Indus, the desert region and the southern peninsula. The great mountain zone in the northern part of the country is interspersed with large plateaus and valleys. The plains of the rivers are among the world's greatest and have some of the richest soil. They also are among the most densely populated areas on the earth.

The desert region in the northwest part of the country is divided into two parts, *viz.*, the great desert and the little desert; in between the two lies a zone of absolutely sterile country, consisting of rocky land cut up by limestone ridges. The southern peninsula is flanked by mountain ranges both on the eastern and the western region. While the mountain zone in the northern part of the country is susceptible to seismic disturbances, the peninsular region in the south is relatively stable and subjected to vary rare seismic incidents.

The climate of India may be broadly described as a tropical monsoon type. It can be concluded that India is one country where the requirement of housing is of different types.

HOUSING SITUATION

The total housing stock in the country was 148 million units in 1991, as compared with 116.7 million units in 1981. However, the usable housing stock was only 133.8 million units in 1991 and 101.5 million units in 1981. The usable housing stock rose by 31.9% during the period 1981-91.

In comparison, the total number of households was 153.2 million in 1991 and 123.4 million in 1981. The number of households increased by 24% during the decade 1981-91. It has been estimated that the usable housing stock will grow by 23% during the period 1991–2001, and the households will grow by 16.5% during the same period. Thus, the usable housing stock is estimated to be around 164 million and the number of households around 178 million by the year 2001.

India continues to face the problem of a shortage of housing units in the country. The housing shortage was 23.3 million units in 1981, and it came down to 22.9 million in 1991. It is estimated that the shortage may come down to a level of 19.4 million units by the year 2001.

While the growth rate in dwellings continues to be relatively lower in the rural areas, it has been showing an increasing trend in the urban areas, thereby indicating greater tendencies of urbanization. The current period has also been witnessing an increased influx of population from the rural to urban areas, leading to unorganized settlements due to which there has been tremendous pressure on the infrastructure and services available in the urban areas.

Housing Shortage

Housing shortage has been estimated on the basis of the number of households (including homeless households), available housing stock, acceptable housing stock, aspects of congestion and overcrowding. The population census provides background information on households, including homeless households, housing stock and acceptable housing stock (material of wall and roof).

Overcrowding and congestion is assessed on the basis of number of living rooms in the dwelling unit, number of members and number of married couples in the households. The National Building Organisation has estimated urban housing needs (backlog) of 8.23 million units as of March 1, 1991. Using the regression growth rates, the present housing shortage has been estimated at 20.41 million.

EVOLUTION AND ROLE OF NATIONAL HOUSING BANK (NHB)

Even though there were a large number of agencies/institutions providing direct finance to individuals for house construction, there was no organized housing finance system as such before the establishment of NHB in 1988. The vacuum in the institutional finance for housing and other construction activities was felt due to inadequate flow of funds for such activities from existing institutions and absence of specialized credit institutions to provide funds for the purpose.

The need to have a specialized system stemmed from the fact that the housing sector was not only inadequately served in terms of finance for individual loans but also in terms of buildable or serviced land, building materials, effective low-cost technology and other related know-how. The National Housing Bank was established to create such a system. The Bank has been mandated to establish a network of housing finance outlets across the vast span of the nation to serve different income and social groups in different regions. The primary responsibility, of course, is to develop a healthy and self-sustaining housing finance system in the country.

Promotion and Development Function

NHB was set up at a time when the local and regional level housing finance institutions were almost nonexistent, and the banking sector had no pressing priority to do housing finance on any significant level. As a result, the sector was grossly capital-deficient, and the housing shortage in the country had grown alarmingly.

The purpose of setting up more local and regional-level specialized institutions is to have dedicated outlets for the supplying of housing credit. NHB is of the opinion that intervention through institutional credit can be made more effective by adoption of different approaches to cater to the needs of different income groups.

The households above the average income could well be served by institutions, which raise resources through the open market and deliver credit with minimum necessary prudential regulations by the regulator. For the households below the poverty line, the institutional credit will have to take into account the employment and poverty alleviation programs having an element of subsidy.

It is the middle group, constituting nearly half the total number of households, that needs to be taken care of. NHB is encouraging the financial institutions to lend to this segment through its refinance schemes. With the setting up of NHB in 1988, there have been sustained efforts at creating and supporting a new set of specialized institutions to serve as dedicated centers for housing credit.

Regulatory Function

The second important function of the Bank is the regulatory role assigned to it. This responsibility becomes all the more relevant as the housing finance system enters a secondary phase of development in terms of integration with the debt and capital markets.

The case for regulation also emanates from the need for a credible and stable housing finance system. Without in any manner going against the free market approach, the Bank has attempted to put in place an effective system of responsive regulation.

The housing finance system is still evolving in the country, and in this context it becomes necessary that it exhibits a greater amount of stability in terms of resources development, policy development and institution building. Over a period of time, NHB has evolved directions and guidelines in keeping with the various functions it has to carry out. NHB has come out with a guideline for recognizing housing finance companies (HFCs) for its financial assistance, guidelines for extending financial assistance and also the (NHB) Directions. Besides, NHB has also issued guidelines for prudential norms for income recognition, asset classification, etc.

Financial Function

The third important role of the Bank is to provide financial assistance to the various banks and housing finance institutions. As an apex refinance institution, the principal focus of NHB's programs is to generate large scale involvement of primary lending institutions falling into various categories to serve as dedicated outlets for assistance to the housing sector.

INSTITUTIONS PROVIDING HOUSING FINANCE

In India, the following types of institutions provide long-term finance for housing:

- Commercial banks;
- Cooperative banks;
- Regional rural banks;
- Agriculture and rural development banks;
- Housing finance companies; and
- Cooperative housing finance societies.

The commercial banks are the largest mobilizer of savings in the country. The household sector's savings in financial assets has been steadily increasing over the last three years from 8.9% of GDP in 1995-96 to 10.8% in 1996–1997 and further to 11.4% in 1997–1998 (provisional estimates). Similarly, the share of deposits comprising bank deposits, nonbank deposits and net trade debt has also shown an increasing trend and accounted for more than 54% of the household sector's savings in financial assets in 1998–1999.

In terms of coverage also, the banking system has the largest branch network. The commercial banks have 64,239 branches in the country, and the average population per bank branch is 15,000. However, in the past, the savings mobilized were not being ploughed back to the households for shelter purposes.

The reluctance on the part of the banks to extend credit for housing as a regular part of their business was basically due to their perceived role being limited to financing of working capital needs of commerce, industry and trade. Yet another factor was that the banks did not want to tie up their short-term resources in extending long-term housing loans.

However, after the nationalization of some of the banks in 1969, the banks became more responsive to the social needs of the community. Today in India, the commercial banks are required to earmark a minimum of 3% of their incremental deposits for extending funds to the housing sector. For the current year 1999–2000, this works out to Rs. 36,000 million (approximately US$827 million).

Other Institutional Participants

The state cooperative banks (St.CBs) are the apex-level institutions of the state cooperative credit structure. There are at present 28 such apex St.CBs. While the cooperative banks and the regional rural banks are allowed to lend for housing, they have not been very active in this field.

The agriculture and rural development banks (ARDBs) are term-lending institutions operating exclusively in the rural sector. Housing finance was not originally within the scope of their functions. Following the thrust given to the housing sector in the late '80s and more particularly after the establishment of NHB, several states have amended their respective acts to enable these institutions to lend for housing in the rural areas.

At present there are 19 ARDBs in the country either operating through 854 of their own branches or through 745 branches of the primary cooperative agriculture and rural development banks.

The housing finance companies are basically nonbanking financial companies. A nonbanking financial company is classified as a housing finance company, if providing housing finance is the principal object of the company; or if there is more than one principal object, as per the Memorandum and Articles of Association, housing finance should form a major share of the company's asset pattern as revealed by its latest balance sheet.

At present there are 354 such companies. However, most of them are very small, doing little or no business. There are 29 major companies which account for more than 95% of the total housing loans sanctioned by all these companies put together. These 29 companies have been recognized by NHB for refinance assistance.

To be eligible for approval for utilizing the refinance facility from NHB, a minimum of 75% of the capital employed should have been used for long-term finance for housing. These 29 companies have 474 branches all over the country.

The other set of specialized housing finance institutions is the cooperative housing finance societies. They essentially have a two-tier structure, comprising the apex cooperative housing finance society (ACHFS) at the state level and the primary cooperative housing finance society at the retail level. Several different types of cooperative housing societies operate at the primary level, and these can be broadly classified into four major types:

1. Tenant ownership housing societies.
2. Tenant co-partnership housing societies.
3. House construction or house building societies.
4. House mortgage societies.

There are 25 state-level apex societies, and the number of registered cooperative housing finance societies in the country is 90,000.

NHB has formulated schemes to support all these agencies and help them to cater to the housing needs of the community at large. The Bank is also extending financial assistance directly to public agencies for undertaking housing and infrastructure projects.

Types of Housing Loans

Most of the institutions offer a standard fixed-rate mortgage to the prospective borrowers. Usually, the housing loan can be repaid over a maximum period of 15 years. Repayment does not extend beyond the retirement age of a person (60 years) if employed or 65 years of age if self-employed.

Repayment of the loan is done through the equated monthly installment method. In case of borrowers expecting a reasonable growth in their future income, installments can be on a graduated basis. In addition to the interest rate, the borrower also has to meet certain other costs, *viz.*, interest tax, processing fee and administration fee.

The lender is required to pay a tax to the government on his interest income at the rate of 2% per annum. The lenders usually pass on this tax burden to the borrower. The banks and the housing finance companies also levy a fee for processing the application, and it varies between 0.5% to 1% of the loan amount. In addition, they also charge what is known as an administration fee of 1% of the loan amount.

The interest rate on housing loans offered by the housing finance companies has been falling in recent years, and it is now at the lowest point in the last 17 years. The interest rate on loan amounts of Rs.500,000 (US$11,765), which used to be in the range of 14.5%–15.5% a year ago, have come down by 100 basis points now. Similarly, there has been a 100-basis-points-across-the-board reduction in the interest rate for loan amounts beyond Rs.500,000.

Some of the housing finance companies do have a system of charging either 50 basis points or 25 basis points more than the normal lending rate in case the term of the loan is extended beyond 10 to 15 years. As to the banking system, the Reserve Bank of India has given commercial banks freedom to fix the interest rates on term loans beyond Rs.200,000; and these rates are related to commercial bank prime lending rates, which are in the range of 12.5%–13% per annum.

Since the cost of funds to the banking system is lower than the cost of funds to the specialized institutions, bank interest rates are comparatively lower than the rates charged by the specialized housing finance institutions. However, since the banking system is still in the process of developing adequate expertise in housing finance, the share of the housing finance companies in the housing finance business is more than that of the banking system.

The year-by-year details of housing finance disbursed by various institutions for the last five years are given in Table 1.

Apart from the various financial institutions already mentioned which act as retail lenders, the central and the state governments also support the house building efforts of the people indirectly. The role of the central government is confined to laying down broad principles of social housing schemes, providing necessary advice and rendering financial assistance in the form of loans and subsidies to the state governments/union territories.

The central government has also set up the Housing and Urban Development Corporation (HUDCO), a housing finance company, to finance and undertake housing and urban development programs, development of land for satellite townships and setting up of building centers. The central government also provides house building advances to its employees.

The state governments, besides implementing the social housing schemes formulated by the central government, also formulate their own schemes for providing houses to the poor and those belonging to the backward classes. Besides extending loans to their own employees for construction of houses, the state governments also provide funds for rental houses for their employees and to various housing boards and development authorities for constructing houses for different income groups.

LIC Support of Housing

The Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) support housing activity both directly and indirectly. LIC is statutorily required to invest 25% of its net annual accretion in socially oriented schemes including housing. LIC grants loans to state governments for their rural housing programs and to state-level apex cooperative housing finance societies.

Table1. Housing Finance by Institutional Lender (in Rs. million)

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*
Commercial banks	7,486	7,992	18,056	10,767*	14,972*
Housing Finance Companies	35,243	39,035	46,277	57,834	74,134
ACHFS	5,303	3,430	3,147	5,196	
ARDBs	264	385	387	730	1,127

* Allocation for the respective years

In addition, LIC subscribes to the bonds floated by HUDCO and the state housing boards. It has loaned money to NHB, and it provides loans to individuals who are policyholders. In June 1989, LIC promoted a housing finance subsidiary and provided funds to it.

GIC, Other Corporate Roles

GIC and its subsidiaries are required to invest 35% of their annual accretion in loans to socially oriented sectors. GIC, like LIC, subscribes to the bonds floated by HUDCO and state housing boards. In July 1990, GIC established a separate subsidiary as a housing finance company to lend to individuals directly, and it provides funds for the subsidiary's operations.

The Provident Funds have been providing loans (or allowing partial withdrawals) to subscribers only for housing. The investment pattern of the Provident Fund in the past has been as per the guidelines issued by the government, and lending for housing did not form a part of it. Although the government has recently given freedom to the Provident Fund Organisation in deciding their investment policy, housing has not been on their priority list.

Essentially, the funds that flow from these organizations have a long maturity period and are ideally suited for housing activity. However, the flow of funds from these institutions has not been adequate to meet sector needs. The specialized institutions such as the housing finance companies had been looking for funds from general financial institutions and deposits from the public until the establishment of NHB in 1988.

These funds are essentially short term in nature and lead to an asset-liability mismatch. After the establishment of NHB, some of the companies received refinance assistance from NHB which is co-terminus with the repayment period fixed by them to the ultimate borrower. However, NHB cannot continue funding the entire portfolio of these companies. Thus, there is a need to look for avenues that can provide long-term funds to the specialized institutions.

In order to ensure orderly and smooth growth of the housing finance companies, NHB, as a regulator, has prescribed the period for which these companies can accept deposits and the maximum amount that these companies can borrow.

For instance, the housing finance companies cannot accept deposits for periods of less than 12 months or more than 84 months. Similarly, to accept deposits from the public, they are required to have a minimum net owned fund of Rs. 2.5 million and a minimum acceptable credit rating. Further, in order to ensure that these companies do not overstretch themselves, NHB has prescribed limits for their borrowing/acceptance of deposits from the public in relation to their net own funds.

RURAL HOUSING

In India, nearly three-fourths of the population resides in the villages where the main economic activity is agriculture. Many of these people do not even own land, and they are mainly laborers. Providing houses for these people is a stupendous task, and concerted efforts are needed from all the agencies.

The government of India has initiated a good number of measures for promoting rural development. Specialized institutions have been set up to provide rural credit. Several financing and developmental agencies have played a crucial role in implementing the government-sponsored programs for rural housing.

Among the various schemes formulated by the central government over the years, one particular scheme needs to be mentioned, *viz.*, The Indira Awas Yojana (IAY).

IAY is a centrally sponsored 100% subsidy scheme with the resources being shared on an 80:20 basis by the center and the state respectively. Within present norms, the permissible expenditure on a house under this scheme, including the cost of construction of a sanitary latrine, smokeless chullah, and infrastructural and common facilities, is Rs.20,000 in the plains and Rs.22,000 in hilly or difficult areas. The achievements under this scheme from 1990–1991 to 1997–98 is given in Table 2.

In its efforts to promote housing activity in the country, NHB has recognized that providing shelter in rural areas should be given due priority. Of the six categories of institutions through which financial assistance from NHB is channelled, all except the primary (urban) cooperative banks provide finance for rural housing. The institutions are the scheduled commercial banks, state

Table 2. Housing Production Under Indira Awas Yojana

Year	*Amount Utilized (Rs. million)*	*Number of Houses Constructed*
1990–91	2,131	181,800
1991–92	2,630	207,299
1992–93	2,388	192,585
1993–94	4,810	372,535
1994–95	5,004	390,482
1995–96	11,664	863,889
1996–97	13,859	806,290
1997–98*	13,458	641,325

* Provisional

Source: *Annual Report 1997–98*, Ministry of Rural Areas & Employment, Government of India.

cooperative banks, agriculture and rural development banks, apex cooperative housing finance societies, and specialized housing finance institutions.

In view of the peculiar problems in rural areas, it becomes necessary to identify appropriate institutions which have a better knowledge and understanding of the problems faced by the rural population and can provide them with financial assistance. As a first step, NHB identified the agriculture and rural development banks (ARDBs) as the intermediary for long-term rural lending. The ARDBs are being used as dedicated outlets for rural housing credit.

Specialized Institution Role

In addition to the scheduled commercial and cooperative banks and also the ARDBs, NHB is extending financial assistance for rural housing through specialized housing finance institutions. Notable among them is the Gujarat Rural Housing Finance Corporation (GRUH).

This company has been promoted to primarily serve the cause of rural housing and provide institutional finance to maintain and augment the rural housing stock and upgrade the overall living environment of rural settlements. Of its cumulative loan approvals, 70% cover dwelling units which are located in places where the population does not exceed 15,000. Over 50% of the cumulative loan approvals go to individuals whose monthly income is less than Rs2,500. Similarly, 64% of cumulative loan approvals are for individuals whose loans are less than Rs. 50,000.

Orissa Rural Housing and Development Corporation (ORHDC) is another company that has been established to provide financial assistance in the rural areas. This company has been promoted by the state government.

The various initiatives taken by the government are aimed at ameliorating the housing problems of the people below the poverty line. The people above the poverty line, however, also need to be helped in realizing their dream of owning a house. The institutional mechanism described above partly helped in this regard, but the major emphasis needed to be focused on making available institutional credit in the rural areas so that a majority of those people could be helped.

Accordingly, NHB prepared a scheme for extending financial assistance for housing in rural areas. The scheme is being operated through the vast network of branches of the commercial banks, housing finance companies, regional rural banks, state cooperative banks, agriculture and rural development banks, and the cooperative housing finance societies.

The objective is to address the problem of rural housing by providing improved access to housing credit which would enable an individual in a rural area to build a modest new house, or to improve or add to his old dwelling. "Rural area" for the purpose of the scheme is the area in any village or town whose population does not exceed 50,000 as of the 1991 census.

It was proposed to disburse loans for 50,000 dwelling units during the first year. This target was exceeded. Encouraged by this, the target for the year 1998–1999 was doubled, and it was proposed to disburse loans for 100,000 dwelling units. Even this target has been exceeded. It has been proposed to sanction loans for construction of 125,000 dwelling units during the current year.

Constraints in Expanding Financial Assistance

The basic security for the loan to be given to the borrower is the mortgage of the property. In the case of farmers, the agricultural land cannot be mortgaged. In many rural areas, clear demarcation of the land for agricultural and other uses may not exist. Similarly, in many villages land records may not be available to verify the title to the land. Steps have been initiated to create land records where they are not in existence.

Another impediment is the very high registration charge imposed on transfer of land. If these charges could be lowered significantly, the affordability level could be increased and many people would come forward to construct houses.

INTEGRATION OF INFORMAL SECTOR WITH FORMAL SECTOR

The main problem for the poorer people in any country is that they do not have access to institutional finance. It is, therefore, necessary to find ways in which these people can be brought into the fold of institutional financing. Moreover, most of these people belong to what is commonly known as the unorganized or informal sector. Although India can be proud of a mature primary market, the efforts of all HFIs and banks, including the foreign banks, tend to be focused within the formal sector, i.e., on the employee class. To some extent housing loans are also being accessed by professionals such as lawyers and doctors; but by and large, the informal sector comprising smaller businessmen, traders and others has not even been conceptualized as a target market for housing.

There are, of course, factors that preclude the provision of financial information by borrowers in this sector in a form and manner required by the financial institutions. Therefore, this segment of the population tends to look for non-institutional credit.

Recently, a number of initiatives have been taken in India to bring in a majority of such population to the formal sector financial institution fold. The Reserve Bank of India has set up a working group to study the functioning of the self-help groups (SHG) and non-governmental organizations (NGOs) so as to expand their activities and deepen their role, link SHGs with banks and increase the building capacity of NGOs, etc.

Similarly, the emergence of a micro finance sector is also of recent origin in India. A few community-based financial institutions (CFIs) also emerged. While initially all these institutions provided funds to people so they could set up income-generating activities, over a period of time some of them have provided funds for shelter improvement as well.

While the exact number of micro financing institutions in the country has not been ascertained, it has been estimated that there could be 250–300 voluntary agencies in micro finance, each with 50–100 SHGs. NHB has formulated a refinance scheme for the loans advanced by the housing finance companies to the community-based finance institutions.

Six projects involving a linkage between CFIs and housing finance companies were identified under the technical assistance program from the Asian Development Bank targeted to improve the understanding of the informal sector lending for housing, as well as the willingness on the part of the formal and informal institutions to provide affordable credit to urban and rural poor. Of the six projects, two are well underway, with the disbursal of the first tranche of the loan amounting to Rs. 6.6 million disbursed to about 200 beneficiaries. Sanction letters have been issued for another two projects.

Some major institutional concerns and operational problems have emerged from this experience. Some of these relate to the rates of interest, security for the loan, selection of borrowers and credit appraisal. Others involve loan processing fees, end use of funds, and organizational problems at the SHG level, like the capacity to manage long-term loans, etc. These are being analyzed to find a solution before trying to replicate the process elsewhere in the country.

INVOLVEMENT OF MULTILATERAL AGENCIES

The United States Agency for International Development (USAID), under the Housing Guaranty Program of the U.S. government, permitted the Housing Development Finance Corporation Ltd., the premier housing finance company in India, to borrow from the U.S. capital market a total of US$125 million under various tranches commencing December 1981. The last tranche was drawn in January 1988. The funds so raised are to be loaned for low-income households.

With the creation of NHB in July 1988, NHB entered into an agreement with USAID to raise money in the U.S. capital market. NHB raised a modest amount of U.S.$25 million. In addition, USAID also provided technical assistance for the development of the Indian Housing Finance System.

In 1991, the Overseas Economic Co-operation Fund (OECF) entered into an agreement with the government of India to extend loan assistance of Japanese Yen 2.970 billion under the housing program for low- and median-income households through NHB. The fund has been fully utilized.

More recently the Asian Development Bank has also provided technical assistance to NHB to strengthen the housing finance institutions, to set up a mortgage insurance fund and to promote business linkages between housing finance institutions and CFIs. The ADB also extended a loan assistance of U.S.$100 million each to NHB, HDFC and HUDCO for onward lending to borrowers.

ISSUES IN THE DEVELOPMENT OF THE HOUSING FINANCE SECTOR

The major issue in the development of the housing finance sector in India is the availability of long-term resources. One such source is mortgage securitization, which has still not been done in India. NHB has been making sustained efforts to launch a pilot issue of mortgage-backed securities by pooling the mortgage loans originated by a few select housing finance companies.

However, in the absence of a supportive legal and regulatory framework, NHB has been constrained in designing the transaction and thus inevitably falls short of perfection. The constraints arise from some legal issues, taxation matters and the regulatory environment.

As mortgage debt is regarded as related to immovable property in India, its transfer can only be effected by means of an instrument in writing, which requires payment of stamp duty for the instrument to be valid. The stamp duty on conveyancing ranges from 3% to 17% of the consideration for transfer in different states.

Further, such mortgage debt can be transferred only by a registered instrument. As securitization envisages pooling of mortgages originated by housing finance institutions in different states, the requirement of registration not only makes the transaction too costly to be financially viable but also makes it impractical.

In addition, there are problems with foreclosure on mortgages. In order to tackle the problem of registration, NHB has proposed to constitute a "Trust" only for the debt component of the mortgage and hold the underlying securities with the originator or the issuer with adequate legal safeguards.

Some of the state governments have realized the importance of mortgage securitization and have reduced the stamp duty payable on the instrument of securitization to 0.1%. Other state governments are expected to reduce the stamp duty on such instruments as well.

As securitization is a very recent phenomenon in India, Indian income and other tax laws are not supportive of such transactions. The interpretation of these statutes in their present form makes the transferor liable to taxation if the transfer is without the transfer of legal interest or the underlying assets. These and other related issues are being sorted out by NHB with the tax authorities.

There are no regulatory guidelines or prudential norms in India on transactions involving mortgage securitization. In the absence of such guidelines, investor acceptability for such products may be limited and may hamper development of a secondary market for such products. These issues are being addressed, too.

The effort of NHB to structure its pilot issue of mortgage-backed securities is aimed at developing market awareness about the product and sensitizing the regulatory authorities about the need to create an enabling environment.

ISSUES IN THE DEVELOPMENT OF THE HOUSING SECTOR

Availability of land is crucial for the development of the housing sector. A major constraint has been the absence of available land. In order to impose limits on the accumulation of vacant land in urban areas and to prevent the concentration of such land in excess of the ceiling limits in the hands of a few persons, the government enacted the Urban Land (Ceiling & Regulation) Act in 1976.

Based on the experience working under the Act, it was evident that none of the objectives set forth in the preamble to the Act had been achieved. Therefore, this Act has been repealed very recently. This, along with the proposal to levy a vacant land tax, should release substantial amounts of vacant land. Once the supply increases, the price is expected to come down, and many households who considered themselves priced out of the market could think of owning a house.

Another law that was intended to encourage provision of rental housing has been the Rent Control Act, which in its existing form is tilted in favor of the tenants. The central government has already passed an act to remove this anomaly, but it is yet to be adopted by the state governments.

Similarly, the existing foreclosure mechanism is also very cumbersome and time consuming. In order to protect the interests of the lenders, suitable suggestions have been made to simplify the foreclosure mechanism.

The high rate of stamp duty has also been a barrier to the development of the housing sector. Efforts are being made to reduce the stamp duty so that the buyer's burden is reduced.

The silver lining in all this is that recently the government has made the development of the housing sector a priority, both from the demand and the supply side, by providing fiscal concessions to the providers of the house and to the buyers who borrow to acquire the house. The effect of these measures has become evident in that the rate of growth of the housing finance business conducted by the housing finance companies during the first quarter of the year has exceeded the growth rate witnessed during the corresponding period of the last two years.

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