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Housing Finance In India A Critical Evaluation



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Thanks to economic liberalization and ensuing policy changes the housing finance industry has under gone a paradigm shift over the last decade. Gone are the days, when taking a loan meant entering a labyrinth of documentation and dealing with condescending bank officials. Today in the backdrop of intense competition housing finance companies are falling over each other to woo potential customers. Housing finance being one of the safest lending avenues has also contributed to the emergence of new players in the market.

The unique place that a house in an individual's life plus the high proportion of the customer's own money in the house provides considerable comfort for home loan companies. In the present times, people are increasingly taking to credit, because of rising annual incomes and the series of tax sops that have become an annual ritual in the union budget. With the constant rise in demand for residential and commercial complex. The growth of the real estate sector in India has witnessed at an exponential rate over last five years.

Cut-throat competition among Indian Housing finance companies has brought down the interest rates by a few notches. Today apart from the resident Indians even NRI'S can apply for a home loan an applicant applying for a loan can either opt for fixed or floating rates. The loan rates of companies today are in between 7.50% to 12% depending on the repayment years .

National housing bank (NHB) was

established on July 9 1988 bank under an act of the parliament. The National Housing Bank Act 1987. NHB is wholly owned by RBI and is notified as a public finance Institution (PFI) under section 4A of the Companies Act 1956. NHB is chartered to function as a principal agency to promote housing finance and housing finance institutions to provide financial other support such institutions.

The promotional role of NHB includes the development and establishment of housing finance institutions at local and regional levels in the private and joint sectors by providing them financial and other support. National Housing Bank provides both direct finance and indirect finance to the housing sector direct finance is granted to public agencies a local bodies.

National Housing Bank is the regulatory authority for the housing finance companies. The National Housing Bank Act 1987 contains other provisions also for regulation over housing finance companies like a housing finance company is required to obtain a certificate of registration from the National Housing Bank for carrying on the business of house finance. Section 29B requires every housing finance company to maintain liquid assets. Housing finance companies are required to transfer at least 25% of their net profits to the reserve fund every year.

Under section 30A, the Bank may determine the policy and give directions to house finance companies relating to income recognition,

accounting standards, provision of bad and doubtful debts, capital adequacy and deployment of funds.

The bank has power prohibit any housing finance institution from accepting deposits if it fails to comply with any direction or order of the Bank or any provision of the act. Bank may also prohibit any sale or transfer of its assets without its prior permission.

The Bank has power to order that a special audit of the accounts of the house finance institution be conducted in relation to any transaction/class of transaction.

The bank has power to direct company to make its repayment if a housing finance company defaults in repaying a deposit.

The bank has power to file the winding up of the house finance company in case the company is unable to pay its debts or a prohibition on accepting deposits has been in force for 3 months or continuance of company is considered against public interest.

In exercise of the power conferred upon it under the National Housing Bank Act, 1987, the National Housing Bank has issued the directions to the house finance companies on 27th September, 2001.

Financing Activities Of National Housing Bank

The National Housing Bank provides finance (i) directly to project and (ii) by way of refinance to the primary lending agencies. It maintains two funds for this purpose e.g. the General Fund and Slum improvement and low cost housing fund. Refinance is provided mainly out of the general fund while direct finance is disbursed out of both the funds through largely out of the general fund.

Financial Analysis

During FY 08 the interest income has grown however non-interest income and other income have grown significantly mainly an account of investment income. The investments reflect deployment of surplus in GOI securities to enable NHB to avail short term loan from money market. The net interest income has maintained increasing

trend in FY 08. The cost of borrowing increased more than proportionately than the yield on advances. Consequently, the interest spread has declined to 0.88% in FY 08 from 1.09% in FY 07. ROTA improved from 0.56% in FY 07 to 0.82% in FY 08 an account of sharp increase in PAT and reduction in loan assets. Overall gearing as on June 30, 2008 improved to 8.28 times against 9.79 times as on June 30, 2007 on account of repayment of loans and lower fresh borrowing. Interest coverage was at 1.20 in FY 08.

To promote rural housing the National Housing Bank introduced a concession in the interest rate of 25 basic points in September 2003 for refinance in respect of rural housing loans disbursed by the primary lending agencies under the scheme. During the year refinance of Rs. 1700 crore was made by the Bank in respect of housing loans disbursed by primary lending agencies under this scheme. This constituted above 52% of the total refinance disbursement of Rs. 3253 crore during the year.

National Housing Bank provides financial assistance through direct lending to public agencies and local bodies set up by the Central/State Governments.

Under direct financing, the National Housing bank provides financial assistance for undertaking various types of housing projects. Till June 2009, 176 projects were financed through direct finance window under both General and special Funds Rs. 470.35 crore was disbursed under these projects out of which 106.73 crore was out of Slum Improvement and Low Cost Housing Fund. The following table showed performance of National Housing Finance in various cities. In this table we consider the base year to 2007. That means base year 2007 = 100.

Conclusion

Housing Finance industry has been experiencing down turn due to low demand. The Government has taken measures to boost the demand in the housing sector by softening of interest rates. The major factors which drive the housing finance industry are increase in demand

for house, increasing ability to buy a house on account of increasing disposable incomes, preference of finance for purchase of house, increase in loan to value ratio, increase in tenure

for housing finances & tax incentives. Growth in housing sector will boost growth in housing finance industry and considering the growth of population, demographic profile of India etc.

Financial Results

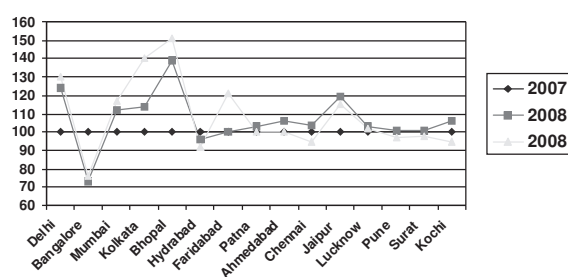
(in lakhs)

For the year ended	30.06.06	30.06.07	30.06.08	For the year ended	30.06.06	30.06.07	30.06.08
Interest Income	1171	1426	1493	Key Ratios			
Non Interest & Other income	32	22	64	PAT/Total income %	7.18	7.90	10.89
Total income	1203	1447	1557	Cot of capital %	5.29	6.12	6.32
Net Interest Income	191	212	229	Yield of interest earning assets %	8.10	7.95	8.01
Interest	980	1213	1265	Interest/Avg. Borrowed Funds (%)	5.96	6.87	7.13
PAT	86	114	170	Interest spread %	2.13	1.09	0.88
Financial position				ROTA (%)	0.45	0.56	0.82
Total loan Assets	16241	19572	17671	Overall Geaning (times)	9.43	9.79	8.28
Net worth	1816	1915	2085	Interest cover age (time)	1.20	1.17	1.20
Capital Employed	18948	20667	19345				

CITY-WISE INDEX

Cities	2007	2008 Jan-June	2008 July- Dec.
Delhi	100	124	130
Bangalore	100	73	76
Mumbai	100	112	117
Kolkata	100	114	140
Bhopal	100	139	151
Hyderabad	100	96	92
Faridabad	100	100	121
Patna	100	103	100
Ahmedabad	100	106	100
Chennai	100	104	95
Jaipur	100	119	115
Lucknow	100	103	102
Pune	100	101	97
Surat	100	101	98
Kochi	100	106	95

City-wise Index Graphical Presentation



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