India Housing Finance Report, 2017

VINOD KOTHARI CONSULTANTS

Kolkata | Delhi | Mumbai

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ABBREVIATIONS

Abbreviations	Full Form
ALCO	Asset Liabilty Management Committee
ALM	Asset Liabilty Mismatch
ALM	Asset Liabilty Mismatch
AUM	Asset Under Management
CAGR	Compound Annual Growth Rate
CAN	Central Nodal Agencies
CASA	Current Account and Savings Account
CCF	Credit Conversion Factors
CDR	Corporate Debt Restructuring
CDs	Certificate of Deposits
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CIC	Credit Information Company
CISA	Certified Information System Auditor
CKYCR	Central KYC Record Registry
CLSS	Credit Linked Subsidy Scheme
CRAR	Capital to Risk Assets Ratio
CRR	Cash Reserve Ratio
ECB	External Commercial Borrowings
EMI	Equated Monthly Instalments
EWS	Economically Weaker Section
FIU-IND	Financial Intelligence Unit India
GDP	Gross Domestic Product
HFC	Housing Finance Company
HIG	High Income Group
HUDCO	Housing and Urban Development Corporation
INR	Indian Rupees
LAP	Loan Against Properties
LIG	Low Income Group
LTIB	Long Term Infrastructure Bonds
LTV ratio	Loan to Value ratio
MFI	Micro Finance Institutions
MIG	Middle Income Group
MoHUPA	Ministry of Housing & Urban Poverty Alleviation Government of India
MOU	Memorandum of Understanding
NBFC	Non Banking Finance Company

NCD	Non Convertible Debentures
NGO	Non Governmental Organisations
NHB	National Housing Bank
NIM	Net Interest Margin
NOC	No Objection Certificate
NOF	Net Owned Funds
NPA	Non-Performing Assets
ORMIS	Online Reporting Management Information System
PLIs	Primary Lending Institutions
PMAY	Pradhan Mantri Awas Yojna
PMLA	Prevention of Money Laundering Act
PSB	Public Sector Bank
RERA	Real Estate Regulatory Authority
RRBs	Regional Rural Banks
SCB	Scheduled Commercial Bank
SLR	Statutory Liquidity Ratio
UT	Union Territory (ies)
VCF	Venture Capital Fund

FOREWORD

The demand for housing is ever-increasing with the growing population and urbanisation and access to housing finance needs to keep pace with it; therefore, the regulators, lenders and other market participants need to be incentivised to continue to progressively cater to the growing housing finance needs. Enhancing access to housing finance plays a quintessential role in meeting the growing demand for housing.

A large population of the country lives in substandard living conditions and there is dire need for improved sanitation, basic infrastructure and affordable housing. Deep, resilient and affordable housing finance markets are necessary for the middle and lower income households to manage formal housing.

The policy initiatives of the government of India to propel the access to housing finance and to make it sustainable and viable for the financiers are much needed. Increasing access to capital markets, long term funds, facilitating regulations, etc. have been key efforts from the government and the regulators. However, there is a lot of ground to cover. National Housing Bank has also been proactively registering more and more housing finance companies to cater to areas ignored by conventional lenders thus far. The recent surge in housing finance companies from 33 to 89 companies[1] , and the urge to spread them geographically also gives a perspective of the regulator to offer inclusive growth.

Several of these housing finance companies are finding ways and means of offering financial inclusion by replacing collateral requirements from proper land titles to pseudo collaterals, introducing qualitative measures for assessment of low income borrowers, offering developmental housing loans and more.

The housing finance sector has over the years has been largely driven by banks or a handful of housing finance companies. The scenario is fast changing. With the growing number of housing finance companies, the challenge is not just to render financial inclusion, but to create a conducive environment for them to sustain and scale and therefore the support from the regulators will be ever-increasing. The path to a more resilient housing finance market is difficult one but surely an achievable one and soon.

This Report is our attempt to capture the key developments in the housing finance space, particularly housing finance companies (HFCs). We have been

[1] https://nhb.org.in/report-on-trend-progress-of-housing-in-india-june-2000/list-of-companies/

coming out with this Report for some years now, and we are glad to see the wide reception that Report has got in the past.

The Report makes an analytical comparison and collation of data abaout HFCs in the country. The Report also provides a comprehensive view of the regulations applicable to HFCs, and takes stock of the changes in the regulatory and business scenario. We also focus on the available means of finance available for HFCs and make some interesting comparisons about cost of financing, rates of interest and spreads.

We are glad to present this Report and we do hope that the Report makes a meaningful contribution to the cause of housing finance in the country.

Nidhi Bothra
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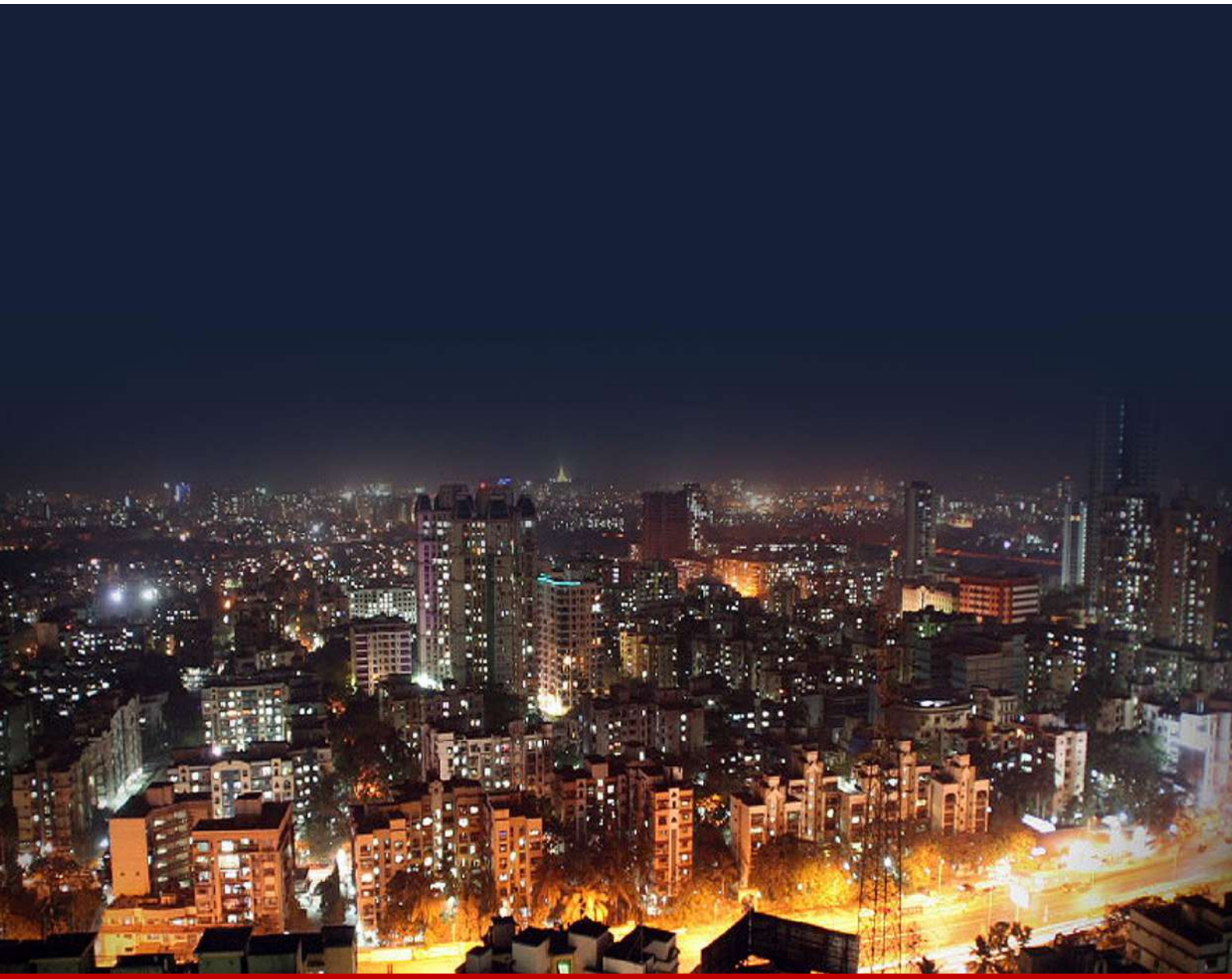

EXECUTIVE SUMMARY

Policy measures have focused on the shortage of housing, and the Pradhan Mantri Awas Yojana is an ambitious move towards this. Housing finance is a pre-requisite for meeting housing needs. Therefore, government policy must focus on creating a facilitative robust environment for housing.

Housing shortage in India can be classified into urban and rural housing. Both problems have their own dimensions. The urban housing shortage adds to about 20 million units – therefore, the target of Housing for All is a daunting number! The problem seems even more acute once we realise that the population pyramid depicts yawning shortage at the lower segments.

Penetration levels of housing finance in India still remain quite low in global comparison. The growth rate of housing finance over the last 7 years or so results a CAGR of 18%; affordable housing finance, though a recent entrant, promises to have a much higher CAGR.

While the housing finance market in India is served by both banks and HFCs, but the percentage market share of HFCs is consistently growing. What is quite an interesting change over time is that the average rates of interest charged by banks, and by leading HFCs, have almost converged, leading to a conclusion that HFCs have attained a cost of capital comparable to banks.

As for banks, housing finance is a very important component of retail lending books of banks. As a major incentive for banks in affordable housing finance, the RBI allowed banks to issue infrastructure bonds, with substantial regulatory advantages.

Looking at the aggregate balance sheets of HFCs, it is heartening to note that the proportion of capital market instruments in the total liability profile of HFCs has grown impressively over the past, to about 40% of total long term liabilities. This has also resulted into significant reduction in the cost of financing for HFCs. Leading HFCs are able to reduce their cost of financing to as low as 8%, even though one would notice significant differences in the cost of financing for various companies.

An analysis of the weighted average interest rates charged by different HFCs reveals that the net interest margin (difference between cost of funds and weighted average lending rates) may range between 2.5% to 3%, considering the impact of higher yielding components of the portfolios including loans against properties.

The growth in business in year 2016-17 was obviously impacted by macro factors including demonetisation. However, new entrants in housing finance

business continued to spread both geographically as also in terms of customer profile.

In terms of applicable regulatory regime, one of the most important changes affecting the housing sector has been the phased implementation of the Real Estate Regulation Act in different states. Home lenders generally welcome the move. On the other hand, the implementation of the Insolvency and Bankruptcy Code has put home lenders into a precarious situation as several developers, in the middle of the development, have filed for insolvency, leaving home buyers, and home lenders in the lurch. These developments are still unravelling.

Housing finance holds a strong promise, both for traditional as well as affordable housing finance. We expect to see entry of several housing finance companies still.

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