INDIAN INSTITUTE OF TECHNOLOGY ROORKEE

NPTEL
NPTEL ONLINE CERTIFICATION COURSE

Housing Policy & Planning

Lec – 11
Affordability & Housing Finance

Dr. Uttam K. Roy
Department of Architecture and Planning
Indian Institute of Technology Roorkee

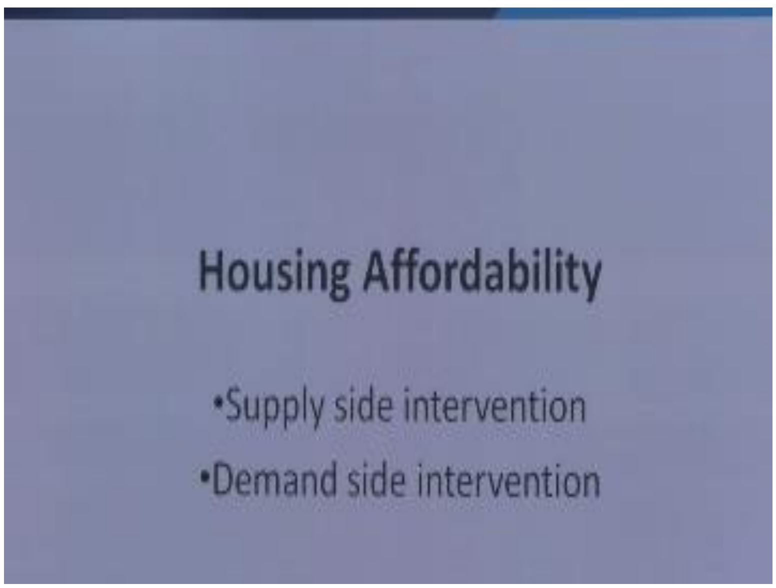
Hello today we are going to discuss the another important parameter of housing planning and policy that is affordability and the housing finance so because before we come to this part let us have quick recovery of the last discussion in the last discussion we discussed about the land reforms and then we discussed about the other boundary conditions which is affecting the housing supply at the overall level overall national level an under those criteria the we discuss the policy and the legal set of policy legal intervention which are required at the central level state level and the lower level at various levels.

And also we discuss the housing policies documents done and at the central level state level how it is done and what is the major prescription of those policy documents. Now one very important parameter of the, are reason for not achieving or not fulfilling the housing for the masses is the affordability. In earlier discussion we have seen that the housing could not be delivered to majority of the people of a city or a for country because of their lower level of affordability because the rate or the price of the housing which market supplies is much higher than the affordability or affordable limit of the people in the lower income category or the poor people and we have discussed that there are basically four categories of the economic group which we divide to analyze the housing situation or housing finance those are higher income group middle income group lower income group and economical weaker section.

So mostly as we have discussed before that the market supply for the housing is majorly given for the higher income group and middle income group where as the lower income group and the economical weaker section even if they have a larger sections larger requirement of the housing but they get less amount of house from the market and even then the price of those the houses are very pretty high so they cannot afford it so as a result they end off in making squatters and slum like situation in the city so now what is the problem.

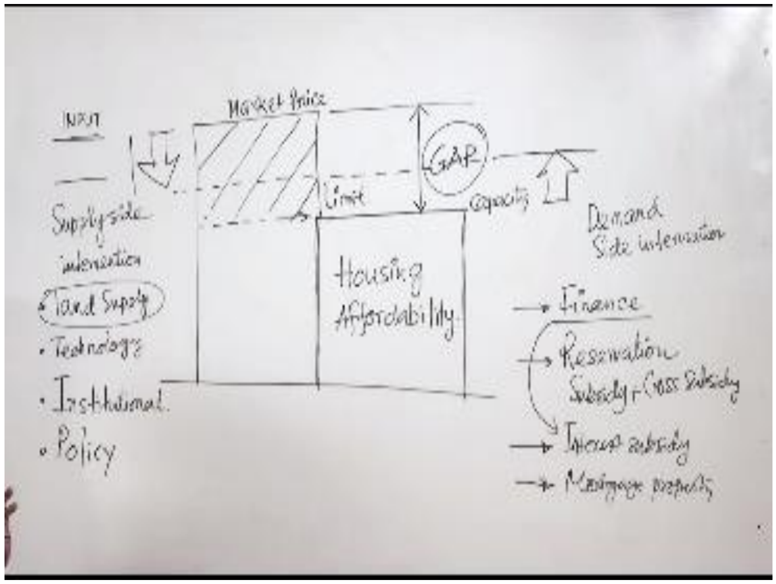
So let us see the conceptually how it affects so in a housing affordability discussion there are two very inter linked concept which is called supply side intervention and demand side intervention.

(Refer Slide Time: 03:13)



Because ultimately the housing affordability is a relative concept any component or any product which may not be affordable right now as per my income eligibility may be later on if I improve my income eligibility or my capacity I can afford that also but in a given point of time to get that product to get that product even if it is housing or any other product there are many parameters which is influencing the price of that product so one is the absolute price of the product.

(Refer Slide Time: 03:53)



So let us writes the housing affordability. So one part is that if this the housing affordability limit for particular economic group. For a particular economic group this is the affordable limit. Now how we decide this limit initially it is to be decided based on the purely the income criteria sometimes it is calculated based on the percentage of the monthly income it may be 30% 25% of a family income so based on the income limit based on the percentage that criteria is fixed. So if this is the limit of the affordability limit of the particular income group it may be economical weaker section it may be lower income group and may be that this is the market price.

Price of that house which is available now this becomes the GAP in the affordability so this is the capacity and this is the market price so this becomes the GAP which need to be recovered which need to be fulfilled to bring or to supply more amount of affordable houses now this GAP can be fulfilled in two ways either we reduce the market price by some method or we increase the capacity so that somewhere in between the GAP we make a some situation where with the enhanced capacity we can afford a product which is housing or basic house which is lower than the market price.

Now to lower the market price of any commodity there are several inputs so we need some inputs. Input to lower the cost of a house and those inputs or actions are called as supply side. Supply side intervention so objective of the supply side intervention is to bring down the market price of the house by giving various inputs in terms of making the housing in a cheaper cost of price and the intervention which is required to enhance the capacity of the people so that they can buy a house even if it is little more than their original capacity that is called the demand side intervention which is nothing but intervention.

So which is nothing but that creating more demand creating more capacity of the individual parts of the people of the groups so that they can buy higher amount of priced housing. Now what are the supply side and demand side intervention so supply side interventions are basically which influences pricing of a house or cost of a house in a ways so that ultimate price brings down. So one is land supply in a cheaper rate we have discussed that the component of the housing cost the land the building and the manpower and the administrative cost so one of the major cost of the housing is a land.

So if the land is supplied in a cheaper cost last day we discussed the land management also land management after the policy discussion. So in a land management we discussed that we have different sets of land management styles and based on that the land can be supplied in a comparatively cheaper rate for the mass housing so one is the land supply the second is the technology the current conventional technology which takes roughly five to four years four to five years for a construction of a regular housing project.

Now as a result of this long duration of the completion time the housing cost sometimes are escalated sometimes they get project over run time over run and the cost become higher the price become higher so if we use better technology better methods for construction and bring down the construction time may be within two years or even less then we can bring down the cost also substantially later on will come to this discussion in a detail manner but right now let us taken note that technology also can bring down the cost substantially from the market price by improving the systems of the construction in a different rate using the new technology.

Then there are inputs like institutional like if the delivery or the housing providers in a government and the private they are efficient there effective in delivering the service delivering or the discharging or disposing the housing units in a quicker time in a efficient manner then also the housing price could come down and also with this the government policy. Government policy like say tax land value everything is control by the government if those policies are favorable for the housing so that it brings down the market price so all these parameters can influence the my care market price and bring down the cost.

On the other hand in the demand find intervention the first intervention which we can do is the arrangement of the housing finance 20 years back we have seen that there was no formal housing finance a person after working for his life time for a great period of time after that he construct his own house and make his house but right now because of the housing finance in terms of housing loans are available from the various nationalized banks so people are taking those loans and making their houses in a greater easiness and better convenience.

So housing finance is one major demand side intervention which creates more demand which enhances affordable capability or capacity of the people, then second is the government polices like say reservation so in reservation government can create bulk of housing result for the economical weaker section and lower income group so that and can give subsidy so reservation along with subsidy or gross subsidy can also enhance their capability to take the house in a lower price and apart from that also there could be polices like say interest subsidy though it is related with housing finance sometimes government can provide the interest subsidy or sometimes they can provide a the mortgage property.

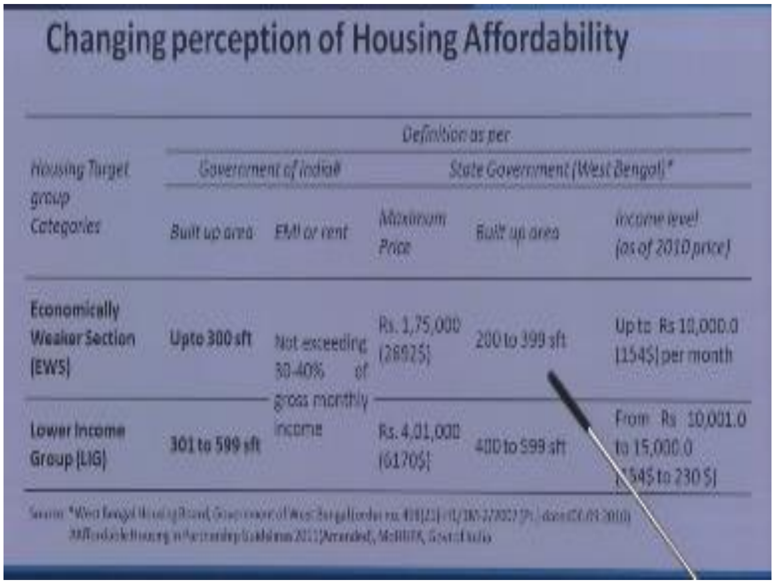
So mortgage property against the mortgage they can take the finances and they can end finance the capability so these are the two side of the balancing act in housing affordability which influences the or control the of the market of the housing affordability and somewhere we fix the affordable limit of a house of a particular economic group but buy enlarge it is used to be determine based on the income category.

Now right now we are going from a income based paradigm income based approach to a different approach of determining housing affordability so earlier we used to calculate the housing affordability based on the income criteria. That is why in all public housing projects done by the housing boards and the develop an authority or the any state or central government authority. We will find that the housing units created for the lower income group people and economically weaker sections those are reserved and those are even only on the basis of the income criteria and there are also limitations like if a house is given to those economic group they cannot sale it out they cannot rent it out so flexibility is less so for that reason right.

Now people there is a concept that instead of going for a income criteria there could be the gradation of the affordability based on the area the floor area. Area of the floor so that in a housing project if you offer different kind of units based on the different category of the people different size of the units so that different category of people can purchase those units starting from the smaller unit medium unit large or very extra large unit so those kind of approach is coming and those.

So that kind of approach is coming and those are current paradigm which is major change from the income criteria based approach to the area based approach. Now let us see the further section how it is working so right now as we told that from the income based approach to area based approach let us see in example here you can see the government of India.

(Refer Slide Time: 15:26)

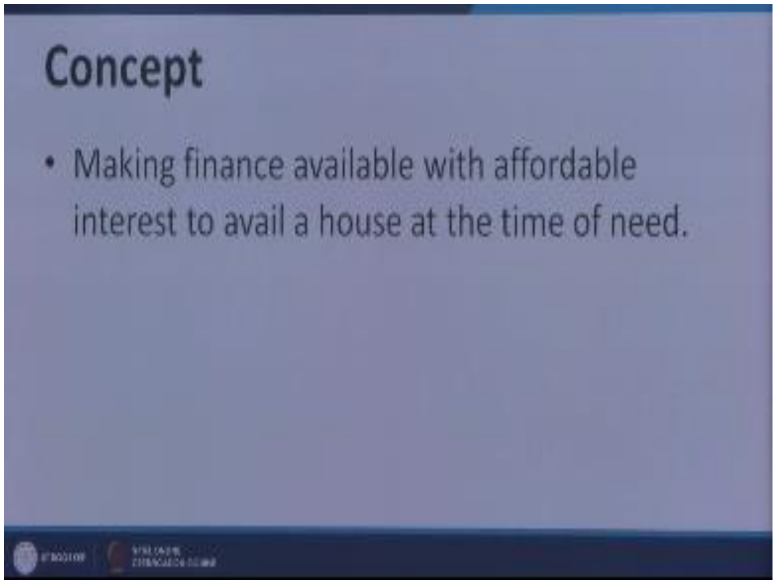


They have mentioned for economical weaker section a buildup area of 300 square feet and for LIG 300 to 600 square feet similarly the state government like state government of west Bengal they have mentioned the maximum price cap also and also they have mentioned the buildup area which is almost similar little extra than the government of India stipulation and this is almost little more or similar for 100 to 600 square feet.

So this area and the price cap is the current paradigm of the government of India and in the various state governments what they are thinking in housing affordability now from this point we will go to another section called housing finance, but before housing finance we will come back to again this affordable part when we discuss the current government programs like Prathan Mantri Awas Yojana so some part of the affordability definitely will be discussed during that discussion in subsequent lecture.

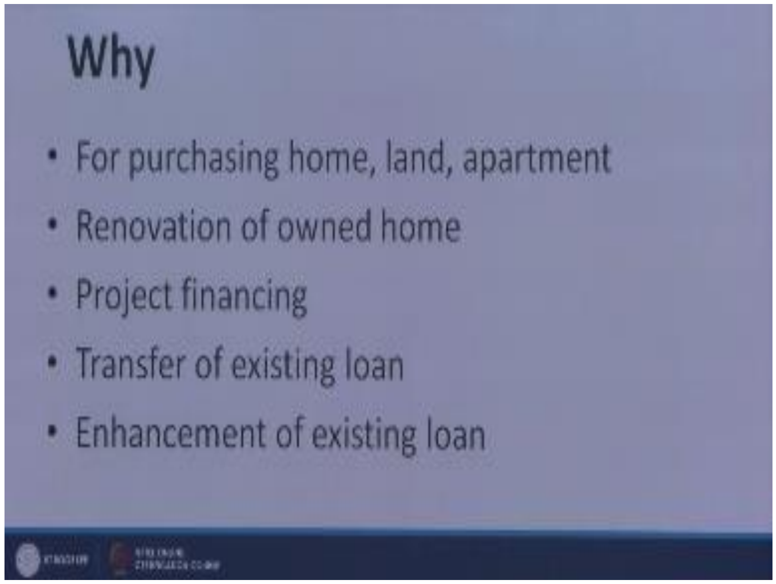
Now let us see that how housing finance as a concept of demand side intervention can take a large role and what is the concept of the housing finance as a whole. So basically housing finance is the concept is the to make the finance available for purchasing a house or to make the people affordable.

(Refer Slide Time: 16:53)



To purchase a house or land that is the concept.

(Refer Slide Time: 17:04)

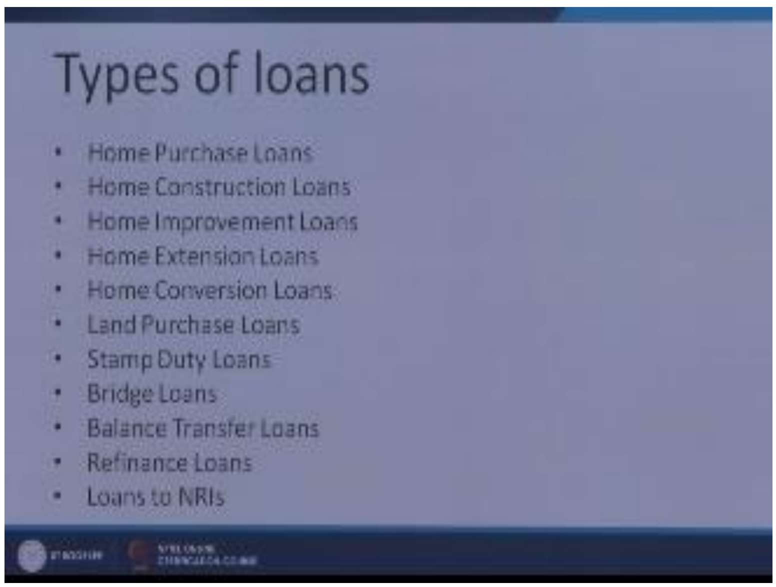


So why it is given it is given basically to purchase a home, land or apartment or sometimes it is given for the renovation of the own home for example you have purchased a home you have stayed in that home, but after sometime you find that you need to some renovation, alteration and retro feeling of that particular unit so you can go for the housing finance it is also available and also apart from this finance and they are could you project finance for the developers who are constructing the housing project the housing finances are also available for those kind of requirement.

Then transfer of existing loan that one finance under a nationalized bank can be transferred to another bank considering different situational need that is also possible some banks some financial institution of for that also and also the enhancement of the existing loan also possible if there is an enhancement of the scope of the work for example you are purchasing a house or apartment you have taken a housing loan from a bank and after sometime you want to make a kind of renovation of the internal spaces or make a very intricate interior decoration so it can enhance amount of the housing loan.

Then there are two major categories of the housing finance one is the project finance for housing it is main for the developer by enlarge the project finance is meant for the developer and basically project finance is a supply site intervention need the project finance is more available then it creates better finance available for the project and brings down the cost where as the little finance which is individual person to purchase their home it is demand side interventions which creates more demand, more capacity for a individual person. Then let us see what are the types of finance available for purchasing a home.

(Refer Slide Time: 19:12)



The first is the simply the purchase loan. Home construction loan you can purchase land and you can construct your own house out of that loan then on an existing house you can improve the your house or you can construct some extra rooms or you can add some rooms with the improve loans. Home extension loan you have existing home you want to extend horizontally or vertically so that is also possible with the housing finance. Home conversion loan you have a house you want to convert some part of the house to some other use like say small shops under the prevailing laws if it is applicable, if it is available you can do that and you can take loan for that purpose also.

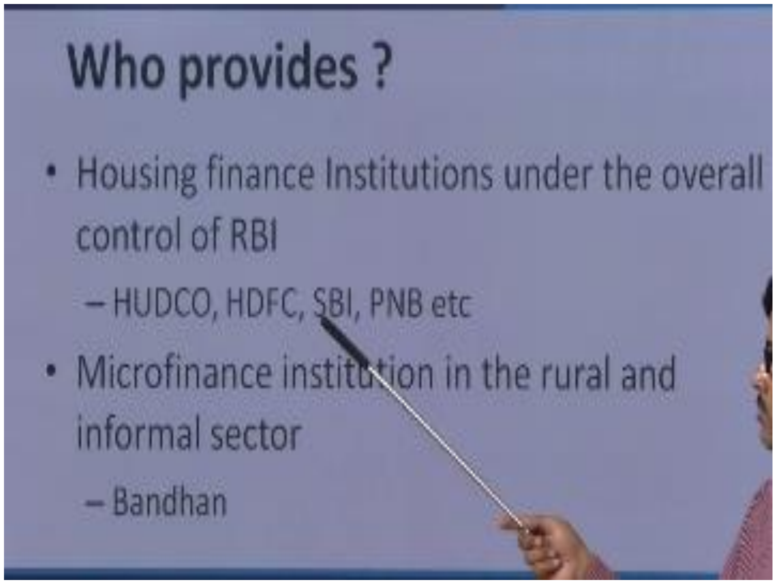
Then land purchase loan some banks not all the banks some financial organizations they offer also loans for the purchasing of the land the stamp duty you know that after purchasing a house you have to get the house registered under the state government and for that registration the stamp duty which is nothing but the percentage of the total housing cost is to be given to the government sometimes it is a fixed percentage sometime it is a variable percentage as per the income groups, but that is required to register the house or the apartment under the government registration act.

So some financial organization or some banks they also offer the stamp duty loans then bridge loans bridge loans is something like you have a existing loan and you want to take another loan and you can kind of a top of that loan we have some extra amount and bridge that extra requirement or another requirement of another safer at loan that can be done. Then balance transfer loan sometime if you are not convenient with your existing loan or your service provider you can transfer that the balance to another housing finance provider where possible you get the lesser amount of interested or better service that is also possible.

Some banks they offer the balance transfer sometimes on the payment of some penalty or payment of some premium amount. The refinance of loans if a finance is given for any particular property, but that property is maybe that it is not being constructed or maybe it is not in proper use or maybe it is not being in particular occupied by the people so it maybe require refinancing to refined it to renovated so that kind of loans are also available then loans to NRI if a person is NRI they will be eligible to get the NRI loan.

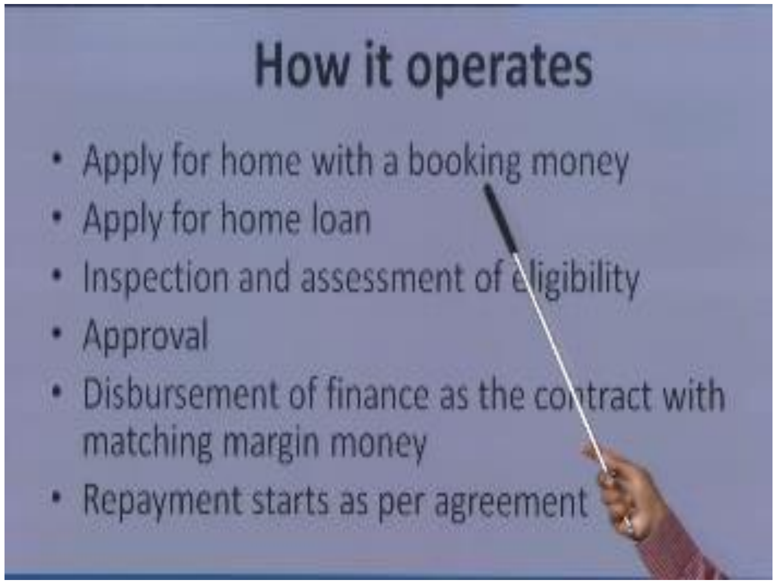
Then who are the providers of this loan, there are housing finance institution under the overall control of Reserve Bank of India like HUDCO, housing and urban development corporation.

(Refer Slide Time: 22:20)



HDFC, SBI, PNB or many other nationalized banks they provide housing loans as per the prevailing interested apart from that there are micro finance institution in the rural and informal sector who provides loan to the people including housing loan basically all different type of household need they providing loans like Bandhan. Then let us see how the housing finance operates.

(Refer Slide Time: 22:50)



So initially you have to apply for a home with a basic booking money it maybe some few thousands, some few lacks that you have to arrange money, own earning except few subsidized government project where government directly provides that booking money also but by enlarge the booking money has to be given by the owner then after you book the particular apartment then you apply for a home loan to the particular government organization or financial institution.

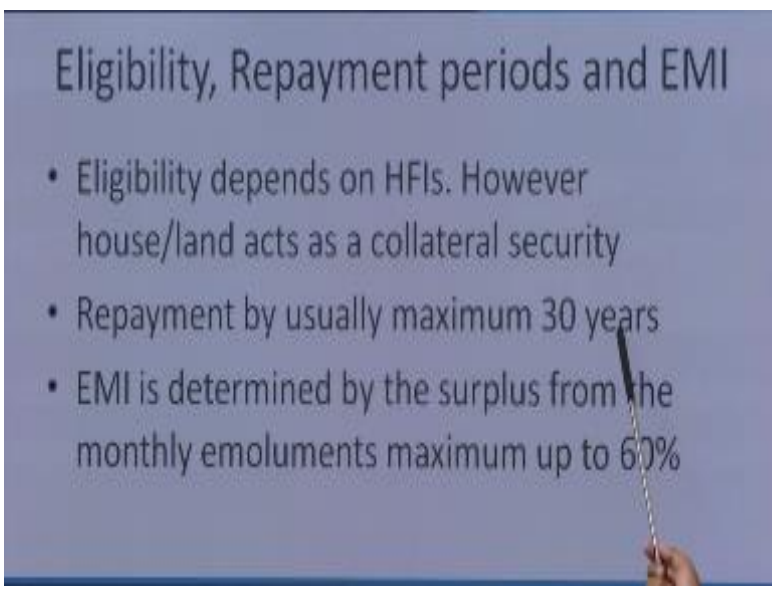
Then that particular institution or the financial institution or bank will inspect and assess the eligibility they will assess your eligibility to get the loan whether you are eligible to get the loan as per the requirement and they will inspect the property also or inspect the possible house which you are buying or you are planning to buy and after being satisfied with the assessment of your eligibility and inspecting the property.

They will do the approval of the loan and the loan will be disburse as per the contract with the developer and for every installments like if a developer takes the money in say equal five or six installment every installment we will have two part one major part will be given by the bank authority and another small part like15 to 20% amount will be given by you which is called as a margin money.

Bank never gives 100% money to the borrowers they always gives money up to maximum 85% or 90% so remaining money you have to give instantly later on you can pay the money given by the bank then after the as per the agreement maybe after starting of the loan or maybe after the construction of the house you repayment for the remaining money margin money already given by you remaining money that is the loan amount is being repaid.

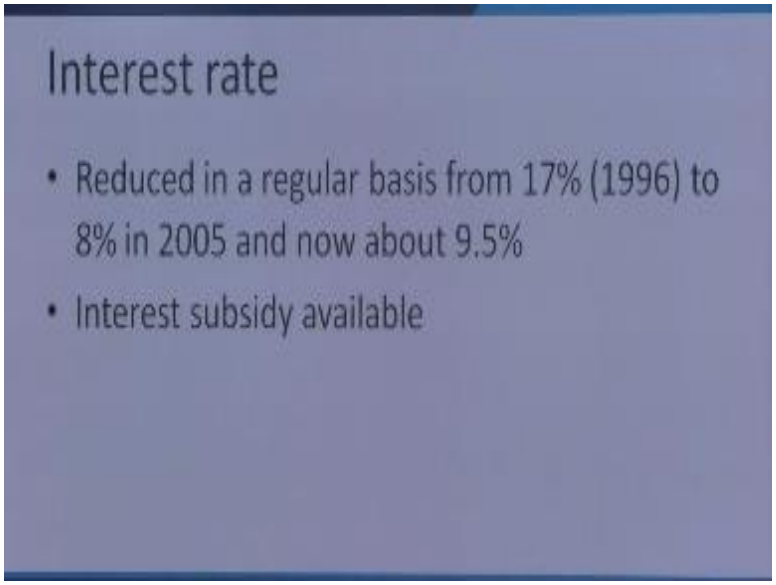
So eligibility depends on these policies of the housing finance institution, but however this acts as collateral security like even if you have become eligibility you have to sometime the bank they prefer that if you have collateral security like house or land as a mortgage they will be better to give the loan easily.

(Refer Slide Time: 25:20)



And usually repayment takes place maximum with 30 years and the EMI is determined by the surplus from the monthly family income which is maximum up to 60% that mean that the internal calculation of the financial institution they will calculate your capability of monthly installment after detecting your possible monthly expenditure, but otherwise it will not go beyond 60% of your monthly revaluations and based on that they will calculate and they will calculate your eligibility of the loan.

(Refer Slide Time: 25:58)



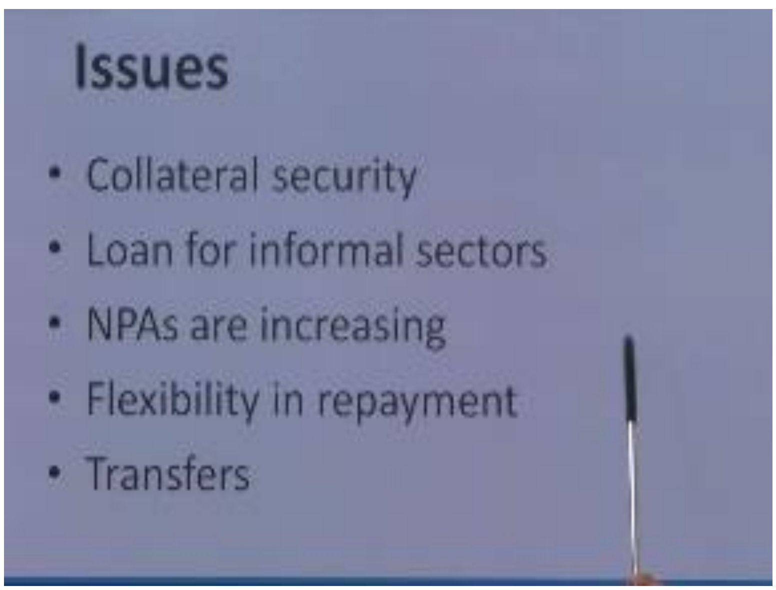
So interest rate is varying it was very high like 17% in 1996 to only 8% in 2005 and now it is about average 9.5% in all the bank so depending on the government policy and government financial policy the housing loan interest rate varies time to time and sometimes for poor people for economical weaker section and lower income group people within this interest rate also government sometimes provides the interest subsidy.

Now let us see what is the major problems and issues now these are the loans which is basically formal way of getting a financial help but common people, poor people sometime they cannot access because of the formal procedure so that is the first problem second is the product loan as a product, housing finance as a product sometime they lack of diversity they did to develop more options in the product of the housing loan.

So that every category of the people respective of their income criteria, social background they can access the housing finance then transference in accountability of the financial there are many housing finance organizations whose transactions are may not be transparent so this is the areas of concern which we need to discuss and also there are concept like NPA if you take a loan and you do not repay the amount then your housing property becoming nonperforming assets and for every nonperforming assets the financial institutions they have mechanism to take back to recover that money using the surface the act.

So every bank should not have to more than 5% the total finance as NPA that is the indicator of the banks to become a efficient performer. And so issues are collateral security because some of the banks they insist on collateral security without the security they provide the housing finance so it becomes a problem for the poor people because most of the poor people they do not have the collateral security then loan from the informal sector.

(Refer Slide Time: 28:22)



The informal sector which are working at the local level in the slums and the village area for the housing finance those are by enlarge and organized so how it can be organized, it can be stimuli into a proper process that is also another issues then for the banks the nonperforming assets are increasing that means the number of loans and the amount of loan under the nonperforming assets which is not getting any recover, getting any monthly installments those are increasing at it is a major concern for the major bigger banks in India.

Then also another very important part is flexibility in the repayment right now the banks they take money in terms of the equated monthly installment, but it may happen that in a lifetime of a people they are might be hard times for the peoples were maybe they cannot repay that money in a particular month or maybe they will earning more money after sometimes so there could be flexibility that in some of the months they can repay very lesser amount of the average EMI and some of the month.

They can eligible to repay the more amount of money so this flexibility of the repayment should be there in a housing finance package in a better way and another thing is transfer sometimes transfer of the loan amount is from one bank to another bank or withdraw the loan is also becomes commercial or it is not easy for the people, but slowly slowly all the banks and the financial institution they are coming forward to make it easy for common people.

So let us summarize very quickly so today we discuss the affordability and the housing finance in affordability we discussed that affordability is the financial criteria to purchase a home or land and affordability depends on basically it is relative and it depends on the income criteria and since it is relative it is depending on the two factor. One factor that it reduces the price of the product and another factor which increases the capacity of the people the first factor which reduces the cost of the housing that is call supplies or intervention.

And the factors which increase the financial capacity of the people to purchase a house it is called demand side intervention now housing finance is one of the great demand side intervention for individual person and also housing finance can be very great, very helpful for the project finance which can deliver as a supplies or intervention. Housing finance is basically given on the basics income eligibility and it is given to the people up to extend of 85 to 90% remaining money the individual person has to repay in terms of equated monthly installment. The more or less it is repaid in the maximum duration of 30 years.

The major housing finance institutions are likes HUDCO and the other nationalized housing banks who provides the housing finance for the common people and also for the projects and the major concerns in the housing finance subject is the since it is the formal mechanism of the getting housing finance some people poor people, common people sometime they are not accessible they cannot access the housing finance easily.

The collateral security demanded by the banks sometimes it is not possible for a common people or poor people to deposit the collateral security and also for the bank side the cases of the NP nonperforming assets are increasing which is a major concern for the bank and flexibility in terms of repaying the installment is another area which in deeds attention so based on that next we will discuss the another supplies or intervention that is the technology system which we does today that how a technology system can deliver more housing in a lesser amount of time and can and reduce the cost of the housing in a greater extend. Thank you.

For further Details Contact

Coordinator, Educational Technology Cell

Indian Institute of Technology Roorkee
Roorkee – 247 667
Email: etcell.iitrke@gmail.com, etcell@iitr.ernet.in
Website: www.iitr.ac.in/centers/ETC, www.nptel.ac.in

Production Team
Neetesh Kumar
Jitender Kumar
Pankaj Saini

Graphics
Binoy. V. P

Camera

Sarath Koovery

Online Editing

Jithin. K

Video Editing

Arun. S

NPTEL Coordinator

Prof. B. K. Gandhi

An Educational Technology Cell

IIT Roorkee Production