

## CHAPTER II

### Role of Housing Finance Companies

**2.1** As per the NHHP-1998, the HFCs are expected to:

- redefine their role and move away from their traditional approach to housing finance;
- develop and expand their reach to meet the needs of people;
- devise schemes to lend at affordable rates to those who are in dire need of housing finance support;
- mobilise resources from provident funds, insurance funds, mutual funds, *etc.*, for house building activities; and
- develop innovative instruments to mobilise domestic savings.

#### **2.2** *Share of HFCs in the housing finance market*

**2.2.1** After the setting up of the NHB in 1988, public insurance companies and the Scheduled Commercial Banks (SCBs) floated separate HFCs to avail the NHB's refinance facilities and tax concessions. Forty-four HFCs had registered with the NHB till 31 March 2006 and seven of them were Central public sector companies.

**2.2.2** Till late 1990s the fund requirement for purchase of houses was largely met by borrowings from the employer and from the unorganised sector consisting of friends and relatives. With falling interest rates and tax concessions extended by the Government, many potential borrowers turned to the housing loans extended by the organised finance sector. The SCBs also found retail housing loans attractive as there was limited exposure per borrower coupled with adequate collateral security. During the boom period 1998-2005, interest rates on housing finance were driven down by fierce competition from an average of about 11 *per cent* in 2002 to about 7.75 *per cent* in 2004, as a result of which, there was a rapid growth in disbursement of housing loans up to 2003-04. The trend has been reversed owing to the relative hardening of interest rates during the period 2004-05 and 2005-06.

**2.2.3** The industry has grown with housing loan disbursements having risen from Rs.23858 crore in 2001-02 to Rs.86034 crore in 2005-06, thereby witnessing a growth of 261 *per cent* during this period. Table 2 and Chart 1 below show the disbursements\* of housing loans and the share of the HFCs compared to the SCBs and the co-operative sector during the period 2001-02 to 2005-06:

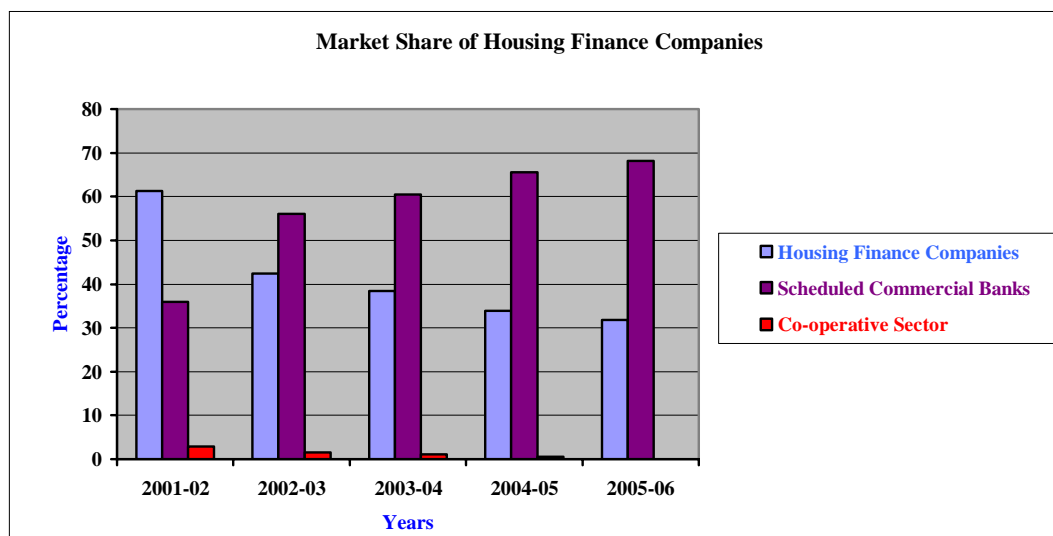
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\* Source: the NHB's Report on trends and progress of housing in India 2005/ FICCI's website and annual accounts of the NHB for the year 2005-06.

**Table 2: Disbursements of housing loans by HFCs, SCBs and Co-operative sector****(Amount: Rs. in crore)**

Institution	2001-02 Disbursements		2002-03 Disbursements		2003-04 Disbursements		2004-05 Disbursements		2005-06 Disbursements	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
Public Sector HFCs	2431.69	10.19	2991.32	7.12	1945.15	3.58	2033.07	2.64	2263.11	2.63
Private sector HFCs	12182.31	51.06	14840.68	35.31	18916.85	34.84	24008.93	31.24	25147.89	29.23
<b>HFCs Total</b>	<b>14614.00</b>	<b>61.25</b>	<b>17832.00</b>	<b>42.43</b>	<b>20862.00</b>	<b>38.42</b>	<b>26042.00</b>	<b>33.88</b>	<b>27411.00</b>	<b>31.86</b>
SCBs	8566.00	35.90	23553.00	56.04	32816.00	60.43	50398.00	65.57	58623.00	68.14
Co-operative sector	678.00	2.84	642.00	1.53	623.00	1.15	421.00	0.55	NA*	
<b>Grand Total</b>	<b>23858.00</b>	<b>100.00</b>	<b>42027.00</b>	<b>100.00</b>	<b>54301.00</b>	<b>100.00</b>	<b>76861.00</b>	<b>100.00</b>	<b>86034.00</b>	<b>100.00</b>

\*Figures for disbursements by the co-operative sector during the year 2005-06 were not available as of October 2007.

**Chart 1**

**2.2.4** The HFCs had a market share of 61.25 per cent (Rs.14614 crore) in 2001-02 and this decreased to 31.86 per cent (Rs.27411 crore) in 2005-06. The SCBs in turn increased their market share from 35.90 per cent (Rs.8566 crore) to 68.14 per cent (Rs.58623 crore). The growth of 584.37 per cent in disbursements of housing loans by the SCBs is partly driving the small HFCs out of the market.

2.2.5 Table 3 shows the share of the Central public sector HFCs in the housing market between 2001-02 and 2005-06.

**Table 3: Disbursements of housing loans by the Central public sector HFCs**

(Amount: Rupees in crore)

Central public sector HFCs	2001-02		2002-03		2003-04		2004-05		2005-06	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
BOBHFL	170.54	7.01	211.41	7.07	60.00	3.08	1.00	0.05	0.04	-
CBHFL	71.43	2.94	85.95	2.87	98.69	5.07	60.30	2.97	12.71	0.56
Corp Bank HFL	97.10	3.99	127.31	4.26	102.51	5.27	63.07	3.10	17.83	0.79
HUDCO	1825.00	75.05	2311.00	77.25	1287.00	66.17	1066.00	52.43	1105.00	48.83
IHFL	-	-	-	-	112.24	5.77	544.87	26.80	734.51	32.45
PNBHFL	267.62	11.01	255.65	8.55	284.71	14.64	297.83	14.65	393.02	17.37
<b>Total</b>	<b>2431.69</b>	<b>100</b>	<b>2991.32</b>	<b>100</b>	<b>1945.15</b>	<b>100</b>	<b>2033.07</b>	<b>100</b>	<b>2263.11</b>	<b>100</b>

*Indbank Housing Limited, one of the seven central public sector HFCs, stopped its lending operations in 1998.*

2.2.6 It is clear that the share of the public sector HFCs in the housing market continued to decline during the period 2001-02 to 2005-06 except for PNBHFL and IHFL who showed increase during this period. However, the total market share of PNBHFL and IHFL together was small and stood at 1.31 per cent as on 31 March 2006.

2.2.7 The phenomenal growth recorded by the SCBs is attributable to the large network and access to low-cost deposits by the SCBs which has helped them to extend home loans at competitive rates. Stating that the HFCs did not have these advantages, the Managements of HUDCO, CBHFL, IHFL and PNBHFL also stated (October 2007) that the country's fiscal laws, to some extent, provided an advantage to the SCBs vis-à-vis the HFCs such as:

- (i) Section 36 (1) (viiia) of the Income Tax Act allowed the SCBs some deduction in the taxable income in respect of provision made by them towards bad & doubtful debts. The HFCs were, however, not eligible for similar benefit on provisions made by them on non-performing assets.
- (ii) While loans given by the SCBs to the HFCs qualified as priority sector lending if the individual loans onlent by the HFCs were up to Rs. five lakh, loans given by the SCBs to individuals for housing purposes up to an amount of Rs.20 lakh qualified as priority sector lending.

2.2.8 Notwithstanding the above, the HFCs have the advantage of selling a single product with better customised service in comparison to the SCBs who offered a variety of products in retail finance. There was accordingly a space for dedicated institution in the form of HFC to achieve the Government's objectives in the housing sector.

***Recommendation No. 1***

- (i) ***The HFCs business model focussing on a single product needs to be strengthened so as to enable the HFCs to be more efficient in asset sourcing, servicing and collections.***
- (ii) ***The Government of India may consider fiscal remedies so that the HFCs can compete with the SCBs on an even level.***