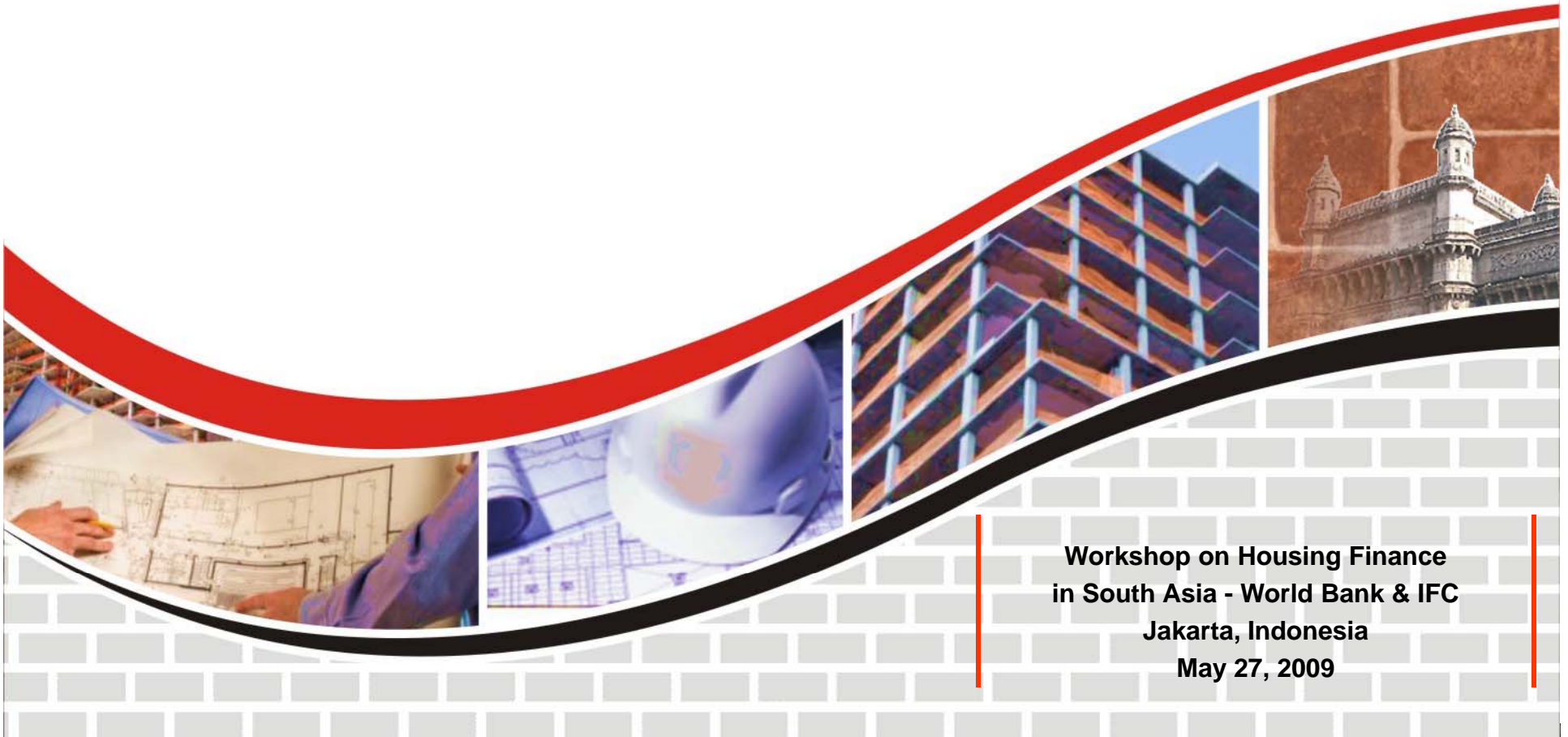


THE HOUSING FINANCE MARKET IN INDIA

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Workshop on Housing Finance
in South Asia - World Bank & IFC
Jakarta, Indonesia
May 27, 2009

AGENDA

- **INDIAN HOUSING FINANCE SYSTEM**
- CURRENT MARKET SCENARIO
- IMPACT OF THE GLOBAL CRISIS
- REGULATORY ENVIRONMENT
- HDFC SNAPSHOT
- AFFORDABLE HOUSING
- PROSPECTS & CHALLENGES



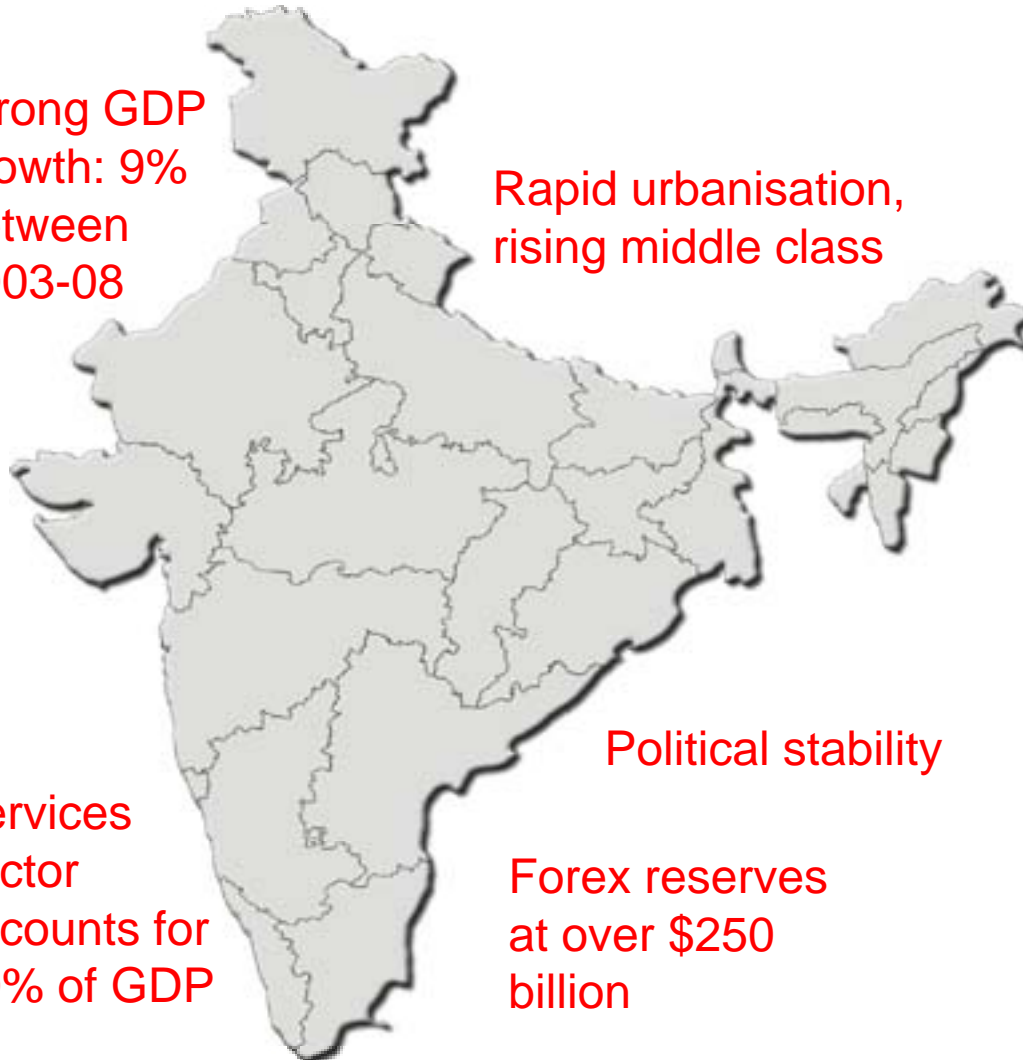
South Asia: Regional Overview

- South Asia is the second fastest growing economic region
- Average annual growth rate: 6.3% in 2008, 8.4% in 2007
- Majority of the population is still dependent on agriculture
- Region is home to 50% of the world's poor
- Risks include high oil and food prices and political uncertainty
- The global financial crisis has resulted in a slowdown in capital inflows and investments
- Low penetration of housing finance

India Highlights

Strong GDP
growth: 9%
between
2003-08

Rapid urbanisation,
rising middle class



Services
sector
accounts for
60% of GDP

Political stability

Forex reserves
at over \$250
billion

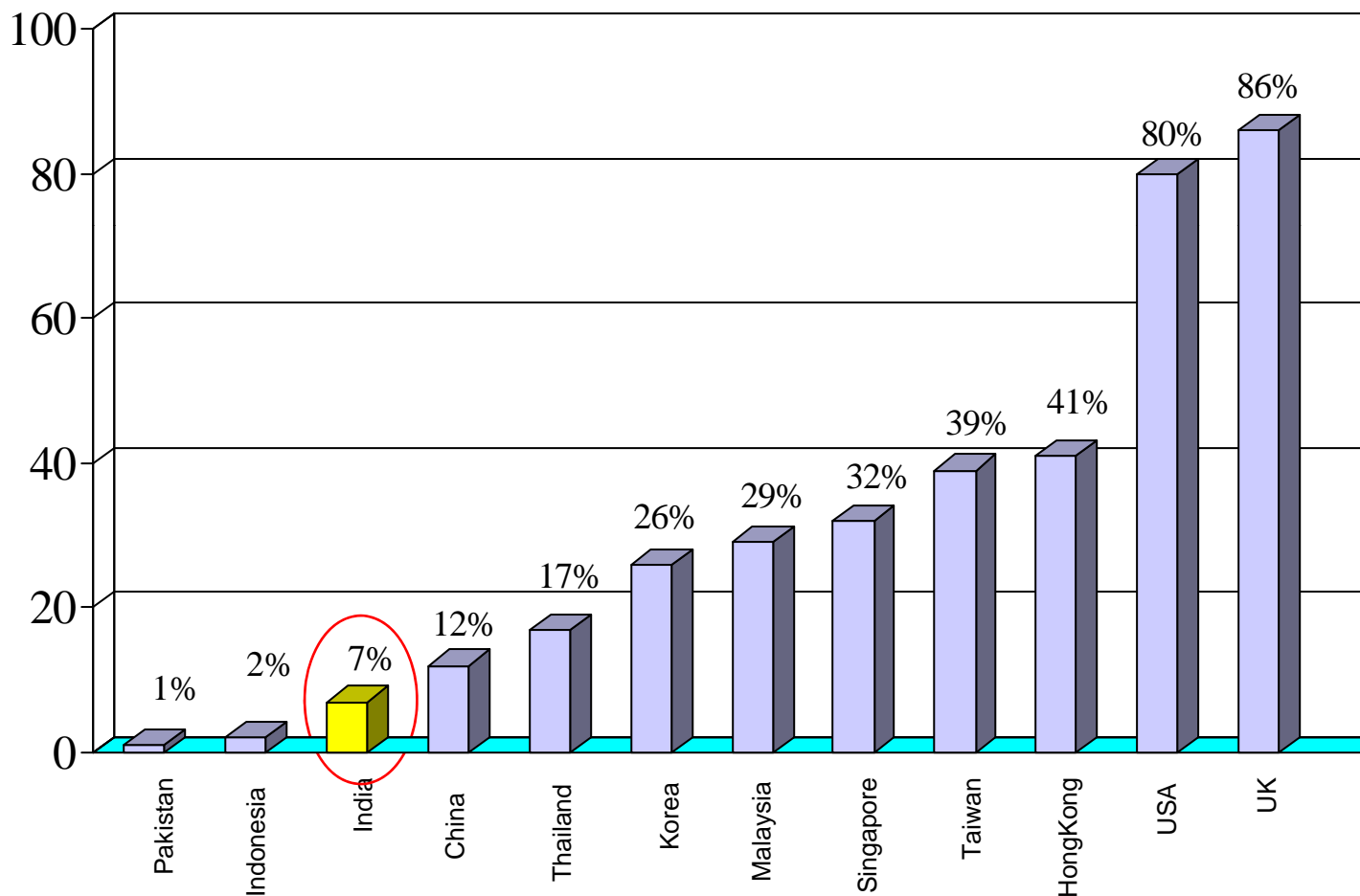
Second fastest growing economy in
the world after China

IMPORTANCE OF HOUSING

- Engine of economic growth
- Second largest employment generator after agriculture
- Strong backward and forward linkages with ancillary industries
- Estimated investment for meeting housing needs up to 2012: US\$ 108 bn

Mortgage Market in India

**LOW PENETRATION IMPLIES ROOM FOR GROWTH
MORTGAGES AS A % OF GDP**

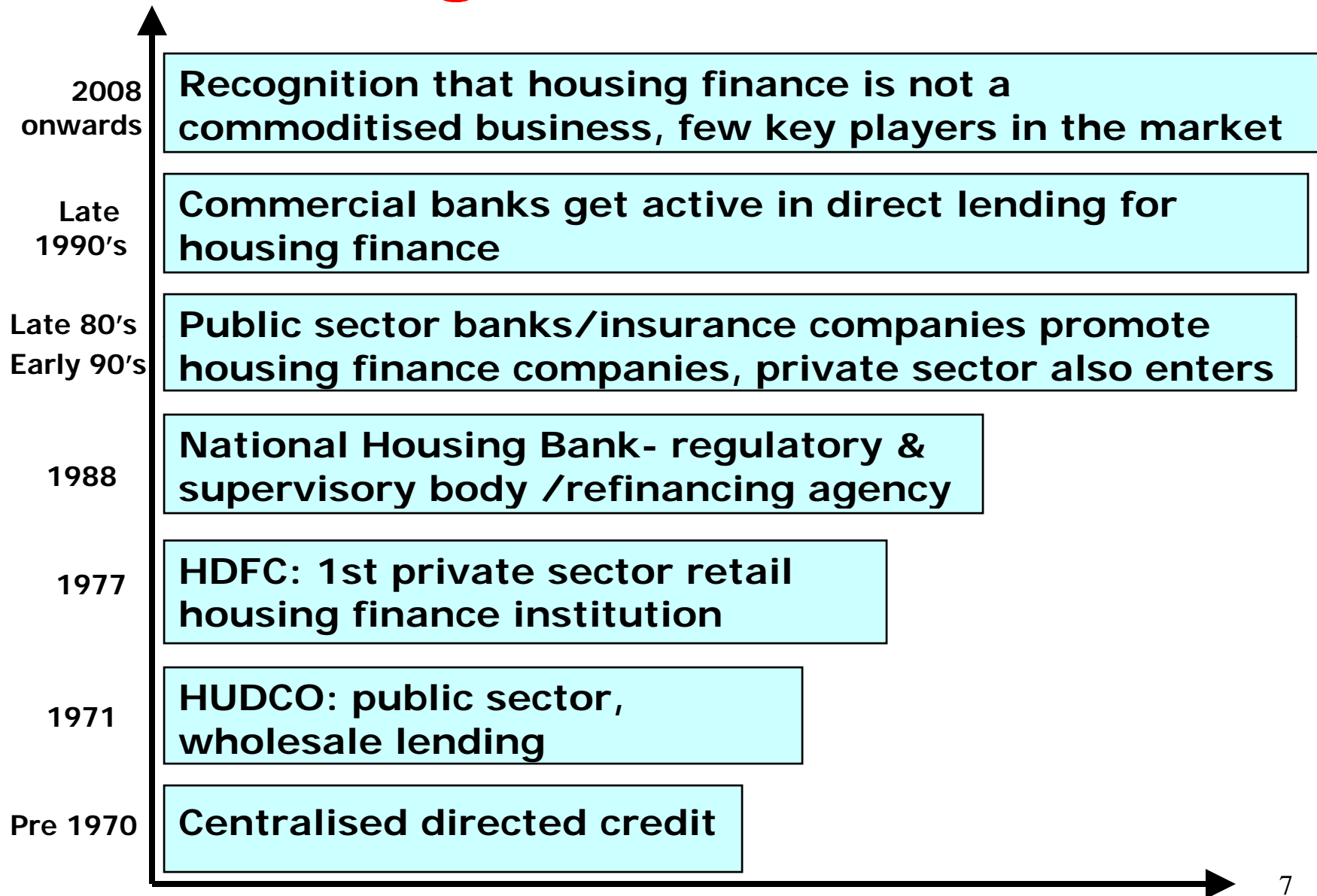


Source: European Mortgage Federation, 2007 & Asian Development Bank, 2007

Housing in India

- Central Government formulates broad policy framework
- Housing – state level activity
- National Housing and Habitat Policy - last reviewed in 2007
- Acute housing shortage estimated at over 24.7 million units
 - Rural: 14.1 million units
 - Urban: 10.6 million units
- Eleventh Five Year Plan (2007-2012): Investment requirements for housing estimated at INR 5.1 trillion (US\$ 108 bn)

Housing Finance - Timeline



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Drivers Of Growth

- High demand growth driven by:
 - Improved Affordability
 - Rising disposable income
 - Lower interest rates
 - Tax incentives (interest and principal repayments deductible)
 - Increasing Urbanisation
 - Currently only 28% of the Indian population is urban
 - Favorable Demographics
 - 60% of India's population is below 30 years of age
 - Rapid rise in new households
 - Increasing number of nuclear families

Key Players in the Mortgage Market

Banks	Key Players	Housing Finance Companies
Reserve Bank of India (RBI)	Regulator	National Housing Bank (100% subsidiary of RBI)
Access to low cost funds via current / saving accounts	Advantages	Dedicated players, better customer service
Extensive branch network		Lower operating costs
High operating costs	Disadvantages	Higher funding costs
Mandated direct lending, high liquidity ratios		Higher capital adequacy ratio



Market Features



Home Loan Features

- **Mainly plain, vanilla home loans**
- **Predominance of floating rates**
- **Repayment: amortising loans**
- **Primary Security: mortgage of property financed**
- **Prepayment charges**
- **Minimal speculative/investor demand**

Customer Profile*

- **Salaried class**
- **First time home buyer**
- **Average Age: 37 years**
- **Average Loan: US\$ 30,000**
- **Average Loan Tenor at Origination: 13 years**
- **Maximum Loan to Value Ratio: 85% (at origination)**
- **Average Loan to Value Ratio: 65% (at origination)**

* HDFC customer

Marketing and Distribution

Earlier marketing scenario

- Walk-in customers
- Passive marketing, belief that word of mouth from a satisfied customer was the best form of advertising

Current marketing scenario

- With increased competition, buyers' became more demanding
- Customers want door-step service
- Use of direct selling agents (third party distribution channels)
- Captive distribution company
- Property fairs and exhibitions
- Cross selling products and services



Key Funding Sources

- **Banks**
 - Savings and current accounts
 - Loan assignment through Inter Bank Participation Certificates
 - Refinance from NHB
- **Housing Finance Companies**
 - Commercial banks
 - Bonds and Debentures
 - International/multilateral funding
 - Refinance from NHB
 - Term Deposits (HFCs not allowed to have checking and savings accounts)
 - Loan assignment
 - Mortgage Backed Securitisation

Indian Securitisation Market

- Over 500 issuances amounting to INR 900 bn till date
- First ABS in India in 1992 - Citibank transaction
- First MBS in India in 2000 - NHB Pilot Project - Originators - HDFC/LIC HF
- Growth of ABS on the back of retail boom in India
- Penetration of MBS low - direct assignment preferred due to regulations/ liquidity issues
- Lack of a secondary market
- Cross-border issuances not currently allowed by the regulator

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No Direct Effect of Subprime Crisis

- Most mortgage lenders in India offer plain vanilla, amortising home loans
 - No interest only, 2/28 ARMs, piggy-back loans
 - No subprime or Alt A categories
- Indian Borrowers are cautious and averse to high leverage
 - Typical borrower is a first time home buyer... buying a house for self occupation
 - Low loan to value ratio
 - Prepayments are common... even for fixed interest loans at rates higher than current market
- Securitisation market at a nascent stage
 - No up-fronting of profits
- Very limited exposure to structured products
- Pre-emptive measures by the Reserve Bank of India
 - Early caution on rising asset prices
 - Increase in provisioning requirements
 - Increase in risk weights

Regulatory Response to the Financial Crisis

- **Credit freeze in October 2008, banks turn risk averse**
- **Swift regulatory response by the government and central bank**
- **Various monetary and liquidity measures taken**
 - Reduction in key monetary rates
 - Actual/potential primary liquidity released: US\$ 85 billion
- **Measures to boost housing finance**
 - National Housing Bank provided with a refinance facility of INR 40 billion
 - Special liquidity facility provided to banks to enable them to meet liquidity requirements of housing finance companies
 - Risk weights on commercial real estate and provisioning requirements reduced for banks
 - Housing finance companies allowed temporary access to raise short-term foreign currency borrowings

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Regulatory Framework For HFCs

- **Guidelines for HFCs with regard to inter alia minimum capital, asset composition, composition of Board of Directors and appointment of auditors**
- **Public Deposit Acceptance Directions**
 - Tenor of 1 to 7 years
 - Cannot exceed 5 times net owned funds
 - Credit rating
 - Statutory liquidity ratio
 - KYC norms
- **Prudential Norms**
 - Asset classification
 - Provisioning requirements
 - Provisioning on non-performing loans and standard non-housing assets
 - Capital adequacy
 - Granular approach – higher risk weight for higher LTV
 - 12% CAR
 - Concentration of credit



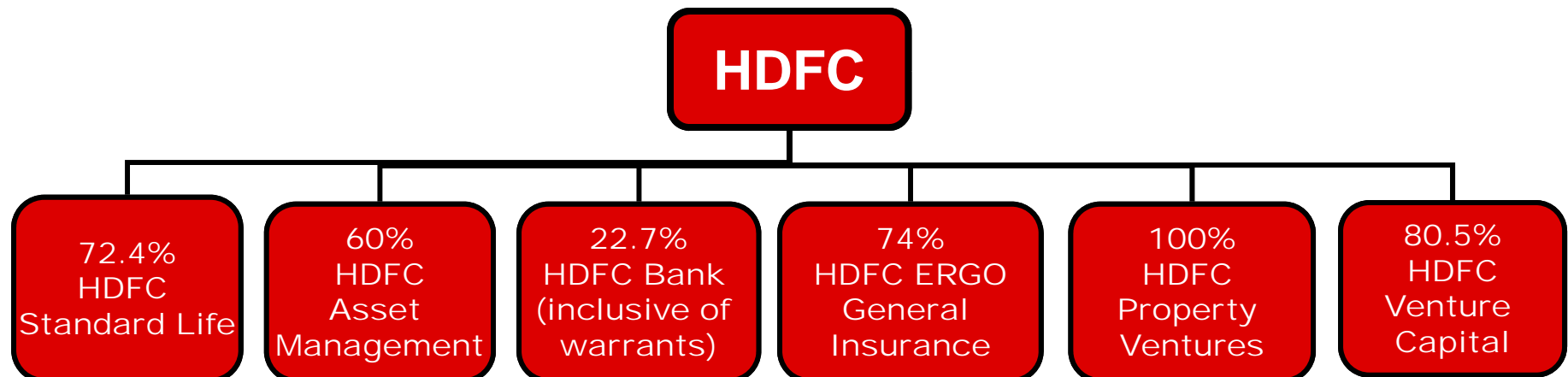
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Overview of HDFC

- Incorporated in 1977 as the first specialised mortgage company in India
- Objectives:
 - Enhance residential housing stock through the provision of housing finance on a systematic and professional basis and promote homeownership;
 - Increase the flow of resources to the housing sector through an integration of the housing finance sector with the overall domestic financial markets.
- Now a Financial Conglomerate with interests beyond mortgages:



- 90% of initial shareholding in the hands of domestic institutions and retail investors
 - Currently 75% shares held by Foreign Investors
-

Business Model & Performance

HDFC – The Business Model

- Backing of visionaries
- Adopted the philosophy of “learning by doing”
- Strong corporate values and culture: emphasis on transparency, integrity and commitment
- High service standards
- Emphasis on training and technology
- Low administrative costs
- Empower line managers

HDFC – Performance Indicators (FY 2009)

- Mortgage Loan Assets – US \$ 16.9 billion
 - Cumulative Loan Disbursements – US \$ 38 billion
 - Cumulative Housing Units Financed – 3.3 million
 - Cost to income ratio: 8.8% (amongst lowest in financial services in Asia)
 - Non-performing loans: under 1% (Total loan write offs since inception are only 4 basis points of cumulative disbursements)
-

Developmental Initiatives



- HDFC offers consultancy, technical services and residential training programmes dedicated to housing finance
 - Another method of outreach – helps spread our expertise
 - Participants from various countries – facilitates sharing of best practices
 - Trainers are staff members of HDFC
 - Focus on practical aspects of housing finance
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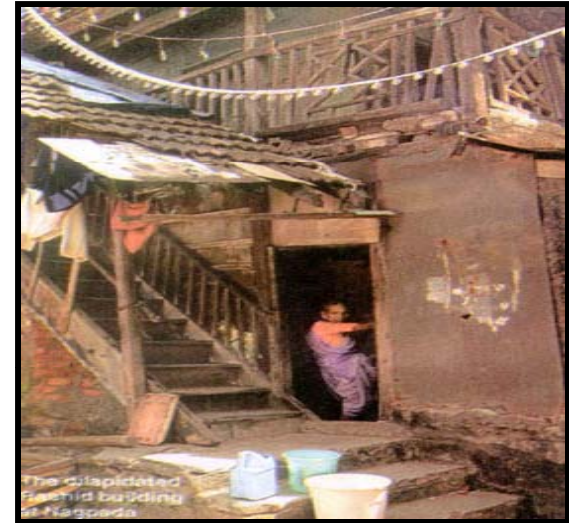


Issues on Affordable Housing

- Urban areas have created job opportunities, but not provided sufficient affordable housing, leading to proliferation of slums
- Majority of developers catered to the high-income luxury segment
- The economic slowdown has resulted in a shift to affordable housing given the huge demand
 - Right price propels customers back into the market
- Need for improved infrastructure as one moves away from the city
- Artificial scarcity of land – legal constraints
- High transaction costs – stamp duty, registration

Low Income Housing

- Several government programmes and self help groups, but these have not been able to achieve scale
- Need public private partnerships – where the state government provides land
- Efforts being made to redevelop slum settlements through in-situ development initiatives
- Constraints on funding low income housing
 - Unclear land titles
 - Lack of mortgage insurance
 - Inability to assess credit risks, no salary/income statements
- Government has introduced an interest subsidy scheme for urban poor
 - Subsidy: 5% p.a. for a maximum loan amount US\$ 2,000



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Prospects and Challenges

- Increasing reliance on data from the credit bureau
 - Proposed introduction of a mortgage repository
- Government focusing on urban infrastructure, including housing
 - Funds released subject to states undertaking urban reforms
- Need access to long-term funding such as pension funds
- Deepening the secondary mortgage market
- Access to mortgage insurance
- Need for a real estate regulator
 - Consumer protection
 - Serve as a single window for overseeing the affordable housing agenda
 - Promote real estate reforms
 - Increase transparency

***A property owning
democracy ensures social
stability***

Thank You
