

Issues of Low Income Housing: Lenders' Perspective

Technical Session II: Low Income Housing Finance

Conference on Affordable Housing and Housing Finance &

Formal Launch of e-Platform "South Asia Housing Finance Forum" (SAHF) Site

January 27, 2010

Good afternoon ladies and gentlemen:

It is indeed a pleasure to be here and I would like to thank the organisers for inviting me to talk to you today. The National Housing Bank's initiative of launching an e-platform to serve as a knowledge sharing and networking medium on housing finance for South Asia is a commendable effort and I am certain many housing finance providers will benefit from such a forum.

Housing is not just a basic necessity. For most people, owning a home is a big achievement and provides a tremendous sense of security to an individual. If there is one learning that housing finance lenders should remember in the aftermath of the global financial crisis, it is that irreparable damage has been done to the lives of several ordinary people who were not just de-housed, but who also lost their dreams and the aspirations of their families. So irrespective of the income strata, I sincerely believe that lenders have an obligation that goes beyond just providing housing finance to customers. Lenders have a moral responsibility of ensuring that housing finance products are not mis-sold to individuals. It is equally important for lenders to ensure that customers also fully understand the housing finance products they opt for.

Despite India being the second fastest growing economy, the chink in its armour has always been the state of its infrastructure and the acute shortage of housing. To the discerning eye of a visitor to India, the rapid economic growth is not reflected in the quality of urban infrastructure or civic life. India is urbanising at a pace that is higher than the world average. Its cities today are unable to cope with the burgeoning population. Projections indicate that by 2030, more than 40% of the country's population will be residing in urban areas compared to the present 28%. Economic development and urbanisation are inextricably linked. Cities have created employment opportunities and are generators of wealth, with 55% of the country's GDP being contributed from cities. But as the housing stock is unable to keep pace with the demand, the result has been an environment of mushrooming unauthorised constructions, congestion and proliferation of slums and degradation of the urban living experience. Adding to these woes is the severe shortage of basic amenities, with scores of citizens continuing to be without power, water and sanitation.

In India, there are huge disparities in income levels. When we talk about the target segment for affordable housing, it includes both, the middle-income group and the low income or economically weaker sections of society. So far, the formal housing finance market has been reasonably effective in being able to serve the middle-income group. The housing finance industry in India has been growing rapidly as a combined result of improved affordability brought about by higher disposable incomes, lower interest rates and fiscal benefits. Developers have also recognised the strong demand for homes in the

middle-income segment and not the high-end luxury segment that they used to aggressively target earlier. Thus developers are concentrating on building more homes for the middle-income group with costs in the range of approximately US \$ 65,000 to US \$ 100,000.

However, providing low-income housing has remained extremely challenging. The economically weaker section and the low-income group are defined as households with annual incomes ranging between US \$ 850 to 2,000 per annum. Clearly, only market-based solutions cannot work. For the low-income group, we cannot just talk about affordability factors - some form of subsidisation is required. What is therefore needed for the low-income group is an inclusionary housing policy. Solutions for this segment need to be found through inter supportive public-private arrangements. This requires a collaborative effort of the government, developers and lenders.

Given the huge shortage of housing, the private sector has to be urged to participate in the low-income housing segment, but the government also needs to create an enabling environment. For instance, if developers are provided a fast-track, single window clearance mechanism for affordable housing projects and if the land is provided by the government, developers would be sufficiently incentivised to build mass housing units. Further, if land titles are clear, most lenders would not hesitate to make small ticket sized loans.

In some pockets, slum rehabilitation schemes have worked well. Under these schemes, the developer provides the slum dwellers with permanent structures, typically a one-room tenement with an attached bathroom free of cost, while the developer benefits from the surplus land which can be used for commercial purposes. However, often these schemes fail to take off if it gets mired in political controversies.

The high cost of land in metro cities is one of the greatest hindrances in providing affordable housing. However, if homes are built in far flung outskirts where the land may be cheaper, there are often no takers for such homes since the necessary infrastructure in terms of mass rapid transportation systems, schools, hospitals and other civic amenities may not be available. The solution lies in having to integrate the process of providing connectivity and infrastructure amenities along with mass scale housing.

The total urban land stock in India is only 2.3% of the country's total geographical area, but houses 28% of the country's population. Thus at a policy level, there is a need to bring in additional urban lands on a regular basis. The process of land acquisition and conversion of agricultural lands for urban use also needs to be simplified. There is also a need to rationalise stamp duties, review processes for master planning, provide for upward increases in the floor space index, which must be commensurate with investment in infrastructure and encourage more in-situ development.

Now again, if we look at inclusionary housing policies, we find that issues of low income housing in urban and rural areas are vastly different. For instance, housing remains

