

Editorial: Housing finance in India with special reference to Kerala – an overview

Finance is the soul of all economic activities. It is so indispensable today that it is rightly said to be the lifeblood of business (Jayan and Deepthy, 2015). In this current economy, no one can imagine a world without finance. According to Khan and Jain, “Finance is the art and science of managing money”. Finance in different perspectives is also called fund, capital, investment, etc. with different meanings and unique characteristics. Finance includes both direct finance and indirect finance. In direct finance, borrowers can directly borrow funds from financial markets without the help of third parties. Indirect finance is a mode of financing in which borrowers do not approach lenders directly. The intermediaries act as mediator between borrowers and lenders for getting funds. Finance is mainly classified into two categories, private finance and public finance. Private finance deals with the requirements, receipts and disbursements of funds with respect to business organizations, individuals and non-profit organizations (Jayan and Deepthy, 2015). Public finance is concerned with requirements, receipts and disbursements of funds by central, state and semi-government institutions (Jayan and Deepthy, 2015).

Every individual wishes to have his own place to live in. Adequate shelter is not a luxury, it is a matter of necessity. Maslow’s need hierarchy theory clearly depicts shelter as one of the basic needs next to food and clothing (Maslow, 1984). The concept of housing is of great importance since the evolution of mankind. Earlier human beings wandered in nature with no place to stay. They found shelter in caves and tree holes to protect them from animals and other dangers. With the emergence of civilization, man began to build his own durable living places and focused on settling in or near arable land. Housing is essential for a civilized life. Rather than being a need, housing has started contributing much toward ensuring safe living, increasing productivity and serving as a source of generating income. Thus, housing has become an inevitable part of a civilized life. Once human beings’ biological needs are satisfied, they will try to satisfy physiological needs of shelter (Maslow, 1984). In short, housing aims to meet four requirements: (1) shelter from intruders and natural forces (2) protection from physical damage (3) provide basic amenities which promote good health and (4) adequate space privacy (Devasia, 2010). It is an indispensable element for human beings’ existence and survival.

Housing also plays a key role in preserving the health of individuals, thereby providing better working efficiency. It also acts as a key indicator of measuring the level of standard of living of the people. Housing can be used for many purposes like residential, commercial, self-occupied and let out. So, it is beneficial in both welfare and economic terms. The demand for housing has been increasing rapidly due to expeditious growth of population, wide expansion of industrial and commercial activities and rural urban migration. The supply has become insufficient to meet the growing demand. The supply of houses can also be increased only by



constructing additional housing units and repairing damaged houses with new cost-effective technologies.

With the passage of time, the concept of housing has moved on to various dimensions rather than being a necessity. It also evolved as the best investment avenue, status symbol and a key contributor to the progress of the nation.

The concept of housing started receiving much attention from the early days of Indian independence, both nationally and internationally. Mahatma Gandhi, The Father of our Nation once remarked “we don’t need mass housing but housing of the masses”. The United Nations also declared the year 1987 as International Year for Shelter for the Homeless and Poor. The Universal Declaration of Human Rights and International Covenant on Economic, Social and Cultural Rights have recognized the right to housing as human right recognizing its growing importance in developing countries. Then there was a greater concern for addressing various housing problems in developing countries. Addressing the housing requirements with growing population has become a great challenge for all countries. In RBI Master Circular 2015, housing has been considered as one of the most important category of priority sector. Maslow’s need hierarchy theory also speaks about the importance of shelter (Maslow, 1943). In case of Consumer Education and Research Center vs Union of India, the Supreme Court held that the “right to shelter” would mean and include the right to livelihood, a better standard of living, hygienic conditions in the work place and leisure ([Adjudicating The Human Right To Adequate Housing, Housing and Land Rights Network, 2019](#)). The Supreme Court of India and several other lower courts have expanded the fundamental right to life, guaranteed by Article 21 of the Constitution of India, to include the right to housing, and endorsed it on numerous occasions (Article 21 of the Constitution of India).

Good housing is the key indicator of general welfare of the people, whereas bad housing conditions result in serious consequences such as diseases, immorality, etc. Every person, regardless of age, area, color, caste, prince or pauper needs a house to live safely and to promote the welfare of the family. On an average, almost every individual will spend a half portion of their old age in the house. Proper housing lays the foundation for human development and welfare. Being one of the basic human needs next to food and clothing, adequate housing availability is a sign of quality of life of a person living in a country. The provision of adequate housing also paves way for fulfilling crucial goals like good health, education, better standard of living, security, shelter, amenities and privacy for all human beings thereby ensuring good living conditions. Thus, it guarantees a better physical and social environment where an individual grows and matures as a good citizen. Housing is also considered as an investment avenue which promotes economic development of a country giving ample push to increasing employment opportunities. On the other side, it is also recognized as a key sector of national economy which measures the level of employment, standard of living, social stability and economic conditions of a country. Housing has strong forward and backward linkages with over 250 ancillary industries.

In India, most of the purchase and construction of houses are made through borrowings from various institutions by availing housing finance. Housing finance is a broad concept which varies across continents, regions and countries, in terms of the areas it covers. The meaning of “Housing Finance” in a developed country may differ from that of a developing country. The concepts of housing finance and housing finance system have been evolved over a period. Housing finance is primarily defined in terms of residential mortgage finance: “The purpose of a Housing Finance System is to provide the funds which home-buyers need to purchase their homes. It is the ability to channel the funds of investors for purchasing their homes”. Now “Housing finance is what allows for the production and consumption of housing. It is the money used to build and maintain the nation’s housing stock. It can also be said as the money we need to pay for it, in the form of rents, mortgage loans and repayments.” (Peter King, *Understanding Housing Finance – Meeting Needs and Making Choices*, p. 3, 2009). “Housing

finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, or political system" (Loïc Chiquier and Michael Lea, *Housing Finance Policy in Emerging Markets*, 2009).

Housing loan/finance is the amount of money which a bank or financial institution lends to an individual or group of individuals for realizing the dream of owning a home. The loan is provided usually for a period ranging from 5 to 30 years. Sometimes a period of above 30 years is also allowed based on some special conditions. The quantum of loan allowed to an individual will depend upon the individual's credit profile. The institution normally charges interest on an amount of loan depending upon MCLR rate fixed by RBI. Housing finance can be availed for various purposes namely purchase of property, construction of house, purchase of land and construction, extension, renovation, budget loan, balance transfer, stamp duty loan and NRI loan. The cost involved for purchase or construction of house in India is known as acquisition cost. Acquisition cost can be again classified as capital cost, transaction cost and financing cost. Capital cost refers to cost of house. Transaction costs are those costs payable toward taxes, duties, etc. Financing cost means acquisition cost of houses.

Home loan borrowers are those individuals who have applied for loan in any institution and availing the services of that institution by whom being paid the loan amount. After availing loan, individuals will become the customers/borrowers of the institution. The residents or non-residents with regular source of income, who includes salaried individuals, self-employed professionals, self-employed business people, NRI individuals and existing property owners who can pledge the property as security for loan are eligible for home loan. The individuals applying for loan should have minimum 21 years of age when the loan period begins and should be less than 65 years when the loan period ends.

The origin of housing finance started with the introduction of HUDCO in 1970 for financing the housing needs of low- and middle-income groups for purchasing and constructing low cost houses. It paved the way for the beginning of an institutional era with the entry of more housing finance companies (HFCs), nationalized and multinational banks after 1980s. In 1977, with the entry of HDFC, many private institutions entered into the field of housing sector. Many HFCs in private or joint venture with state government and banks, or with insurance companies sponsored HFCs have also entered the housing market. In 1988, an apex institution named National Housing Bank (NHB) was established for refinancing housing financing companies. In 1997, liberalization of monetary policy allowed flow of funds from banking sector to housing sector, making a landmark in the history of housing sector. The year 1990 witnessed the entry of commercial banks as a result of low interest rate, stable property price, fixed incentives and increased demand for housing, creating stiff competition to HFCs.

Currently, the housing finance system has two regulatory bodies namely RBI (Reserve Bank of India) and NHB ([National Housing Bank, 2018](#)) other than central and state governments. RBI regulates commercial banks, whereas NHB oversees the HFCs and it is the subsidiary of RBI. The NHB is the principal agency in promoting, regulating and providing financial and other supports to housing financial institutions at local and regional level. Cooperative sector institutions are regulated by the concerned state governments and supervised by NABARD. The HUDCO, one of the premier housing institutions, finances housing and urban infrastructure activities by providing technical and financial assistance to state housing board, urban development institutions and housing cooperative societies, state owned cooperative housing finance institutions in respective states and also for joint sector institutions functioning with public private partnerships. Cooperative institutions play a major role in meeting housing needs of urban and rural areas. Currently, commercial banks and HFCs are the major players in the housing sector.

Both central and state governments give due concern for housing and land development. Housing is considered as one of the important categories of priority sector (RBI master circular). The central government through its five-year planning strategies always ensures adequate fund allocation and fiscal concessions for housing (National Planning Commission, 2012). Most of the central and state government budgets come up with giving due importance to the housing sector.

As per Census data of India 2011, the population of India was 1,210.50 million, of which 31% lived in urban and 69% in rural areas. It is predicted that the Indian population will reach 1,387.58 million by 2021 and 1,433.36 million by 2024 (H. Plecher, May 5, 2020, statista). Housing shortage is always a major issue in our country. Among major contributors of housing shortage, the contribution of congestion factor is around 12.67 million units of house and that of fresh housing is around 16.29 million units of houses (Report on Trend and Progression of Housing, NHB, 2011–12). As per the estimates of the 12th Five Year Plan, the shortage of housing in urban segment of society stood at 18.78 million. The Working Group of Rural Housing for the 12th Five Year Plan estimated a total housing shortage of 43.67 million houses for the plan period (2012–17), (NHB Report, 2018). By the year 2030, more than 40% of the Indian population will live in urban India, as against the current figure of 34%, which is likely to create a demand of 25 million additional affordable housing units, according to a report titled Brick By Brick: Moving towards “Housing for All”, by Royal Institution of Chartered Surveyors, in association with international property consultant Knight Frank.

Kerala housing sector functions with the objective of no homeless family. The housing sector in Kerala state is regulated by the state government through Kerala State Housing Department. The housing sector in Kerala is better compared to other states. In Kerala, about 68% of the families occupy permanent and strong houses while in India it is only 52%. The boost in housing sector starts with the land reforms. The state government is always active in promoting and regulating housing sector. The housing department is functioning as the nodal department engaged in coordination of various housing schemes of the state. The housing department has three major department sections namely Kerala State Nirmithi Kendra, Kerala State Housing Board and Office of Housing Commissioner. The Kerala Housing and Habitat Policy 2007 was the first housing policy initiated by state government for addressing the housing needs. From 1950 onwards, the state government has started introducing various housing schemes for supporting the housing activities of the state considering various sections of the society. They also take active involvement in implementation of housing schemes initiated by the central government. As per 2011 census, Kerala density of population is 860 people per sq.km which is more than other neighboring states and that of India 382 person per sq.km (Economic review 2018). The total population in Kerala is showing an increasing trend. The population strength of Kerala in 2019 is 3.45 crores. The urban population of Kerala is increasing at a high rate, whereas rural population is decreasing (Economic review 2018). The population is expected to reach 3.69 crores in 2036. The population increase coupled with the urban migration from within and outside states will result in acute housing shortage and housing problems in the state. The widening gap between demand and supply, affordability with respect to credit flow, scale as well as pricing, increasing level of urbanization and resulting increase in price of land, infrastructure and other facilities are the major challenges faced by housing sector while addressing the housing needs of increasing population. Along with the same, provision of adequate funds for rejuvenation of existing dilapidated houses is also required. These requirements and demands cannot be met with the funds and resources of government alone.

During the post liberalization era, the central and state governments have announced many schemes for various target groups for addressing their housing issues. The housing for all by 2022 is the recent and most important scheme introduced by the central government. The central government has introduced private public partnership model in 12th five-year plan to

promote the private involvement in addressing the housing problems. This is mainly due to the realization of the fact that the projected housing fund requirements cannot be met by government alone. The change of role of government from provider to facilitator also invites the private partnership in meeting the housing demands. So, the government and the non-government agencies are playing a significant role in housing finance market. As per the Report on Trend and Progress of Housing in Reserve Bank of India (2018) major shares of housing finance market lie in the hands of commercial banks and HFCs. Many large real-estate developers have also tied up with banks and HFCs to provide home finance to buyers as a marketing or sales promotion measure. With the emergence of banks in housing finance sector, there was an exponential growth in housing sector resulting in aggressive competition in this sector. With the liberalized policies and favorable housing market, many institutions in private sector have also started entering this sector with customized products with various features. New mortgage product, variable interest rate, loan for repair and renovation, customized products like ballooning EMI depending upon the need and eligibility of borrowers concerned and home equity loan (loan against the mortgage of existing property) for non-housing purpose have resulted in stiff competition among institutions in public and private sectors.

Currently housing finance market is blessed with the presence of many institutions, from both public and private sectors with the active support of the government. These institutions are competing with each other to provide the best suitable products to the prospective customers.

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