

**Proceedings of the Conference on  
“Growth with Stability in Affordable Housing Markets”  
- January 30 & 31, 2012 at New Delhi**

The National Housing Bank (NHB) in association with the Asia Pacific Union for Housing Finance (APUHF) and the Asia Pacific Ministerial Conference on Housing and Urban Development (APMCHUD) organized International Conference on 'Growth with Stability in Affordable Housing Markets' during January 30-31, 2012 at New Delhi. The Conference was attended by a large number of international participants and Speakers from Bangladesh, Indonesia, Iraq, Japan, Malaysia, Mongolia, Pakistan, Sri Lanka, and Thailand besides International Finance Corporation, World Bank, Asian Development Bank and KfW (Germany), Government of India - Central and State Government Officials, Reserve Bank of India, Banks & Housing Finance Companies. Representatives from NGOs, academia, researchers and policy makers also participated in the Conference.

**Day 1- January 30, 2012**

**Technical Session I: Housing and Housing Finance - Policy Framework, Institutional Infrastructure and Regulatory Environment with Focus on Affordability**

**Main Highlights/Salient features**

The Participants from all the representative countries shared their experiences and made presentations on the housing finance systems in their respective countries. The salient features are as under:

**Country Highlights: India**

- Population: 1.2 billion. India remains the second fastest growing economy after China. It took 60 years after independence to reach GDP of US\$ 1 trillion in 2007. India is a domestic and consumption driven economy. Consumption accounts for 70% of India's GDP. Services sector contributes close to 60% of GDP.
- **Housing and Housing Finance:** India's mortgage to GDP ratio now stands at about 9%; compared to 2% in 2002. The key drivers of the mortgage market in India are Rising disposable income, Tax incentives (interest and principal repayments deductible) and Affordable interest rates ,Increasing urbanization, Favorable Demographics with 60% of India's population is below 30 years of age and Rapid rise in new households owing to nuclear families as against joint. Mortgages comprise the largest component in banks' retail portfolio. Mortgages have grown from 1.5% of banks' advances to 10% over the last 10 years. Major Players in the Mortgage market are Banks and Housing Finance Companies (HFCs).Banks became major players in the mortgage market only from the late 1990's. Market share in FY11, Banks - 69%, HFCs - 31%. Access to low cost funds via current/saving accounts and extensive branch

network are some of the advantages to the Banks while HFCs are dedicated players and offer better customer service. Asset quality for HFCs and banks have been good. Most banks and HFCs target customers in the formal sector.

### **Country Highlights: Pakistan**

- Population: More than 170 million, 2/3<sup>rd</sup> rural-1/3<sup>rd</sup> urban. Number of persons per room: 3. Access to formal finance: 14%.
- **Housing & Housing Finance:** Housing Finance to GDP ratio is approximately 1%. Housing Shortfall is 8 million units, 6 million of which is concentrated in lower middle income group, Housing Supply per Year is 0.3 million units, Total housing needs are 0.6 million units per year. Major metropolitan cities like Karachi are facing high rate of urbanization. Efforts for Housing in Pakistan involve formation of National Housing Policy 2001, National Housing Authority/Pakistan Housing Authority, Prime Minister Housing Schemes, House Building Finance Company Limited, Formation of Housing Advisory Group by State Bank of Pakistan (SBP), Initiatives by Provincial Governments and Private Sector. SBP is undertaking various initiatives which include Formation of Housing Advisory Group and Implementation of HAG Recommendations, Review of Prudential Regulations for Housing Finance, Preparation of Housing Finance Guidelines, Capacity Building of Financial Institution in housing finance through seminars, workshops and training programs, Development of secondary mortgage market in Pakistan by creating a Mortgage Refinance Company (MRC) and championing Low-income housing finance. SBP is also working to develop financing models to facilitate large-scale builders/ developers' access to formal financial sector. Key challenges include Corporatization of large-scale developers, Bankable financial statements, Credit rating (Entity and Project Ratings), Fiscal issues relating to Book Value and Market Value, declared income and wealth etc.

### **Country Highlights: Thailand**

- In 2010, Population: 67.4 million. Per Capita Income (USD): 4,716, Inflation (%): 3.9 and Policy Rate : 2%.
- **Housing & Housing Finance:** Thailand has successfully provided affordable housing for decades. Home Ownership rate is greater than 80% with no housing shortfall. Slum & squatter settlements in Bangkok was 30% in 1985 which has reduced to 6% in 2000. New homes in Bangkok - avg. 160,000 Units/year (1993 - 1997) 90,000 Units/year (2007 - 2011). Housing Finance is available, accessible and affordable with low mortgage rates with more than 80% of Thais having their own homes. Three main government organizations implement government housing policies and programs primarily for middle-and-lower income citizens, viz, NHA - National Housing Authority developing subsidized, low cost and affordable housing for low & moderate income people, CODI - Community Organizations Development Institute for slum upgrading and provision of lending mechanism to the urban poor(e.g. Microfinance and

community based organization development) and GH Bank (Government Housing Bank) offering more affordable mortgage loans to low & middle income groups. The synergy between the three apex organizations with enabling support from the Government has contributed to the development of a vibrant housing finance system in Thailand. There are more than 10 professional housing and real estate associations in Thailand in various fields like Housing finance, Developers, Home builders, Valuers, Marketing, Property and Planning.

### **Country Highlights: Indonesia**

- Indonesia is the biggest archipelago country in South East Asia comprising of 17,504 islands. Total population in 2010 : 237 million people
- **Housing & Housing Finance:** The ratio of mortgage portfolio to GDP in Indonesia figures around 2%. The mortgage Industry comprises of State banks, Private National Banks, Regional Government banks, Foreign Banks, Joint Banks and Rural Banks. More than 90% of mortgages are originated by 10 banks as major players as of 2011. The total demand of 1.23 million units originating from current Indonesia's Housing backlog over 8.6 million units, requiring approx. 430,000 units per year to be built in 20 years and Housing needs from population growth is recorded at 800,000 units per year. Supply of New Housing Construction of approx. 240,000 units in 2011 but still almost always below housing demand. As the population continues to grow, the needs for housing continue to rise.

The government of Indonesia has taken several initiatives by creating policies, housing-related programs and supporting infrastructures to address the housing & housing finance needs. Those initiatives include the establishment of secondary mortgage market corporation in 2005 where the several mortgage securitizations were put to the market, enactment of housing and settlement in 2011 and the creation of new housing finance liquidity program by the Ministry of Housing. The continued support of the government and stake holders is needed to create a strong housing finance in Indonesia.

### **Country Highlights: Mongolia**

- Population 2.75 million, Total Households-714,000, 45% of them in Ger. Ger and Housing, % Urban: 33:67; Rural: 71:29
- **Housing & Housing Finance :** Mortgage market debt outstanding is 6565 billion Mongolian Tugrik (MNT) in 2011. Mortgage loans are 13-14% of bank loans. The maturity mismatch and interest rate risk are important given that mortgages are generally fixed rate and deposit tenors are only to 1 or maximum 2 years. The banks will have to find long term fixed rate funding solutions and the use of MBS is the obvious solution. Considerable housing needs to be built in Mongolia and the Mongolian mortgage market is developing rapidly. Secondary market development will be essential. Foreign investment in covered bonds or mortgage backed securities will be needed.

### **Country Highlights: Bangladesh**

- Total Population: 142 million. The urban population constitute almost 28% of the total population and is increasing by 3.5% annually. Dhaka's population growth rate is the highest among the major cities in the world. Rapid and sustained urbanization and population growth in the country are fuelling the demand for well- located, adequate and affordable housing.

- **Housing & Housing Finance** : Bangladesh's ratio of housing finance to GDP is less than 5 percent with shortage of about 5 million houses. There is a surplus in upper-income group housing stock and shortage in affordable housing for middle and lower-income population. Mortgage finance from private banks and specialized lenders is available only to urban households with high incomes. The housing finance market is characterized by high interest rates, limited term lending, insufficient fund from the public financial and specialized financial institutions and lack of transparency. The legal, regulatory, and taxation frameworks are not sufficiently enabling for the development of primary and secondary housing finance markets. Well designed institutional framework for housing and housing finance is inadequate in Bangladesh. There is a need for instituting a supportive institutional framework. Housing and housing finance services have the huge potential to be expanded to middle- and even lower-income families both in the urban and rural areas. Increasing the supply of affordable housing and housing finance for the lower income segment of the population is still a daunting task.

### **Recommendations**

- There is a need for a housing finance system in the Asia Pacific region which should be sustainable, expandable as also to promote stability.
- Affordable housing is a big challenge particularly from the perspective of the poor and weaker sections and there is a need for countries across the region to share their experiences and best practices for formulating feasible solutions to address the same.
- Promotion of effective Public-Private partnerships, Investment in low-cost building technologies- prefab housing Investment, Deepening of the debt markets to ensure availability of long-term funding, development of new funding instruments, development of Securitisation are required for the holistic development of the housing/housing-finance sector.
- Synergy is required among various institutional stakeholders viz. Govt., lending institutions, builders/developers, regulators etc. for the development of housing and housing finance markets.

### **Technical Session II : Expansion and Growth in Affordable Housing Markets**

#### **Main Highlights/Salient features**

- Five major aspects of affordable housing are true affordability, time to delivery, construction quality, funding and sustainability.
- In India, many housing boards are financially weak and most states do not have their own housing programs. However, some states have good housing programmes like in Andhra

Pradesh and Kerala which can be emulated by other states. On incremental housing, the model adopted by certain states of India (Andhra Pradesh (AP) & Tamilnadu (TN)) where the construction is done by the beneficiaries themselves has resulted in good quality and cost effective construction.

- The construction method followed in India is customization based. Housing in India is still hand crafted brick by brick and layer by layer and is un-affordable to large population. Customization is expensive in any industry and same applies to housing.
- Major time consumed in housing projects in most areas in India is on land acquisition, getting approvals and subsequently construction takes about two years. The challenges are insufficient funding for land leading to use of costly equity funds, old construction processes, non availability of finance for customers who are economically weaker and who have informal income source.

### **Recommendations**

- Affordability equals standardization. Manufacturing of house and car are similar except the use of land. Hence, everything can be manufactured offsite and assembly can be done onsite. The solution lies with house construction industry moving from construction of house to manufacturing of house and from customized houses to standardized houses, thereby reducing cost and construction time. In the new model for affordable housing, planning and research requires more time rather than execution. Creation of manufactured homes is therefore a huge opportunity to create a social and economic impact on Indian economy.
- Housing should be a life cycle product like other products and not land inflation and real estate driven as it is presently. Comparing Ford's model T (standardization), Dell Desktops (standardization + customization) and iphone (standardization + customization + service), new model for housing should be standardization with some level of customization and service orientation. An Eco-system for affordable housing needs to be developed which will incentivize, develop skills, provide regulatory and policy support.
- For affordable housing, mass housing projects with fiscal incentives should be promoted.
- For success in affordable housing, following requirements are essential -Reduced approval lead time, Uniform land laws, Increase in permitted density of houses, Uniform building bye laws across cities, ECBs for affordable housing, construction equipment finance and working capital funding for builders, Credit guarantee facilities, providing rental housing through institutional funding ,Regulation aligned with affordable housing, Industrialization of construction, single window clearances , proper insulation and handling land related issues like density and town planning.

## **Main Plenary Session**

### **Main Highlights/Salient features**

- The theme of the international Conference viz, 'Growth with Stability in Affordable Housing Markets' is very appropriate. Housing signifies two significant issues-No country globally can say that it has solved all its housing problems and the countries have to learn from each other. The second issue is a reaffirmation of how the global dynamics have changed. Earlier (before the onslaught of global financial crisis), it was advised that developing countries should develop their secondary mortgage markets. Ironically, it was advocated for such countries too which even do not have developed primary mortgage markets. So the East looked at the West for a long time for their housing finance solutions. Aftermath the global financial crisis, the scenario has changed.
- Housing constitutes one of the basic needs of humans besides food, clothing, shelter and Dignity. Affordable housing is a generic concept which entails different meanings in different countries. All stakeholders' concerted efforts are important and banks should expand Financial Inclusion.
- Urbanization requirements of India are huge in terms of no. of houses, road construction, infrastructure development etc. Digitization of Land records is important and CERSAI is a great step in the right direction. The broad parameters are same in almost all the Asia pacific countries and in the last decade, private sector has become very active.
- Housing and income co exist in terms of importance. Income needs to be enhanced to improve the level of housing. There are 3 key problems, viz, Land- availability and affordability, Finance adequacy-money is not available adequately and Finance affordability-even if money is available, it is not affordable as disposable income with people is less. Income levels can not go up drastically as only gradual improvement in income is possible and we need to constantly struggle to enhance the income capacity.
- India managed to bypass the sub prime crisis due to timely and adequate measures taken by the regulators at the time of global financial crisis. Aftermath of the crisis; there is a shift back to basics as it was because of overlooking of the basics of lending that the mortgage finance became too risky. As also cited in a recent report of FSA(Financial Services Authority-UK) published in Dec 2011, prudent lending practices, consumer protection and affordability are important issues.
- Housing was ignored for a long time in India and there was not a single mention of 'Housing' in the early five year plans. Providing affordable housing is most crucial.
- Government of India has extended a range of monetary and fiscal incentives to promote lending and investment in affordable housing. These include income tax benefits for the borrowers, lenders, investors, savers and construction agencies. The state governments have also come out with supportive housing policies, lower transaction cost and incentives to the developers.

## **Recommendations**

- The Key lesson for all the financial institutions aftermath the global crisis is not to forget the tenets of basic lending.
- There are 4 main measures required to tackle the housing problem ,viz, Accessibility to finance at a lower cost, Affordable land, Supportive legal and regulatory environment and Innovative and affordable Technology.
- Technological innovation can lower the huge cost of infrastructure which is a pre requisite for urbanization .There is a need for technological Innovation for cost reduction not just to provide cheap houses but also for providing sustainable and dignified livelihood.
- India needs more cities which provide economic activities to pull people out of poverty by earning livelihoods. State intervention is required for ensuring affordable housing and more land needs to be brought in urban areas.
- In India, we cannot find a solution for affordability till the land problem is addressed as the main cost of a house comprises of the cost of Land. There are land price distortions across cities and faulty land policies.
- Collaboration of institutions and people is vital to make happy cities. Problems are faced by financial institutions in lending money as concerns arise regarding the security of money lent. This concern can be taken care of if people are provided with sustainable livelihood. To enable an environment where people work together is significant. Innovation is also the way institutions and people work together which generally is overlooked.
- With the commitment of the Government towards the inclusion of the social and economically backward section, it is an appropriate time for the Banking sector to come forward in a big way to cater to their housing requirements by devising suitable appraisal and processing models. The financing institutions will need to adopt a more flexible approach and a more positive orientation in serving the housing needs of low income segments. They should develop the requisite skills to mobilize domestic savings through innovative methods and devise schemes to lend at affordable rates.
- Securitisation is also important and efforts should be made to work on the 'Originate, hold and Sell' model instead of just 'Originate and Sell' model.

## **Special Session: Role of MFIs in Micro Housing Finance**

### **Main Highlights/Salient features**

- MFIs are recognized for their low cost delivery models in lending, Packaging of financial & non-financial services (Housing support services / Construction technical assistance), closer customer connect, Knowledge of the target informal sector market, Customer acquisition and outreach and efficient collection mechanisms. Though MFI's can be a potent tool towards the delivery of micro housing loans to the poor but Long term lending , funding and operational

constraints, Interest rate mis-match, localized operations and Lack of clarity on regulations are the major issues for them.

- A major section of the population is engaged in the informal sector with lack of steady income. The aspiration to own a house is very high among people working in the informal sector. Informal income and title issues are major impediments towards the promotion of inclusive housing finance solutions.
- Poor people build gradually, over time with small, incremental loans; compatible with microfinance loans.

### **Recommendations**

- For Successful Micro Mortgage Finance, HFCs with their efficient Risk Management & Back Office Capabilities and MFIs with their advantage in Customer Acquisition & Collection Mechanisms need to operate together.
- There is a strong need to tackle the informal income through the concept of innovative solutions besides the need to encourage and support MFIs to lend towards housing. Although various models are being adopted to address housing needs of informal borrowers, there is a need to develop innovative and customized solutions for addressing such issues in a wholesome manner.
- Transition from Housing micro-finance to micro mortgage loans is the key driver for simulating housing micro finance through Micro-Finance Institutions.

### **Technical Session III: Primary Mortgage Markets - Growth and Stability**

#### **Main Highlights/Salient features**

- In India, the market has evolved over a period of time and due to which there has been a good growth in the last couple of decades in the Primary Mortgage Market. The key reasons for the growth are socio economic changes such as decrease in the average age of the customers from 50 years to 30-35 years, rise in disposable income of individuals, increase in nuclear families etc.
- In Thailand, commercial banks and financial institutions fiercely compete for housing loans through many aggressive marketing strategies. In 2011, the commercial banks competed by launching special low-interest rate post-flood housing loans, multi-purpose loans, as well as zero per cent interest rate promotions with fee waivers. Many financial institutions also used CSR strategies to promote their home loan products. In 2011, GH Bank launched a government-promoted three year zero per cent housing loan program early in 2011. Later on, commercial banks also launched three to ten month zero per cent interest rate loans. Commercial Banks occupy 62% of the market share in comparison to 28% of GHB.
- Bangladesh House Building Finance Corporation is a public sector NBFC. It was established as back as in 1951. It was the sole housing finance organization of the country till early 1990s. Since then, some private enterprises have entered the housing finance sector. Land



is scarce and land-price is exceedingly high. As a result, preference for independent house has been - by and large - replaced by demand for apartments and flats during last two decades. The housing sector focuses on the rich and upper middle class of the society. Home-buyers prefer to pay for their home in cash instead of taking out a mortgage loan. Consequently, housing finance remains underdeveloped in Bangladesh. Recently, Government has come forward to build low-cost flats for low income people.

- In Pakistan, the main housing finance providers are Private Banks which account for a share (by portfolio) of 49%, followed by House Building Finance Corporation (HBFC) which accounts for 21% of the market. The active borrowers in Pakistan are just 1% of the population and hence the mortgage financing market is very limited. The barriers for the growth are mainly Land Title & Administration, lack of Long-term Financing, Secondary Market, Inefficiency of Small Loans, Social Sustainability and Developer credibility.

### **Recommendations**

- A Three pillar approach is must for the Growth and Stability of the Primary Mortgage Markets. The fundamental pillar being transparency, the second pillar being development of conducive market infrastructure such as Credit Bureau, Efficient Mortgage Systems, Mortgage Guarantee Company and the third pillar being the commitment from the Government such as reforms in land policies, city planning, Public Private Partnerships (PPPs). Customer service is also important and a hand-holding approach must be employed by the lenders towards the borrowers/customers.

- To increase the share of mortgage debt to GDP and to reduce the housing supply gap, a two way approach is needed. On the affordability side, assembled land parcels having robust titles should be made available at reasonable costs and on the funding side, an active debt market or a fundamental secondary market is needed. Securitization must become a regular feature to bridge the above gap.

- Pension funds, gratuity funds need to invest in the long term debt papers and mortgage backed securities should be traded. Non availability of debt funds is the reason for the lack of longer term fixed rate loans.

**Day 2-January 31, 2012**

### **Technical Session IV: Urban Planning imperative for Affordable Housing**

#### **Main Highlights/Salient features**

- Development of sustainable habitat as a pre-requisite for environment preservation. The future of human settlements lies in environmentally satisfactory and sustainable development. "Sustainability" in 'Brundtland Report' has been defined as "to provide for the needs of the present generation without compromising the abilities of future generations to meet their needs"

- Focus of Sustainable Habitat Mission is on Energy Efficiency in Buildings, Urban Transport and Waste Management. Development can only be sustained when it keeps pace with the rising expectations of the population.
- To provide sustainable and affordable housing, it is necessary to make available Developed land, Finance, Infrastructure, Building labour and professionals and Building materials.
- Availability of Land-Acquisition of land for development is getting increasingly difficult. Cost of land for development is disproportionately high compared to total development cost. Cost of Development of land includes cost of infrastructure and economy in cost of Infrastructure is possible through appropriate planning.
- Role of building materials-Building Materials contribute 30-40% to the cost of the building. Economy in the use of building materials can have impact on cost.
- Building labour force is untrained and belongs to informal workforce due to which their productivity is poor. Lack of training and certification of standard contributes to poor workmanship and high maintenance cost. Time overrun on construction adds to the cost

### **Recommendations**

- While ordering the pattern of human settlements, one should bear in mind that compatibility between ecological balance and the technological options is ensured
- Meaningful Habitat policy should promote development efforts that improves people's livelihood, working environment, living environment, health and welfare, stop wasteful emissions and ensure equitable opportunities
- Redevelopment of existing areas can make cities more livable. Release of under developed urban land, Re-evaluation of existing developed area are a few Planning options. Improvement of infrastructure and affordable housing may bring poor closer to the work centres. These calls for change and paradigm shift in urban planning process.
- As unaffordability of the lower income segments is a major obstacle in the provision of affordable housing, incremental housing should be considered as one of the paradigms of planned development.
- There is a need for increased focus on the provision of rental housing and transitory accommodation to address the requirements of migratory populace and thereby substantially reducing the formation of slums and shanty settlements.
- Reservation of land for the poor is a critical initiative undertaken by various Government in many countries and the same needs to be given attention and can be emulated in Asian countries.

## Technical Session V: Expansion with Stability in the Affordable Housing Market

### Main Highlights/Salient features

- Real estate is a double edged sword which can support affordable housing and can also contribute to financial stress during downturns. Maintaining the balance between the two aspects is critical. It can be done through suitable tools like variability of risk weights, higher provisioning ,capping of LTV on loans etc.Unlike other countries, in India, both the government and financial sector regulator have come together to address affordable housing problems.
- The benefits of mortgage insurance are risk mitigation and capital relief for lenders and lower cost of borrowing for borrowers. The insurance provider does adequate due diligence before underwriting the insurance leading to risk free ownership of houses by borrowers. Mortgage insurance is administered differently in each country. Examples are state owned system in Hong Kong, public and private sector deliveries in Canada, largely government administered in Mexico and only private sector role in Australia.
- There cannot be one ideal system for all countries and the solutions have to be market specific. In some countries, Banks rely upon property value than borrower repayment capacity for housing loan, which is not the right way. Lack of data on credit history and property valuation is a major problem. This can be addressed through credit bureaus and property index like Residex in India. Mortgage Guarantee helps access finance in a cost effective manner. Amicable regulatory framework is required for stability in housing markets. There are under developed debt and capital markets in Asia pacific countries.
- The main focus of housing should be people. Home ownerships is not possible/feasible to all. Rental housing is helpful to migrant workers, young professionals, students etc, who can not or do not want to own house or people who are experiencing transitional events in their life. The challenges of rental housing are Cultural biases in favor of home-ownership,negative perceptions of rental housing, legal problems in owner-tenant relationship especially in relation to tenant's rights and evictions, low rate of risk adjusted return, lack of incentives for investors and Lack of adequate finance. Further, Risks related to rental housing for the owner of house are non-payment of rents, unfavourable rental control laws and taxation, problems related to physical management of the house. For the tenant, the risks are being told to vacate, problems in rent payment and poor condition of maintenance.

### Recommendations

- The cost of registration process is high in Asia. Credit risk can be addressed through strong underwriting standards. Appraisal methods need to be evolved for lending to people whose income is through informal methods and documentation is weak.
- Possible incentives to promote rental housing are targeted subsidy on rent to create demand and tax incentives, capital and long term funding to increase supply, fast resolution of legal disputes, favourable taxation, targeted subsidy along with availability of long term funds and capital.

- Credit to affordable housing can increase with better appraisal and loan processing systems, adequate risk management systems, development of credit bureau, mortgage data repository and long term resources.
- The solutions to affordable housing are multiple approaches like targeted subsidy, relaxation in FSI, slum redevelopment, Income Tax benefits, Public Private Partnership (PPP) and Foreign Direct Investment (FDI). Wherever direct lending by banks is not viable, MFIs and Housing Microfinance institutions should be used to deliver credit.
- Lending to lower segment should be insulated from volatility in interest rates which upper segment can absorb. Unlike upper segment who may invest in housing for returns, housing investment by people in lower segment is for consumption and self use. Credit guarantee fund and mortgage insurance should enable and incentivize lenders to lend to lower segment of the market.

### **Special Session by Keki Mistry, Vice Chairman and CEO, HDFC Ltd.**

#### **Main Highlights/Salient features**

The sub- prime crisis which had originated in the US, created ripple effects in Europe. There are many reasons why such a crisis would not happen in India. In India, the loans by Indian banks and financial institutions are backed by prudent appraisals and robust Credit policies and loans are given by the evaluation of the credit worthiness of the borrowers and not just by the valuation of property criteria alone. EMI concept is followed in the Indian financial system wherein the principal component goes on decreasing unlike in the west. An average Indian is debt-averse by nature in the sense that he would like to pre pay the loan as soon as money is available with him and most Indian home loan borrowers are the first time home buyers who buy homes for self use and not for speculation purposes. The home loan borrowers' liability does not terminate after handing over the keys of his house to the financial institution and there is own funds contribution on the part of borrowers wherein the remaining amount is funded by loans. Loan to Value ratio (LTV) is much lower in India and demographic profile is favourable as household Savings are important. Securitisation in India is still at its nascent stage unlike the west and Indian banks are well capitalized under BASEL norms.

#### **Recommendations**

Caution should be exercised by Banks and Financial institutions and they need not be over aggressive in lending by ignoring the prudent regulations.

### **Energy Efficiency in Residential Sector - Global Experience**

#### **Main Highlights/Salient features**

- Lot of energy goes into the housing sector. Given the vast experience in energy conservation in Germany, the same can be used for Asian Countries. To make it possible, the

most important aspect is to educate people. It is important to inform people what they actually get if they invest in energy efficiency. Funds availability is one of the main aspects to be looked into.

- Lifestyle change has an impact on resource consumption. We should concentrate on energy conservation. As far as Electricity consumption is concerned, domestic consumption is higher than commercial.
- Though we talk about urban housing, there are huge rural housing practices where energy conservation has been put into practice. An example can be that of a Silkworm rearing house designed by TERI (The Energy and Resource Institute- A not-for-profit, Research Institute in New Delhi, India ) to ensure controlled temperature environment which led to a substantial increase in silkworm rearing. Energy conservation is not just a prerogative of urban areas.
- Studies are being carried out to find out what potentials exist and to certify homes as energy efficient homes. The potential for energy conservation in high end housing which is about 50%.
- If people have good air and water quality, it will have a positive effect on their health which would improve efficiency and at the same time can have access to financing easily as banks do consider such aspects.

### **Recommendations**

- There is potential for energy conservation which exist in all forms - urban and rural, high end-low end and we need to come out with constant policies to introduce standards and norms for energy efficient housing.
- Homes should be designed to create savings of at least 20% from non energy efficient homes. Homes account for about 21% of our greenhouse emissions and roofing material, windows, fabrication material, insulation are all aspects to be looked into.
- Energy efficiency is particularly useful for low income people as Electricity/utility bill constitutes a big amount. Green mortgages are not only for the rich, rather it is more for the poor.

### **Technical Session VI: Practitioners in Emerging Affordable Housing Markets**

#### **Main Highlights/Salient features**

- Obtaining approvals from various government bodies, ambiguity in government rules, uncertainty in getting approvals, establishing clear title of the land, getting project finance for land purchase and retail housing loan for low income house buyers are the challenges in development of market based affordable housing projects. Most cities have poor utilisation of land for residential developments often characterised by low densities, low FAR / FSI, height restriction and restrictive zoning.

- The main problem with land acquisition is that it is done for the purpose of public use, however, the developed land is sold at very high premium to developers and home buyers, leading to resentment among people from whom the land is acquired.
- Successful implementation of affordable housing projects by any Government involves very significant role of NGOs, State Government and Urban Local Bodies(ULBs).
- Role of NGO's: Identification of beneficiary (footpath dwellers, taxi & rickshaw dwellers, etc), information to the beneficiary about government's Affordable Housing Initiatives, helping in filling of application form for allotment and after procedures like giving information about dues, registry and procurement of housing loans from Bank and Providing information about Self Employment Schemes.
- Role of State Government: To ensure that a particular percentage of the Government land available with ULBs is utilized for construction of low income housing, to ensure that nominal stamp duty is charged for low income housing, to encourage NGOs, self help groups in housing activities & micro, Promoting private sector & cooperative sector to undertake housing & infrastructure projects especially for the poor , preparation of action plan & programmes to meet housing shortage & augment supply of land for housing particularly for low income group.
- Role of Urban Local Bodies: To ensure that raw land is made available for construction of low income housing which can be either government land or acquired land. First preference to be given for construction of affordable housing ,to ensure optimum use of subsidy received from the government, to ensure that building plans are approved expeditiously, to ensure that external development works are taken up and completed in a time bound programme and in pace with the internal development works.

### **Recommendations**

- Tackling Land issues is imperative for Affordable Housing. There is need for appropriate land laws for acquisition of Land for housing, Efficient Land Records, Appropriate Valuation Regime, Full Land Mapping with Ownership Details, Appropriate Land Taxation , High Intensity Land Utilisation and effective Financing for Land Procurement.
- There should be modernisation of Offices of Registrars of Land /Property Registration and decreased Transaction Costs especially Stamp Duty.
- Legal systems should change, land acquisition should be made easy, government control should reduce and housing industry should be given priority sector status.
- Radical policy changes are required to address critical shortage of affordable and weaker section housing. In this regard, redundant past policies are to be changed, land use policy in terms of density and FAR needs to be changed, fresh land for urbanization has to be brought through innovative approaches (without force) from the land owners and plan approval processes are required to be faster and hassle free.

## **Technical Session VII: Securitization and Secondary Mortgage Market**

### **Main Highlights/Salient features**

- Capital Constraint is a major hurdle towards the noble objective of Affordable Housing. Lack of long term financing and ALM mismatches are the challenges to the housing sector. There are originators who can consistently originate good quality loans but face capital constraints for growth. This can be resolved by Securitisation. It should strive to meet appetite of different investors such as Life Insurance companies, Pension Funds and Mutual funds.
- Rising interest rates, Lack of proper interest rate benchmark, restricted investors, High stamp duty and varying across many states, Lack of standard documentation, Investor preference only for AAA paper are major impediments to Securitisation.
- Covered Bonds are on-balance sheet items with dual recourse whereas MBS are off-balance sheet and have single recourse. The Credit Risk is retained by the issuer in Covered Bonds while in MBS it is transferred to the investors. MBS comprised of a static pool of assets whereas Covered Bonds could comprise of a dynamic pool of assets. The major challenges for Covered Bonds are the issues regarding structural subordination and bankruptcy remoteness.

### **Recommendations**

- A product offering the combination of MBS and Covered Bonds could be very successful in Asia.
- To ensure success of Covered Bonds, formulation of robust guidelines is necessary.
- Secondary mortgage market is critical to give impetus for housing finance. For giving thrust to the securitization market, New investors (Pension funds) should be allowed. Standard documentation, Standard benchmarks and New instruments such as covered bonds are also required.

### **Concluding session and Closing Remarks**

#### **Main Highlights/Salient features**

- Too much financing will lead to stability problems. Expansion in the housing finance market requires adequate supply of various inputs, not only finance but other infrastructure and governance issues at the state level also assume great significance.
- On governance issues, role of public agencies, Public Private Partnerships (PPPs) are essential and there is need for sustainable partnerships among the various constituents.
- Success of an economy depends on success of its urbanization. As per a study, a large amount of Asian GDP originates from cities. There are four risks, viz, growing inequalities in cities, expectations of the rising middle class not being met, unplanned use of land, consequences of climate change and other natural/ environmental hazards. Asia's future depends on how urbanization is done and how the housing needs are met.

- Inadequate infrastructure, underdeveloped financial market, information asymmetries, regulatory obstructions, arbitrary and unclear titles, outdated master plans are some of the impediments. There are less incentives to increase supply of low income housing and natural disasters affect vulnerable families living in sub standard houses.
- Vibrant private sector is a Primary driver. We should strategically involve private sector in all areas including support to infrastructure sector and encouraging promotion of cities which are environmentally sustainable.
- Reaching out to the needy people is important but the mechanism at the time of the sub-prime crisis was wrong including the misuse of Collateralized Debt Obligations (CDOs)

### **Recommendations**

- State governments have a big role to play especially in case of poor. State governments are in the best position to acquire land and pass it on to the private sector at a reasonable cost. Transfer of land from the public agencies to the private bodies should be done at a reasonable price with a condition that the benefits of the low price will be passed on to the ultimate users.
- Sustainable credit delivery systems are required to flow credit to low income housing. Provision of Long term funds is a constraint for PLIs and access to international markets and development of secondary market can be the options.
- Institutions should serve informal sector and skill development, capacity building and risk mitigating measures are required to serve this market.
- Primary market is highly consumer driven and PLIs need to customize their products to suit the needs of this market. Adequate transparency and more credibility are required on part of PLIs in their approaches towards the customer.
- Aftermath of the crisis, the feared financial products such as Collateralized debt Obligations (CDOs) need not be banned and a structure needs to be created so that both the real as well as the finance sector flourish.
- We need to think out of box in innovation and entrepreneurial aspects. Land should be treated as working capital and not something which is used for capital appreciation only. Hosts of clearances are required to start a project as well as at the time of completion of the project which increases the transaction cost. There is a need to streamline the whole clearance process so that inordinate delay is averted.
- 'No one size fits all' for the nations and market segmentation is an important aspect.

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## **A Summary of Recommendations**

There is a need for a housing finance system in the Asia Pacific region which should be sustainable, expandable and promotes stability. Affordable housing is a big challenge and there is a need for countries across the region to share their experiences and best practices for formulating feasible solutions to address the problem.

The following measures are recommended for the holistic development of the housing/housing finance sector:

- **Innovative, affordable Technology and Standardisation**

Investment in low-cost building technologies (e.g prefab housing Investment) and Energy Efficiency are vital. There is a potential for energy conservation which exists in all forms - urban and rural, high end-low end and we need to come out with constant policy measures to introduce/innovate standards and norms for energy efficient housing. Homes should be designed to create savings of at least 20% from non energy efficient homes as energy efficiency is particularly useful for low income people as Electricity/utility bill constitutes a big amount. Affordability equals standardization. The solution lies with the housing construction industry moving from construction of house to manufacturing of house and from customized houses to standardized houses, thereby reducing cost and construction time. Housing should be a life cycle product .There is a need for technological Innovation for cost reduction not just to provide cheap houses but also for providing sustainable and dignified livelihood.

- **Accessibility to finance at a lower cost and development of new funding instruments**

The financing institutions should develop the requisite skills to mobilize domestic savings through innovative methods and devise schemes to lend at affordable rates. Transition from Housing micro-finance to micro mortgage loans is the key driver for simulating housing micro finance through Micro-Finance Institutions. Lending to lower Income segment should be insulated from volatility in interest rates which only upper income segment can absorb. Unlike upper income segment who may invest in housing for returns, housing investment by people in lower income segment is for consumption and self use. There is a strong need to tackle the informal sector through innovative solutions. Appraisal methods need to be evolved for lending to people whose income is through informal means and where documentation is weak. Risk mitigants such as credit guarantee fund and mortgage insurance should enable lenders lend to lower segment of the market.

- **Deeping of the Debt Markets and development of Securitisation**

Non availability of debt funds is the reason for the lack of longer term fixed rate loans. Lack of long term financing and ALM mismatches are the challenges to the housing sector. Securitisation is important and efforts should be made to work on the 'Originate, hold and Sell' model instead of just 'Originate and Sell' model. Pension funds, gratuity funds should invest in the long term debt papers and mortgage backed securities should be traded. Secondary mortgage market is critical to give impetus for housing finance. Standard documentation, Standard benchmarks and new instruments such as covered bonds are also required.

- **Synergy among various institutional stakeholders and Supportive legal and regulatory environment**

For Successful Micro Mortgage Finance, HFCs with their efficient Risk Management & Back Office Capabilities and MFIs with their advantage in Customer Acquisition & Collection Mechanisms need to operate together. On governance issues, role of public agencies, Public Private Partnerships ( PPPs) are essential and there is need for sustainable partnerships among the various constituents. The commitment from the Government such as reforms in land policies, city planning, income tax benefits for the borrowers, lenders, investors and construction agencies are important. The state governments have also come out with supportive housing policies, lower transaction costs and incentives to the developers. The solutions to affordable housing are multiple approaches like targeted subsidy, relaxation in FSI, slum redevelopment, Income Tax benefits and Foreign Direct Investment (FDI).

- **Tackling Land Issues**

A viable solution for affordability can not be found till the land problem is addressed as the main cost of a house essentially comprises of the cost of Land. There are land price distortions across cities and faulty land policies. There is need for appropriate land laws for acquisition of Land for housing, Efficient Land Records, Appropriate Valuation Regime, Full Land Mapping with Ownership Details, Appropriate Land Taxation ,High Intensity Land Utilisation and effective Financing for Land Procurement. There should be modernisation of Offices of Registrars of Land / Property Registration and low Transaction Costs especially Stamp Duty. Legal systems should change, land acquisition should be made easy, government control should reduce and housing industry should be given priority sector status. Redundant past policies need to be changed, land use policy in terms of density and FAR needs to be changed, fresh land for urbanization has to be made available through innovative approaches (without force) from the land owner and plan approval/clearing processes need to be faster.

Transfer of land from the public agencies to the private bodies should be done at a reasonable price with a condition that the benefits of the lower price will be passed on to the ultimate users.

- **Urbanization ,Urban Planning and Rental Housing**

Developing countries like India need more cities which provide economic activities to pull people out of poverty by earning livelihoods. The future of human settlements lies in environmentally satisfactory and sustainable development. Compatibility between ecological balance and the technological options should be ensured. Focus should be on Energy Efficiency in Buildings, Urban Transport and Waste Management. Development can only be sustained when it keeps pace with the rising expectations of the population. Redevelopment of existing areas can make cities more livable. Improvement of infrastructure and affordable housing may bring poor closer to the work centres. These calls for change and paradigm shift in urban planning process. There is a need for increased focus on the provision of rental housing and transitory accommodation to address the requirements of migratory populace and thereby substantially reducing the formation of slums and shanty settlements.

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