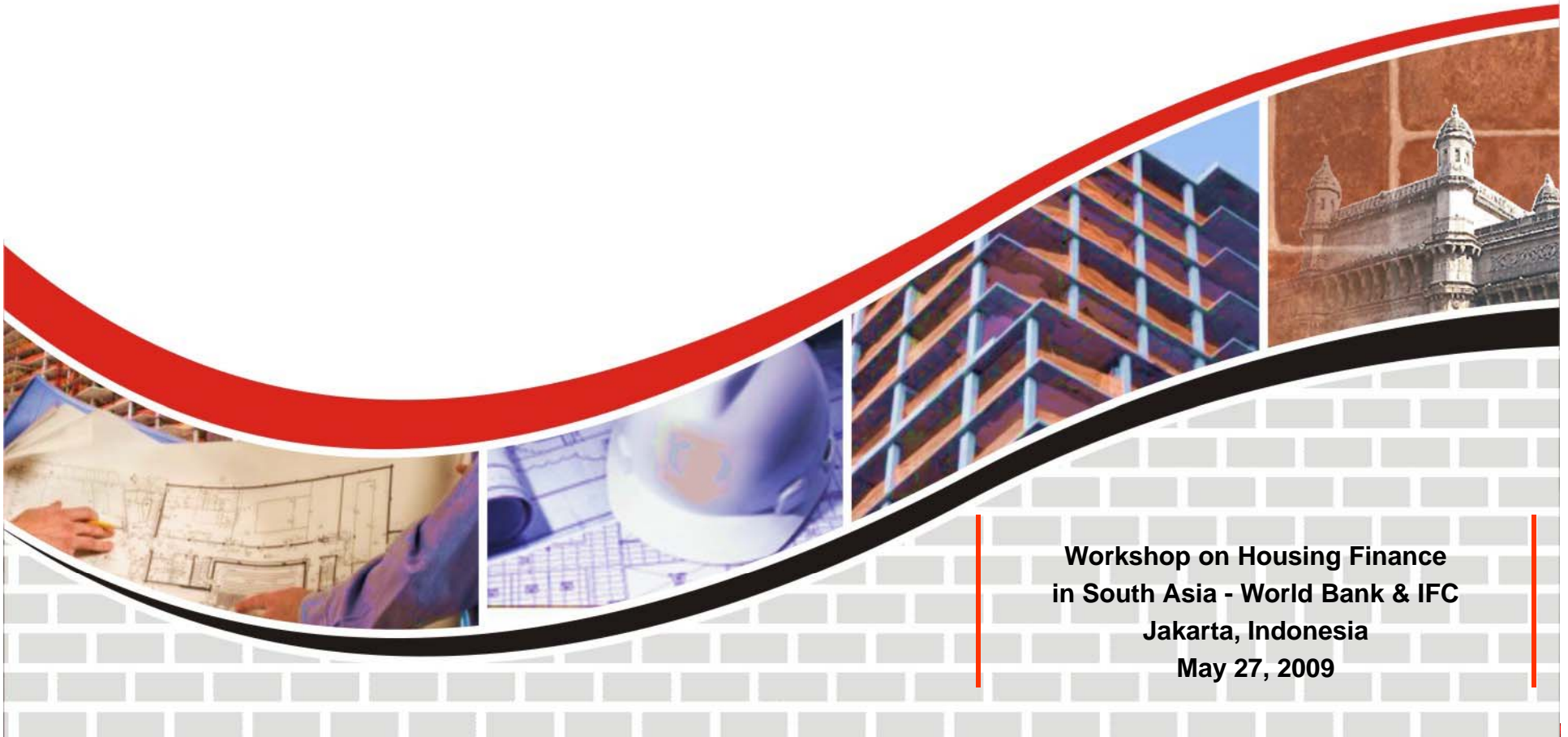


# THE HOUSING FINANCE MARKET IN INDIA

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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



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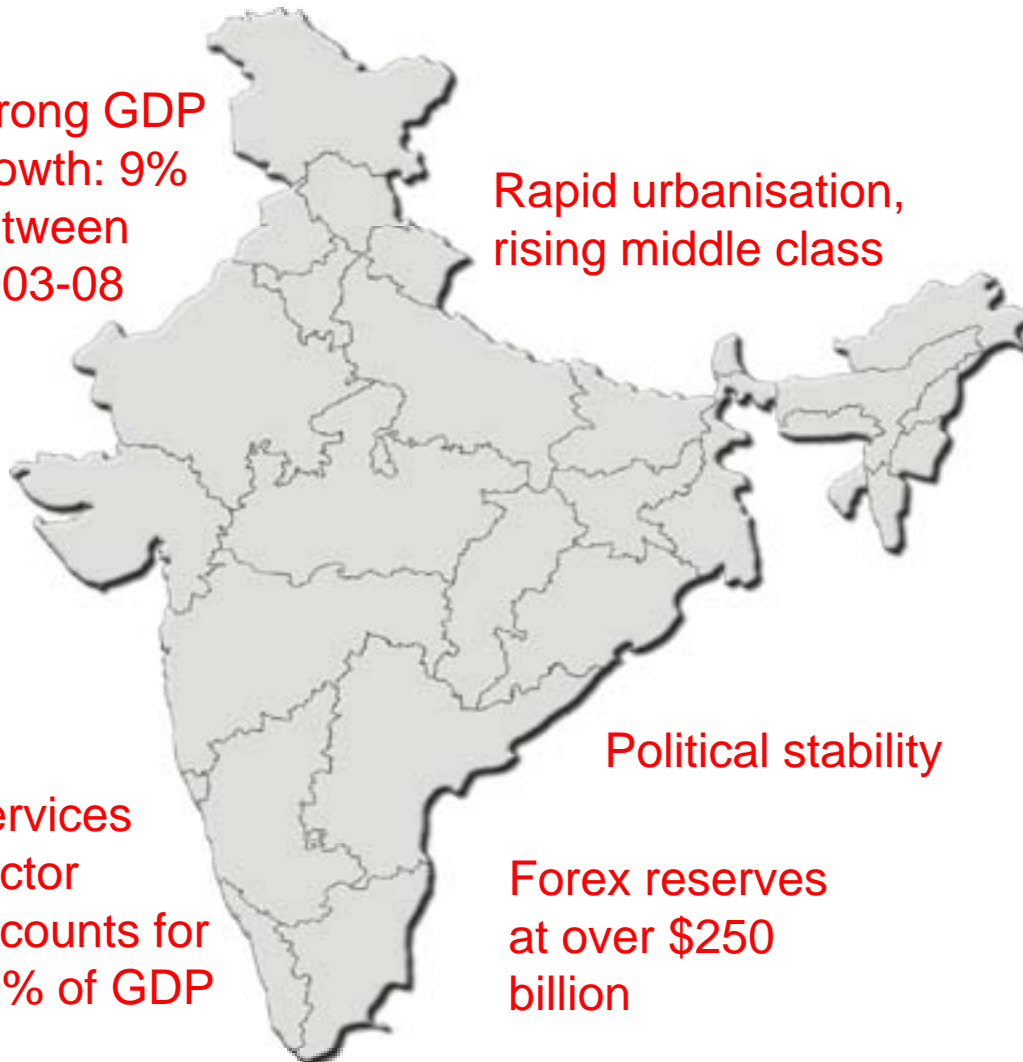
# South Asia: Regional Overview

- 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

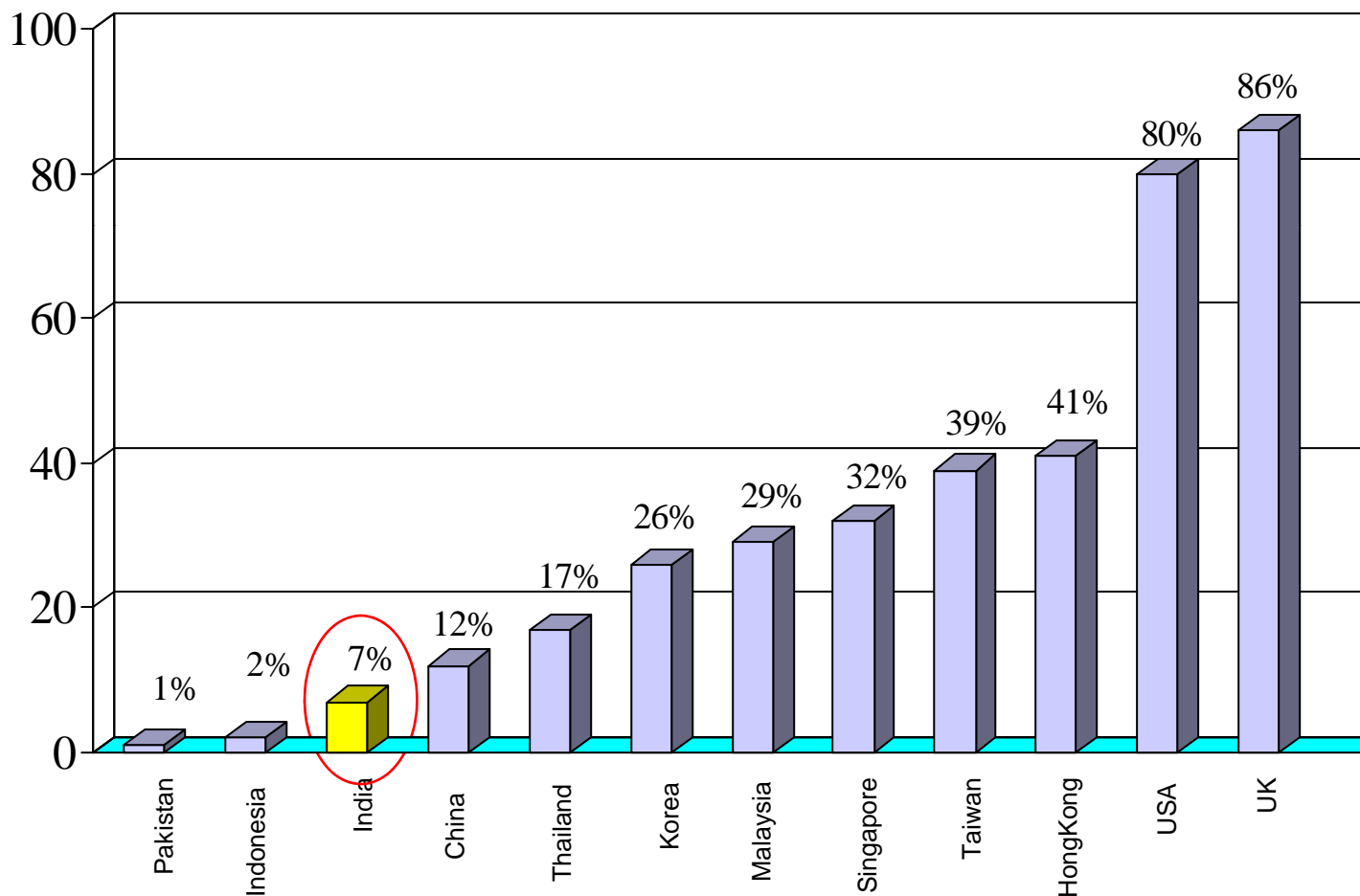
## IMPORTANCE OF HOUSING

- 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

Second fastest growing economy in  
the world after China

# Mortgage Market in India

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



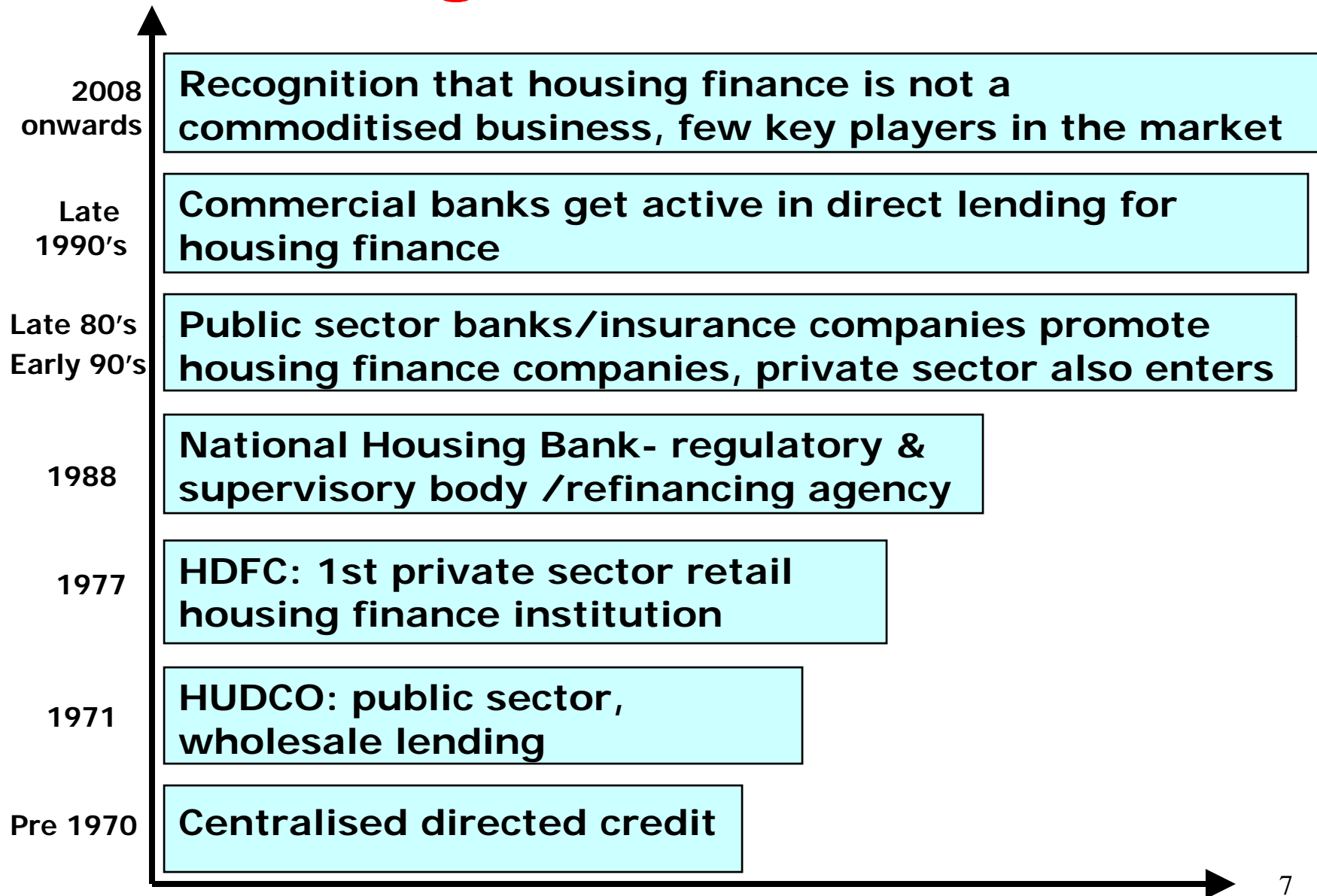
Source: European Mortgage Federation, 2007 & Asian Development Bank, 2007

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# 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)	<b>Regulator</b>	National Housing Bank (100% subsidiary of RBI)
Access to low cost funds via current / saving accounts	<b>Advantages</b>	Dedicated players, better customer service
Extensive branch network		Lower operating costs
High operating costs	<b>Disadvantages</b>	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

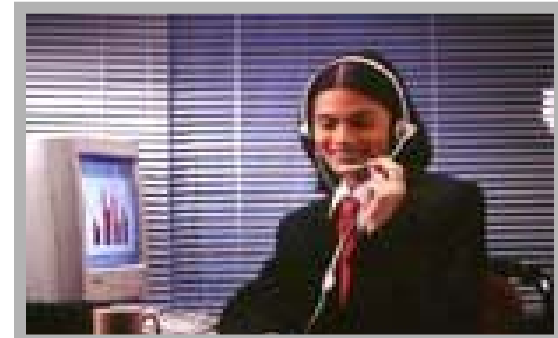
# Marketing and Distribution

## 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



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# 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

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# 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



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# 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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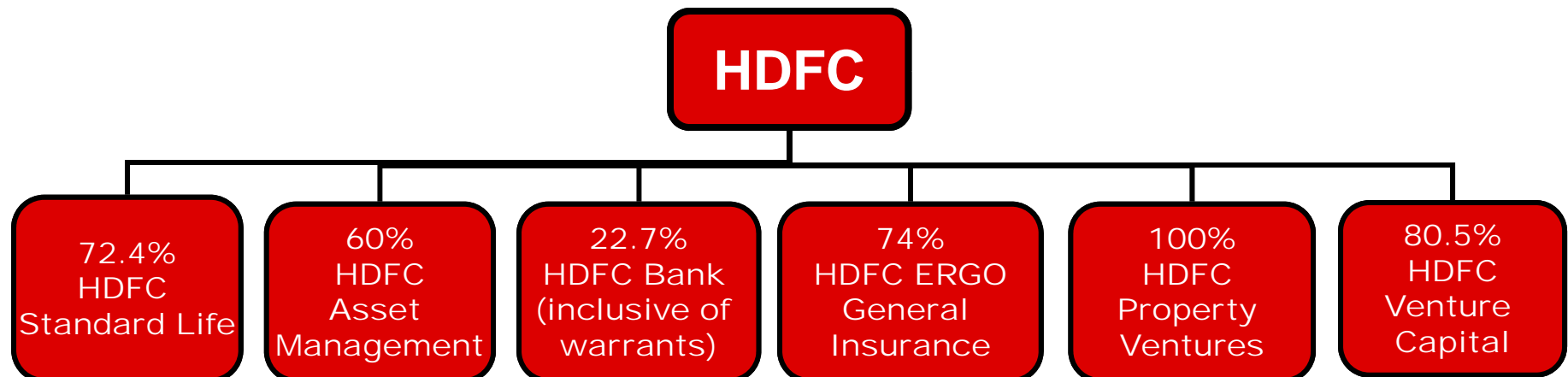
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# Overview of HDFC

- 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
-

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# 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)
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# 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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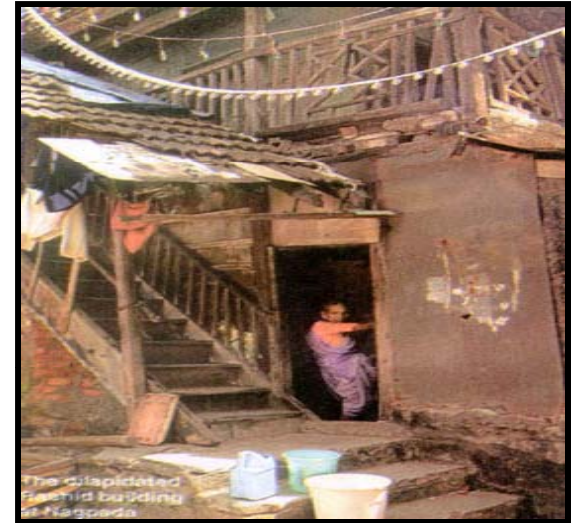
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# Issues on Affordable Housing

- 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

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

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*Thank You*

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