Proceedings of the International Conference on
"Housing: An Engine for Inclusive Growth"
– April 11 & 12, 2013 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 'Housing: An Engine for Inclusive Growth' during April 11-12, 2013 at New Delhi. The Conference was attended by a large number of international participants and Speakers from Afghanistan, Bangladesh, Indonesia, Iraq, Japan, Malaysia, Pakistan, Nigeria, Yemen and Thailand besides International Agencies like the International Finance Corporation, World Bank, Asian Development Bank and Government of India - Central and State Government Officials, Reserve Bank of India, Banks & Housing Finance Companies. Representatives from academia, researchers and policy makers also participated in the Conference.

11th April, 2013

Inaugural Session:

The Conference started with an insight into the various aspects of housing, its importance, state of the sector, recent initiatives, areas of focus, and the role of different stakeholders. Asset creation or home ownership is an important source of security, economic and social well-being and empowerment.

Main Highlights/Salient Features

- Investments in housing are known to trigger growth impulses across the entire economy and with significant impact on income, employment and GDP.
- The following 03 groups were identified as important players in the housing sector:
  - Enablers – Self Help Groups, Micro Finance Institutions, Housing Societies etc.
  - Promoters – Government Agencies, Multilateral Institutions , International Institutions.
  - Executors – Private players, Government Housing Agencies, Public Private Partnerships.
- Adoption of a multipronged strategy, encompassing the demand and supply side initiatives, market infrastructure building, risk mitigation measures, awareness building and consumer protection measures, are the areas to focus upon.
- Housing as a strategic tool , can be used for achieving inclusive economic growth.

Session 1: Theme Presentations - Cross Country Experiences

The housing sector, has been instrumental in economic growth across the world. In this session, participants from across the world provided a glimpse of the policy and regulatory regime in their respective countries . The participating countries shared the status of housing and the housing finance sector in their respective countries along with plausible home finance solutions that have been successfully implemented and adopted by them and could also act as a guide for the other participating countries in evolving similar products / schemes customized to their needs and requirements.

Afghanistan

- Population: 35 million. The task of rebuilding in Afghanistan is of magnanimous proportion. It had a GDP of US$ 20 billion in 2011.
- **Housing and Housing Finance:** The housing stock in the country has been either partially or fully destroyed. A World Bank study conducted in 2004-05 estimated the need for US$ 2.5 billion to rebuild/refurbish its housing stock. Along with the rebuilding needed for housing stock housing finance institutions also need to be established. The legal and regulatory frameworks are either not in place or are not enforced due to current political and economic scenario.
  The greater challenge for achieving growth in housing stock is availability of long term funding. Commercial Banks provide short-term funding. Further, due to political reasons the investors are wary of investing for long periods of time as well, compounding the problem of lack of long-term funding.
  The Central Bank has introduced a scheme under which a central bank employee is eligible for an interest free long term loan with tenure upto 15 years. The loan amount is given ensuring that the EMI doesn't exceed 30 per cent of the income of the borrower.

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. The housing and construction sector is the second largest employer after agriculture.
- **Housing and Housing Finance:** Urban housing shortage and slums are the two biggest challenges facing the housing industry today. It is estimated that by 2030, 40 per cent of the population would be living in urban areas by 2030 and that five states namely, Tamil Nadu, Karnataka, Gujarat, Punjab and Maharashtra, will have urban population in excess of 50 per cent. The recent report by government of India puts the urban housing shortage at 18.78 million units.
  The mortgage to GDP ratio stands at approximately nine per cent compared to 2 per cent in 2002. For developed countries, like the US and UK, this ratio is in excess of 80 per

cent. While India has seen a housing boom, it has mostly been fuelled by High and Middle income groups. The Lower Income Groups (LIG) and Economically Weaker Sections (EWS) are still largely un-catered to. Investment for fresh housing units is expected to be above INR 5700 billion and the housing and mortgage industry is expecting a growth rate of 17-19 per cent.

To tackle the challenges faced India needs to strengthen public private partnerships. Co-ordination between banks and HFCs is also needed as banks have the reach while HFCs have the expertise.

Various initiatives have been taken by the Government and National Housing Bank (NHB) to tackle the housing shortage problem. Introduction of the Golden Jubilee Rural Housing Finance Scheme by NHB led to construction of innumerable houses for the LIG and EWS sections. NHB also launched the Credit Risk Guarantee Fund Trust for Low Income Housing in collaboration with Government of India.

Setting up of the Indian Mortgage Guarantee Corporation by NHB in collaboration with Asian Development Bank, IFC and Genworth Inc. has laid the foundation for the emergence of a secondary mortgage market in India.

Bangladesh

- Total Population: 142 million. The urban population constitutes 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.
- **Housing and Housing Finance:** Bangladesh has a population density of 1027 but the population density of Dhaka is greater than 10,000 thereby making it one of the densest cities in the world. 90 per cent of the lending by commercial banking sector is in Dhaka while the remaining 10 per cent is in Chittagong.

  Bangladesh House Building Finance Corporation (BHBFC) is a specialized housing finance institution which is present in nearly all districts on Bangladesh. The entire urban housing shortage is in the LIG category where there is huge demand but virtually no supply. The microfinance sector is playing an extremely effective role in providing financing for housing. Gramin Bank is also playing an effective role in the sector.

Thailand

- Population: 65 million. The economy witnessed a 6.4 per cent growth last year and expected to grow 5.3 per cent this year. It has one of the lowest unemployment rate in south East Asia of less than 4 per cent.
- **Housing and Housing Finance:** Thailand has a mature housing finance sector and it is one of the few countries in South East Asia which doesn't face any housing shortage. The country has adopted the community housing model effectively and is an example of how that model can succeed. It decreased its slum and squatter settlement from 1.7 million of three per cent of the total population in 1990 to the current state of zero.

  32 per cent of houses in the market last year were priced at over 3 million baht and majority (53 per cent) was concentrated on LIG and MIG at 3 million baht. New homes

in Bangkok averaged 160,000 Units/year (1993 – 1997) 100,000 Units/year (2007 - 2012). The subsidized low cost housing saw an average completion rate of 30,000 units/year (2004-2012).

The housing finance sector is matured and loans are disbursed within a week taking a maximum time of two weeks. Property transactions are finished within half a day. The sector has seen 12 per cent annual growth rate for the last 10 years. Residential mortgages account for 15 per cent of all the loans disbursed and 20 per cent of the GDP in 2012.

Government Housing Bank has also played a vital role in the development of housing and housing finance sector. It launched a scheme for first time home owners. The total project loan amount is Bt 20,000 million which is offered through loans having 0% interest rate (2-3 years) and LTV up to 100 per cent. Loan amount up to 1 million is disbursed per individual under the policy.

Pakistan

- **Population: 180 million.** It is the sixth most populous country in the world. 37 per cent of the population lives in urban areas and 63 per cent in the rural areas. It has a GDP of US$ 200 billion with a growth rate of 3.7 per cent.
- **Housing and Housing Finance:** Pakistan follows both conventional banking and Islamic banking. Islamic banking was introduced, formally, in 2002 when the Meezan Bank limited was granted an Islamic banking license. Islamic banking is growing 50 per cent faster than other forms of banking globally and has grown tremendously in Pakistan where it now accounts for 10 per cent of the total banking. The USP of Islamic banking is that all transactions are asset based giving rise to economic activity.

  Pakistan has a backlog of 8 million housing units. 2003 saw a boom in the housing industry leading to a sky rocketing of real estate prices pushing them out of reach of people in the lower income group and even in the lower middle income group. Until 2033 only House Building Finance Corporation (HBFCL) was operating. As the sector witnessed a boom the commercial banks also entered the market in 2003. The boom period ended in 2008 leading to banks withdrawing from the housing finance space. During the same time Islamic banking grew and Islamic mortgage now has a penetration level of 25 per cent. 50 per cent of housing loan disbursements was through Islamic mortgages in 2012.

  Concept of diminishing Musharka in housing finance is followed in Pakistan– Musharaka in Arabic means "partnership", so a diminishing musharaka is a diminishing partnership, in the sense that a home buyer and his/her bank are partners in the purchase of the home. The diminishing musharaka contract generally provides for the home buyer to contribute a deposit, while the bank pays the rest, and the two become co-owners of the home. The home buyer lives in the house, paying rent to the bank as well as regular scheduled purchases of "units" of the bank's share of the house. As the bank's ownership decreases/diminishes, the rent decreases accordingly, until the home buyer has bought out the bank and owns the house outright . Bank takes ownership and risk and also shares loss during disasters. There is provision for early payment option, no late payment penalties, customer undertakes to pay an amount for charity, bank pays insurance premium. The possibility of making the same available for LIG is also being explored.

Nigeria

- Population of 150-160 million.
- **Housing and Housing Finance:** Housing sector is mostly non-existent. There is a deficit of almost 70 mn housing units in Nigeria.
  The government introduced the National Housing Fund Scheme for housing wherein 2.5 per cent of the income of the people goes to the National Mortgage Bank who loans it out to Primary Mortgage Institutions (PMI) to further lend to developers. The government has also issued guidelines to banks and insurance companies. For commercial banks 10 per cent of their loan able funds are to be set aside for housing. 14 and 20 per cent of their life and non life funds are to go into these schemes by insurance companies.
  Although PPPs are in existence along with 25 primary mortgage institutions , mobilization of funds is still a hurdle and so is a land title.

Malaysia

- Population of 29 million
- **Housing and Housing Finance:** CAGAMAS is the national mortgage corporation.
  The housing prices saw a steady increase (4.5 per cent) in the last ten years with escalation of growth (11 per cent) in the last 2-3 years.
  Housing mortgages contributed 32.4 per cent to the GDP in 2012 and in the last five years the contribution has been between 25 per cent and 30 per cent. Commercial banks account for 86 per cent of total mortgage in financial sector. In the last 30 years housing loans have become a significant portion of the loan sector. The housing finance industry is marked by low interest rates and NPAs.
  Islamic house financing is also prevalent. The share of Islamic banking has been continually growing and in 2012 Islamic mortgages accounted for 15.75 per cent of the primary mortgages.
  Housing loans in Malaysia offer a LTV of 95 per cent which includes legal fees accounting for 5 per cent of the loan value. The tenure periods are also longer with maximum tenure of 40 years or till the individual reaches the age of 70 years. To aid the people in easy loan repayment the option of a second generation loan is also existent whereby if the father can't pay the full amount the loan is carried onto the next generation. The banks have also been given a quota for priority sector lending. The lower income segment still faces difficulty in obtaining a loan as they are believed to have a higher rate of default and a higher household debt.
  Malaysia faces the challenge of its housing market having become speculative due to low interest rates for deposits and also the losses incurred by the people during the Asian Crisis. The government has set up new regulations where banks lending to

borrowers for 3rd houses and above can't offer a loan with LTV of more than 70 per cent. The aim behind this move is to:

- Convince banks that credit risk is curtailed
- Household debt is maintained at a affordable level

The government has also launched two schemes:

- One Malaysia People Housing project
  - Govt set up a corporation and provided land to it to develop the housing stock. Individuals above 21 yrs of age, not owning more than one house and having salary in the range of RM 2,500 to RM 3,000 per month.
  - To avoid arbitrage the successful applicant can't dispose of the house for the first five years
  - Max loan amount is 100 per cent and interest rate is 4 per cent
  - One Malaysia Civil Servant Housing project has been launched along similar lines for the civil servants
- My 1st Home Scheme
  - Targeted to young adults less than 35 years old having income less than RM 5,000 as an individual and less than RM 10,000 as a family per month
  - CAGAMAS provides guarantee for the first 10 per cent through a subsidiary

CAGAMAS was set up due to the following reasons:

1) Funding mismatch in financial institutions resulting in liquidity crunch
2) Financial institutions (FIs) were not lending to homebuyers despite demand
3) Limited funding source in the market – no bond market

Since its inception CAGAMAS has promoted home ownership/home accessibility and affordability.

Session 2: Urbanization and Attendant Challenges

The growing urbanization and population migration worldwide from rural to urban areas are throwing up new and unprecedented challenges, causing the policy makers and planners to look for innovative models for providing accommodation to the burgeoning urban populace. The session explored different models like Public Private Partnerships and Rental Housing which could potentially offer viable and sustainable solutions in the face of rapid urbanization and migration. The need for improving infrastructure and governance was equally emphasised.

Main Highlights/Salient Features

Urbanization is a rapidly growing phenomenon being witnessed by developing countries. India has witnessed rapid urbanization and will continue to do so with 40 per cent of its population living in urban centres by 2030. Rapid urbanization brings with it a unique set of challenges especially for the developing countries with growing population.

- Pakistan: Pakistan is also facing urbanization challenges. It started a rehabilitation project, Lyari River project, which had a very positive initial response but faced hurdles due to financial constraints in the later stages.
    - Lyari river is 16.5 km river connecting North of the country to the Arabian Sea. River divided into three parts and resettlement was done for the whole group and done at locations where resettlement has been done before and host population exists so as to ensure availability of daily needs. The government allotted 80 sq. yards plot to each and every settlement residing along the river + 50000 rupees. Ownership right is granted for 5 years after which they can sell their plot or houses which have to be built by them. Commercial units were not compensated and religious buildings were relocated and compensation was allocated in terms of plots for the religious clerics.
    - While 30,000 plus units have been resettled the funds stopped coming in 2008-09. Project has been stalled due to paucity of funds which has included discontinuation of schooling for 6500 kids and stoppage of water flow to both developed and undeveloped resettlement sector.
- India: Urbanization in India is not only happening due to migration but also due to reclassification of rural and semi-urban areas into urban areas due to increasing population.

  Affordable housing is one of the mechanisms being used in India to provide the huge need for housing stock created by urbanization. While there has been progress in this field with 27 developers venturing into affordable housing projects and governments launching special schemes (Government of Rajasthan), it still faces hurdles. The hurdles being faced can be broadly clubbed under the below points.
    - Regulations and Sanctioning – Sanctioning takes close to 18 months due to the need for, as many as, 30 different approvals. Further the rules and regulations are not developer friendly, State laws are complex and thus dampen investment in the area. There are last minute distortions in projects.
    - Housing is still not considered under the infrastructure portfolio hence loses out on various schemes and subsidies.
    - Construction finance – Reluctance of banks and HFCs to lend to affordable housing projects, though reduced, still exits. The general belief is that since it caters to LIG and EWS, the ability to pay is limited and could result in default.
    - Upgrading the existing slums and building fresh housing stock for new fresh migrating population

  Out of the 18.78 million housing units needed in India, nearly 15 million units already exist but are in conditions which are not suitable for living. Access to drinking water, electricity and sanitation are missing. The other units need to be constructed i.e. fresh housing stock is needed. While rebuilding the units and while constructing new units apart from drinking water, sanitation and electricity, the travelling distance to work place and easy accessibility of public transport have to be considered.

  The problem of urban housing shortage can't be solved by the government on a standalone basis due to its size. It needs Public Private Partnerships (PPPs) and support from the private sector separately as well.

Session 3: Inclusive Housing - Regulatory and Policy Framework

Government policies, regulatory and fiscal regimes, aimed at creating a conducive and enabling environment for promotion of low income housing, can go a long way in improving the overall financial inclusion levels as well as ameliorating the housing situation among the low income segments. The session focussed on how enabling government policies and a responsive regulatory framework can provide the necessary impetus to the growth of inclusive housing. Also various issues pertaining to clear title were discussed during the session.

Main Highlights/Salient Features

In the Indian context, because of colonial legacy most cities started with low density prescriptions. The urban sprawl created long distances and unauthorized colonies. This led to insecure titles. No regulation for slum upgrading. A slum even if improved remains outside the legal / formal framework. Insecure titles create exclusion.

Inclusive housing has to be kept in mind while planning for the future . There are various aspects involved in it. Two of the most basic issues discussed are land and financing.

- Land – Land accounts for a large portion (70 – 80 per cent) of the total cost of housing. The problem gets compounded because of lack of legal land. Individuals who have been staying on a piece of land have no official documentation to prove that the land is theirs. This is becoming a bigger problem as more rural and semi-urban areas are getting reclassified as urban. Unofficial titles have certain implications.
    - Restriction in investment by professionals and families themselves as they are vulnerable to evictions by government, private sector and /or markets
    - Channel of financial institutions is not available as the legal documents are missing
    - Prevents entitlement of basic services legally
    - Individuals/Families are unable to contribute to tax revenues of local bodies
    - Lack of land available for housing (Greenfield projects)

  To tackle the problem of land and titles the government has made it mandatory to reserve small portion of land for LIG and EWS.
- Financing – For any sector to grow it needs credit flow. The following points should be taken into account for making credit flow into affordable housing.
    - Stability of policies
    - Pressure on HFCs to borrow/raise expensive capital
        - Different benchmarks for Priority Sector Lending – for direct lending it is Rs.25 lakhs and for availing refinance it is Rs.10 lakhs.
        - Implied interest rate restrictions for HFCs for on-lending (in cases where Banks lend to HFCs under priority sector lending)
        - Different operating costs, delinquency rates, credit losses, base rates, taxes and cost of acquisition is different for different banks. HFCs borrow from different banks at the same time so portfolios, even though

conforming to norms, can't be refinanced by banks due to the different rates.
        - Securitization rules change year on year with deals being bilateral and not traded on paper.
        - Tenure for lending is for approximately 20 years while borrowing is 5 (banks) or maximum 10 (Bond market). This creates a maturity mismatch which can be bridged by usage of tradable mortgage paper.
    - Urban infrastructure should be dove tailed into urban housing.
    - Regulator for Urban infrastructure should be appointed.
    - Prudential norms for standard asset provisioning should be less tight. With the current norms it takes 13 months to break even on affordable housing loan product due to standard asset provisioning and cost of acquisition.
    - While ECB and FDI have been approved with certain caps they will have a substantial impact only when FDI norms are relaxed further. This is because credit only flows after capital.

  One of the modes of financing which has worked in other countries and is being implemented in India is Micro Finance. Micro housing finance borrows from the concept of both HFCs and MFIs and has seen a limited growth due to various reasons. On the product side there are differences which are, at times, conflicting in nature.

    - Housing Finance is secure lending while Micro Finance is unsecured lending
    - Housing Finance is treated as being non productive while Micro Finance has to be treated as a productive loan
    - Housing Finance typically tends to be higher ticket size while Micro Finance loans are capped at Rs. 50,000 (for all loans combined for that borrower)
    - Mortgage loans are priced attractively (10.5 per cent) while Micro Finance loans are priced quite high (24-25 per cent)
    - Housing Finance loan tenures are 5-25 years while Micro Finance loan tenures are typically 1-2 years
    - Micro Finance is weekly repayment while Housing Finance loans are monthly payments

  Apart from the product side, differences also exist on the institutional side.

    - Funding for Housing is long tenured while loan by a bank to an MFI tends to be short tenured (18-24 months)
    - Margins for mortgage companies is lower while that for MFIs are high
    - Operating costs of HFCs is lower while those for MFIs is higher
    - MFIs have minimal documentation while for HFCs is very comprehensive

The above challenges, both to credit flow and for micro housing finance, are not unique to India. Other countries face the same challenges and have come up with innovative solutions. Discussed is the solution implemented in certain countries of Africa.

- The hurdles towards affordable housing growth are lack of supporting infrastructure and implementation of solution at the required scale due to limiting capacity of the government. One of the business models followed by a finance institution working in the slums of Africa is

- Lend US$ 2000 at a time for maximum 60 months to individuals whose income is US$ 250-US$ 500 a month (most earn less than US$ 300 a month). It is very similar to a revolving credit facility.

The model works on incremental lending i.e. concept of incremental construction. The building of the houses is done room by room. The first loan is used to construct the floor and walls and in certain cases the roof for one room. This enables the family to move in and the rent money is saved. With the second loan they can expand. This ensures that the lender is not borrowing beyond their means and they are out of rented homes faster. Apart from financial help is given with innovative construction.

Session 4: Housing Challenges: International Financial Institutions' Perspective

In this session, major international financial institutions and multilateral bodies engaged in activities related to the housing sector shared their experiences regarding the issues connected with low income housing, impediments and challenges posed by the sector, and also offered insights into possible approaches to tackling the attendant problems through application of international best practices while keeping the local issues in consideration.

Main Highlights/Salient Features

- Affordability and accessibility are the main problem areas facing the housing sector. Price to income ratios in Asia exceeded those of developed countries. Affordability and accessibility of both land and finance act as barriers to housing for mot only the lower income group but also the middle income group. Affordability is impacted by a number of facts like increase in property costs, increase in cost of building materials, lack of availability of mortgage finance and no access to credit.
- International institutions like IFC, ADB, World Bank and private firms such as Genworth Inc. try to work with the governments and other agencies in the developing countries to try and address these problems. World Bank has recently signed a US$ 100 million project with the government of India and NHB. World Bank will provide a US$ 100 million intermediary loan which will reach the final borrowers through HFCs and MFIs. Technical assistance would be the key component.
- Rapid Urbanization and the burgeoning middle class are amongst factors which have led to a continual increase in demand of housing units.
- Different models (suiting their needs) for slum upgrading, subsidies, housing, microfinance, public rental housing have been adopted in various countries.Countries like India, Indonesia, Morocco, Egypt and China have introduced certain schemes which have been partially successful in meeting the demand for housing units. Certain schemes like the public rental housing in Indonesia and Government of Rajasthan initiatives in India are aimed at LIG and EWS segments. Co-operative housing finance for slum dwellers is needed.

12th April, 2013

Session 5: Government Policies and Initiatives

The session examined how policy level initiatives have helped and can be further helpful in mitigating the housing shortage through demand and supply side interventions. The focus of the session was on how the Governments can act as a facilitator and put in place implementable housing policies in order to attain the goal of affordable and sustainable housing for the masses.

Main Highlights/Salient Features

Challenges and opportunities exist in every sector. Risk and return are associated with housing finance. Due to different Government policies in different countries there is variation in mortgage markets across.

India:

a) Risks will always exist and what works for one area might not for another. Take risks but have mitigation policy in place.
b) Market Based Approach – The focus has to be on EWS and LIG but MIG can't be ignored. Policies which act as enablers are required more than subsidies. For example single window clearance would help developers develop projects faster and in a cheaper manner.
c) Need for housing is huge. There is room for various players including government, private players, development institutions and financial institutions. 90 per cent of the employment is generated in the informal sector
d) Policy and Regulatory Framework
    1) Public Sector guarantees and mortgage markets (government help and government intervention) are extremely difficult to price correctly and thus tax payers are on the hook for longer than they thought they would be. For example pricing of Freddie Mac and Fannie Mae in the US.
    2) Policies that are meant to stimulate demand for housing have both price and quantity effect. The policy makers need to be careful so as to not generate inflation in the housing market
        i) FSI regulations in Mumbai are very stringent thereby making it difficult to increase supply. If you make provisions for cheaper loans then you have high demand and limited supply leading to a price increase.
        ii) Policy design is very important but flexibility in the policy architecture is equally important. Enabling environment not necessarily subsidy based is required.

Yemen: Last two decades construction for housing was in the hands of private players leading to a shortfall in middle and low income housing. The government has recently focused its policies on LIG and MIG and aims to cover up the 112,000 unit shortfall by the proposed housing policy.

Session 6: Funding Housing

The session elaborated upon the various financing instruments available with respect to the housing sector , ranging from institutional funding for developers, to retail housing loans, to private funding by the individuals. Also the newly evolved products like covered bonds and mortgage insurance were detailed in the session and the countries shared their experiences in developing and managing the various financial products.

Main Highlights/Salient Features

There was a focus on funding in Malaysia and Indonesia and about two products which are applicable to other developing countries as well.

- Malaysia:
  - Secondary mortgage facility in Malaysia - It can translate into lower cost of funds and accessibility to the ultimate house buyer. Between 1981-82 and in 1985 Malaysia witnessed severe recession leading to high debt levels and inflation. The banks were reluctant to lend due to high maturity mismatch. This was the base upon which CAGAMAS was set up. It is owned 20 per cent by Central Bank of Malaysia and 80 per cent by commercial banks. The basic function of CAGAMAS is to buy loans from commercial banks and issue bonds in its place. Certain instruments used by CAGAMAS are discussed below.
    1) Purchase with recourse
       a) If the loan becomes non performing the bank will need to change the loan to a performing loan
       b) Bank remains the originator but CAGAMAS assumes the credit risk
       c) Value of housing loan purchased will be equal to the value of the bond issued; Tenure will also be equal – this reduces credit risk
    2) Mortgage Backed Securitisation (MBS)
       a) CAGAMAS buys the loan and the loans shift from banks books to either CAGAMAS books or the books of the SPV created for this purpose
- Indonesia – Indonesia has mortgage to GDP ratio of 2.6 per cent. The housing shortage is acute with a backlog of 15 million housing units and need for 800,000 additional housing units every year. To ensure removal of housing shortage by 2033 1,550,000 housing units would need to be built to cater to the increasing housing demand. The housing finance market has been robust with housing loans increasing to 222 trillion rupiah. The majority of the mortgages originate from ten banks.

  The government is facilitating fund flow from capital market to housing finance sector with securitization and liquidity facility.

Two instruments being used in various parts of the world are

- Covered Bonds are debt securities backed by mortgages or public sector loans, two stable assets. The main components of covered bonds are listed below.

a) Cover or main asset for covered bonds must be of good quality and hence they are mortgages and public sector loans.
b) Quality Criteria for eligibility of underlying assets. A main criterion is LTV ratio and the method of appraisal for underlying property.
c) Other assets apart from mortgages should be there and should be of good quality
d) Coverage System of bonds by the asset
    a. Segregation of assets and re-fencing them so that they are out of reach of all the creditors;
    b. Coverage in terms of nominal amount or is it in terms of fair value or in terms of cash flow
    c. Minimum over collateralization – Cover pool is dynamic; remove NPL and may add new loans in the pool; rating agencies prefer larger amount of over collateralization
    d. Strong Securitization System
e) Regulatory supervision
f) Good Market Information on covered pool
g) What happens when the issuer becomes insolvent – ideal situation is even if the issuer becomes bankrupt the covered bonds don't suffer due to their cover pool quality

As is with any instrument, covered bonds also face challenges.

1) Structural Deposition of the depositors – Special privilege and pledge of a good aspect is given to creditors. This can be an issue in systems which are depositor friendly.
2) Workings of the system – Covered Bonds were less impacted than securitization. During the crisis the maturity became shorter and the spread of the covered bonds followed the bonds of the countries itself. In Spain, Ireland, Germany, France and other European nations covered bond issuers were bailed out by the governments.
3) Supervision and legal framework should be strong

- Mortgage Insurance

  As LTV ratio increases at the higher end the probability of default increases exponentially. This causes worry and can make the system potentially unstable. Mortgage insurance is used at higher LTV (70-80 per cent). The advantages of using mortgage insurance are:

  1) Reduces down payment which helps buyers to take that plunge
  2) It offers for maintaining home ownership mainly through loss mitigation techniques
  3) It allows lenders to lend more while mitigating the risk
  4) Best practices are ensures especially if the lender is working internationally
  5) Flow of capital in the market
  6) Standardization of the market

  Mortgage insurance protects the lenders on finance amounts which would amount to the amount of down payment. It doesn't eliminate down payment.

Session 7: Housing Finance Post Sub-prime

The sub-prime crisis, which was to a large extent responsible for the worldwide economic downturn and from which the world is yet to fully recover, provided valuable learnings, both for policy makers and the financial sector practitioners. The session was dedicated to the learnings that have emanated post crisis and the way forward to avoid similar crises in the future.

Main Highlights/Salient Features

The subprime crisis taught the world innumerable things. Some of the takeaways are:

1) Lenders should not provide loans without ensuring borrowers have paying capacity
2) Self-certification of documentation is not sufficient. The capacity and credit worthiness has to confirmed by the lenders.
3) Market discipline is not enough. Incentive for lenders has to be provided to lend responsibly.
4) Real Estate market in housing is by nature is an asset class thereby regulation should try to mitigate risks
5) Risk Transfer just transfers risk. It has to be used with caution as the risk is still existent.
6) Maturity mismatch existed due to lenders were using cheaper wholesale short term instruments to finance long term debt

Certain learnings specific to the Policy Makers and Lenders are :

A) Policy Makers
    1) Tail events do happen and they can cause untold misery and catastrophe to the economy.
    2) Financial crisis's are inevitable in the economy; aim should be to minimize the effects.
    3) Human beings can't be reduced to equations. Economics is a social science and not a physical science.
    4) Markets are poor judges of the impending crisis.
    5) Macro-economic stability is a public good hence needs to be looked after by policy makers.
    6) Policymakers are generally part of the problem and thus must necessarily be part of the solutions.
    7) Fancy names can't change the underlying business logic.
    8) Build in checks and balances before and not after.
    9) Ensure healthy LTV ratios which are dynamic and not static; similarly risk weights should be decided taking into account the loan and the environment.
B) Lenders
    1) Trust can be lost in a moment and take years to build.
    2) Banks need to know the borrowers; they are not just documents.
    3) Be ethical – don't betray the trust that the public holds in the institution and the system

Session 8: Low Income Housing - Developing a Sustainable Supply Ecosystem

The session threw light on methodologies adopted by different countries for the growth and development of the Low Income Housing sector, along with environment friendly housing solutions, and how being used successfully elsewhere they can be adapted for local use in different countries. The role of different stakeholders was also pronounced upon in taking the low income housing forward.

Main Highlights/Salient Features

For developing a sustainable supply ecosystem the following challenges must be addressed.

a) Approval Time – The approval time is exorbitantly high and environmental rules are only increasing the approval time. This is causing further delays in project thereby pushing up costs further.
b) Land and Construction Cost - LIH developers struggling with rising costs of labor and material. The construction costs are reported to have increased by 15-20 per cent on yearly basis and LIH is a 'low-margin' business. Cost increases have forced several developers to relook at their LIH plans.
c) Concentration and building for scale – While it is imperative to build for scale it should be spread out. Currently there is a high concentration of housing construction is select few cities.

Simple construction and hand over of housing units is not sufficient. The construction has to be carried out keeping in view the sustainability of the unit. The families have low income and thus limited use of resources. This has to be factored in while designing and constructing the unit.

Session 9: Data & Statistics and Consumer Related Issues

Availability of accurate data and statistics is essential for policy makers and planners for judicious policy formulation and decision making. The session detailed upon the various aspects of data collection, processing, interpretation, analysis, availability and relevance of the same. Data availability also promotes transparency and removes information asymmetry. The session also addressed the issues relating to consumer protection and the grievance redressal mechanisms in place to ensure market expansion and systemic stability.

Main Highlights/Salient Features

- The Indian market has seen a shift from unsecured lending to secured lending. The ratio of secured to unsecured lending has increased from 30 per cent to 70 per cent in 2006 to 40 per cent and 60 per cent in 2012. 23.3 per cent of loans dispersed were for people with scores above 800 in 2008. Today it's over 60 per cent indicating that portfolio health is improving. For the growth to continue in a sustainable and secure manner data is not only important but highly essential.
- Data is vital in understanding the issues facing the Indian housing industry. Credit history is important for borrowers as well as lenders. It helps the National Housing Bank (NHB) to come out with legislative measures and draft regulations so as to ensure higher consumer protection and uniformity in the market.
- Availability, timeliness, accessible, completeness, and accurate data is required. Data relevant for housing: housing stock, housing ownership, housing studies, stock and

prices, affordability, costs and standards, transactional (primary market & secondary market), financing, efficiency of programmes.

The following challenges exist in data collection and verification. They are:

a) Scale - Many registrar offices are not computerized hence data is stored in physical format thus making it vulnerable to natural hazards.
b) Registration price is not always reflected of the actual price which leads to wrong prediction of trends and concluding policy actions.
c) Informality exists in the sector. Customer income is not documented for the lower income group individuals. This creates difficulty in underwriting. High indebtedness is also a hurdle as recorded sources of borrowings for an individual are not always accessible.

NHB along with the Government of India has set up CERSAI which along with CIBIL are platforms for collection and assimilation of data.

Valedictory Session:

The Conference ended by summing up the views and thoughts expressed by the various speakers with respect to the housing and housing finance sector Certain facts like falling ownership in some of the developed countries like UK were brought to the fore and reasons leading to the same were detailed. However there was a complete consensus on the fact that that there is a doubtless need for stability in the sector given its ability to effect the overall economy in a number of ways. The liability and asset mismatch in the housing finance sector needs to be tracked down and steps to be taken for confidence building among the stakeholders.