

HOUSING AND HOUSING MORTGAGE IN INDIA



COUNTRY HIGHLIGHTS

- India remains the second fastest growing economy after China
- It took 60 years after independence to reach US\$ 1 trillion in 2007
 - India will be a US\$ 2 trillion economy by 2013-14
 - Expected to be a US\$ 4 trillion economy before 2020
- India is a domestic and consumption driven economy
 - Consumption accounts for 70% of India's GDP
 - India is more insulated from global markets compared to export oriented economies
- Services sector contributes close to 60% of GDP
- Last 10 years have seen incremental but valuable changes
 - Greater stabilisation;
 - Strengthening of the regulatory environment; and
 - The world recognised India's potential



DRIVERS OF THE MORTGAGE MARKET IN INDIA

▣ Market Scenario

▣ High demand growth driven by:

■ Improved Affordability

- Rising disposable income
- Tax incentives (interest and principal repayments deductible)
- Affordable interest rates

■ Increasing Urbanisation

■ Favorable Demographics

- 60% of India's population is below 30 years of age
- Rapid rise in new households owing to nuclear families as against joint

▣ Housing shortage estimated at 24.7 million units

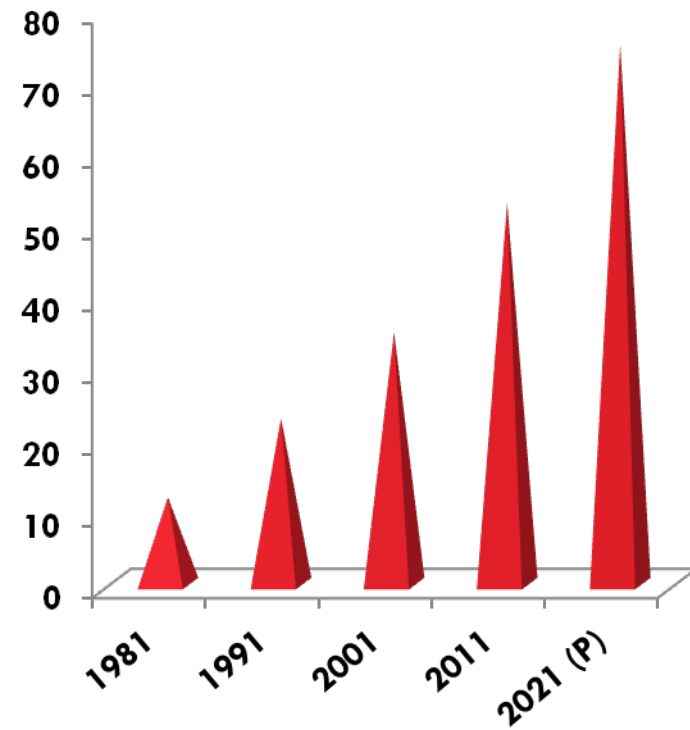
- Rural:14.1 million units, Urban:10.6 million units (Census Report)



RAPID URBANISATION

- Urbanisation Population
 - 2011: **31%**
 - 2030(P): **40%**
- Number of cities with population >1 million
 - 2011: 53 cities
 - 2021(P): 75+ cities
- Housing the urban population is challenging
 - Growth in urbanisation has outpaced the ability to provide adequate housing and urban infrastructure
- McKinsey estimates that Indian cities will require US\$ 1.2 trillion of additional capital investment by 2030.

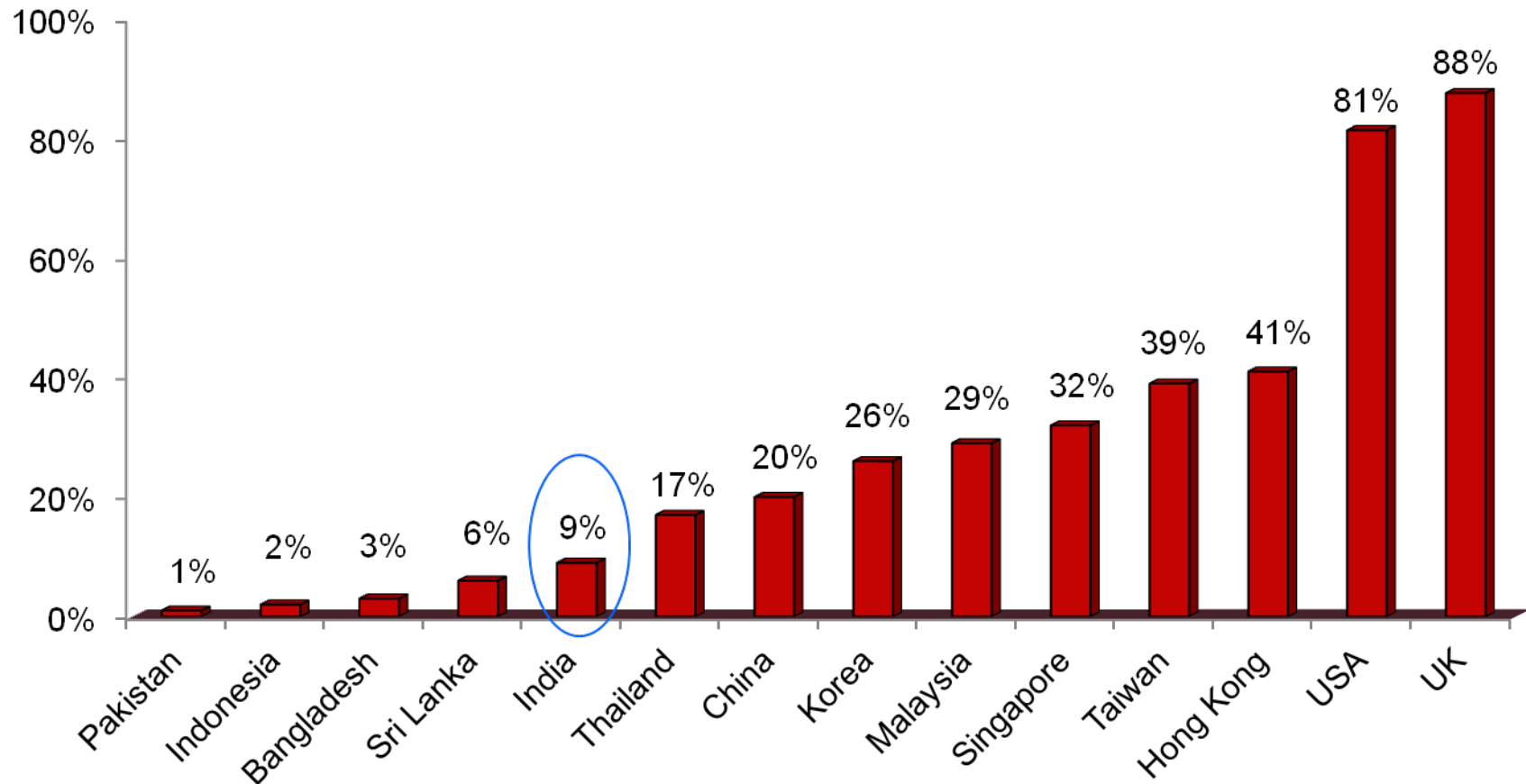
Cities with a population > 1 mn



Source: Census of India



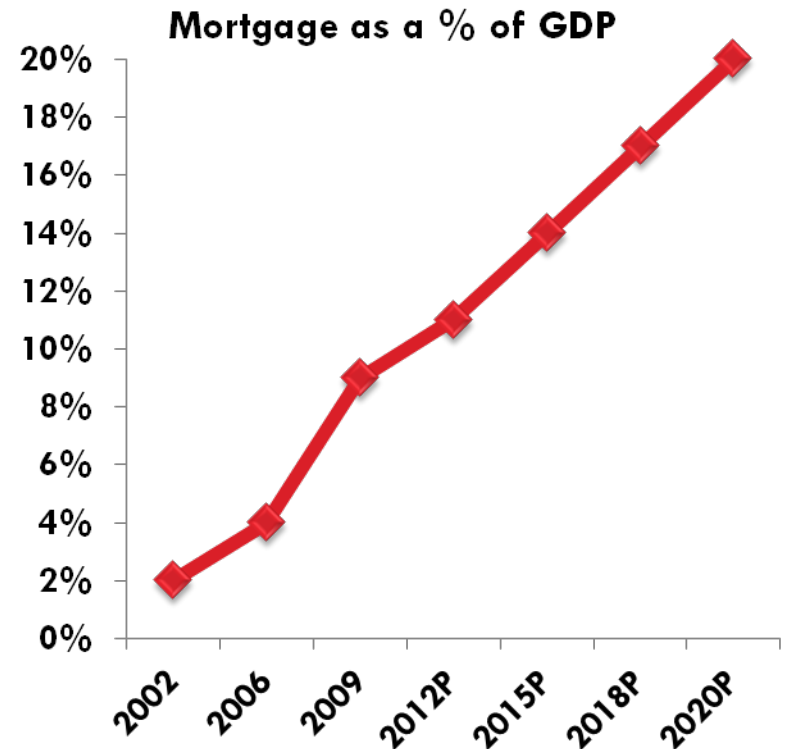
MORTGAGES AS A % OF GDP



LOW MORTGAGE PENETRATION IMPLIES ROOM FOR GROWTH

- Mortgage to GDP ratio currently estimated at 9%; compared to 2% in 2002
- 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
 - BCG-IBA Report estimates that outstanding mortgages will increase 8 fold from Rs. 5 trillion currently to Rs. 40 trillion by 2020.

Mortgage to GDP ratio projected at 20% by 2020



Source: BCG-IBA Report, HDFC estimates

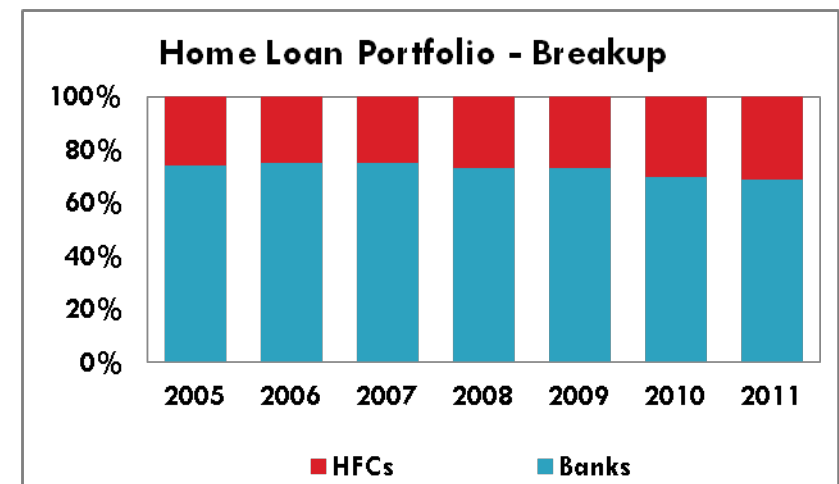
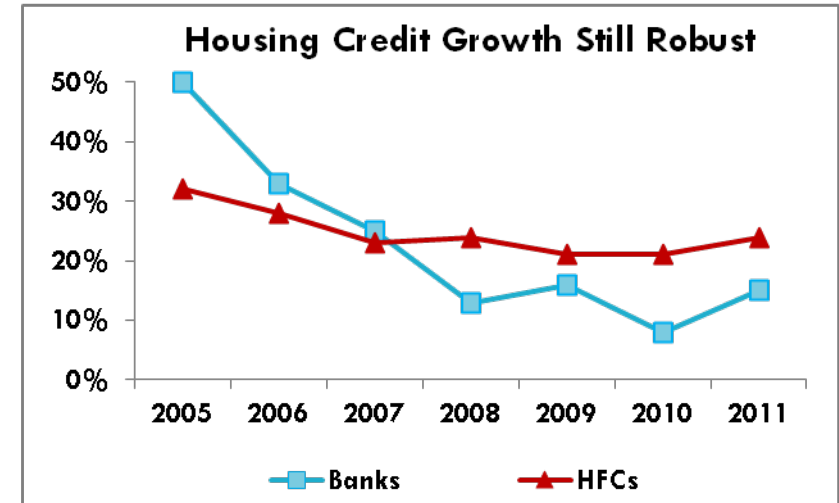
BANKS V/S HFCs

Banks	Key Players	Housing Finance Companies (HFCs)
Reserve Bank of India	Regulator	National Housing Bank
Access to low cost funds via current/saving accounts	Advantages	Dedicated players, better customer service
Extensive branch network		Lower operating costs
High operating costs	Disadvantages	Smaller branch network
Mandated priority sector requirements, maintenance of cash reserve ratio & high statutory liquidity ratio		Higher capital adequacy ratio



MORTGAGE FINANCE: KEY PLAYERS

- Major Players
 - Banks
 - Housing Finance Companies (HFCs)
- Banks became major players in the mortgage market only from the late 1990's
- As per the ICRA Report on housing:
 - Market share in FY11
 - Banks – 69%
 - HFCs – 31%
 - Top 3 players dominate the market – combined share of 48%
- Asset quality for HFCs and banks have been good
- Most banks and HFCs target customers in the formal sector, but a few new players are focusing on the informal sector



INITIATIVES TO STRENGTHEN MORTGAGE FINANCE

- ❑ **Implementation of Foreclosure Norms**
 - ❑ No foreclosure norms existed till 2002
 - ❑ Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) enacted to facilitate recovery of defaulted loans
 - ❑ Helped reduce non-performing assets and brought discipline amongst borrowers to repay loans

- ❑ **Credit Bureau**
 - ❑ India's first credit bureau established in 2000
 - ❑ Has helped in strengthening the credit appraisal process

- ❑ **NHB RESIDEX**
 - ❑ Index to monitor city wise residential price movements

- ❑ **Mortgage Registry**
 - ❑ The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) became operational in March 2011.
 - ❑ Central registry helps to reduce frauds arising from multiple lending by different lenders on the same immovable property

- ❑ **Mortgage Guarantee/Insurance**
 - ❑ Credit risk will be mitigated to some extent, thereby encouraging lenders to provide loans to those from the informal sector or lower income groups

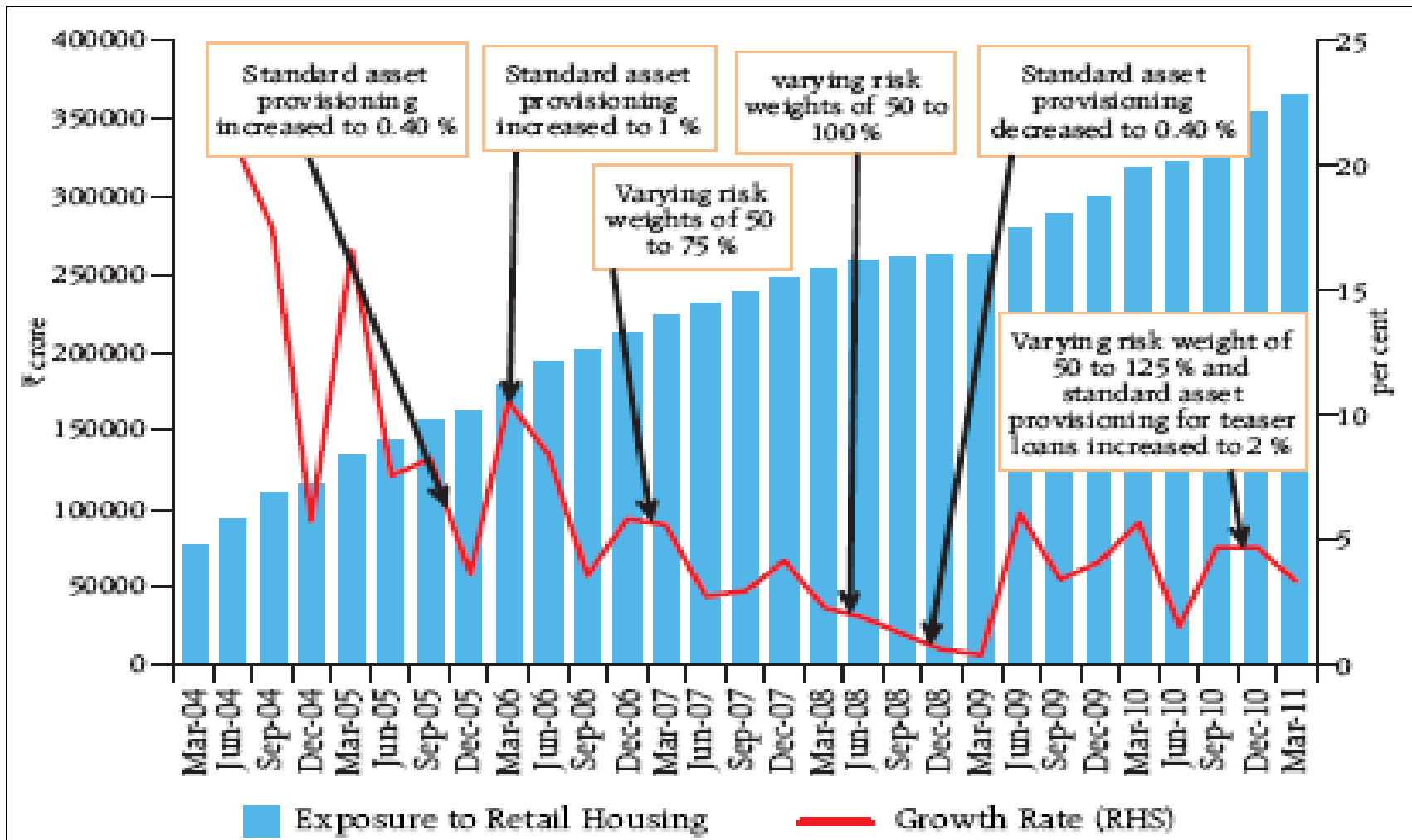


NO IMPACT OF THE SUBPRIME CRISIS ON INDIA

- ❑ Most mortgage lenders offer vanilla, amortising home loans
 - ❑ No interest only, 2/28 ARMs, piggy-back loans
 - ❑ No subprime or Alt A categories
- ❑ Borrowers are cautious and averse to high leverage
 - ❑ Typical borrower is a first time home buyer
 - ❑ Low loan to value (LTV) ratio
 - ❑ Prepayments are common
 - ❑ Cash not asset based funding
- ❑ Securitisation market at a nascent stage, limited exposure to structured products
- ❑ Financial institutions have limited direct exposure to US subprime mortgages
- ❑ Timely intervention by the regulators to prevent build up of any real estate bubble
 - ❑ Increased risk weights and provisioning requirements
 - ❑ Prevented banks/HFCs from financing land



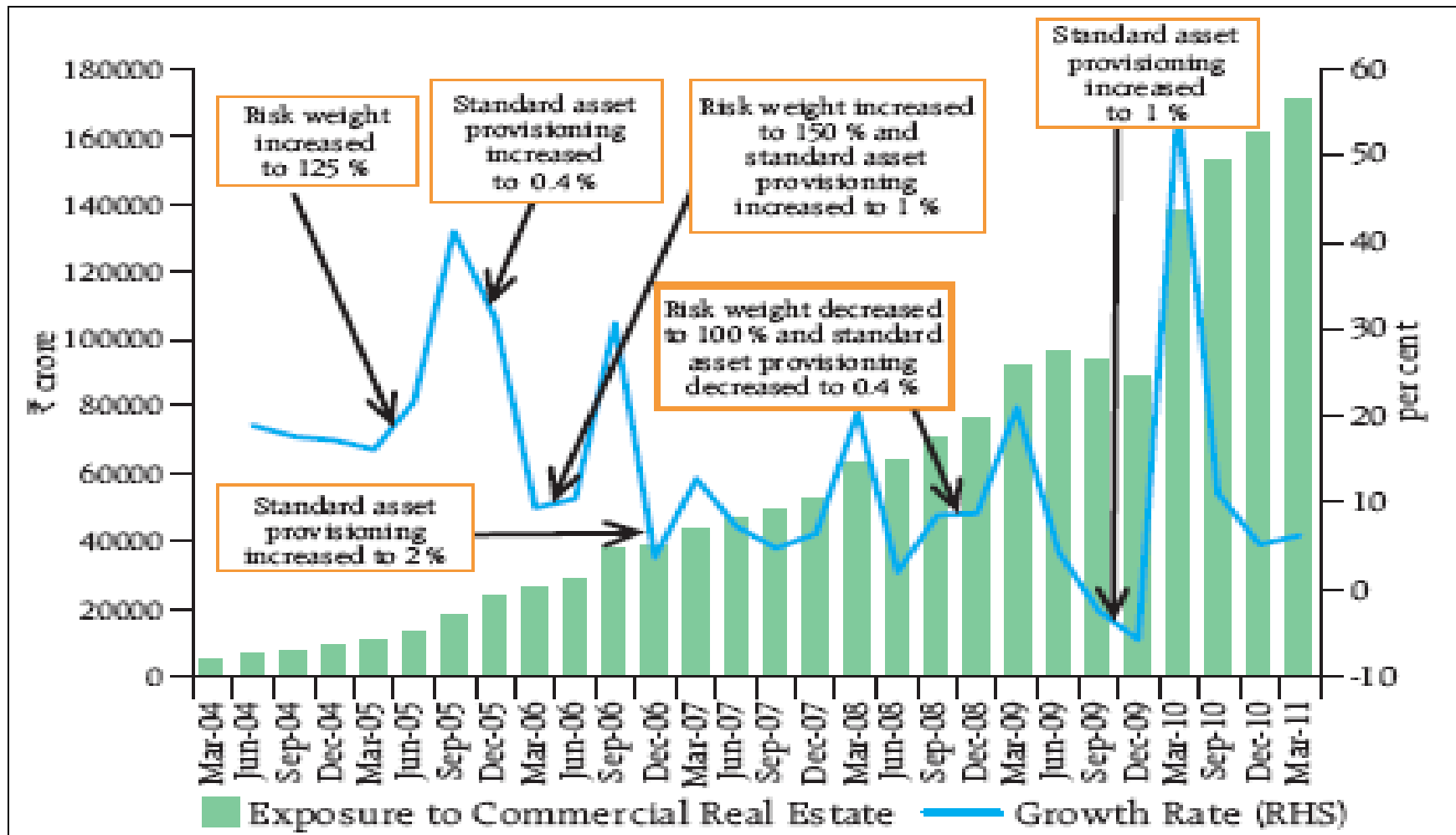
Counter Cyclical Prudential Regulation : Retail Housing Loans



Source: Financial Stability Report, December 2011, RBI



Counter Cyclical Prudential Regulation: Commercial Real Estate



Source: Financial Stability Report, December 2011, RBI



ROAD FORWARD

13

- Housing
 - High cost of land in metropolitan cities hinders affordable housing
 - Urban infrastructure upgradation
 - Single window clearance for approvals
 - Invest in low-cost building technology, prefab housing
 - Investment linked tax incentives for developers to increase the supply of affordable housing
 - More effective public private partnerships to tackle the shortage of housing especially in the low income group

- Housing Finance
 - Deepen the debt market to ensure availability of long-term funding
 - Encourage development of new funding instruments such as covered bonds
 - Securitisation still at a nascent stage
 - Helpful for smaller housing finance players so they do not need to keep raising capital
 - Introduce a specialised institutional mechanism for providing credit enhancement which will enable smaller players to obtain investment grade ratings on the securitised pools



THANK YOU !!



Presented By :

FAROOK MAHMOOD, FRICS, TRC

Chairman & Managing Director, Silverline Group.

Vice President FIABCI World Council of Brokers.

Founder President, National Association Of Realtors - India

Immediate Past President, Bangalore Realtors Association-India

Vice Chairman, ICREA

International Advisor, FNAIM



SILVERLINE

Total Realty Solutions since 1947