HOUSING FINANCE

Banks deploy their funds under the housing finance allocation in any of the three categories, i.e.

i) Direct finance

ii) Indirect finance

iii) Investment in bonds of NHB/HUDCO or combination thereof

DIRECT HOUSING FINANCE

- Direct Housing Finance refers to the finance provided by banks to individuals or groups of individuals including co-operative societies for acquisition/construction of accommodation. It includes:-
- Bank finance extended to a person who already owns a house in town/village where he resides, for buying/ constructing a second house in the same or other town/ village for the purpose of self occupation.
- Bank finance extended for purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.
- Bank finance extended to a person who proposes to buy an old house where he is presently residing as a tenant.
- Bank finance granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

Supplementary finance

- Additional finance within the overall finance for carrying out alterations/additions/repairs to the house/flat already financed.
- Supplementary finance to individuals who raised funds for construction/acquisition of accommodation from other sources against pari passu or second mortgage charge over the property or against such other security as may deem appropriate.

INDIRECT HOUSING FINANCE

Finance provided by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc., primarily for augmenting the supply of serviced land and constructed units for sale to co-operative societies, professional developers and individuals with a stipulation that the houses should be constructed thereon within a reasonable time, not exceeding three years.

Lending to Housing Intermediary Agencies/Lending to Housing Finance Institutions

- Banks may grant term loans to housing finance institutions taking into account (long-term) debt-equity ratio, track record, recovery performance and other relevant factors.
- Banks are required to ensure that the housing finance companies' total borrowings, including deposits/debentures/bonds raised, loans and advances from banks or from financial institutions including any loans obtained from NHB, should not exceed 16 times of their net owned funds (i.e. paid-up capital and free reserves less accumulated balance of loss, deferred revenue expenditure and intangible assets), as per NHB guidelines.

Lending to Housing Boards and Other Agencies

Banks, while extending term loans to state level housing boards and other public agencies, evaluate the past performance of these agencies in recovery angle from the beneficiaries and may stipulate that the Boards will ensure prompt and regular recovery of loan instalments from the beneficiaries.

Financing of Land Acquisition

- Banks may provide finance by way of term loans to public agencies and **not private builders** for acquisition and development of land provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. The project should be completed as early as possible and, in any case, within three years, so as to ensure quick re-cycling of bank funds for optimum results.
- Wherever land is accepted as collateral, valuation of such land should be at the current market price only.

Terms and Conditions for Lending to Housing Intermediary Agencies

- Term loans may be granted by banks to housing intermediary agencies against the direct loans sanctioned/ proposed to be sanctioned by the latter, irrespective of the per borrower size of the loan extended by these agencies.
- Banks can grant term loans to housing intermediary agencies (who are authorized to provide finance to NRIs by RBI) against the direct loans sanctioned/proposed to be sanctioned by them to Non-Resident Indians also.
- All categories of loans will be priced with reference to Base Rate which is the minimum interest rate for all loans w.e.f. 01.07.2010.

Term Loans to Private Builders

- Banks may extend credit to private builders on commercial terms by way of loans linked to each specific project. However, the banks are **not permitted** to extend any credit facilities to private builders for **acquisition of land** even as part of a housing project.
- Bank granting finance to housing / development projects should insist, being part of terms & conditions, on disclosure of the charge / or any other liability on the plot, in the brochure, pamphlets etc., which may be published by developer / owner inviting public at large to purchase flats and properties.

RBI Refinance

Finance provided by the banks would not be eligible for refinance from Reserve Bank.

Construction activities eligible for Bank credit as Housing

- Loans to individuals for purchase/construction of dwelling unit per family and loans given for repairs to the damaged dwelling units of families;
- Finance provided for construction of residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies, employers. Priority being accorded for financing construction of houses meant for economically weaker sections, low income group and middle income group;
- Finance for construction of educational, health, social, cultural or other institutions/centers, which are part of a housing project and which are necessary for the development of settlements or townships;
- Finance for shopping complexes, markets and such other centers catering to the day to day needs of the residents of the housing colonies and forming part of a housing project;
- Finance for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments;
- Bank credit given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies;
- Finance provided to –

(a) the bodies constituted for undertaking repairs to houses, and
(b) the owners of building/house/flat, whether occupied by themselves or by tenants, to meet the need-based requirements for their repairs/additions, after satisfying themselves regarding the estimated cost (for which requisite certificate should be obtained from an Engineer/Architect, wherever necessary) and obtaining such security as deemed appropriate;

- Housing finance provided by banks for which refinance is availed of from National Housing Bank (NHB);
- Investment in the guarantee/non-guaranteed bonds and debentures of NHB/HUDCO in the primary market, provided investment in non-guaranteed bonds is made only if guaranteed bonds are not available.

Construction activities not eligible for Bank Credit

- Construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices other than for activities, which will be refinanced by institutions like NABARD.
- Projects undertaken by public sector entities which are not corporate bodies.

- Construction of residential quarters for allotment to employees by corporations like State Police Housing Corporation where the loans were envisaged to be repaid out of budgetary allocations.

Home Loan Account Scheme (HLAS) of NHB

Foreclosure of Loans Obtained from Other Sources

A member of HLAS who does not own a house or a flat is eligible for a Bank loan after subscription to the scheme for a minimum period of 5 years to repay the loan(s) raised earlier from other sources for acquiring house or a flat from a public agency/co-operative/ private builder. There is no objection to bank loans under HLAS being utilized for foreclosing loans secured earlier from other sources.

Bank's exposure to Real Estate Sector

Banks should ensure while providing finance to real estate sector that the borrowers should have obtained prior permission from government/local governments/other statutory authorities for the project, wherever required.

Loan to Value (LTV) Ratio

In order to prevent excessive leveraging, the LTV ratio in respect of housing loans should not exceed 80 per cent. However, for small value housing loans i.e. housing loans up to Rs. 20 lakh (which get categorized as priority sector advances), the LTV ratio should not exceed 90 per cent. While reckoning the LTV, the components such as stamp duty, registration and other documentation charges may be excluded as these charges are not realizable and consequently the margin/effectiveness of LTV norm get diluted.

Delhi High Court Order on Unauthorised construction

Banks/Financial Institutions are required to comply with the directions of the Monitoring Committee constituted by the Hon'ble High Court of Delhi regarding Unauthorised Construction, Misuse of Properties and Encroachment on Public Land. The directions include in respect of housing loan for building construction, housing loan for purchase of constructed property/built up property, etc.

No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid. No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

Terms & conditions for Bank's investment in Mortgage Backed Securities (MBS)

- The right, title, and interest of an HFC in securitised housing loans and receivables there under should irrevocably be assigned in favour of SPV/Trust.

- Mortgaged securities underlying the securitised housing loans should be held exclusively on behalf of and for the benefit of the investors by the SPV/Trust.

- The SPV or Trust should be entitled to the receivables under the securitized loans with an arrangement for distribution of the same to the investors as per the terms of the issue.

- The loans to be securitized should be loans advanced to individuals for acquiring/ constructing residential houses which should have been mortgaged to the HFC by way of first charge
- The loans to be securitized should be accorded an investment grade credit rating by any of the credit agencies at the time of assignment to the SPV.

- The SPV undertaking the issue of MBS should not be engaged in any business other than the business of issue and administration of MBS of individual housing loans, etc.

- Bank's investment in MBS is to be treated as an exposure on the underlying assets of the SPV/Trust and not on HFC, etc.

Scheme of 1% Interest Subvention on Housing Loans up to Rs. 15.00 Lakh

The Scheme of 1% Interest Subvention on Housing Loans has been liberalized w.e.f. FY 2011-12 and it has been extended up to 31.03.12. The scheme is applicable for Housing Loans up to Rs. 15 Lakh where the cost of the house does not exceed Rs. 25 Lakh. A budgetary provision of Rs. 400 Crore has been made under the scheme for the year 2012-13 by GOI. All SCBs are advised to implement the Scheme vigorously and submit their claims to NHB expeditiously.

(Source: RBI M. Circular/updated up to 31.10.12)

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