

**A Critical Assessment of Housing Finance System and Policies in
Emerging Economies: Evidence from India and China.**

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CERTIFICATE

This is to certify that the project entitled, “*A Critical Assessment of Housing Finance System and Policies in Emerging Economies: Evidence from India and China*” submitted by “**Sonia Pati**” in partial fulfilment of the requirement for the award of Master of Arts in Development Studies at National Institute of Technology (NIT), Rourkela (Deemed University) is an authentic work carried out by her under my supervision and guidance.

To the best of my knowledge, the matter embodied in the dissertation report has not been submitted to any other University/Institute for the award of any Degree or Diploma.

Dr. Mantu Kumar Mahalik
(Research Supervisor)

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ABSTRACT OF THE STUDY

There has been a transformation from public housing finance to private housing finance system on account of higher economic growth and liberalization policy of emerging economies. This phenomenal scenario has been taken place mostly in emerging economies like India and China. However, the existence of private housing finance system and policies has resulted uneven housing finance system in both economies and also neglected the needs of lower segment of the people in the society which often deprive them from accessing their basic necessity i.e. shelter. In this context, this study raises a research question: does Indian housing financial system and policy is more effective enough compared to Chinese housing finance system? However, our reading of the literature suggests that till date, we did not find any comparative study in existence in evaluating the housing finance system and policies for emerging economies like India and China. Hence, this study, for the first time, appears to be a novel attempt of critically examining the housing finance system and policies for the Indian and Chinese economies. In doing this, we believe that this comparative analysis is expected to throw some policy implications and new avenue of empirical research scope for policy makers as well as for future research of developed countries in general and emerging economies in particular. This study appears to be theoretical and qualitative in nature as it highlights both trend and percentage analysis of housing finance depth for India and China. The key finding of this study reveals that Indian housing finance system does not benefit the poor people while housing finance system partially benefits the poor in China. The one of the major reasons for the success of Chinese housing finance system is that China effectively implements new “cheap rented housing finance policy” for the benefit of urban poor, whereas India does not follow this policy for the betterment of the urban poor despite having similar characteristics of both economies in higher economic growth, urbanization process and liberalization policy.

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CHAPTER 1

An Overview of Housing Finance System

1.1.Introduction

Housing can be termed as one of the basic necessity for every individual along with food and clothes. A proper housing enhances the productivity capacity of every individual, as because a better shelter would satisfy the needs and wants of an individual which in turn would help to give maximum energy for production. Housing has both forward as well as backward linkage effect. In case of forward linkage effect; there is more housing production leading to huge shelter programmes for every sector of the economy to meet up the demand for housing consumption. In case of backward linkage, housing leads to increase in construction firms resulting in increased demand for raw material unit like cement, bricks and many more, which in turn increases the demand for labour in the market. Hence, housing is termed as the potential aspect for economic growth as it increases money flow in the market. It is also termed as balancing element for the economic growth as in one side it induces production and on other side it increases demand for consumption by enhancing the creditworthiness of every individual. Taking into consideration the economic context, housing has direct link with GDP, as housing for all is the main purpose for the India's housing finance system and China's housing finance system.

Apart from the above mentioned housing pattern, housing programme face two distinctive problem. Firstly, housing programmes induces inequality among the individuals as the rich becomes richer and the poor gets limited access to finance this situation can be overcome by introducing the affordable housing finance system in the economy. Secondly, housing finance

system fails to accommodate the rising trend of urbanization that is the rural people migrating to urban area in search of livelihood as a result the local government fails to extend housing facility to every individual, this situation can be overcome by subsidized rental programmes.

The study analyses the housing finance system in both India and China. whether India and china has faced any housing failure or housing shortage, what are housing pattern followed by India and China, are there any other housing constraint apart from the other two mentioned above faced by India and China, and many more issues are discussed in the study to get an in depth analysis .

1.2. Conceptualization of Housing Finance

The International Union has defined for Housing Finance, as a multiple national networking organization, that has no better position on what the better definition towards housing finance is. Therefore the selection of quotes below is offered is a pictuarisation of what housing finance as a concept covers:

“Housing finance system includes and combine together complex as well multiple sector that issues that are driven and by which constantly changing the very features, such as a country’s legal prospect as well as cultural economic makeup, regulatory framework, or can be said political aspect”.

In addition, the conceptualization part of housing finance and housing finance systems has been evolving over the period of time. Looking at various aspects of definitions made from the mid-1980s, the analysis can be made that housing finance system was defined before in terms of residential mortgage finance: The focus of a housing finance system is to provide the funds

which the home-buyers would require to purchase their homes. This can be quoted as simple objective towards a number of ways in which affordable housing finance can be achieved. With this in the following years, a number of many other definitions have come into consideration:

“Housing finance system is that which takes into consideration for the production as well the consumption of housing finance. It can also be termed as the money we use for building and maintaining the nation’s housing finance stock.

There is a better aspect towards other relevant formation for housing finance such as developing finance as well rent owned finance, or micro considering finance applied for housing. Developing finance is often taken in the form of an unregulated advance payment by buyers; as well developers sometimes provide long-term finance towards buying through instalments for sales when the mortgage markets were not accessible. Microfinance as for housing is typically not used for home improvement as well for progressive housing purposes. Loans have been typically granted leaving pledged properties. The total impact of microfinance in housing stays to be limited, as well the activity that can represent as an important source of funding towards informal housing.

1.3. Motivation of the Study

The United States housing bubble, where in housing loan was extended to every citizen without analyzing their creditworthiness, in order to increase the demand of housing market. Eventually with the extension of financial system people started spending the amount of money in diverse source apart from spending in housing market. As a result, the real estate builders have to face huge demand crisis in the economy, ending up selling the housing stock in lower prices reducing their profit margin, in order to meet up the bank loans. here in, the financial providers or bank

had faced a huge credit problem, where in they invested the depositors money for enhancing demand of housing market on one side and the lower demand for housing have includes a failure of repayment of money from real estate builders on the other side, at any emergency period of depositor now the bank have no money to repay back to its depositors. This was the sub-prime crisis faced in U.S. The study of this crisis has motivated to make a analysis that is , is their existence of such crisis in India and China housing finance system and what are the methods of housing finance system followed in these economies.

1.4. An Overview of Existing Literature

The analysis made by Warnock and Warnock(2008) in the paper titled ‘ Markets and housing finance’, it emphasized on the adequacy of housing in emerging market economies and reported that roughly one billion people, or one-third of the world’s urban population. This paper outlines the limitation of housing finance across broad countries has no in-depth analysis across 62 countries among 39 emerging economies. The empirical analysis made by Warnock pictuarises countries with stronger legal rights for borrowers and lender, deeper credit information system’s and a more stable macroeconomic environment have deeper housing finance system. Finally it is analyzed that there is a considerable variation in the housing finance system within the countries. Even in the well- developed housing finance system great disparity exist, cross country may give a rough idea but cannot directly address the reason behind these within country variation.

The analysis made by Ubleis (1986) in the paper titled ‘Austrian Housing Policy; a story of success’, this paper analyses the sustainable accommodation it pictuarises quantitative deficiency in accommodation with extensive rebuilding efforts, and taking public advancement of private housing. The main objective of this paper is to obtain sustainable accommodation in Australia.

Australia came up with the contract system operated by the four Bausparkassen in Austria, the contract system in the industrialized countries, there are three ways in which house purchase loan can be funded, by retail deposit, by long term bond and by anticipatory savings. These three ways are analyzed in detail in the paper. This contract system has many advantages which make the housing finance system in Austria a big success. The bauparkese system provide details of saving contracts; the rate of interest charged on the loan 6% a rate that has been unchanged for 20 years. The saving rate is 3 % for the rapid and normal savings contracts, and 4.5% for the slow savings and young person's contracts. The amount saved must be at least 3% to 4% of the contract sum each year and saving must be made over a period of between 18 months and six years. The maturity of the loan varies from 14 years for the rapid savings contract to 21 years for the slow savings contract and young person's contract. Repayment of the loan varies between 4.5% and 5.5% of the loan amount each year. This way there was transparency maintained in the housing finance system which leads to better sustainable accommodation.

The analysis made by Suthankar (2000) in the paper titled ' Housing a National Overview', this study studies about the housing problem in the Urban poor in India. Many undertaking changes were taken into consideration and 35 programmes were implemented to improve the urban poor. This study suggests that apart from many programmes made by the urban poor the India is still lacking in housing inadequacy due to which there is increased urban housing problem. Henceforth more rental subsidies must be provided towards the housing unit for urban population.

The analysis made by Sandhu (2008) in the paper titled 'Formal housing finance outreach and the urban poor in India', The paper stresses upon the need to develop innovative housing finance mechanisms that are capable of forging and sustaining links between the formal and the informal

finance systems that could deliver accessible and affordable housing finance to the poor. Indeed, the development of appropriate financial instruments to meet the shelter needs of the poor is without a doubt a great challenge. At the same time it cannot be doubted that home ownership continues to be the highest priority in terms of asset acquisition for even the poorest of people. But what does appear doubtful is the fact that the formal finance institutions will be by themselves be able to deliver down market, given the circumstances under which they operate and based on their previous track record to offer finance to the poor. The informal, with their inherent flaws and weaknesses as have been highlighted; also do not demonstrate the potential to provide viable housing. Though the developments of innovations such as micro financing and The solution may lie in harnessing the potential of all the stakeholders involved and linking it to the formal conduits of finance so that the combined strengths of each of them can help in materializing the homeownership dream for the urban poor towards realizing the larger goal of equity, inclusiveness and finally national prosperity. Potential of self-help groups is favoured, yet it may be cautioned that it might be wiser not to create rhetoric and make judgment about their complete success and hence wider replicability as they are still in their nascent stages of development and are limited in their operations both in terms of area and households served.

1.5. Research Scope and Research question

The study analyses the Housing finance system & policy in India and China, the study question is that whether India and China has faced housing crisis as seen in the US subprime crisis or not.

1.6. Objective of the Study

To critically analyse the nature of housing finance system and policies in emerging economies like India and China

1.7. Reasons why the study choose India and China

The reason behind selecting India and China for the comparative prospect by the study is, India and China both countries are over populated countries where in India has 1.252 billion populations and China has 1.357 billion populations. Secondly India's GDP is 5.629 and China's GDP is 7.384. Thirdly China attracts FDI for it manufacturing unit and India attracts same FDI for it stock market. Fourthly China and India come under BRICS countries.

1.8. Data Sources and Discussion of the Method

The present study uses secondary data for the analysis. From a comparative perspective, this study relies on official sites data base for both countries including China and India. For the analysis of Indian Housing finance system, this study also uses the data from various sources such as Reserve Bank of India (RBI), National Housing Bank (NHB) and Bank for International Settlements (BIS). Similarly for China, this study uses the china year books data base and from other International websites, such as International Monetary Fund (IMF), World Bank (WB), articles from Elsevier, Jstore, Emerald, Springer, and Routledge journals publishing houses. Moreover, the present study employs the descriptive statistics as part of methodology. This study includes analytical framework to analyse the basis of housing finance system in emerging economies. This study deals with both theoretical and qualitative research and trend analysis in order to investigate whether the housing bubble faced in U.S has any effect on India and China. There is a conceptual framework for the evaluative study of India and China.

1.9. Summary

This chapter focuses on the conceptualization of housing finance system in general backed by the constraints such as urbanization and affordable housing finance system. Housing has been termed as potential sector for the growth of economy as well a balancing aspect for the equitable economy, Housing finance sector is also recognized as an important contributor to development and civil life. While conceptualizing the aspect of housing finance system it was found that there exist a difference between the definition for Housing finance system in developing countries as compared to developed countries. In accordance to these differentiation this chapters outlines different definitions regarding Housing Finance system. This paper has thoroughly based on secondary and analytic data analysis. The underlying motivation for this paper has been outlined by the US subprime crisis in order to study the housing pattern in India and China.

Through the review of literature the paper analyses different housing gap both within the country and across the countries. Different economist in there different paper has outlined many aspects of housing importance, housing need , housing shortage , affordable housing finance system , and housing gap. This was termed as a basis regarding the study of housing finance system.

1.10. Organisation of the Study

In this section, we proceed to discuss the organization of this thesis in greater details. In the first chapter, we have already discussed the socio-economic significance of housing finance system followed by the underlying motivation for the present study. Moreover, both data sources and methodology used for the current study are presented. This chapter has also brings an effective discussion of established literature related to the aspect of housing finance system around the

world. The second chapter will be dealing with a tentative discussion on historical background of housing finance system in emerging economies like India and China.

Eventually, the third chapter will be discussing the policies designed for the development of financial system in the housing sector of India and China. Finally, chapter four will be concluding with findings and policy implications along with providing key avenues of research for the future study.

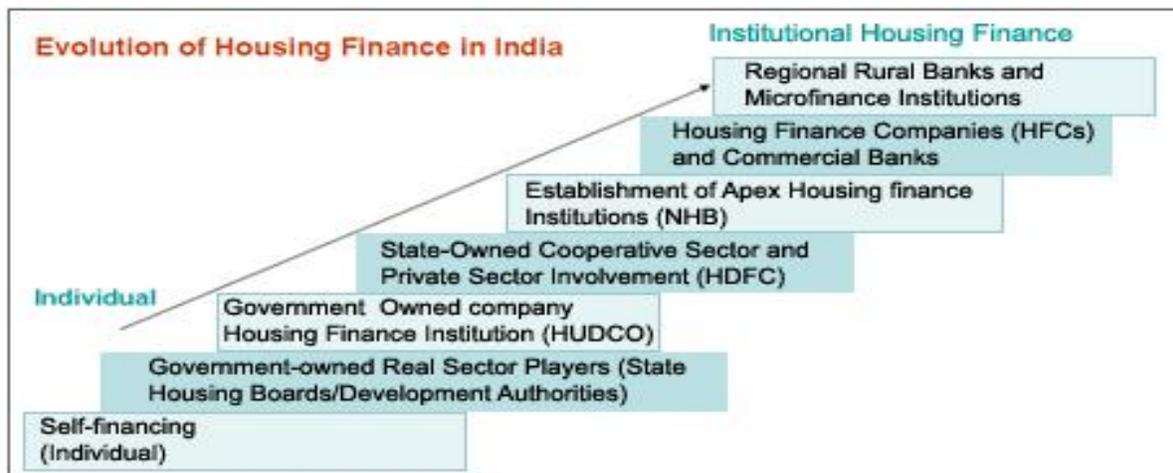
CHAPTER 2

Housing Finance System in India and China

2.1. Evolution of Housing Finance System in India

The early stages of Housing finance system in India is an outcome of government housing policies that has been developed by the five year plans. It was seen that the housing need was met either by self financing or by government organizations. Technical and financial assistance was provided to the government organization by Housing and Development Corporation (HUDCO). This marked as the establishment of Housing finance in India.

Figure 2.1: Evolution of Housing Finance in India



Source: National Housing Bank (NHB)

With the introduction of housing finance in India there was emergence of joint sector (public-private sector). One of the major joint sector was established in 1977, Housing Development Finance Corporation. With the establishment of HDFC many private sector as well joint sector

came into housing market in India. The increasing need of housing resulted in emergence of the apex institution that in National Housing Bank in 1988. With time there was entry of commercial banks in the housing market which was induced by multiple factors; this entry doubled the growth of the economy. The (RRB) regional rural banks and micro finance institute came into existence after that.

Figure 2.2: Growth of Housing Finance in India



Source: NHB

2.2. Housing Finance Sector

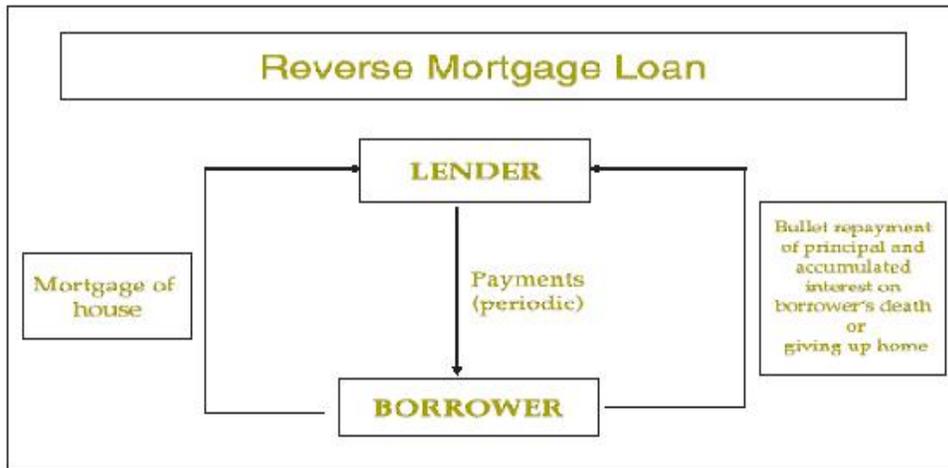
Home to over a billion people in India has been making considerable efforts towards growth of the Housing finance sector and upgrading of the affordability and accessibility of housing. accommodation finance has moved through the quick growth on account of various factors including: Increased urbanization, Favorable demographics, Rising throwaway incomes for a large section of the population, this approach for accommodation finance adopted by the administration through housing policy, tax incentive, inferior mortgage development, expansion of institutional housing finance system, legal reforms (such as repeal of ULCRA and stamp duty reduction) Reserve Bank of India's monetary policy and guidelines/norms towards the strong development of housing finance such as 3% incremental deposits earmark for housing loans, liberalize interest rates, treatment of housing sector loans as priority sector loans, and loans, National active role for the deepen of the scheme by facilitating setting up of Housing Finance Companies (HFCs) are providing refinance and capability building (training) support, Larger supplies of better superiority construction, Relatively stable property prices, Easy access towards housing finance with entry of gainful banks Lower interest rates and loan transaction costs ,Technological innovations that have enhanced efficiency in housing finance transactions, Improved underwriting standards .

Another key motive which has fuelled enlargement of the housing finance sector as a change in the state of mind of Indians who, until recently, were debt-averse, but have now become more open to the credit culture. Housing finance had grown at a very fast pace in the last decade with the outstanding housing loans as percentage of GDP increased from 3.4% in the FY 2001 to 6.1% by the FY 2004. The mortgage penetration as a percentage of GDP is, however, tremendously low in India when compared with countries such as the USA (76% of GDP) and the UK (86% of GDP). This can be

clearly illustrated that institutional structure and players have the room to penetrate the Indian housing finance market in order to meet the rising demand for housing loans, especially in the low- and middle-income segments.

Major players among the accommodation finance market in India include State Bank of India (SBI), ICICI Bank Ltd., HDFC Ltd; LIC Housing Finance Ltd. Few Foreign Banks like Citibank, Standard Chartered Bank are in the housing finance market focus on urban areas .a few builders have come up in the area of shelter investment through their related concerns. Major Banks like ICICI Bank are entering into tie ups with the real estate builders to offer home loans for their projects in an Endeavour to create all inclusive housing finance, NHB has conceptualized an innovative product —Reverse Mortgage Loans (RML) to diverse the senior citizens segment of India, which has for long been unable to access towards the institutional housing finance. This financial product enables senior citizens aged 60 years and above who actually own a house to mortgage their possessions with a lender and convert part of the home equity into tax-free income without having to sell their residence. With this product, senior citizens can avail all periodic expenditure from a lender against the mortgage of a property while remaining the owner and inhabitant of the property. The borrowers are not requisite to service the loan during their of lifetime and therefore, do not make monthly repayments for their principal and interest to lenders. RMLs are comprehensive by Primary Lending Institutions such as Scheduled profitable Banks and Housing Finance Companies.

Figure 2.3 Reverse Mortgage Loan



Source: NHB

2.3.1.Components of Housing Finance

Purchase of a house in India involves various costs which in these aggregate may be referred to as acquirement costs. These costs can be broadly classified as the capital cost of the house, operation costs which can be charged payable towards taxes, duties, brokerage and credentials and financing cost in this respect of the loan if taken for the finance getting hold of. **Capital Costs** refer to the cost of the house including land and building cost, apportioned cost of on-site and off-site communications, parking space costs and basic interiors costs without which the residence will be not ready for

occupation.

Transaction costs which actually include the charge payable towards stamp duty , document grounding, brokerage charges, relocate and mutation charges etc. These transaction costs can vary because of: Source of purchase of property which could be incorporated purchase from a public agency, private developer individual owner, or a co-operative society; Type of purchase which can imply a very fresh allocation/innovative booking, re-sale in a straight line by the owner or through a broker; appropriate duties, taxes, charge payable to the local administration/authorities.

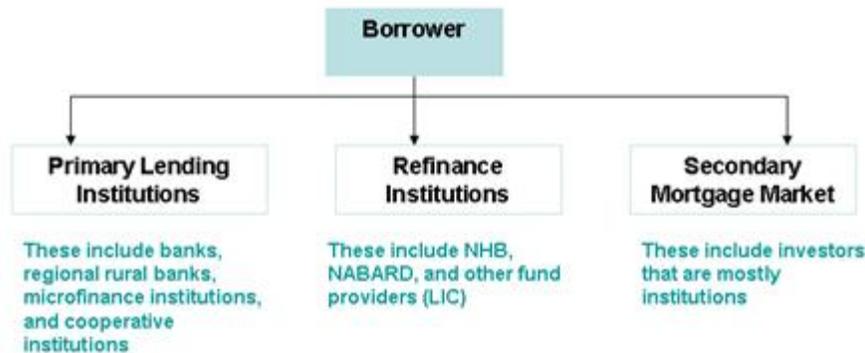
Financing charges (in case the chattels has been financed) which would be including the pre-EMI interest, loan interest, administrative and processing charges, legal and valuation fee, insurance charges etc. These are the costs that are directly reliant upon quantum of loan and concentration rate. Other charges such as administrative and processing fee, legal fee, valuation fee, property insurance fee, etc., have a minor impact.

2.3.2.Regulatory Framework

There are two key regulatory bodies for the Indian Housing Finance system are Reserve Bank of India (RBI) and National Housing Bank (NHB) apart from administration (Central/State). While RBI regulate these commercial Banks, NHB oversees the accommodation finance companies or organizations, and is a ancillary of RBI. The cooperative sector institutions are synchronized by the concerned State Governments and also supervised by NABARD. The commercial banks as well Housing Finance Companies are also regulated by the capital market regulator, SEBI, in case they are listed companies.

2.3.3. Funding Sources in the Housing Sector

Three types of market they are depicted below:



Source: NHB

The major source of financial support for Banks is via deposits which include low-cost savings and current accounts and less important mortgage market (is still in infancy in India). Sources of funding for the HFCs include deposit, as well institutional borrowings (household and international), refinancing from NHB and their own capital. The institutions that are funding cooperatives includes the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), National Housing Bank (NHB), Government, etc.

In spite of these remarkable growth that have been witnessed in the last one decade, the outreach of the formal housing finance system in the entire country is mostly limited for the income tax payers and people with a very standard flow of income among the organized sectors of the economy, for example, paid employees. Such controlled/formal sector accounts for only 25% of the whole total capital disbursement in housing in India (ICRA, 2003). Therefore , a good part of these shelter finance necessities in the country could be met by the informal sector, particularly in the rural sector which do

not have any access to institutional finance and is catered mainly through casual finance.

2.3.4.Housing Microfinance In India

Since in the greater part of India's population (in particular the urban poor living in slums and the rural people) be deficient in an access towards accommodation finance from the formal sector, a key problems faced by these housing finance system in India has been to provided by housing finance access to these households. Housing Microfinance (HMF) is designed to meet the housing needs for those with no access to the banking sector or official mortgage loans. It is targeted to low-income households who wishes towards expansion or advance their dwellings, or to construct a home in incremental steps relying upon sequential small loans.

HMF in India is mainly being approved out by the Non-Government Organizations, including Micro Finance Institutions (MFIs) and Self Help Groups (SHGs) with the assignment "safe living for their members". Prominent organizations like SEWA, DHAN Foundation and SHARE has played main role towards housing development. Micro finance plays a noteworthy role in making micro-credit for accommodation movement. More and more women Microfinance institution are to be encouraged to empower women of EWS/LIG sections. The development finance institutions like NABARD, NHB provide credit facility to NGOs, SHGs, etc., as well as facilitate their capability building process. This administration of India is working on the Microfinance Bill, which propose NABARD as the watchdog for the microfinance institutions in the India and would remove the way for major alteration of MFIs in India. The Government of India has also launch various low-income group housing finance programmes to reply to poor households' needs and facilities for housing by providing them trouble-free access towards housing finance.

Contribution of the banks like ICICI Bank and Citibank, are distinguished among the extending microfinance to the poor. Though the microfinance segment in the India has been mounting at a fast pace, extension of microfinance for housing is very much inadequate. Currently, in a view of the extended term nature of the loans requisite and non accessibility of large resources at the disposal of the microfinance organization at an affordable rate.

Improvements for Housing Finance in India

The Indian accommodation finance market has been evolve significantly over the past two decades; however certain improvement can eliminate the challenge faced by the market.

Segmented loom, foreword of new products pertaining to accommodation finance ,surroundings up an self-governing floating rate standard ,developing standards with fitted firewalls, Applying consistent codes for greater clearness, Consumer consciousness and revelation, configuration of central credit storehouse ,request of valuation standards and practice of NHB Residex,opening of safety nets like credit insurance, designate insurance products, better admittance to credit history, address long-term financial support issues. For instance, securitization of mortgages/enclosed bonds needs to be urbanized into a well-regulated, long-term funding source for the sector, Building an in sequence database.

Many Primary Lending Institutions (PLIs) are poignant towards the risk-based pricing to regulate the interest rates based on borrower's monetary profile. Under this, there are present lower interest rates to consumers with improved creditworthiness, while high-risk customers are stimulating higher interest rates. The widespread factors second-hand for risk-based pricing are among the borrower's credit times gone by, property use, possessions type, loan quantity, loan principle, income, and asset amounts, credentials levels, and property location.

2.3.5.Regulatory Bodies For Housing Finance Sector In India

The high-growth for the accommodation finance sector in India is support by a very facilitative rigid framework to ensure horizontal functioning for the financial sector. The Reserve Bank of India (RBI) and National Housing Bank (NHB) are the key in regulatory bodies along with these Central and State Governments. Marketable Banks and Housing Finance Institutions, which were register companies, are also synchronized by the capital markets regulator the Securities.

RBI regulates the banks, and NHB oversee the accommodation finance companies. In the earlier days, RBI was the one and only important regulatory body supervision towards these functioning of the housing finance sector. As this network of the dedicated housing finance companies emerged, NHB was established in 1988 as per this National Housing Bank Act 1987 to carry and uphold the housing finance institutions, and in today scenario, NHB is the principal agency.

The State accommodating Banks and Institutions are governing by these respective State Governments as per present provisions of the particular State Cooperatives Societies Acts and supervise by the National Bank for the Agricultural and Rural Development (NABARD).

2.4. Summary

Housing finance system evolved in India with the five year plans. The housing needs were either self funded or funded by the government owned institutions. Major players of housing finance system are HUDCO, HDFC and NHB.

The housing finance market in India is growing fast and is served by multiplicity of institutions across the vast geographical and income spread. India with the extended services towards

housing sector has never witnessed any housing crisis, because India extended housing loan by checking the creditworthiness and collateral security of individuals. This chapter studies in detail, the growth and importance of housing finance system in India. With the pace of time India housing finance has moved from self finance housing finance to government funded housing finance system.

2.5. Historical background of Housing Finance System in China

Taking into consideration the historic view of china housing reform, we can analyse that it has to overcome the old public housing finance system. Earlier housing was termed as social welfare, which was provided free of cost by the government institution, also known as the work units. Due to which the normal rent collected could not even cover the basic maintenance cost, and a little was left out for housing enhancement.

There was a launch of housing reform in 1979, and different experiments were undertaken from 1980 to 1987, in very selected areas to have a check that whether this new housing reform would work or not.

In 1988, a new document was issued by the China central government for implementing the gradual housing reform plan. This resulted in increased supply of housing, and to increase the demand of housing the rent amounts of the house were raised, so that the tenants would be forced to buy houses leading to an increase in housing consumption. On the other hand work units enjoying their fiscal freedom expanded housing production for their employees. As a result housing still continued to be the welfare product rather than commercialized product.

The Second Milestone came into picture when there was a need for urban housing reform. In this situation, government worked on both supply and demand sides of the housing market. On

supply side it created multi-layer housing system for different income groups of the economy and on the demand side it created a double housing finance system combining both social and private investments.

The whole objective underlying was to establish a systematic housing market so that families could purchase housing directly without any problem. But, this was not the case, just after this there was an increase in establishment of professional housing construction. That is, instead of being sold to urban individuals, most of the housing units were acquired by work units. These work units used the housing unit to resale it to its own employees at huge discounted price.

This situation prohibited work units from acquiring any new housing unit for their employees. Just after this it was followed by Asia financial crisis 1997, which created great problems for Chinese economy. Which resulted in an decrease in china economic growth rate. Decline of export market due to global financial crisis has resulted in huge employment crisis in the market as a result employees were laid off.

The new housing reform had a very poor performance, so it was seen that housing provision along with welfare responsibility is a great liability towards the economy. As a result Chinese economy initiated change in housing finance system by introducing two new programs ECH and HPF.

In spite of many problems faced by china housing market today the market structure of both the housing production and housing consumption is normal.

2.6. Housing Finance System in China

China housing finance system restructured after facing huge housing shortage in the housing market. This are discussed in detail the below paragraph;

Earlier before the housing failure, housing market was seen by the central government but after the housing shortage the china housing finance system has been restructured. Earlier too much of money were allocated towards housing production leaving a little proportion for housing consumption. On the contrary, the easy availability of housing loan made the supply increase in comparison to the consumption.

In 1994, china extended housing loan, but the bank were uncomfortable to give loan as a result they imposed heavy restrictions and housing loan had to be repaid with five years. In 1998 there was a major housing reform, as the work units were not able acquire any housing unit, so the urban housing demand started increasing with the additional facilities provided by the bank such as less interest value, increased repayment duration.

China unlike US has not been developed in secondary housing market. China government intervenes directly in the china housing market. With the view of global financial crisis, china housing market increased at a great extent leading to huge construction boom. In 2004, to avoid the housing bubble china started to issue a list of policies to restrain housing prices and discourage assumption.

The policy principle followed at this was perfect management of land , strict observation of credit in the housing market.

2.7. Summary

China has faced severe housing shortage but still was able to attain success in housing market approximately after 30 years. The urban housing unit production increased resulting in huge housing consumption; the increase rate was near about 80 percent. The first issue of affordable housing finance was met by providing distinctive housing prices for different income sectors of the economy. There were many programmes for the affordable housing finance system initiated but still the rich was more benefitted than the poor. On the other hand the global financial crisis has resulted in an increase in housing prices, creating severe problems towards sustainability of housing prices. Another challenge is to meet up the housing demand for the increased urbanization need. The rural people are moving to urban areas as a result china economy is facing problems.

CHAPTER 3

Housing Finance Policies in India and China

3.1. Introduction

This section is primarily about how the elements of public policy affect the economy. In the previous section there was a discussion of housing markets and related input markets, perforce incorporated some discussion of public policy issues. In this section there is a systematic analysis of public policy. Firstly there is historical analysis of the policies and their impact, finally the comparisons of housing policies of India and China.

3.2.India's Housing Policy Framework

In view of its large potential for employment, housing activity has a direct impact on the level of employment and income of people. It is therefore identified as a key contributor for the growth and development of an economy. Housing activity also has an indirect impact on the quality of living and formation of human capital in a nation as housing policy is closely linked to both the macro-economy and to social welfare.

Increasing expenditure on housing would have a dramatic effect on the economy and on living standards, Housing finance, a key factor, plays a major role in furthering the goal of affordable housing .It fuels the demand for housing as well as facilitates home ownership. Governments across the globe are taking significant measures to provide affordable housing to their people. Suitable housing finance policies are formulated to achieve this objective.

Generally, Housing finance policy has two key objectives; firstly, affordable housing finance system and secondly accommodating urban dwellers with subsidized rental programmes. Others factors are listed below;

- Improving the efficiency of the market by facilitating the private sector to provide affordable housing or the public from buying or renting housing units produced by the private sector.
- Ensures that those incapable of buying or renting housing produced by the private sector are adequate.
- Extension of capital subsidies to the poor to acquire a home is appropriate as they are able to access credit easily. Problems with housing credit include the inappropriateness of formal finance or long term finance.
- A two tiered subsidy system helps the poor at the bottom of the pyramid to acquire subsidies large enough to be able to provide adequate housing without any top up the poor with a slightly better income require loans linked to their subsidies. Therefore in some countries the subsidies are graded according to income, i.e. the higher one's income, the lower the subsidy.

The housing finance policies in a country depend upon the government for meeting the housing demand as well as its contribution to growth of the economy. The Government and Central Bank play important roles in shaping and sizing of housing finance market in the Country through their policies.

The various aspects of government policy in respect of housing finance activity relate to

(I) Improving supply of housing stock through

- Creation of Institutions in the Public Sector for promotion/execution of housing projects/programmes (e.g.) Housing Boards, City Improvement Trusts, Urban Development Authorities etc
- Extension of subsidy for building houses particularly for the poor
- Offering tax incentives to encourage promoters/builders/developers in the private sector to take up large housing projects

(II) Improving demand for houses and encouraging home ownership by introduction of

- Subsidy Schemes to the EWS section for construction of houses
- Directed institutional/bank lending for housing up to a prescribed level,
- Subsidies towards interest payable on housing loans
- Reduction of Stamp Duty/Registration charges so as to encourage transactions relating to immovable property by making the cost of such transactions (including creation of mortgage) affordable
- Tax incentives for buying a house
- Taxation of capital gains at concessional rates if such gains are invested in house property

(III) Improving supply of housing finance at affordable rates to meet the demand for housing by

- Offering tax incentives for housing finance companies/ mortgage banks
- Creation/promotion of apex housing finance organizations to facilitate policy issues as well as facilitate refinance arrangements to the mortgage originators at affordable rates
- Permitting issue of tax free bonds by select Institutions aimed at facilitating availability of cheap funds for the housing finance sector

- Creation of an institutional framework to enable mortgage originators raise money against their home loan portfolio either through securitization or through covered bonds or permitting deposit based schemes like Bausparkassen
- Making available to Insurance /pension funds investment in securitized/ mortgage based security papers
- Introduction of pragmatic enforcement laws to enforce security in case of delinquencies
- Facilitating effective mortgage/title insurance/guarantee schemes

Changes in monetary policy have an impact on the housing finance market by affecting the residential investment and house prices. The model/path chosen by each country for development of the housing finance market as well as the regulatory approach have also led to differences in housing policies followed by different governments. For instance, in the highly liberalized market-driven US economy, there has been a major move to raise funds for the housing finance sector through Mortgage Backed Securities (MBS) whereas in the UK integration of housing finance into debt markets resulted in commercial banks garnering a larger share of the housing finance market.

A common factor among the policies adopted by all the major economies has been the deregulation since the seventies. Traditionally, in many countries, local lenders were giving housing finance. The most important development in housing finance has been the transition since the seventies, from a highly regulated system to a more market-driven system. The Mortgage backed securitization /issue of covered bonds, etc resulted in newer avenues for raising funds and distribution of various risks associated with the housing finance industry to several investors ultimately leading to deterioration of credit standards and the subprime

mortgage crisis.

Policy Formulation for Housing Finance Sector – Indian Context

In India, the policies of housing and housing finance have evolved since 1950s. Housing policies were not much appreciated in the initial years and for the fear of urbanization and housing finance was treated more as a welfare problem and was assigned a low priority in policy formulation as compared to other sectors.

In the First Five Year Plan (1951-56), the emphasis was given on institution building and on construction of houses for Government employees and weaker sections. The scope of housing programme for the poor was expanded in the Second Five Year Plan(1956-1961) Three new schemes were introduced, namely, Rural Housing, Slum Clearance and Sweepers Housing. In the Third Five Year Plan (1961-66), a Scheme was introduced in 1959 to give loans to State Governments. For a period of 10 years for acquisition and development of land in order to make available building sites in sufficient numbers. The Fourth Five Year Plan (1969-74) as well as The Fifth Five Year Plan (1974-79) laid emphasis on promotion of smaller towns in new urban centers, in order to ease the increasing congestion in urban areas. Housing & Urban Development Corporation (HUDCO) was established in 1970 to fund the remunerative housing and urban development programmes.

Indira Awaas Yojana (IAY) was launched during 1985 to help construction of dwelling units in rural areas by members of Scheduled Castes (SC)/ Schedule Tribes (ST), The Seventh Five Year Plan (1985-90) stressed on the need to entrust major responsibility of housing construction on the private sector. The Seventh Five Year Plan (1985-90) identified the non-

availability of long-term finance to individual households. The Central government decided to start formulating National Housing Policies to provide guidance to the State Governments to meet the growing housing shortage. . The long term goal of the NHP established in 1988 was to eradicate houselessness, improve the housing conditions of the inadequately housed and provide a minimum level of basic services and amenities to all. The Eighth Five Year Plan (1992-97) for the first time explicitly recognized the role and importance of urban sector in the national economy. The NHP 1988 was replaced by the National Housing Policy to address the housing shortage in rural areas.

Ambedkar Awaas Yojana (VAMBAY), a national level housing scheme of the Ministry of Urban Employment & Poverty Alleviation, Government of India for the benefit of the slum dwellers was launched in the year 2001-02.

The Bharat Nirman Programme has recognized and accorded due priority to the need to end the lack of adequate shelter and it is envisaged to construct 60 lakh houses over the next four years across the country, starting from 2005-06.

Rural Housing Fund

According to the estimates made by the Technical Group constituted by the Ministry of Urban Development for evaluation of the urban housing shortage at the end of the 10th Five Year Plan, the total housing shortage in the country is 24.71 million.

A new urban area detailed policy National Urban Housing & Habitat Policy (NUHHP), 2007 was also launched to provide affordable urban housing and other basic infrastructure, especially to Economically Weaker Sections (EWS)/low income group. This policy promotes micro-finance institutions at State level to hasten flow of funds to the poor and lays down action points to be implemented by various players in the housing and housing finance market.

ISHUP

Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) has been conceived by the Ministry of Housing & Urban Poverty Alleviation for providing interest subsidy on housing urban poor to make the housing reasonably priced and within the repaying capacity of Economic Weaker Section/Lower Income Group. **Interest subsidy:** 5% pa for EWS and LIG over full period of loan

- (An additional 1% p.a. maximum will be permitted to be charged by banks/HFCs if fixed rate loans are extended which will be subject to reset after a minimum period of 5 years)
- **Primary security:** Mortgage of dwelling
- **Collateral security:** Nil upto loans of Rs. 1.00 lakh (only group guarantee)
- **Prepayment charges:** Nil

**Primary lending institutions(PLI) offering loans under ISHUP
Banks**

State Bank of India, Oriental Bank of Commerce, United Commercial Bank (UCO

Bank), Indian Bank, Corporation Bank, Punjab & Sind Bank, Syndicate Bank, Union Bank of India, Punjab National Bank, Central Bank of India, Bank of Baroda, State Bank of Mysore, Allahabad Bank, Jammu & Kashmir Bank, Vijaya Bank, Dena Bank, Karnataka Bank Ltd.

HFCs

1. Housing Development & Finance Corporation (HDFC) Ltd.

Housing & Urban Development Corporation (HUDCO) Ltd.

2. Dewan Housing Finance Ltd. (DHFL)
3. LIC Housing Finance Ltd.
4. Manipal Housing Finance Ltd.
5. Vishwakriya Housing Finance Ltd

Rajiv Awaas Yojana

In the Union Budget of 2009-10, a new scheme Rajiv Awaas Yojana was announced by the Central Government, for the slum dwellers and the urban poor, in an effort to promote a slum-free India with basic amenities in five years.

The Centre has also asked the State Governments to attract private builders and developers by giving incentives like favorable land-use conversion and permitting extra FSI and coverage area. The state housing boards are expected to be partners to the government and construct and develop projects with funding from institutional sources.

Table 3.1: Policies/Measures Adopted by the Central Government in India

For increasing the supply of land/houses	For promoting demand for houses	For increasing flow of housing finance
<ul style="list-style-type: none"> • Undertake land acquisition and housing construction programmes - National Building Construction Corporation Ltd. (NBCC), CGEWHO, etc. • Repeal of the Urban Land (Ceiling & Regulation) Act, 1976 • Release of land belonging to sick mills for construction of residential/ commercial complexes • Increase in Floor Space Index (FSI) • Slum rehabilitation programmes such as SRA 	<ul style="list-style-type: none"> • Income tax concessions by way of deduction of installment/interest • Capital gain treatment under Income Tax Act for houses bought out of capital gains • Reduction of stamp duty/registration charges • Rationalisation of property taxes • Linking disbursements under Urban Renewal 	<ul style="list-style-type: none"> • Special concessions available to Housing Finance Companies (HFCs) under the Income Tax Act • Introduction of schemes like Indira Awaas Yojana, Golden Jubilee Rural Housing Scheme and VAMBAY schemes • Establishment of Rural Housing Fund • Liberal risk weights prescribed for

offering incentives like TDR to builders and land at cheap prices, cross subsidizing slum rehabilitation

- Incentives given for promotion of SEZs(which also include residential portion)
- Income tax concessions given to builders for undertaking construction of houses
- Acquisition/allotment of large tracts of land for development of modern townships
- EWS programmes /construction undertaken by many Housing Boards on their own or in public-private partnership mode
- Propagation of cost effective construction of cheap houses for EWS by HUDCO and other Central Government agencies like Building

Fund to civic reforms

housing loans by NHB/RBI lowering the cost of capital required for housing loans

- Treatment of housing loans as priority sector loans by Banks
- Direction of Reserve Bank of India to banks to earmark a portion of incremental deposits for housing loans
- Guidelines issued for facilitating securitization of housing loans
- Permission given to NHB to raise capital gains bonds from time to time to raise

Materials and Technology
Promotion Council (BMPTC),
etc.

resources for the
housing finance
sector

- Special credit line
made available by
RBI to NHB to
facilitate flow of
funds to the housing
finance sector
- Permission given to
HFCs to raise
foreign borrowings
- Introduction of
SARFAESI Act
facilitating recovery
and recycling of
funds

In addition to the measures initiated by the Central government, many State Governments have also introduced policies to provide low cost housing to people belonging to scheduled castes/tribes. Some of them have established SC/ST housing corporations to provide cheap

finance to enable the poor in these communities to own houses.

In addition, many non-Governmental and community-based organizations have added housing finance to their microfinance schemes. Such schemes are community-based or run by Governmental and non-Governmental microfinance institutions. (Read: Microfinance in India)

Various international organizations like the World Bank, Asian Development Bank, USAID etc. also carry out extensive studies about problems of slums/congestion in Indian Cities and provide valuable inputs about policy formulations for eliminating/minimizing these problems. They also play a very useful role in collecting information, conducting case studies and disseminating information.

3.2.1.Summary

Many countries feel that extension of capital subsidies to the poor to acquire a home is appropriate as they are able to access credit easily. Problems with housing credit include the inappropriateness of formal finance and the lack of a secondary or covered bond market for long term finance. Some countries even try a two tiered subsidy system because the poor at the bottom of the pyramid require subsidies large enough to be able to provide adequate housing without any top up, but they also need access to consolidation loans at a later date. The poor with a slightly better income require loans linked to their subsidies. Therefore in some countries the subsidies are graded according to income, i.e. the higher one's income, the lower the subsidy.

The different housing policies and programmes are studied in detail in this chapter, the major

drawback of Indian housing finance system is apart from many housing programme like Bharat nirman programme, VAMBAY housing scheme, rural housing fund, ISHUP , Rajiv awas yojna and many banks extending loans still the lower segment of the society are deprived from housing facilities because there is no check over implementation part of the shelter programmes.

3.3. China's Housing Policy Framework

In this part the study will discuss the China housing policy in detail, basically there are three programmes in the China housing policy which has boost up the China housing market they are; Economical and Comfortable Housing, Housing Provident fund , and the Cheap Rental Housing Program.

Before getting into the content of these three programs, the study need to analyse that the china housing finance system has faced severe housing shortage, the reason being that firstly, it faced affordable housing constraint as the programmes implemented lead to benefit the rich rather than the poor. Secondly the stability of housing prices, global financial crisis had a huge impact of china economy that is it leads to increase in housing prices and hence affecting the poor and marginalized sector of the economy. Now the question is how far these three programmes can be implemented properly to resolve the issue.

Economical and Comfortable Housing

In 1994, this ECH programme was implemented in China for as a major aspect of affordable housing finance system. This programme focused on the low income as well middle income groups of the economy.

Here the housing units are sold on two basis. Firstly, the housing units sold are not for rent and secondly government should provide the lands in cheap rates for construction of housing units to ECH programme constructor. The ECH developer has a profit margin no greater than 3 percent. They provide housing units less than 15 to 20 percent of market value.

This ECH programme is implemented so that every individual in urban china will not be deprived of the basic necessity shelter. This programme provides high quality housing units for the poor urban inhabitant. But it was seen that through ECH China tried to increase housing consumption in urban areas after the Asian financial crisis rather than helping the needy which was the main target of this programme. Resulting in huge housing consumption by the upper segment of the economy and marginalizing the poor and needy.

The solution to this unequal access of housing consumption in the housing market was resolved by setting up the income limits but the income limits were at times too high for the marginalized segment to attain equality in the consumption pattern of the economy. Local government decided to initiate development standards but these standards was set up the upper segment of the society as a result these development standard were too high to reach poor people. With reduced development standard in the housing unit the higher income group have not reduced demand in fact the demand increased as people started buying for investment purpose.

ECH programme have great loopholes, finally it can be said that ECH programme is taken up by private builders leading to huge affordability problems. These ECH programmes take initial capital from the employees which they use for acquirement of land, construction of housing. There is a direct linkage between the work units and local government due to which employees

are eager to participate in pre sale process.

Housing Provident Fund

HPF and ECH work side by side. It also started in 1994, here in not only the employees but also the employers pay 5 percent for the HPF programmes and in return these employees are given low interest loans for purchase of HPF housing units. It allows work units to provide cash subsidy to the employees rather than housing units in order to increase the housing consumption of the economy. HPF has greatly lead to positive economic growth in china.

The major drawback of HPF programme is inequality; beneficiaries resided in big houses providing themselves better living space. Here in the employers don't want to participate but non participation is not taken seriously by the local government. The participation ratio varied among the developed and developing countries from 80 percent to 50 percent.

HPF was successful in accumulating 2 trillion Yuan with 73 million employees, but as the amount of fund increased there was an increased risk of management of the fund. Local governments had no control over it. It was the local government who were responsible for the management of HPF fund to maintain the housing market.

HPF has two objectives; firstly providing money to the employees in case of any emergency requirement and secondly providing discounted loans in basis of their deposited money for purchase of housing unit. Keeping in these two objectives the government should manage the HPF fund.

HPF has resulted in huge contribution towards the increase in housing consumption on one part and on the other it leads to huge inequality because the higher income group would get huge

loan amount for housing unit were as the smaller group would get less loan amount for housing unit. Finally HPF leads to affect the balance growth of the economy.

Cheap Rental Housing

The two housing programme were already discussed above they have witnessed that there is no special provision for the lower income segment of the society. There already existed social rental programme for the disabled and lower income society. Due to huge space of urbanization the government fails to accommodate the lower income group of the urban population. The rising urban poverty in china forced china government to take action as a result they implemented CRH which exclusively focus on the affordable housing supply.

The local government was asked to allocate fund for the CRH programme but local government could not meet up the fund allocation part as a result some part of the HPF gains were used by the CRH programme implementation which resulted in slow process .

On the positive side CRH was focused towards the lower segment of the society and implemented strict regulations. Increase in CRH programme was felt during 2009 where there was a huge employment opportunity and government came up with CRH housing where in 7.5 million housing problems were solved with three years.

3.4.1. Summary

China housing finance system has faced huge housing shortage due to the old public housing finance system. Which in turn lead to establishment of new housing policy . The new housing policy of china mainly includes three programmes ECH, HPF and CRH. Even till date the china housing has not developed fully because every programme implemented is backed by certain limitation like ECH, the housing units were misutilised by the work units to provide

cheap housing for their employees, in HPF programme people faced huge inequality among them as the loan for housing was dispersed in accordance to individual income and finally CRH, was a success for providing subsidized rental programme for urban dwellers but still it failed to accommodate every urban poor. China has overcome its housing shortage to a great extent but it still need to improve to attain housing market stability.

CHAPTER 4

Summary of Major Findings and Policy Implications

4.1. Summary

In the first chapter; it focuses on the analysis of housing finance system in general. Housing has been termed as engine growth of economy and is recognized as an important contributor to development and civil life. This chapter has coined several definitions regarding housing finance system as a phenomenon taking into consideration different views of the economist.

Objective of the study is to analyze the nature of housing finance system in emerging housing markets, such as India and China. The motivation drawn for the study is the U.S sub-prime crisis (2007-08) and their impact on India and China, where in the methodology followed by the study is secondary and analytical in nature.

In the second chapter; the study analyses Housing finance system evolution in India with the five year plans. The housing needs were either self funded or funded by the government owned institutions. Major players of housing finance system are HUDCO, HDFC and NHB.

The housing finance market in India is growing fast and is served by multiple institutions across the vast geographical and income spread. India with the extended services towards housing sector has never witnessed any housing crisis, because India extended housing loan by checking the creditworthiness and collateral security of individuals. This chapter studies in detail, the growth and importance of housing finance system in India.

China has faced severe housing shortage but still was able to attain success in housing market

approximately after 30 years. The urban housing unit production increased resulting in huge housing consumption; the increase rate was near about 80 percent. The first issue of affordable housing finance was met by providing distinctive housing prices for different income sectors of the economy. There were many programmes for the affordable housing finance system initiated but still the rich was more benefitted than the poor. On the other hand the global financial crisis has resulted in an increase in housing prices, creating severe problems towards sustainability of housing prices. Another challenge is to meet up the housing demand for the increased urbanization need. The rural people are moving to urban areas as a result china economy is facing problems. This chapter pictuarises the better off situation of India over China.

In the third chapter; Many countries feel that extension of capital subsidies to the poor to acquire a home is appropriate as they are able to access credit easily. Problems with housing credit include the inappropriateness of formal finance and the lack of a secondary or covered bond market for long term finance. Some countries even try a two tiered subsidy system because the poor at the bottom of the pyramid require subsidies large enough to be able to provide adequate housing without any top up, but they also need access to consolidation loans at a later date. The poor with a slightly better income require loans linked to their subsidies. Therefore in some countries the subsidies are graded according to income, i.e. the higher one's income, the lower the subsidy.

The different housing policies and programmes are studied in detail in this chapter, the major drawback of Indian housing finance system is, apart from many housing programme like Bharat nirman programme, VAMBAY housing scheme, rural housing fund, ISHUP, Rajiv

awas yojna and many banks extending loans still the lower segment of the society are deprived from housing facilities because there is no check over implementation part of the shelter programmes.

While in context of China, there are different housing finance programme like HPF, ECH and CRH emphasizing the urban poor, the supply system of housing, and the rural segment of the society or expansion of affordable housing supply. China reframed its housing policy to meet the housing shortage it faced. China recovered from the housing crisis and this chapter gives detail information regarding housing finance policy of china.

4.2. Policy Implications of the Study

Rich people for evading tax ask financial institutions for housing loan, as a result the loan targeted for the poor segment of the society gets dispersed to the richer society. Poor people have no access to financial assistance due to low creditworthiness. Here a question arises; Do we think Housing Finance system is Developed? Not really; because of unequal distribution between rich and poor; rich are getting more benefit than the poor. Henceforth government intervene is needed towards housing finance system so that policies implemented can be regularly checked. If the financial infrastructure is not enhanced then poor people will be left out from financial inclusion.

4.3. Limitations of the Study

So far there no study existing in India and China to analyse the housing finance system and housing policy. The study lacks with the empirical analysis of housing finance contribution percentage to the economic growth. Additional information can be gathered to study in detail India and China GDP with Housing finance system.

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