

## 5.4 Long-term growth drivers for housing finance

Higher transparency in the housing finance sector, increasing affordability and urbanization, and government incentives is expected to push up the housing finance market in longer term.

### Government Initiatives

- **PMAY-U:** The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships ("PPP") in building homes for EWS and LIG by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, the PMAY provides credit-linked subsidies to stimulate demand
- **PMAY-G:** The scheme is for the rural population who don't have their own houses. It provides financial assistance and interest rate subsidy
- **Special financing window:** This window is expected to help revive stalled housing projects which require a last-mile funding to reach completion
- **Relaxation of external commercial borrowing ("ECB") guidelines:** The relaxed ECB guidelines will enable easier access to overseas funds and stimulate the sector
- **Tax incentives:** Provides various tax benefits to home loan borrowers and developers
- **Real estate regulatory authority ("RERA"):** The law was introduced in order to make the sector transparent
- **Goods and Service tax ("GST"):** The GST rate for affordable housing projects was cut
- **Employees provident fund ("EPF") corpus withdrawal:** Permission to withdraw 90% of the EPF corpus enables prospective home buyers to make the down payment and pay their home loan equated monthly instalments ("EMIs")

### Regulator initiatives

- **Risk weight rationalisation** on housing loans to improve sentiment for the real estate sector
- **Regulatory authority of HFCs shifted from NHB to RBI:** The Budget 2020 proposed a change in regulatory oversight and supervision of HFCs from the NHB to the Reserve Bank of India (RBI). This shift led to more streamlined regulations and better risk management framework for HFCs.
- **SARFAESI Act:** Bringing HFCs under the ambit of the SARFAESI Act has helped them accelerate recoveries
- **NHB refinance:** The NHB refinancing schemes help HFCs lower their borrowing costs
- **PSL guidelines revised:** The RBI increased the threshold limit for home loans to be classified as PSL in order to promote PMAY

### Other factors

- **Low mortgage penetration**
- **Rising urbanisation and nuclearisation:** Decreasing average household size and rising level of urban population create more housing demand.
- **Rising income levels:** Rising income levels help improve the affordability of houses
- **Rising independent housing demand:** Increase in share of independent houses helps housing finance market grow in the long term

Source: CRISIL MI&A

## 6. Regulatory Initiatives

### 6.1 Regulatory Authority on HFCs shifted from NHB to the RBI

The Union Budget 2019-20 announced the transfer of regulatory power on HFCs from NHB to RBI. This has resulted in streamlined regulations and implementation as well as better risk management framework for HFCs. The RBI Act was amended to give the central bank powers to regulate HFCs. This move was expected to ensure there is greater parity in regulations for NBFCs and HFCs.