

POLICY MEASURES FOR PROMOTING HOUSING SECTOR AN OVERVIEW OF CROSS COUNTRY EXPERIENCES

Occasional Paper No. IV



राष्ट्रीय आवास बैंक



NATIONAL HOUSING BANK



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NATIONAL HOUSING BANK
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National Housing Bank

National Housing Bank (NHB) is the apex financial institution for housing in India, wholly owned by the Reserve Bank of India. It was established in 1988 under an Act of Parliament. NHB has three main functions viz. to regulate the housing finance companies, to promote and develop the housing finance market and to provide financial assistance to housing finance institutions and others. NHB's current focus is on addressing the needs of the unserved and underserved.

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FOREWORD

Housing is a basic necessity of life, next only to food and clothing in importance. Apart from shelter, home ownership also serves to fulfil many other fundamental objectives viz. raising the quality of family life in terms of health, education and sanitation. Home also serves as an asset that can be collateralized in times of need generating a sense of physical and emotional satisfaction and achievement. At the macro level, housing generates considerable employment and dispersed economic activity.

It has been well demonstrated that housing and related infrastructure is one of the principal sectors that can revitalize and sustain economic growth and development, employment creation and poverty reduction. It has been observed that the formal private sector housing market in most of the countries mainly caters for upper middle and high-income groups, leaving households in the lower-middle and lower income brackets unserved / under served. Moreover, there is generally inadequate supply of rental housing and that a majority of urban-dwellers in many a countries cannot afford to buy their own homes due to high house prices and the cost of loans.

Housing thus has always been an important agenda for the governments in developing as well as developed countries. As a visible output housing is an effective mirror of development. It is a vital sector of the national economies creating jobs and generating taxes and wages that positively influence the quality of life. Thus, the government policies on the housing front have a direct impact on the health of the economy, particularly for the lower and middle income segments of the population whose need is for affordable houses.

Facilitating supply of affordable housing to the needy population and the consequential requirement for designing a right mix of policy initiatives to encourage broad based home ownership cannot be overemphasized. Therefore, supporting home ownership is one of the major policy goals in most countries. Typically, support to achieve this policy goal is orchestrated via a combination of favorable taxation regulations, mortgage market intervention and demand and/or supply side subsidies. In this context, the role of the governments, in terms of deliberate policies and interventions, is to create an enabling environment -for the private sector - so as to facilitate realization of affordable and decent housing for all. The policy on housing includes interventions along two broad dimensions: (i) physical, in terms of occupancy and minimum physical requirements for housing units to improve living condition within the overall urban development of the country; and (ii) financial, to enable housing access and affordability.

The lack of housing access is one of the most serious and widespread consequences and cause of poverty in many developing countries. There has been a felt need to bring more schemes and policies which makes housing affordable and accessible to all more specifically to lower income families which generally suffers from discriminatory actions.

This publication is an attempt by the National Housing Bank towards providing some insights into the cross country experiences in terms of policy measures that are adopted for promoting housing sector.

This paper, an in-house effort is a part of the Bank's efforts in contributing to greater informed awareness building amongst all concerned people. As the apex financial institution for housing, NHB has initiated a slew of measures for promoting housing sector in India.

We hope that this paper will make a small contribution to public policy formulation. NHB will be happy to consider action consistent with its mandate as well as carry out follow on studies based on comments and suggestions received.

I seek valuable comments of readers.

4th September, 2009
New Delhi

S. Sridhar
Chairman & Managing Director
National Housing Bank



LIST OF ABBREVIATIONS

<i>HDB</i>	<i>Housing Development Board</i>
<i>CPF</i>	<i>Central Provident Fund</i>
<i>GBH</i>	<i>Government Housing Bank</i>
<i>BIS</i>	<i>Bank of International Settlements</i>
<i>NHA</i>	<i>National Housing Authority (Thailand)</i>
<i>NHA</i>	<i>National Housing Act (Canada)</i>
<i>MSD</i>	<i>Ministry of Social Development</i>
<i>CODI</i>	<i>Community Organizations Development Institute</i>
<i>PIT</i>	<i>Personal Income Tax</i>
<i>SPV</i>	<i>Special purpose vehicle</i>
<i>FHSAs</i>	<i>First Home Saver Accounts</i>
<i>ATO</i>	<i>Australian Taxation Office</i>
<i>NRAS</i>	<i>National Rental Affordability Scheme</i>
<i>FHOG</i>	<i>The First Home Owner Grant</i>
<i>CMHC</i>	<i>Canadian Mortgage and Housing Corporation</i>
<i>AHOP</i>	<i>Assisted Home Ownership Program</i>
<i>RRAP</i>	<i>Residential Rehabilitation Assistance Program</i>
<i>MBS</i>	<i>Mortgaged Backed Securities</i>
<i>CMB</i>	<i>Canada Mortgage Bonds</i>
<i>MITR</i>	<i>Mortgage interest tax relief</i>
<i>NHG</i>	<i>National Mortgage Guarantee Scheme</i>
<i>VROM</i>	<i>Ministry of Housing, Spatial Planning and the Environment (Netherlands)</i>
<i>VNG</i>	<i>The Association of Netherlands Municipalities</i>
<i>WEW</i>	<i>The Homeownership Guarantee Fund</i>



<i>NIBUD</i>	<i>National Institute for information on Consumer Budgets</i>
<i>FmHA</i>	<i>U.S Department of Agriculture's Farmers Home Administration</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>PHA</i>	<i>Public Housing Agency</i>
<i>RF</i>	<i>Reconstruction Fund</i>
<i>LIHTC</i>	<i>Low Income Housing Tax Credit</i>



EXECUTIVE SUMMARY

Housing sector in many developing countries and countries with economies in transition is characterized by a low level of urban home ownership, a lack of affordable and decent rental housing options and expensive and inappropriate dwelling units, including slums and squatter settlements. The core objective of the public sector housing initiative is, therefore, to make housing affordable and accessible to lower-income families, which generally suffer from discriminatory actions. In the above context, an attempt has been made to study cross-country experiences towards promoting access to shelter through inclusive housing policies, consisting of programmes relating to public housing and other mix of policies to promote private investment in housing. There are several schemes which are working with reasonable success; the prominent one are discussed below:

INDIA

Fiscal concessions coupled with legislative measures have been initiated to encourage increased private investment in housing. The existing incentives available for housing sector in India are as under:

- Section 80 1A provides 100 per

cent tax exemption to any housing project being an integral part of a highway project.

- As per Sec 24(b) of the Income Tax Act, interest on housing loans for owner-occupied property is exempt from payment of income tax and otherwise upto a limit of Rs 1, 50,000 per year. Principal on the housing loan is an eligible deduction for the purpose of Sec 80 C. Taxes payable to the local body is deductible from rental income. Further, deductions in respect of 30 percent of annual value and interest on housing loan are also allowed from rental income. Provision also exists relating to offsetting/carry forwarding of losses in respect of income from house property.
 - Exemption from capital gains is granted if the residential property is a long term capital asset and that the capital gains are invested in purchase or construction of a residential house within three years of sale (Sec 54 EC of Income Tax Act)
 - Loans granted by banks to the housing financing companies for on lending to individuals are to be
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classified under priority sector in case of loan amount up to Rs 20 lakh (up to 31-03-2010).

- Under the Indira Awaas Yojana Programme of the Government of India, upto rupees thirty five thousand (Rs 35,000) is provided by way of grant to a family below Poverty Line (BPL) in the rural areas to acquire a house.

SINGAPORE

In Singapore government's core policy is one of providing homes for the people at rents they can afford. Under the Homeownership Scheme, public housing is sold to eligible households on a 99-year leasehold basis. Housing Development Board (HDB) gives two grants for an eligible household. First-time homebuyers are eligible for a HDB grant of \$30,000. The same homebuyer is also eligible for a second-time grant when he decides to upgrade from his first flat to a larger or newer flat.

The Singapore government finances public housing through two major types of government loans, the first being the housing development loan, and the second being the mortgage finance loan. The interest rate on these loans is lower than the market lending rate.

The most important housing finance instrument of the housing policy in

Singapore is the CPF. Through this instrument, mandatory savings, deposited into a government-regulated account, are used to pay for housing mortgages.

THAILAND

Main supportive policies of the Government for housing sector are income tax deduction in respect on home-mortgage interest expenses and lower risk weightage for housing finance loans.

The Government of Thailand provides policy support to the Government Housing Bank (GBH). The Government has also created incentives to commercial banks to provide more home loans. GHB has established a revolving fund of 300 million baht to enable NHA to repurchase and resell units of hire-purchasers who become more than 3 months delinquent in their payments, with accrued interest on the missed payments beyond 3 months to be fully subsidized by the government.

The National Housing Authority (NHA) guarantees loan repayment for the first 5 years. The Government has decided to reduce transfer fees from 2% and mortgage registration fees from 1% to 0.01%.

AUSTRALIA

In Australia, the main schemes containing incentives for housing



sector - on ownership and rental basis relates to housing affordability fund, home savers accounts, rental affordability and first home owner grant.

The Housing Affordability Fund envisages investing up to \$512 million over five years to lower the cost of building new homes.

First Home Saver Accounts (FHSAs) provide a simple, tax effective way for Australians to save for their first home through a combination of Government contributions and low taxes. The Government contributes 17 per cent on the first \$5,000 (indexed) of individual contributions made each year. Individuals will be able to withdraw their account balance tax free to buy or build a first home in which to live.

National Rental Affordability Scheme (NRAS) helps increase the supply of affordable rental dwellings. Rent for these properties will be charged at 20 per cent below the market rate for eligible tenants.

Under the First Home Owner Grant (FHOG) Scheme, a one-off grant of up to \$7000 is payable to first home owners that satisfy all the eligibility criteria. There are also provisions for boost grant and extra grant, thereby enhancing the amount of grant up to \$21,000.

CANADA

The main focus of the housing policy, in Canada, is to promote home ownership at the Federal level and social housing programmes are devolved to provinces/territories. A number of specific regulations and innovations are being used to widen access to insured, and therefore cheaper, loans, and to achieve other housing objectives. Further discounts are given for insurance on homes built or renovated in energy-efficient ways.

Canadian Mortgage and Housing Corporation (CMHC) widens access to home mortgages by providing mortgage insurance for lenders. The Home Buyers Plan allows first-time home buyers to borrow up to CA\$20,000 from their Registered Retirement Savings Plan to buy or build a qualifying home.

IRELAND

The focus of recent policy initiatives, in Ireland, has been on targeting assistance to first-time and lower-income buyers, and to particular areas. Government has established a 20% target for affordable housing in new developments, linked to subsidies provided through local government. Interest on borrowings for the purchase, improvement or repair of any rented residential property can be offset



against rental income, and tax relief can be claimed for capital expenditure on refurbishment of rented residential accommodation. The stamp duty on houses purchased for letting has been abolished.

Some of the important schemes launched by the government are briefly discussed as under:

- **Shared Ownership Scheme** enables the purchase of a home with the local authority or not-for-profit housing agency initially taking at least a 40% stake, through a loan from local authority. They make payments on a mortgage for the part they own and pay rent to the local authority for the other part.
- Under **Mortgage Allowance Scheme**, social housing tenants purchasing a private or local authority house, may qualify for a mortgage allowance (up to €11,450 in 2000) paid on a reducing basis over 5 years to the mortgage lender.
- Under **Affordable Housing Scheme**, local authorities provide newly built houses at a cost price on their own land to qualified households.
- Under **Urban, Town and Rural Renewal** tax incentives are

available to owner-occupiers who purchase a residence in selected urban areas, towns and rural regions designated for physical and socio-economic development.

FRANCE

In France, central government public financing is used for a range of policy purposes, like affordability, leverage and regeneration, housing allowances, etc. Compulsory savings are channeled via post office savings accounts and National Savings Banks to generate finance for housing sector.

A Contract Savings Scheme is available to all, requiring a 5-year period of savings. Savers are entitled to tax relief on the interest earned from these accounts and to receive a bonus from the state when they take out a loan to buy property.

Government provides loans at concessional rate of interest which are based on income and house price limits. Besides, government grants are also available to cover part of the monthly repayment. **A small interest-free loan of around €15,000** or up to 20% of the total cost, based on funding from payroll tax, is provided for buyers of new property or property needing renovation.

High transaction costs - transfer/property/sales taxes - are



abated for households purchasing a new house. There are also provisions relating to taxation of vacant housing.

Further, 25% of interest payments on mortgages taken out before 1998 are tax deductible, with limits more favorable for new construction and for families with children.

NETHERLANDS

The housing policy, in Netherlands, is to promote home ownership; nevertheless, it retains a large broad-based social rental sector. Mortgage interest tax relief (MITR) promotes long term (30 year) borrowing for home purchase. There are also rent regulations, which moderate increases but ensure reasonable return for social landlords.

A **National Mortgage Guarantee Scheme (NHG)** deepens mortgage access and slightly reduces the mortgage interest rate. The Homeownership Guarantee Fund (abbreviated to WEW in Dutch) is responsible for the policy and implementation of the NHG. WEW is a private institution with fallback agreements with the Government and municipalities. As a result, the Netherlands Central Bank (De Nederlandsche Bank) considers the NHG as sovereign.

Individual rent subsidy, subject to rent

and income ceiling, is available for private as well as social tenants.

UNITED KINGDOM

Some of the main schemes operated to promote home ownership, in England are mentioned below:

- Small-scale **shared equity** schemes are being operated by some housing associations and trusts.
 - Under **the Shared Ownership scheme**, households/individuals purchase between 25% and 75% of the social rental dwelling, with a mortgage and pay rent on the remainder of the equity.
 - Under **Home Buy scheme** purchases up to 75% may be financed through a private mortgage, and the remainder through an interest-free equity loan from a housing association.
 - Under **Right-To-Buy (RTB) scheme** tenants may buy their council home at a discounted price determined by their length of tenancy in the dwelling.
 - **Cash Incentive Scheme** enable local authorities to free up rental stock by helping eligible tenants with a grant (up to £10,000 in most areas) to buy a home in the open market.
-



- Under the **Savings Gateway scheme** government matches the amount saved over a period of time, and up to a maximum amount per month. Under this scheme an individual is free to withdraw money from their account, but can only access the government's contribution after 18 months.

U.S.A.

US has a system geared to the promotion of home ownership via government-regulated financial intermediaries, insurance agencies and subsidy programs which extends the tenure to minority groups and lower-income households. There has been a long-standing housing policy to use mortgage insurance as means of reducing the cost of financing and thereby improving access to home ownership. In addition, mortgage interest payments are tax deductible. There are provisions for government insured loans for on reserve home purchase.

Two other important aspects of the USA policy model are the Home Mortgage Disclosure Act and the Community Reinvestment Act. The former operates to ensure that the lending patterns of financial institutions are publicly transparent and the latter to drive fairer lending practices where groups or areas are under-served.

There are several tax reform provisions ranging from a first-time homebuyer's tax incentive, increasing the low-income housing tax credit, and extending the number of years companies can carry back-losses. Low Income Housing Tax Credit (LIHTC) is a tax credit created under the Tax Reform Act of 1986 (TRA86) that gives incentives for the utilization of private equity in the development of affordable housing aimed at low-income Americans. LIHTC was added to TRA86 inter-alia to encourage investment in multifamily housing for the poor.

MEXICO

In Mexico, the government authorized an innovative "dual rate" mortgage instrument, which allows lenders to charge market interest rates on mortgage loans and link borrowers' repayments to adjustments in wages, capitalizing differences and extending the terms of the loan.

In order to reduce the local regulatory costs, the Federal Government has signed agreements with the governors of the 31 States and the Federal District as well as with the National Association of Notaries. The agreements set out specific targets relating to reduction of direct and indirect local costs and national notary fee for social housing; and the establishment of "single offices" for expeditious clearances.



Suggested Policy Measures for India

The above study of cross country experiences in promoting Housing Sector has revealed that some of the measures being adopted in these countries merit consideration for their replication in India. In particular, interest subsidy on EWS/LIG housing loans, incentives for rental housing, revolving fund for as housing

reconstruction fund for purchase of residential properties from banks/HFCs or NPAs, contractual savings schemes on the lines of Australia and France, and shared ownership scheme on the lines of Ireland and UK etc. are suggested as policy measures for achieving the Housing Policy the goal of **“Affordable Housing for All”**.



CHAPTER I

INTRODUCTION

1.1 Housing sector in many developing countries and countries with economies in transition is characterized by a low level of urban home ownership, a lack of affordable and decent rental housing options and expensive and inappropriate dwelling units, including slums and squatter settlements. The lack of housing access is one of the most serious and widespread consequences and cause of poverty in many developing countries. The core objective of the public sector housing initiative is, therefore, to make housing affordable and accessible to lower-income families, which generally suffer from discriminatory actions. Improved housing is only relevant to the poor if it is also affordable. Affordable housing cannot be produced without consideration of the broader context of the households' earning power.

1.2 Most of the countries face several common housing challenges, of which, the most prominent are:

- Rising housing costs and declining

housing affordability.

- Housing supply shortages and issues of housing quality.
- Social exclusion and segregation related to housing location, tenure and quality, and race and ethnicity.
- Special housing needs of excluded groups, and those with support needs.

1.3 Housing and related infrastructure is one of the principal sectors that can revitalize and sustain economic growth and development, employment creation and poverty reduction. It has been observed that the formal private-sector housing market in most of the countries mainly caters for upper middle and high-income groups, leaving households in the lower-middle and lower income brackets unserved / under served. Moreover, there is generally inadequate supply of rental housing and that a majority of urban-dwellers in many a countries cannot afford to buy their own homes due to high house prices and the cost of loans. Furthermore, the public-sector funding



and direct provision of housing has been declining on account of paucity of budgetary allocations and also due to change in focus and role of public sector agencies. Therefore, there is need to have effective partnerships between the public and private sectors through a combination of taxes and other fiscal incentives, as well as supportive regulatory measures.

1.4 Housing has always been an important agenda for the governments in developing as well as developed countries; because it is a visible output where the development can be seen and it is a vital sector of the national economies creating jobs and generating taxes and wages that positively influence the quality of life. Thus, the government policies on the housing front have a direct impact on the health of the economy.

1.5 The above issues highlight the importance of facilitating supply of affordable housing to the masses and the consequential need for designing a right mix of policies initiatives to encourage broad based home ownership. Therefore, supporting home ownership is one of the major policy goals in most of the countries. Typically, support to achieve this policy goal is orchestrated via a combination of favorable taxation regulations, mortgage market intervention and demand and/or supply side subsidies.

In this context, the role of the governments, in terms of deliberate policies and interventions, is to create an enabling environment -for the private sector - so as to facilitate realization of affordable and decent housing for all. The policy on housing includes interventions along two broad dimensions: (i) physical, in terms of occupancy and minimum physical requirements for housing units to improve living condition within the overall urban development of the country; and (ii) financial, to enable housing access and affordability.

1.6 Contemporary housing policy responses are generally clustered around following themes:

- Facilitating home ownership for new entrants and lower-income households.
- Promoting private investment in affordable housing.
- Using the existing private rental market for improved housing outcomes.
- Reinventing social housing to improve choice and diversity.

1.7 The most prominent policy responses are elaborates as under:

- Promoting private investment in affordable housing - Strategies to promote new investment in



affordable housing supply feature increasingly among national and regional housing policies in many countries. Broadly, these strategies are concerned with obtaining more housing to rent or buy in parts of the market that are affordable to low- to middle/moderate-income households, using a variety and mix of incentives and regulations. These include not only fiscal incentives and capital subsidies but also planning levers and developer incentives.

- Using the existing private rental market for improved housing outcomes - The size of the private rental sector in different countries varies considerably, ranging from as low as 10 per cent in the United Kingdom to 59 per cent in Switzerland. This sector has come under increasing pressure internationally, as access to social

housing and home ownership for lower-income households and newly arrived immigrants has declined. Overall the main thrust of rental policy initiatives is to improve quality, affordability and security for lower-income households, with policies falling into a number of categories:

- Providing incentives for construction and renovation of private rental housing
- Regulating quality
- Influencing rent setting to ensure affordability and, in some cases, deregulating rents to help stimulate additional investment
- Providing assistance with housing costs to low-income renters





CHAPTER II

CROSS-COUNTRY EXPERIENCES

Through this study, an attempt has been made to study cross-country experiences towards promoting access to shelter through inclusive housing policies, consisting of programmes relating to public housing and other mix of policies to promote private investment in housing. The countries covered, consist of three Asian countries – India, Singapore and Thailand; and 8 Western countries – Australia, Canada, Ireland, France, Netherlands, United Kingdom, United States and Mexico.

2.1 INDIA

2.1.1 In India considerable efforts are being made through developmental plans to enlarge the resource base and to initiate innovative institutional mechanisms to augment the housing delivery in urban and rural areas. Focused efforts have also been made to cover the poor and vulnerable groups of society to enable them to access basic shelter related services. .

2.1.2 The Government policy lays stress on an enabling approach,

wherein the government agencies are expected to act as facilitator by extending the infrastructure required for housing initiatives in the private sector. The role of the Union government is mainly to facilitate the State governments to bring in the required institutional and legislative reforms to augment housing delivery by the State agencies and the private sector.

2.1.3 Fiscal concessions coupled with legislative measures have been initiated to encourage increased private investment in housing. The existing incentives available for housing sector in India are as under:

- The Government had provided complete exemption from income tax to builders of small sized housing units under Section 80 1B (10) (withdrawn w.e.f 01/04/07). The eligibility conditions included: i) projects initiated on or after 1st October 1998; ii) housing project to be approved before 31st March 2007 and construction to be



completed within four years; iii) maximum built up area of the residential unit to be 1000 sq. ft. if located in Delhi or Mumbai or within 25 km from the municipal limits of these cities or 1500 sq. ft. if located in any other place; and v) built up area for shops and commercial establishments not to exceed 6 per cent of the project area or 2000 sq. ft. whichever is lower. Condition i) and ii) are not applicable to housing projects carried out under schemes framed by the Central or State Governments for reconstruction or redevelopment of existing buildings in the slum areas.

- Section 80 1A also provides 100 per cent tax exemption to any housing project being an integral part of a highway project. The tax exemption is provided for 10 consecutive years out of 15 years from the initiation of the project. Another section (80 HHBA) permits 50 per cent deduction from projects of a housing project aided by the World Bank.
- As per Sec 24(b) of the Income Tax Act, interest on housing loans for owner-occupied property is exempt from payment of income tax and otherwise upto a limit of Rs 1, 50,000 per year. Principal on the

housing loan is an eligible deduction for the purpose of Sec 80 C. Taxes payable to the local body is deductible from rental income. Further, deductions in respect of 30 percent of annual value and interest on housing loan are also allowed from rental income. Provision also exists relating to offsetting/carry forwarding of losses in respect of income from house property.

- One owner occupied property is exempt from payment of income tax. Taxes payable to the local body are deductible from rental income. Over and above the deduction provided on account of local taxes under Section 23 of the Act, Section 24 also permits the following deductions: i) 30 percent of annual value and ii) amount of interest on housing loan, if any. Further, in case the net rental income after deduction is negative, this can be offset against income from other heads or carried forward and offset against the rental income for next eight years.
- Exemption from capital gains is granted if the residential property is a long term capital asset (i.e. has been held for more than three years) and (i) the capital gains are invested in purchase or



construction of a residential house within one year before or 2 years after the transfer/sale if the house is being purchased or within 3 years of transfer in case of construction; (Section 54); or (ii) the capital gains are invested in specified assets within six months after the date of transfer (Section 54 EC of Income Tax Act).

- Another provision in the Income Tax Act favoring investment in residential property relates to exemption from capital gains, accrued on sale of long term capital asset other than residential property, if the net sale consideration is invested in a residential house (Section 54F). The condition of purchasing or constructing the house within the stipulated period is the same as in Section 54. The additional condition is that on the date of transfer of the original asset the assessee should not hold more than one residential house or construct another house within 3 years or purchase another house within one year of transfer of the original asset.
- Apart from Section 24, which provided deduction on account of expenses incurred and local taxes to owners of rental housing and wealth tax, which exempted rental housing, other benefits are available to both tenants and employers providing staff housing. Under Section 80GG of the Income Tax Act, any expenditure incurred on payment of rent in excess of 10 per cent of assessee's income is deductible from his income.
- Profits of housing finance companies are subject to income tax. 20 per cent of these profits derived from providing long term finance for housing are exempt from taxation if these are put in a special reserve. [Sec 36 (1) viii of Income Tax Act] In case the amount in the reserve account exceeds twice the amount of paid up capital and reserves, the excess becomes taxable.
- Loans granted by banks to the housing financing companies for on lending to individuals may be classified under priority sector in case of loan amount up to Rs 20 lakh (up to 31-03-2010).
- Under the Indira Awaas Yojana Programme of the Government of India, upto rupees thirty five thousand (Rs 35,000) is provided by way of grant to a family below Poverty Line (BPL) in the rural areas to acquire a house.



2.2 SINGAPORE

2.2.1 Singapore depicts a good example of an inclusive housing delivery system that recognizes the needs of varying income and family size. From the start of the program, the emphasis is on expansion of choice, with due care that the exercise of housing choice does not exclude lower-income families.

2.2.2 In Singapore, housing is regarded as a public duty, not a commercial operation, and the government's core policy is one of providing homes for the people at rents they can afford, the difference between rent income and expenditure is covered by a grant from the state.

2.2.3 The public housing programme in Singapore has resulted in uplifting the quality of life of the poor through increased access to housing, including creation of homeownership. Over 85 per cent of the resident population in Singapore is living in public housing, with a homeownership rate of 90.9% island-wide. Under the Homeownership Scheme, public housing is sold to eligible households on a 99-year leasehold basis. The core objective of the public housing initiative is to make housing affordable & accessible to lower income families. Housing Development Board (HDB) gives two grants for an eligible

household. First-time homebuyers were eligible for a HDB grant of \$30,000 which was increased to \$50,000 in year 1995. If the flat is in close proximity to the parents' flat, the grant is \$40,000 a policy that aims to encourage and maintain close family ties. The same homebuyer is also eligible for a second-time grant when he decides to upgrade from his first flat to a larger or newer flat. To make them affordable, the selling prices of flats are equivalent to about 2 years' income of the purchasers.

2.2.4 To help the lower income housing households to buy their first HDB flat or upgrade to a bigger flat when the family grows, the Special Housing Assistance Program was introduced in 1994 which offered the sale of flats to sitting tenants at a discount with 100 per cent financing. HDB bought back 3 room flats from open market to sell at a subsidized prices to families with monthly household income of less than S\$1500. Within 3 years of its introduction about 16000 families had availed the program. To further assist the low income families the government granted S\$ 30,000 to households.

2.2.5 The Singapore government finances public housing through two major types of government loans, the first being the housing development



loan, and the second being the mortgage finance loan. The housing development loan is a 20 year loan, with a floating interest rate 0.1% above the Central Provident Fund (CPF) interest rate, but lowers than the market lending rate. This rate is revised quarterly in January, April, July & October each year in line with the revision in the CPF interest rate. The mortgage finance loan is used to finance HDB housing purchases, which the HDB uses to provide housing mortgages to home buyers, charging them 0.1% above the prevailing CPF interest rate, over a period of 20 years, using an ARM.

2.2.6 The most important housing finance instrument of the housing policy in Singapore is the CPF. Through this instrument, mandatory savings, deposited into a government-regulated account, are used to pay for housing mortgages. There is a provision which allows buyers of public housing to withdraw a portion of their savings in the CPF for down payment (20 percent of purchase price) and mortgage payment (remaining 80 percent of purchase price).

2.2.7 The additional CPF housing grant scheme which was introduced in March, 2006 is meant for lower income citizen families with a steady household income but need some help

to buy their first subsidized HDB flat. The AHG is given in addition to the existing housing subsidies to those applicants who qualify under its conditions. In this way, eligible lower income families will get a bigger housing subsidy to buy an HDB home. To give greater assistance to more lower income families to own their first flat, the income ceiling to qualify for the housing grant and the grant amount have been raised by \$10,000 w.e.f August 24th, 2007.

2.2.8 For private housing, the government and the central bank regulate lending policies, and financial institutions have capped loans at 80% of the price of the home since 1995. Meanwhile, curbs on private housing speculative activity have been implemented, in the form of taxes on short term capital gains.

2.2.9 To help first time couples start up home early, Singapore Housing Development Board has introduced Staggered Down payment Scheme in October, 2000. Under this scheme, they needed to pay only a 10% down payment, instead of the previous 20%, at the signing of the Sales Agreement. As announced by HDB, the remaining 10% down payment is paid on collection of the keys to the flat, which is possible in one to two year's time when the flat is to be completed. In this



way, couples have sufficient time to accumulate their balance funds.

2.2.10 In June, 2000 the Central Provident Fund (CPF) Board and HDB jointly implemented the Enhanced Contra Facility (ECF) to lighten the financial burden of HDB flat owners who simultaneously sold their existing flat and bought another resale HDB flat. Under ECF, they could use the sales proceeds to be refunded to their CPF account, to pay for the resale flat. This was in addition to using the cash proceeds from the sale, first made available under the previous Contra Facility introduced in June 1995. In this way, the cash outlay and the mortgage loan is less, and therefore, monthly repayments are also smaller. With ECF, the proportion of contra cases to the total number of resale applications registered had gone up from 11 percent in FY 1998 and 12 percent in FY 1999 to 13 percent in FY 2000.

2.3 THAILAND

2.3.1 Thailand Finance Ministry essentially revived the tax incentives that proved successful in spurring the property market, in 2003. The property sector, according to the National Economic and Social Development Board, contributes 7% of the country's gross domestic product. It serves as an important economic multiplier, leading to consumption of construction

materials, employment of labour and the creation of general consumption ranging from furniture to appliances. Significantly, 90% of property spending involves local content. The Government has decided to reduce transfer fees from 2% and mortgage registration fees from 1% to 0.01%.

2.3.2 The Government of Thailand recognizes that housing finance is an essential support system and accordingly provides policy support to the Government Housing Bank (GBH). It utilizes the Government Housing Bank as a key housing policy instrument to foster the enabling environment for the housing industry. The GBH is a market-driven organization and constantly develops new techniques and instruments to tap the savings market without the need for government-directed funding or subsidies. The Government has also created incentives to commercial banks to provide more home loans. The Government allows market forces to determine the mortgage-loan conditions. The housing finance system is an integral part of the whole financial system and if the financial system becomes unfavourable to home mortgage lending, the GBH will absorb any spill-over demand.

2.3.3 The contribution of the GBH to the improvement of the housing



finance system and thereby of the housing sector in Thailand was facilitated by various supportive policies of the Government:

- In 1987, the Government enhanced the effective demand of home buyers by making a portion of the home-mortgage interest expenses income-tax deductible.
- To encourage commercial banks to participate more actively in home-mortgage lending, the (Central) Bank of Thailand permits commercial banks to consider only 80 percent of housing loans below Baht 400,000 as risk assets must be covered by a capital adequacy of 8 percent.
- In 1993, the Bank of Thailand adopted the rules of the Bank of International Settlements (BIS) which permit commercial banks to regard housing finance loans as 50 percent risk assets. This measure enhanced the attractiveness of housing finance for commercial banks.

2.3.4 The National Housing Authority (NHA) developed the Baan Eua-Arthorn Project to provide 600,000 housing units to low-income households during the period 2003-2007. The target population was disadvantaged households without

residential quarters, junior civil servants, and government employees having incomes less than 15,000 baht (USD 375) per month in 2003, rising to 17,500 baht (USD 437) per month in 2005. The housing consisted of pre-built units costing 470,000 baht per unit. The cost to homebuyers was reduced to 390,000 baht through direct government subsidies of 80,000 baht per household. Government subsidies were also provided for the costs of public utility development and construction of community facilities.

2.3.5 In Thailand, land ownership is treated separately and quite differently from ownership of immovable property (buildings). Foreign individuals and foreign companies are prohibited from owning land in Thailand, however, there are no restrictions on building ownership, so foreigners may own buildings constructed on land that is leased. The Condominium Act, permits groups of foreigners to acquire condominium units as long as the share of foreign ownership does not exceed 49% of the total area of all units in the building.

2.3.6 NHA guarantees loan repayment for the first 5 years. GHB has established a revolving fund of 300 million baht to enable NHA to repurchase and resell units of hire-purchasers who become more than 3



months delinquent in their payments, with accrued interest on the missed payments beyond 3 months to be fully subsidized by the government.

2.3.7 Projects for development of housing and associated community facilities for slum people are also implemented. The Ministry of Social Development (MSD), represented by the Community Organizations Development Institute (CODI), is implementing the Baan Mankon Project' nationwide. Under this project the government has approved implementation by 2008 of 285,000 units with a government subsidy of 19.4 billion baht. The underlying philosophy of the project is to alter the role of villagers from beneficiaries of Government largesse to project owners. The project aims at both construction of secure housing and local community infrastructure development. The approach entails a range of development types, including: slum upgrading, re-blocking, land sharing, reconstruction, and relocation or land purchasing. The program supports upgrading in situ where possible; otherwise develop new homes close by. Housing loans to community organizations are provided at 2% interest per year, with a 15-year loan period, for up to 300,000 baht per unit. Community organizations can add margins of 2-4%, thus, the members

pay around 4-6%. The government has also subsidized the housing development costs up to 20,000 baht, with the remaining financing housing loans at market rates of interest.

2.3.8 Personal Income Tax ("PIT") - Exemption on Housing Loan Interest. In order to provide higher amount of PIT exemption for interest on housing loans, and to clarify the total amount of allowable exemption, the Ministerial Regulation provides for the followings:

- Incomes equal to the amount of interest paid under the housing loan, for which the purchased house is mortgaged, is exempted from PIT at the maximum of Baht 100,000 per annum, which is paid from 1 January 2007 onwards, provided that such interest is paid to: Property fund for resolving financial institution problem, which is established under the securities exchange laws; Mutual fund for resolving financial institution problem, which is established under the securities exchange laws; or Special purpose vehicle ("SPV") for securitization, provided that such SPV acquires the right as a creditor from the above mentioned funds or from the commercial bank, other financial institutions, insurance company, cooperative or employer.



- Whereas an individual is entitled to tax allowance, with a maximum allowance of Baht 10,000, for interest on housing loan paid to the commercial bank, other financial institutions, life insurance company, cooperative or employer by mortgaging the purchased house, or tax exemptions, the total amount of the exempted income (and allowance, as the case may be) must not exceed Baht 100,000.
- Incomes equal to the interest on the housing loan with the mortgage of the purchased house, only in the portion that exceeds Baht 10,000 but does not exceed 90,000, will be exempted from PIT, provided that which is paid to the commercial bank, other financial institutions, life insurance company, cooperative or employer from 1 January 2007 onwards. The total amount of the exempted income (and allowance, as the case may be) must not exceed Baht 100,000.
- Incomes equal to the interest on the Housing loan, which is paid to the government pension fund from 1 January 2007 onwards, is exempted from PIT at the maximum amount of Baht 100,000.

2.4 AUSTRALIA

2.4.1 The role of government, in housing sector, in Australia has been

narrow and largely passive. The role of the State is dominated by the focus of housing authorities on public housing. Local governments' role is focused on traditional land use and planning functions with little capacity to innovate. This is a heavily market driven housing system, dominated by home ownership. Housing policy tools are limited and not well integrated with wider socio-economic and government interests. Public housing is declining due to funding cut backs, operational deficits and asset shedding. The main scheme schemes containing incentives for housing sector - on ownership and rental basis relates to housing affordability fund, home savers accounts, rental affordability and first home owner grant, the same are discussed as under.

2.4.2 The Housing Affordability Fund envisages investing up to \$512 million over five years to lower the cost of building new homes. The Fund will target greenfield and infill developments where high dwelling demand currently exists or has been forecasted. Proposals will be assessed against transparent, needs-based selection criteria with priority given to proposals that improve the supply of new moderately priced housing and demonstrate how cost savings are passed on to new home buyers.

2.4.3 First Home Saver Accounts (FHSAs) are the first of their kind in



Australia to provide a simple, tax effective way for Australians to save for their first home through a combination of Government contributions and low taxes. Individuals - in the age group of 18 to 65, who have not previously purchased or built home in which to live, do not have, or have not previously had, a First Home Saver Account; and provide their tax file number to the provider are eligible under this scheme. Contributions may be made by the account holder or another party, such as an employer, on behalf of the account holder. Contributions will be made from after-tax income. The Government makes additional contributions to be paid directly into the account, after the individual has lodged their tax return and the provider has submitted the relevant information to the ATO. The Government contributes 17 per cent on the first \$5,000 (indexed) of individual contributions made each year. No minimum annual deposit is needed to keep the account open. The account can remain open for as long as necessary or until the account holder turns 65, at which time it must be closed.

2.4.4 Contributions will not be subject to tax when contributed to an account. Investment earnings (or interest) will be taxed at a rate of 15 per cent. Furthermore, withdrawals from such accounts are tax free and balances

will be exempt from the income and assets tax. Account balance limit is \$75,000 (indexed), if an individual reaches the account balance cap, no further individual contributions will be able to be made. Earnings and any outstanding Government contributions will still be able to be credited to the account after this time.

2.4.5 Individuals will be able to withdraw their account balance tax free to buy or build a first home in which to live. The full amount will need to be withdrawn and the account closed.

2.4.6 Public-offer superannuation providers, life insurers, friendly societies, banks, building societies and credit unions will be able to offer the accounts.

2.4.7 National Rental Affordability Scheme (NRAS) - In Australia, Governments, the business sector and community organisations recognize that housing affordability is now an issue of significant community concern. The growing cost of housing is having a serious impact on the ability of many Australians to meet their financial commitments. Therefore, the Government has launched the National Rental Affordability Scheme (NRAS) to help increase the supply of affordable rental dwellings by up to 50 000 by 2012, with a further 50 000 to be made available post July 2012, subject to



demand. Rent for these properties will be charged at 20 per cent below the market rate for eligible tenants. Under this scheme the Australian Government will provide funding to increase the supply of affordable rental dwellings; reduce rental costs for low to moderate income households; and encourage large scale investment and innovative delivery of affordable housing. This scheme offers annual incentives for a period of ten years. The two key elements are:

- A Commonwealth Government incentive of \$6 000 per dwelling per year refundable tax offset or payment; and
- A State or Territory Government incentive of \$2 000 per dwelling per year in direct or in kind financial support.

2.4.8 The incentive will be provided annually on the condition that throughout that the ten year period the dwelling is rented to eligible low and moderate income households. The tenant eligibility criteria will ensure the National Rental Affordability Scheme is open to families on low and moderate incomes, individuals who are looking to rent a property for the first time, and singles in private or public rental accommodation, including people working or undertaking study or training.

2.4.9 The First Home Owner Grant (FHOG) Scheme was introduced on 1 July 2000 to offset the effect of the GST on home ownership. It is a national scheme funded by the states and territories and administered under their own legislation. Under the scheme, a one-off grant of up to \$7000 is payable to first home owners that satisfy all the eligibility criteria. This scheme supplements the State & Territories Government funded First Home Owner Grant Scheme.

According to the announcement from the Australian Government:

- First home buyers who purchase established homes will receive a boost of \$7000 that will double the grant to \$14,000.
- First home buyers who build a new home or purchase a newly constructed home will receive an extra \$14,000 to take their grant to \$21,000.

2.4.10 A plan has been launched which will encourage young people to save for their first home. First Home Saver Accounts provide a simple, tax effective way for Australians to save for their first home through a combination of Government contributions and low taxes. An individual of more than 18 year age is eligible for the scheme. The Government will contribute 17 per cent



on the first \$5,000 (indexed) of individual contributions made each year. An overall account balance cap of \$75,000 has been introduced the upfront contribution of \$1,000 has been removed. The Government has maintained the taxation incentives as withdrawals will be tax free where they are used to purchase a first home to live in.

2.4.11 Fiscal incentives for highly skilled immigrants have been provided to individuals who has not had a residence in Australia during the past ten years, who maintained their primary residence abroad and has an assignment with an Australian employer for less than five years; benefits from tax deductions for up to 35% of the taxable salary income for expenses incurred in maintaining a household in Australia, educational expenses and leave allowances.

2.5 CANADA

2.5.1 Canada has a system geared to home ownership using a national institution to facilitate mortgage lending. Responsibility for facilitating social housing has been devolved to lower levels of government. Canada has pursued systematic long term devolution of social housing and rental allowances to the provinces and some local governments, accompanied by funding transfers. Initiatives in

affordable housing, preventing homelessness, home renovation and environmental sustainability (E Homes) have been funded jointly by national and provincial governments recently.

2.5.2 The main focus of the housing policy is to promote house ownership through various programs of the Federal government, like savings incentives, direct down payment assistance, interest rate protection, mortgage insurance institutions and taxation policies. Social housing programs are devolved to provinces /territories. Two thirds of social housing is owned by cooperatives and not-for-profits. Provinces and municipalities play an important role in facilitating housing at the lower end of the private rental market and rural and urban home ownership. A number of specific regulations and innovations are being used to widen access to insured, and therefore cheaper, loans, and to achieve other housing objectives. Further discounts are given for insurance on homes built or renovated in energy-efficient ways.

2.5.3 The housing policy goal relating to promotion of home ownership, in Canada, is promoted primarily via the Canadian Mortgage and Housing Corporation (CMHC), which widens access to home



mortgages by providing mortgage insurance for lenders, thereby reducing the interest rate on mortgage finance and the overall cost of housing.

2.5.4 Canada Mortgage and Housing Corporation (CMHC) is Canada's national housing agency, which was established to address Canada's post-war housing shortage; the agency has since grown into a major national institution. CMHC is Canada's premier provider of mortgage loan insurance, mortgage-backed securities, housing policy and programmes, and housing research. Toward the end of the 1940s, the federal government embarked on a programme of much-needed social and rental housing, creating a federal-provincial public housing programme for low-income families, with costs and subsidies shared 75% by the federal government and 25% by the province. In 1954, the federal government expanded the National Housing Act to allow chartered banks to enter the NHA lending field. CMHC introduced Mortgage Loan Insurance, taking on mortgage risks with a 25% down payment, making home ownership more accessible to Canadians.

2.5.5 During the 1960s, CMHC built the first co-operative housing and, for the first time in Canadian history, multi-unit apartment buildings were beginning to outpace housing starts for

single family homes. To appeal to first-time buyers and stimulate the housing market, CMHC introduced the Assisted Home Ownership Program (AHOP) in 1971, to help low-income people attain homeownership. In 1974, CMHC introduced the Residential Rehabilitation Assistance Program (RRAP) to repair substandard homes to a minimum level of health and safety and to improve the accessibility of housing for disabled persons. During that decade, CMHC also turned its attention to Aboriginal and rural housing, introducing the Winter Warmth Assistance Program in 1971, the first of its kind to provide funds to Aboriginals for urgent repairs to housing in rural areas.

2.5.6 In 1986, CMHC introduced Mortgaged Backed Securities (MBS) as an alternative to investing in individual residential mortgages. MBS helped to ensure a ready supply of low-cost funds for housing finance and to keep mortgage lending costs as low as possible for homeowners.

2.5.7 CMHC created the Canadian Centre for Public-Private Partnerships in Housing in 1991, aimed at fostering public/private cooperation in housing projects. In 1996 CMHC introduced emili, an automated insurance underwriting system that moves application approval times from days to seconds - making it easier for Canadian



homebuyers to obtain mortgage loan insurance.

2.5.8 CMHC introduced the CMB (Canada Mortgage Bonds) Program in June 2001. The objective of the Program is to benefit homebuyers and the housing industry as a whole by improving access to lower cost mortgages for Canadians and enhancing liquidity in the mortgage market. CMB (Canada Mortgage Bonds) are issued by the Canada Housing Trust and are fully guaranteed as to timely payment of principal and interest by CMHC. CMB is a 10-year maturity bond which allows the program to attract a broader pool of investors.

2.5.9 In 2005, CMHC introduced a 10 per cent "green refund" on Mortgage Loan Insurance premiums for homeowners who buy or build an energy-efficient home, or who make energy-saving renovations to their existing homes.

2.5.10 The Home Buyers Plan allows first-time home buyers to borrow up to CA\$20,000 from their Registered Retirement Savings Plan to buy or build a qualifying home. The interest-free loan is repaid in annual installments over a 15-year period, beginning with the second year following the withdrawal.

2.5.11 Under separate agreements

with the provinces (Housing Renovation Program Agreements), financial assistance, usually in the form of forgivable loans, is available to private owners and landlords for preserving and enhancing the appropriateness of the existing stock of housing. Different eligibility and regulatory requirements apply to each sub-program. Typically, residents must meet income criteria and, in the case of rental properties, rents must be kept affordable following repairs for an agreed period.

2.6 IRELAND

2.6.1 Over the past decade, Ireland has been very active addressing issues of housing affordability by increasing public expenditure, enacting new legislation and administrative reforms. Key policy goals are promoting home ownership, increasing supply, expanding social housing and affordable housing for sale and improving security of tenure. The focus of recent policy initiatives has been on targeting assistance to first-time and lower-income buyers, and to particular areas.

2.6.2 Government has established a 20% target for affordable housing in new developments, linked to subsidies provided through local government. Increasingly, important role is being visualized for private rental sector,



which is focus of investment promotion measures and tenancy reforms.

2.6.3 Six schemes have been introduced or upgraded during 1990 to 2003 for promoting ownership of housing among low-income households. These schemes are briefly discussed as under:

- **Shared Ownership Scheme** This scheme enables the purchase of a new or second-hand home on the open market with the local authority or not-for-profit housing agency initially taking at least a 40% stake, which they rent to the beneficiaries. The individual funds their equity stake through a local authority loan and is committed to take out all the equity in the property over 25 years. They make payments on a mortgage for the part they own and pay rent to the local authority for the other part. The scheme has been subject to much adjustment since its introduction. While the uptake has been variable over time and location, it is popular and has a significant share of beneficiaries of recent initiatives.
- **Mortgage Allowance Scheme** This scheme is designed to ease the transition from rent to mortgage. Under this scheme social housing tenants purchasing a private or

local authority house may qualify for a mortgage allowance (up to €11,450 in 2000) paid on a reducing basis over 5 years to the mortgage lender. Allowing for purchase of existing social housing under the scheme has been designed to stem movement off estates of tenants able to buy, which occurred under an earlier formulation of the scheme that was found to destabilize estates.

- **Affordable Housing Scheme** The scheme is designed to address demand - and supply-side risks in one programme. Under this scheme, local authorities provide newly built houses at a cost price on their own land to qualified households. The purchaser can also benefit from some other schemes listed in this table. Sales in the first 10 years are subject to anti-profiteering measures.
- **Affordable Housing under the Planning Acts 2000 Part V Schemes** Planning permissions in Ireland may require up to 20% provision for social and affordable housing for sale. Low-income buyers and those opting for shared ownership are eligible to purchase dwellings through this mechanism. Eligibility to purchase is limited to those for whom



mortgage payments for a suitable dwelling would exceed 35% of their net annual income, along with other considerations laid out in the Act. In the case of dual-income households half the net income of the second earner must also be taken into account in determining eligibility.

- **House Purchase and Improvement Grants and Aids** Under this scheme, grants (up to €3,810 in 2002), are provided to purchasers of new houses and to owner-occupiers whose housing needs improvement, depending upon their income and house size/price. Local authorities and not-for-profit housing providers also qualify for funding for sites provided for share ownership and affordable housing schemes. Uptake rates reflect building activity levels among other factors.
- **Urban, town and rural renewal** Tax incentives are available to owner-occupiers who purchase a residence in selected urban areas, towns and rural regions designated for physical and socio-economic development. To encourage the refurbishment of existing buildings, 10% of refurbishment costs per annum may be offset against total income over ten years

compared with 5% per annum in the case of new construction. Relief also applies for the refurbishment of shop-top housing in designated cities.

2.6.4 Current Irish housing policy aims to enhance the role of the private rental sector by reforming tenancy legislation and promoting increased accommodation supply. Interest on borrowings for the purchase, improvement or repair of any rented residential property can be offset against rental income, and tax relief can be claimed for capital expenditure on refurbishment of rented residential accommodation incurred after April 2001. The stamp duty on houses purchased for letting has been abolished.

2.6.5 Social security recipients may be entitled to receive a supplementary welfare allowance, a rent supplement to cover a substantial part of the average market rent in their local area. There has been a significant increase in recipients in recent years, many of whom are younger households who do not receive priority for local authority housing. In order to reduce dependence on rent supplement and expand affordable housing options, a new mechanism has been developed for assisting long-term recipients to find affordable accommodation in the



private and social sectors. Under the Rental Accommodation Scheme introduced in 2004, local authorities will progressively take over responsibility for procuring new rental accommodation on a long-term basis for approximately 30,000 housing rent supplement recipients transferred to them. A key procurement mechanism for securing additional accommodation will be through long-term partnerships with the private sector to acquire, own and operate dwellings for these recipients using funding transferred from the rent supplement programme.

Ireland has been very active over the past decade addressing issues of housing affordability by increasing public expenditure and enacting new legislation and administrative reform. Key policy goals are promoting home ownership, increasing supply, expanding social housing and affordable housing for sale and improving security of tenure.

2.7 FRANCE

2.7.1 France has a broad-based central government led housing policy, to stabilize the housing market and manage the economy, with trend to devolution of planning for housing to local governments. The public-private partnership /contract approach is also gaining importance.

2.7.2 Central government public

financing is used for a range of policy purposes, like affordability, leverage and regeneration, housing allowances, etc. Compulsory savings are channeled via post office savings accounts and National Savings Banks to generate finance for housing sector.

2.7.3 France has a well-established mixed economy of housing, providing substantial subsidy assistance. France's home ownership rate is relatively stable at 56 per cent and a considerable 24 per cent of French home owners have been supported by direct subsidy and/or low-interest loans.

2.7.4 The recent forms of home ownership assistance in France are discussed as under:

- A Contract Savings Scheme is available to all, requiring a 5-year period of savings. Savers are entitled to tax relief on the interest earned from these accounts and to receive a bonus from the state when they take out a loan to buy property.
- Government provides loans at concessional rate of interest which are based on income and house price limits. Besides, government grants are also available to cover part of the monthly repayment.
- A small interest-free loan of around €15,000 or up to 20% of the total cost is provided, for which



repayment may be delayed up to 16 years according to income for qualified buyers of new property or property needing renovation. Funding for this loan is drawn from the payroll tax that is collected for housing in France.

- A preferred-rate mortgage loan is made by banks or financial institutions under contract to the government. Eligibility for this loan is determined on the basis of size dwelling.
- Housing benefit is available on a tenure neutral basis to low-income home owners, which can be used to meet the costs of mortgage, possibly in conjunction with other forms of mortgage assistance.
- Abatement of transfer/property/sales taxes - France has high transaction costs, which are abated for households purchasing a new house to promote new construction.
- Mortgage interest deduction - 25% of interest payments on mortgages taken out before 1998 are tax deductible, with limits more favorable for new construction and for families with children.
- Taxation of vacant housing - This scheme, is designed to encourage private landlords of properties

vacant for 2 or more years to rent or sell, thereby potentially supporting home buyers indirectly.

2.7.5 The French private rental market comprises 21 per cent of housing. In France, investors in private rental housing may gain access to subsidized loans. They can claim capital depreciation and may obtain a tax credit equal to 10 per cent of the interest paid on a mortgage for two years, up to a maximum amount. There are a number of incentives to encourage the letting of private property.

2.7.6 Current priorities include - leveraging private investment in rental housing, expanding supply in high demand areas and improving and investing in run down rental stock, especially in unpopular high-rise housing estates prone to civic unrest.

2.8 NETHERLANDS

2.8.1 The housing policy in Netherlands is to promote home ownership; nevertheless, it retains a large broad-based social rental sector. Social housing is provided by large independent, not-for-profit housing associations that are heavily capital market financed. Urban renewal and additions to supply have been a recent national policy focus. Central government is the primary policy maker; provinces develop regional



strategy and municipalities plan for and in some instances, develop land for specific housing outcomes.

2.8.2 Policy has supported a strong independent social housing sector and more recently, home ownership. Mortgage interest tax relief (MITR) promotes long term (30 year) borrowing for home purchase. There are also rent regulations, which moderate increases but ensure reasonable return for social landlords. Large asset rich social housing sector (35%) is financed by capital markets. Local authorities facilitate affordable housing supply via land allocation, use of location subsidies and negotiation with developers.

2.8.3 Since the 1990s, fostering home ownership has held a more central position in Dutch housing policy amid substantial rent increases. This has led to a strong political preference for ownership, increasing economic welfare, an active mortgage market and favorable tax regulation, including a generous MITR scheme. A National Mortgage Guarantee Scheme (NHG) established in 1998 also deepens mortgage access and slightly reduces the mortgage interest rate. Mortgage interest tax relief i.e. the deductibility of mortgage interest from incomes in tax assessments for a maximum of 30 years, has been

perceived as the most powerful policy intervention stimulating ownership in the Netherlands.

2.8.4 The rental sector in Netherlands is unusual in being dominated by social landlords, who make up 75 per cent of providers. This sector is highly subsidized and strongly regulated. However, the private rental component has been in decline for decades, as social housing has expanded.

2.8.5 An important pillar of Dutch housing policy since the 1970s has been individual rent subsidy, which is available for private as well as social tenants. The subsidy is available to tenants with incomes under €33,000 which is also a subject to further ceiling of rent.

2.8.6 The Homeownership Guarantee Fund (abbreviated to WEW in Dutch) was created on 11 November 1993 by and under the supervision of the Ministry of Housing, Spatial Planning and the Environment (VROM) and the VNG (the Association of Netherlands Municipalities). The aim of the WEW is to encourage homeownership. The background to this was the desire of the Government and municipalities to make the concept of a municipal guarantee with Government participation more independent. For this purpose, the Fund



introduced the National Mortgage Guarantee Scheme (NHG) on 1 January 1995. The Fund is responsible for the policy and implementation of the NHG. The Fund supports the lenders in the implementation of the NHG and manages its assets in connection with the NHG risk. The Homeownership Guarantee Fund is a private institution with fallback agreements with the Government and municipalities. These agreements form the basis for interest-free loans received by the Fund from the Government and municipalities at times when its assets are no longer sufficient. This means that the Fund is able to comply with its payment obligations at all times. As a result, the Netherlands Central Bank (De Nederlandsche Bank) considers the NHG as a Government guarantee.

2.8.7 The National Mortgage Guarantee Scheme is the name of the guarantee that can be obtained when a loan is taken out for the purchase and/or refurbishment of a dwelling. The Fund stands surety for the repayment of mortgage payments to the lender. If the income is reduced by, for instance, unemployment, disability or divorce, the dwelling may have to be sold and may fetch less than the amount still to be repaid, resulting in a residual debt. The Fund pays the residual debt to the lender. As a result of this security, the lender charges a lower interest rate. The

interest advantage may run up to 0.6%. If, in the opinion of the Fund, the forced sale cannot be attributed to the owner and the owner has assisted in limiting the residual debt as far as possible, the Fund will waive the residual debt.

2.8.8 The most important condition for the NHG is that the dwelling may cost no more than EUR 265,000, including all additional costs such as civil-law notary costs, commission and refurbishment. In order to be eligible for the NHG, the income standards drawn up in co-operation with the Consumer Credit Counseling Service, National Institute for information on Consumer Budgets (NIBUD) also have to be met. For the NHG, a non-recurring amount - 0.45% of the amount borrowed - is paid to the Fund as the guarantee charge.

2.8.9 There are around seven million dwellings in the Netherlands, including three million owner-occupied dwellings. The share of homeownership in the Netherlands has risen from approx. 15% in 1957 to 54% in 2004. Almost 50% of dwellings bought that fall within the EUR 265,000 limit are financed by NHG. On average, the Fund provides 75,000 guarantees a year.

2.9 UNITED KINGDOM

2.9.1 United Kingdom has a system, presently, oriented towards



home ownership, alongside lifting standards in the substantial social housing stock provided by councils and housing associations and redressing social exclusion.

2.9.2 There are significant housing market affordability problems in the country. In the past few years, the UK has experienced weak supply and sluggish market responsiveness, in the face of high prices but strong demand. This situation has led the UK government to take a greater interest in housing policy and housing affordability.

2.9.3 Some of the main schemes operated to promote home ownership, in England are mentioned below:

- Equity Share - Small-scale shared equity schemes are being operated by some housing associations and trusts. Towards a national model, the government is contemplating two approaches: a scheme, wherein, matching money saved by tenants to be used on 'rent to buy' or to buy from the open market; and another scheme, whereby a responsible tenant will receive between £250 and £500 each year for five years in an equity savings account. Three-quarters of the money withdrawn is required to be used to purchase housing either through rent-to-buy or in the open market.
- Shared Ownership - Households/individuals purchase between 25% and 75% of the social rental dwelling, with a mortgage and pay rent on the remainder of the equity. The purchaser is able to 'staircase' up to 100% ownership.
- Home Buy - Since 1999 purchases may be 75% financed through a private mortgage, and the remainder through an interest-free equity loan from a housing association, which may staircase up to 100%.
- Right-To-Buy (RTB) - Since 1980, tenants may buy their council home at a discounted price determined by their length of tenancy in the dwelling. Equivalent schemes called the Right-to-Acquire and the Voluntary Purchase Grant is being operated, in the housing association sector, since 1996.
- Cash Incentive Scheme - Cash incentive schemes enable local authorities to free up rental stock by helping eligible tenants with a grant (up to £10,000 in most areas) to buy a home in the open market.
- The Savings Gateway - The government matches the amount saved over a period of time, and up to a maximum amount per month. An individual is free to withdraw



money from their account, but can only access the government's contribution after 18 months.

- Home Initiatives for Key Workers - Aims to keep skilled people in communities where housing costs are high, by providing subsidized home ownership options. It is targeted at high-cost metropolitan areas that have had recruitment and retention problems in specific skill areas. In partnership with both private developers and social housing providers, assistance includes cash grants, subsidized rents with right-to-buy, and shared equity.

2.9.4 The Housing Benefit is the main housing subsidy in the rental sector, assisting low-income private and social renters with their housing costs and supplementing low-level social security payments. Fiscal incentives have been introduced to encourage renovation of long-term vacant dwellings, and a vacant dwelling tax discount has also been abolished to encourage owners to let their dwellings.

2.10 U.S.A.

2.10.1 US has a system geared to the promotion of home ownership via government-regulated financial intermediaries, insurance agencies and subsidy programs which extend the

tenure to minority groups and lower-income households. The housing sector, in US, is undergoing nationally driven reform, including restructure of remaining estates. Diverse local affordable housing projects have been fostered by an entrepreneurial not-for-profit sector using a national fiscal incentive (tax credit) scheme mixed with other funding from private and public sources. There has been long-standing housing policy to use mortgage insurance as a means of reducing the cost of financing and thereby improving access to home ownership. In addition, mortgage interest payments are tax deductible.

2.10.2 Home ownership in US has increased steadily from 64 per cent in 1993 to 69 per cent in 2004. The increase is attributed partly to lending programs targeted to underserved groups/areas. Mortgage finance for low-income households and minorities has been the major area of growth in lending. However, the collapse of several sub-prime lending companies (which service risky buyers) in the face of rising mortgage foreclosures among their clients brought about by a downturn in the property market. About 1.5 million US home fell in foreclosure in 2007. The focus is likely to turn on preventing a return of real estate debacle. The banks have toughened their lending standards and the Federal



Reserve is tightening its mortgage rules. The tax deductions on home-mortgage interest alone cost the government about \$80 billion a year.

2.10.3 Two other important aspects of the USA policy model are the Home Mortgage Disclosure Act and the Community Reinvestment Act. The former operates to ensure that the lending patterns of financial institutions are publicly transparent and the latter to drive fairer lending practices where groups or areas are under-served.

2.10.4 There are provisions for government insured loans for on reserve home purchase. There is also a strong national emphasis on native home buyer education and removing barriers to providing mortgages for housing construction on tribal land, including simplified lending conditions and creation of lending institutions in native communities. Thus partnerships between federal agencies, native organizations and banks and intermediaries are being created to channel lending to tribal areas.

2.10.5 The Rural Rental Housing Displacement Prevention provisions of the Housing and Community Development Act of 1987 authorize U.S. Department of Agriculture's Farmers Home Administration (FmHA) to provide existing

multifamily project owners with various financial incentives, such as equity loans, that encourage them to keep their projects in FmHA's rural rental housing program rather than prepaying their loans and terminating involvement in the program. In this way, FmHA is able to preserve the housing units under its rural rental housing program and prevent the displacement of low-income tenants.

2.10.6 Almost 10% of Gross Domestic Product (GDP) in the U.S. is generated by the housing sector and in recent years residential investment has accounted for as much as 75% of all job growth. That makes the success of entrepreneurs in housing-related fields critical to the health of the economy.

2.10.7 Several tax reform provisions addressing these challenges have been included in legislation passed by the House and Senate. They range from a first-time homebuyer's tax incentive, increasing the low-income housing tax credit, and extending the number of years companies can carry back-losses.

2.10.8 Low Income Housing Tax Credit (LIHTC) is a tax credit created under the Tax Reform Act of 1986 (TRA86) that gives incentives for the utilization of private equity in the development of affordable housing aimed at low-income Americans. The credits are also commonly called



Section 42 credits in reference to the applicable section of the Internal Revenue Code. The tax credits are more attractive than tax deductions as they provide a dollar-for-dollar reduction in a taxpayer's federal income tax, whereas a tax deduction only provides a reduction in taxable income. LIHTC was added to TRA86 inter-alia to encourage investment in multifamily housing for the poor.

2.11 MEXICO

2.11.1 Over the past decade, Mexico has invested about 4-5 percent of GNP in housing. Mexico has devoted considerable attention to developing housing finance. In the mid-1980s, when inflation climbed to nearly 170 percent, the government authorized an innovative "dual rate" mortgage instrument, which allows lenders to charge market interest rates on mortgage loans and link borrowers' repayments to adjustments in wages, capitalizing differences and extending the terms of the loan. This type of instrument has made mortgage lending attractive to lenders and affordable to borrowers under inflationary conditions. Even though inflation in Mexico has fallen to less than 1 percent a month, the "dual rate" mortgage instrument is still commonly used. Bank regulators have also amended rules to facilitate branch banking and the creation of specialized financial

intermediaries in order to better serve small savers and home borrowers.

2.11.2 To relieve bottlenecks in the urban land market, the government, as part of a broad program to modernize Mexico's agricultural sector, has passed laws that will allow communal landholders to associate themselves with private investors or to sell their land to builders for housing development. The action is critical because more than 50 percent of Mexico's land that is communally held surrounds the country's fastest growing cities.

2.11.3 In Mexico, the waiting period to obtain a building permit is roughly eight to ten months and, on average, 117 bureaucratic steps may precede the purchase of low-cost formal housing. Until recently, local governments were increasingly charging developers with large fees for the privilege to build. Fees were usually fixed, regardless of how they affected the cost of a new house. Thus, households that could only afford less expensive housing ended up paying a higher proportion of the sales price to cover the cost of fees. Excessive regulatory fees as well as a down payment on the house often drive low-income families to the informal market. Another regulatory obstacle is the slow and burdensome permitting process, which affects construction costs and causes delays in market



responsiveness to demand. The fact that developers did not know in advance how much they would be charged by local authorities or how long the permitting process would take was another obstacle in the long road of construction and encouraged discretionary charges.

2.11.4 The realization by the government of Mexico in the early 1990's that one of the main obstacles in reducing the housing deficit was the high regulatory costs charged by local governments -- which in some cities added as much as 35 percent to the cost of a house -- resulted in a major drive to introduce regulatory reforms.

2.11.5 There has been a significant reduction in the time required for a building permit in most states it takes less than 3 months to obtain a building permit. Also, significantly fewer states request such high building standards as rather large lot sizes, spacious green areas, and oversized roads, making housing more accessible. As to regulatory costs, 11 states have reduced their burdens on new construction while 10 states increased their costs.

2.11.6 The reduction in housing costs occurred as a consequence of decisions by Central Government housing agencies to standardize the

regulatory charges and permit times in all of Mexico's municipalities. One of the mechanisms to reduce local regulatory costs was the signing of agreements by the Federal Government with the governors of the 31 States and the Federal District as well as with the National Association of Notaries. The agreements set out specific targets: the reduction of direct and indirect local costs, such as taxes and services, of housing from 25 percent to a maximum of 10 percent and the commitment of the states to implement this measure in a maximum of 12 months; the decrease in the national notary fee for social housing from 2 percent to 1 percent of the dwelling's value; and the establishment of "single offices" in municipalities throughout the country, responsible for reviewing and approving developers' housing projects, to simplify the process of obtaining construction permits and licenses.

2.11.7 The decision to award a prestigious prize to the state which had made the most progress in lowering regulatory costs served as an additional incentive. These efforts can contribute to removing some of the barriers to participation by low-income segments of the Mexican population in the formal housing market.





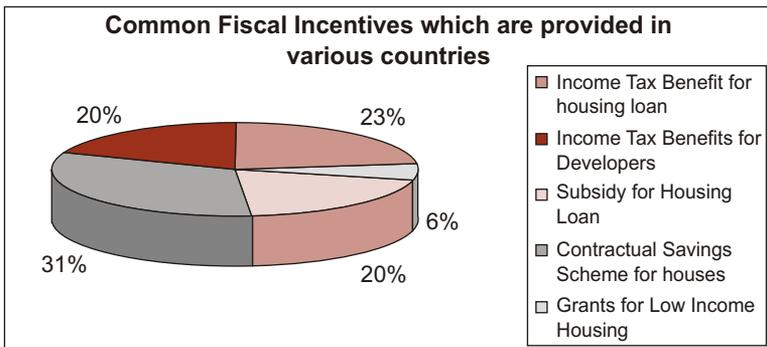
CHAPTER III

SUMMARY

It is observed during this study, that different countries are following different sets of fiscal incentives. Few incentives are common in the studied countries where the success rate is satisfactory. To summarise, India may

also consider designing its own set of financial incentives which will help in providing “Affordable Housing to all”(more specifically the EWS / LIG households).

S. No.	Name of Country	Income Tax Benefit for housing loan	Income Tax Benefits for Developers	Subsidy for Housing Loan	Contractual Savings Scheme for houses	Grants for Low Income Housing
1	India	√	√		√	
2	Singapore			√	√	√
3	Thailand	√	√	√	√	√
4	Australia	√		√	√	√
5	Canada			√	√	√
6	Ireland	√		√	√	
7	France	√			√	√
8	Netherlands	√		√	√	√
9	UK			√	√	√
10	USA	√			√	
11	Mexico	√			√	





CHAPTER IV

POLICY MEASURES FOR CONSIDERATION FOR INDIA

The above study of cross country experiences in promoting Housing Sector has revealed that some of the measures being adopted in these countries merit consideration for their replication in India. In particular, interest subsidy on EWS / LIG housing loans, incentives for rental housing, revolving fund for housing reconstruction fund for purchase of residential properties from banks / HFC's or NPA's, contractual savings schemes on the lines of Australia and France, and shared ownership scheme on the lines of Ireland and UK etc. are suggested as policy measures for achieving the Housing Policy with the goal of "Affordable Housing For All".

- **Interest subsidy on EWS/LIG housing loans** - There is a need to provide interest subsidy to EWS/LIG housing loan borrowers as a measure to improve affordability and accessibility of institutional finance to these segments as also to encourage primary lending institutions (PLIs) i.e. commercial banks, housing finance companies and micro
- **Incentives for rental housing** - Rental housing is an important component of affordable housing. Continuance of Rent Control Laws in several States has seriously affected the overall environment for Rental Housing and constrained the private sector investment in low income housing. What seems to be a key is to foster an environment that would make rental housing for EWS and LIG categories of households a worthwhile activity to invest in. Rental Income for owners of residential houses may be exempted from Income Tax. The other policy prescription which may be considered side by side is that some special tax may be levied on vacant houses, so that there is disincentive against keeping the houses vacant.
- **To set up Revolving Fund as Housing Reconstruction Fund**

finance institutions, to increase their outreach for better financial and social inclusion.



(RF) - GHB, Thailand has established a revolving fund of 300 million baht to enable National Housing Authority to repurchase and resell units of hire-purchasers who become more than 3 months delinquent in their payments. Accrued interest on the missed payments beyond 3 months to be fully subsidized by the government. On the same lines, a RF may be considered for repurchase of residential property from banks, HFCs or NPAs which cannot be restructured which are disposed off in due course.

- **Contractual savings schemes on the lines of Australia and France-** A new scheme to promote contractual savings may be considered whereby monthly savings in a special Home Loan Account for a minimum period of say three (3) years enjoys tax exemption and a capital subsidy at the time of contracting a home loan. The home loan will be a multiple of the amount saved and will be at an interest rate marginally lower than the market rate. NHB had proposed a similar

scheme titled “Bachat Awaas Yojana (BAY)” which however, has been kept on hold as per RBI's instructions. The facility will be only for the first home.

- **Shared ownership scheme on the line of Ireland and UK -** The State Housing agency or any other public housing agency (PHA) can construct and sell homes on shared ownership basis akin to Hire Purchase. The buyer purchases a part of the home with an option to acquire the balance within a specified period. Rent is paid on the part owned by the PHA until the entire ownership is acquired by the buyer.
- **Promotion of Housing Micro Finance -** India may have a Housing Finance Company whose main focus should be on micro housing loans. For this, institutions like Sewa Bank and other such micro finance institutions should be encouraged, supported and upscaled by effecting changes in the existing regulations that constrain their operations.





Key References

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2. Various sites were also scanned for e.g *www.mhupa.gov.in*, *www.cgg.gov.in*, *www.wwf.org.uk*, *www.jchs.harvard.edu.*, *google search engine*, *www.economywatch.com* and other official govt.sites of different countries.



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