**Ref. No. MCHI/GEN/12-13/117**

**November 6, 2012**

**Dr. K. C. Chakrabarty**
Deputy Governor
Reserve Bank of India
Central Office Building
19th Floor, Shahid Bhagat Singh Road
Mumbai - 400 001.

**Subject: Financing Impact on Real Estate Sector**

**Respected Sir,**

**Greetings from MCHI-CREDAI**

MCHI-CREDAI, formed in 1982, is the most prominent and the only recognized body of Real Estate Developers in Mumbai and MMR. MCHI-CREDAI brings together members dealing in Real Estate Development on one common platform to address various issues facing the Industry. MCHI-CREDAI has a strong Membership of over 1000 leading Developers in Mumbai and has expanded across MMR, having its own units in Thane, Kalyan -Dombivli, Mira – Virar City, Raigad and Navi Mumbai.

Today real estate contributes 5.5% of our national GDP. If we take construction and real estate together then it contribute to 11% of national GDP. China which is more known as manufacturing hub has 30% contribution of real estate sector in their national GDP. In India also we can make real estate as growth engine for our GDP, which is creating huge job opportunities, business for over dependent 400 industries and take our GDP to much higher level.

During last 9 months, the CREDIT to CRE sector has gone down by more than 13%. The total exposure to CRE is only 2.8%

Project cost/s including taxes and cess has gone up by over 60% during last two years, where as prices have either remained stagnated or moderately higher during the period in most of the locations.

We have advised members to sell at LOWEST POSSIBLE COST and create liquidity in our communication to members. Please note that historically and globally Real Estate Sector has provided the GDP booster to respective country's economies. In fact the great initiative of 1998 by providing stimulus to the sector by instituting section 80 IA and 80 IB of Income tax act and banking going aggressive to fund the sector yielded desired result. Again in 2008 because of banking support the industry could survive and create stock which sustained an ailing economy. It is to be noted that the country is short of 31 million houses out of which 16 million houses required in EWS & LIG categories.

Though these are the precedents the Reserve Bank of India have to look at CRE as growth engine.

In case we wish to grow the sector, we need to understand issues at demand and supply side.

The real estate sector demand is influenced by two important factors
1. Market sentiments
2. Interest rate

The supply side is influenced by
1. Demand
2. Liquidity

It is utmost necessary that no opinion maker create an opinion which is anti-growth and anti- market. Also demand stimulus can come from cheaper home loans and tax concessions through deduction of interest costs.

The supply stimulus ill require huge banking support as well as other fiscal incentives.

In the back drop of the above, we request your good selves to understand the needs of real estate sector and for adopting a balanced policy. For the sake of convenience, we have tried to classify the issues to receive your favourable consideration:

**DEMAND STIMULUS;**

1. Expensive home loans: Over the past few years, interest rate on home loans had gone up to touching 11 per cent as compared to 7 to 7.5 per cent offered by banks in 2006. Immediate demand for homes has therefore dried up, even in the face of a tremendous housing shortage. We need to bring the interest rates back to 7%

2. If anyone takes home loan, interest upto 1.50 lacs are allowed as deduction while computing his/her income. This limit was set up almost 8 years before, today with this amount people can get deduction of 15 lacs loan, which is too less. This limit considering today's prices of homes in any Tier-1 or Tier-2 cities need to be enhanced to Rs. 5 lacs.

3. Priority lending to Real Estate Projects. Infusion of funds by Banks will mobilize construction activities, thereby helping timely deliveries resulting into sale of the realty product. Banks and HFIs are enjoying certain concessions on loans up to RS. 25 lakhs, which have been classified as priority sector loans. With the rising inflation and the urgent requirement of credit in the housing sector this norm needs to be revised upwards to at least Rs. 35 lakhs /customer loan.

4. Housing loans given by HFC/Banks. They generate money from public deposits and lend for home loan buyers. As these depositors have other options to invest in Bank FDR or other NBFC, the interest rates on home loans will never come down. GOI should charge no income tax on the interest generated on these deposits given to HFC, so that these HFC can get cheaper funds and they can lend at better pricing for home loans. Also ECB for HFCs need to be allowed sooner than later. All over the world, housing finance rates are 3-4% cheaper than commercial lending rates, why not in India? This matter need to be studied.

5. Stamp duty and Registration charges to be included in total amount as cost for home loan purposes and home loan to be 90% of the value; circular dated 3rd February, 2012 under reference RBI/2011-12/383 DBOD.No.BP.BC.78/08.12.001/2011-12

   LTV ratio for mortgage guarantee in housing, particularly in 'first purchase' should be revised up to 90% irrespective of all category of housing loan. Generally, housing loans are taken by the lower income and middle income group who do not have the initial ability to pay higher proportion of property value, particularly in big cities where the property costs are high.

**ISSUES RELATED TO COMMERCIAL REAL ESTATE FUNDING**

1. RESTRUCTURING FACILITIES: Restructuring norms of RBI: RBI through its circular dated July 1, 2011 under reference RBI/2009-10/69 DBOD No. Dir. BC 13/13.03.00/2009-10, further under sub-clause : 2.3.13 Loans and advances to Real Estate Sector states that While appraising loan proposals involving real estate, banks should ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required.

   In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

   This directive casts serious doubts on the integrity of the real estate industry. The banks may adopt the outsourcing of this process which again will have a resultant delay in the entire process of Loans to the real estate sector.

   There are various other reasons for not withdrawing the sanctioned amount or delay in recoveries to service loans. Therefore restructuring facilities should be allowed and made at par with roll over facilities available to industries.

2. RISK WEIGHTAGE: Reduction in risk weightage for real estate loans: Now the risk weightage to Real Estate Loans are increased to 125% as against 100% for normal loans 50%/75% for housing loans depending on the loan quantum and LTV ratio. Hence risk weightage may be reduced to 100% so that cost of loans can come down as bank's capital requirements will come down and this benefit can be passed on to the general public at large.

3. ASSET CLASSIFICATION NORMS: Due to several adverse developments in the market and Economy in the recent past, delays in getting statutory approvals from the Government and lack of easy accessibility of finance from the Banking system, the execution and completion of most of the Real Estate projects got delayed. Under similar circumstances, RBI considered issue of revised guidelines of Asset Classification for Infrastructure projects w.e.f 31.03.2010, for continuation of asset classification as upto 3 years delay from the date of original project completion date (SPCD) (4 yrs in case project delay on account of legal issues). In case of other than Infrastructure projects, only one year period is allowed. It is requested that a similar treatment be given to the Real Estate Sector on par with the other Industry segments.

4. RBI through its circular dated July 1, 2011 under reference RBI /2010-11/74 DBOD. No. BP. BC. 21 /21.04.048 /2010, further under sub-clause 4.2.15.3, states that: A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery.
   Policy for rescheduling of term/construction loans to facilitate roll over of existing loans should be revisited. The NPA norms to be modified to allow this accommodation by the banks, housing finance institutions and financial institutions.

   Implication: Loan accounts will be declared NPA if the time schedule for operations is not maintained, even if the interest/repayment is on time. As operations at the ground level depend on a multiplicity of factors including permissions process and its effective delays, this directive to the banks is unwarranted. Please note that when the monetary tightening happens the first affected sector is real estate and leaving the sector to stringent controls will directly affect sentiment and efficiency of business.

   **Request:** we request your good selves to treat Commercial real estate at par with Industry and roll over benefits be allowed. Cases where there is apparent holding of property by developer, may be denied the benefit by Bank's management.

5. Funding and supporting RE project funding; Banks should be encouraged to fund the developers with fresh infusion of funds to enable

the developers to complete the ongoing projects. This should be done under some norms on a priority basis.

6. Relaxation of Exposure norms to Real Estate Sector: RBI may consider giving guidelines to Bank for increasing the exposure norms to at least 20%. In fact banks yield is more in respect of real estate projects. Global standard for funding commercial real estate is 30%. This year inspite of slow down US funding to CRE has been 25% and China 22%. We are at 2.8%.

7. Redefinition of Real Estate (Housing/Residential): Standard formats for appraisal for appraisal, sanction, disbursement and repayment of Realty loans should be developed as a system and should be put on a common e-portal whereby the intending borrower knows the available resource for Realty rather than the current process which is based too much on individual discretion of different officials in charge of sanction of Realty loans.

8. Funding IT parks and IT SEZ: though the sector is not as vibrant today the demand is cyclic. By denying funding to this sector we are discouraging growth and employment , hence it should be treated priority sector and necessary support needs to be given.

9. Skewed perception among consumers: The common perception that housing prices had risen and gone through the roof in recent years is wrong. In reality over 70% of all new housing across India is priced at below Rs 3,000/- per sq ft (all inclusive). Also, the perception of the issues of listed housing developers as the salient issues of the industry is not correct. In reality, more than 90% of housing development in India is being carried out by unlisted players.

10. Cheaper and faster funding for real estate projects: Housing finance should be considered with revised eligibility norms.

11. Affordable housing schemes as defined under 35 Ad of income tax act be given priority sector status and funded accordingly.

12. BI/2010-11/587, A. P. (DIR Series) Circular No.75 on June 30, 2011Sub: Buyback / Prepayment of Foreign Currency Convertible Bonds (FCCBs): Attention of Authorized Dealer Category – I (AD Category – I) banks is invited to the A.P. (DIR Series) Circular No. 39 dated December 08, 2008, A.P. (DIR Series) Circular No. 65 dated April 28, 2009 and A.P. (DIR Series) Circular No.07 dated August 09, 2010 on the captioned subject.

    The Reserve Bank is presently considering applications under the approval route for buyback of FCCBs, subject to the issuers complying with the terms and conditions of buyback/ prepayment of FCCBs, as mentioned in the A.P. (DIR Series) Circular No.39 dated December 08, 2008 and A.P. (DIR Series) Circular No.65 dated April 28, 2009.

The existing policy on the premature buyback of FCCBs has been reviewed and it has been decided to extend the time limit for such facility and liberalise the procedure. Accordingly, the applications for buyback of FCCBs by Indian companies, both under the automatic and approval routes, will be considered as detailed hereunder:

**A. Automatic Route**
Section No-5. The other terms and conditions as stipulated in paragraph 5 and 6 of A.P. (DIR Series) Circular No. 39 dated December 8, 2008 will continue to be applicable. This facility shall come into force with immediate effect and the entire process of buyback should be completed by March 31, 2012.

**The Time limit on Buyback/ prepayment of Foreign Currency Convertible Bond (FCCBs) should revise and extend for another two more years**

**MCHI-CREDAI'S RECOMMENDATIONS ON FDI and ECB**

**Propose modifications in the FDI and ECB rules:**

a) FDI rules and ECB rules be modified to encourage investment in affordable housing. The limit of 50,000 sq. m. or 25 acres could be relaxed for this sector. The slum redevelopment projects and other affordable housing projects irrespective of size may also be considered for the same.

b) ECB borrowings to be permitted in housing construction particularly for completion of all ongoing projects where there is already equity in the form of FDI. Presently ECB is prohibited for housing development.
Therefore we sincerely and humbly request that ECB may kindly be allowed for minimum tenure of about five years plus in the sector which will lead to the following advantages:

- The sectors need for debt resources will be partially met through new window
- The sector would grow further aiding the overall GDP growth
- Country would open up a legitimate window for Forex which is so critically required by the country.
- Direct and indirect job creation would lead to consumption multiplier on the economic front
- The dependence on bank resources will be reduced somewhat which will help banks provide credit to other sectors.

c) Integrated Township: The restriction on raising ECB upto 31st Dec 2009 should be extended for next two years. Further, ECB upto USD 50 Million should be allowed under automatic route as against the present allowance under approval route.

d) SEZ: Presently ECB is not allowed for development of Integrated township and commercial real estate within the SEZ. This is becoming a hurdle in raising entire funds through ECB. It is suggested that ECB should be allowed for development of entire SEZ projects including the commercial and residential developments. The raising of ECB shall be allowed upto next five years i.e., 31st Dec 2014.

**Other recommendations where we seek your support**

1. Foreign ownership rule: Consider the feasibility of permitting pre-approved foreigners from a certain list of countries to own a house in India just as Indians can today buy houses abroad. NRIs to be encouraged to own/buy property in their native towns by incentivizing them in some manner.

Dear Sirs, we request you to kindly use your good offices to resolve the issues in the interest of GDP growth and housing for all.

Thanking you.

Yours sincerely,
**For MCHI-CREDAI**

**Nayan Shah**
Vice President