

HOUSING FINANCE EVOLUTION AND REACH IN INDIA

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Abstract-

Housing being one of the three basic needs of life always remains in the top priorities of any person, society and economy. As a human being, an individual needs his own space and privacy, which can be provided by the ownership of a house. The home is the basic unit of the society. Home provides a platform to the family and the family is the most important social institution, which leaves its imprint on an individual for whole life. Thus housing deserves significant attention in the context of developing policies and strategies for human development. But still the majority of human populace lives in slums, shanties and temporary shabby shelters in rural areas. The shortage of housing is a big impediment in the healthy development of an individual and consequently the society, and the nation. The problem of space, privacy, security and sanitation leads to social, economic and environmental degeneration. The perpetual strife for space and house-ownership leads to personal and social disorganization, which is detrimental for the society and the economy. A developing nation like India has to focus more on housing sector to cater to the housing needs of burgeoning population and to accelerate the economic growth. The housing sector has been globally used as an engine to propel the economic growth as it generates employment and demand in the market. Last one decade has witnessed the authorities giving significant focus on the housing sector in India.

Key words- housing finance, market and impediment.

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INTRODUCTION

Housing is an important component and a measure of socio-economic status of the people. It is regarded as a critical sector in terms of policy initiatives and interventions. A large portion of our population is still lacking proper housing facility. The housing problem in India is an upsetting problem both in the rural and urban areas. One of the main reasons of the problem of housing shortage is its size of population. It is said that one among the every six persons in the world is an Indian. India stands second among the world's largely populated countries.

REVIEW OF LITERATURE

Bandyopadhyay Arindam and Saha Asish (2011), in their article studied they focused that the importance of borrower-specific characteristics as well as local situation factors in determining the demand prospect as well as the risk of credit loss on residential housing loan repayment behavior in India. They used 13,487 housing loan accounts (sanctioned

from 1993-2007) data from Banks and Housing Finance Cos (HFCs) in India. This paper made an attempt to find out the crucial factors that drive demand for housing and its correlation with borrower characteristics by using a panel regression method and logistic regression.

Anand Kumar T.S and others (2008), in their paper they examined the practical guidance to MFIs adopting the housing programme in addition to the existing line of micro-finance services and inputs about any market study, profiling the customers, product design, pricing of the product, affordability of the clients, income assessment, loan assessment, operational procedures, risk coping mechanisms and technical backup guidance. They found that MFIs should also ensure that housing micro-finance suits their strategy from institutional and financial perspectives.

Singh, et.al, (2006) in his article described the housing sector by introducing various housing loan

schemes for rural and urban population. The first attempt in this regard was the National Housing Policy (NHP), which was introduced in 1988. The National Housing Bank (NHB) was set up in 1988 as an apex institution for housing finance and a wholly-owned subsidiary of Reserve Bank of India (RBI). The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporations and scheduled commercial banks. Moreover, for the salaried section, the tax rebates on housing loans have been introduced. The paper is based on the case study of LIC Housing Finance Ltd., which analyzes region-wise disbursements of individual house loans, their portfolio amounts and the defaults for the last ten years, i.e., from 1995-96 to 2004-05 by working out relevant ratios in terms of percentages and the compound annual growth rates. The authors have said that there is a need for designing the special schemes for financing of LIC Housing Finance Limited to meet its prime goal.

Joydip Dasgupta (2015), in his paper he focused on Interest Rate Risk Management of HDFC which started off in 1977 as a new mortgage bank and operated like S&Ls in the first few years and raised retail deposits. This did not create much problem for the entity in the administered interest rate regime. The study offered a new paradigm shift in the financing pattern of HDFC for development of housing industry. The shift of financial strategy is suited to counter-shift risk profiles in the housing finance business in India and thus HDFC managed to create a niche in the industry. The author strongly felt that there is a need for extending liberal rate of interest to housing industry. The author strongly felt that there is a need for extending liberal rate of interest to housing industry.

SCOPE OF THE STUDY

The study is focused on the housing loan borrowers of HDFC in the Nellore division Andhra Pradesh. The study is mainly intended to assess the perception of borrowers regarding the housing finance of HDFC. The various factors influencing awareness and satisfaction of borrowers are also studied.

OBJECTIVES OF THE STUDY

- To analyse the housing finance in India in general and Andhra Pradesh in a particular;
- To examine the perceptions of customers of HDFCL, Nellore division, Nellore district
- Identifying the major factors determining the home loan beneficiaries in Nellore division.
- To identify the problems in HDFC housing finance in Nellore division.

RESEARCH METHODOLOGY

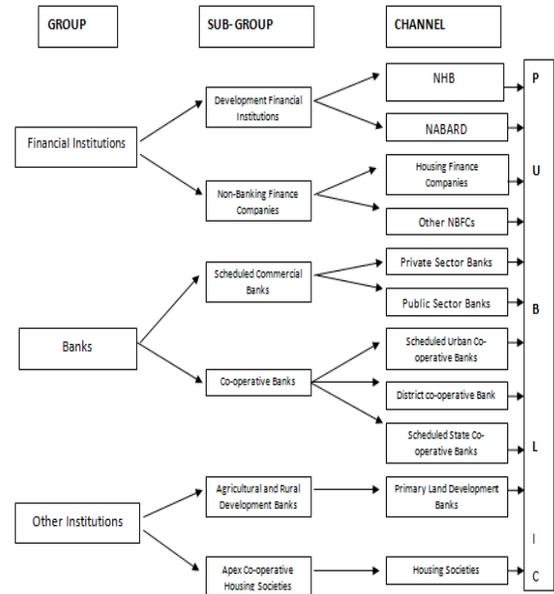
A structured questionnaire was prepared to collect data from users. Survey method used data collection. For this purpose a total of 100 questionnaires were distributed among users and 86 filled in questionnaires were received, and then data was analyzed, tabulated, interpreted and presented.

HOUSING FINANCE IN BRIEF

Housing being one of the three basic needs of life always remains in the top priorities of any person, society and economy. As a human being, an individual needs his own space and privacy, which can be provided by the ownership of a house. The home is the basic unit of the society. Home provides a platform to the family and the family is the most important social institution, which leaves its imprint on an individual for whole life. Thus housing deserves significant attention in the context of developing policies and strategies for human development. But still the majority of human populace lives in slums, shanties and temporary shabby shelters in rural areas. The shortage of housing is a big impediment in the healthy development of an individual and consequently the society, and the nation. The problem of space, privacy, security and sanitation leads to social, economic and environmental degeneration. The perpetual strife for space and house-ownership leads to personal and social disorganization, which is detrimental for the society and the economy. A developing nation like India has to focus more on housing sector to cater to the housing needs of burgeoning population and to accelerate the economic growth.

The Government of India had recently made the development of the housing sector.

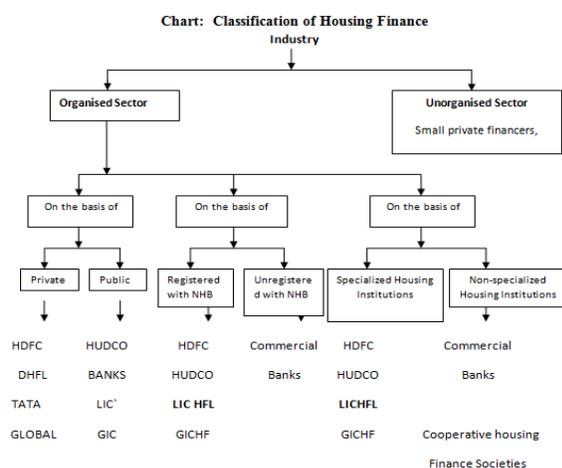
STRUCTURE OF THE HOUSING FINANCE SYSTEM IN INDIA:



In 1985, the RBI made many recommendations for liberalization in the housing finance system based on the report of Chakraborty Committee. In 1987, HFC's amended the Insurance Act of India to allow the Life Insurance Corporation (LIC) and the General Insurance Corporation (GIC) to enter the housing finance business. In 1988, the National Housing Bank was set up as a subsidiary of the RBI to act as an apex regulatory and promotional agency. In 1989, the RBI allowed Commercial banks to issue large loans for housing without imposing rigid restrictions on interest rate or loan quantity ceiling.

National Housing Bank (NHB) was set up in July 1988 with the equity support from the RBI and is intended to act as the apex institution for coordinating and developing the housing finance schemes. Later, the UTI set up in 1989, a Housing Construction Investment fund for direct investment in construction projects and real estate development. The entry of LIC and GIC and many banks like SBI and Canara Bank through their subsidiaries has been started to be another landmark in the promotion of housing

industry. The setting up of National Housing Bank as a fully owned subsidiary of the RBI, and as an apex institution was the culmination of the fulfillment of a long overdue need of the housing finance industry in India. The system has also been characterized by the emergence of several specialized financial institutions, which have considerably strengthened the organization of the housing finance system in the country. In 1990's the pace set in the earlier decades was carried forward. Many HFCs were set up under the directions of the NHB. The process of liberalization covered the retail housing finance sector substantially. The most significant change was the enhancement of the amount set aside by the commercial banks for their lending to the housing sector from 1.5 per cent to 3 per cent (Union budget 1999-2000). Chart is given to reflect on the classification of housing finance in India.



Traditionally in India, most people depend on their provident fund and gratuity amounts received after retirement for buying a home. However, with the emergence of housing finance as a major business in the country, an increasingly large number of people are going in for home loans. Socially too, India has changed, and there is no stigma attached today for borrowing funds. Five-year plans have been emphasizing on the need for promoting housing finance schemes particularly for the poor and weaker sections of the society.

HOUSING FINANCE IN INDIA:

In the first 25 years of post-independence, India has concentrated on agricultural development only after the industrial revolution and the continuous

shifting of rural population to the urban areas, the need for development of housing sector has been emphasized. It is always a dream to own a house however a majority of the population does not have the required financial assistance to own a house. Eyeing this as an opportunity, many firms have opted for extending housing loans not only to boost their bottom lines but also to reduce the prevailing demand and supply gap. The genuine demand arising out of the individual need for housing, together with the present boom in the housing sector it is all set to provide a platform for the housing finance companies to carve out a piece of fortune.

What remained as a very low-profile sector in India is suddenly witnessing activity that is promising a bright future. Out of India's new housing units, 20 percent are financed through the housing financing institutions. With the gap between the required number of houses and the actual, government identified housing sector as a core and it is only with the timely intervention of the government that housing finance has become a major industry in India. With the establishment of National Housing Bank, the government has provided the much-needed boost to this sector. At present out of 380 odd HFIs in India, 42 housing finance companies are registered with the National Housing Bank out of them 20 are valid for acceptance of public deposits and remains are not. This number is going to increase in the near future with the industrial growth. Throughout the second part of the last decade, this sector has witnessed a growth of over 30 percent and promises to grow the same rate in the next couple of years. Recognizing the growing need of housing finance in India, the government has emphasized on housing and housing finance in the ninth five year plan to know that there is a short fall of more than 20 million house units. This is the first time that India has emphasized on the housing sector.

Even the Asian development Bank has embarked on a two-fold strategy for India's housing sector. One is focusing on providing funds to financial intermediaries who in turn, lend to individual borrowers at the household level. The second objective is combining slum upgrading and micro credit schemes for lower income groups in its state level specific integrated urban development projects. These latest development in the housing sector has made housing finance one of the growth

drivers for the Indian economy in the last decade what earlier remained as an isolated segment has now transformed itself into a core sector. Housing finance in India is getting recognition as a specialized finance product, thanks to the efforts of housing finance companies and the subsidiary outfits of banks, specializing in this area.

LOAN DISBURSEMENT BY NHB

Year	Disbursement	Cumulative Disbursement
2006 – 07	5,500	31,425
2007 – 08	8,587	40,012
2008 – 09	10,854	50,866
2009 – 10	8,108	58,974
2010 – 11	11,723	70,697
2011 – 12	14,390	85,087
2012 – 13	17,542	102,629
2013 – 14	17,856	120,485
2014 – 15	21,847	138,917
2015 – 16	26,216	166,700
2016 – 17	31,842	189,560

Table 1: depicts the picture of housing finance disbursement by NHB during 2006-07 to 2016-17.

Source: Report of NHB Trend & Progress Report

FLOW OF FUNDS FOR HOUSING FROM FORMAL SECTOR INSTITUTIONS:

The flow of funds for housing sector during the X plan period and estimates the expected flow of funds to the urban housing sector from the formal sector

Gender	Number	Percentage
Male	57	66.27
Female	29	33.72
TOTAL	86	100

institutions for the XI plan period. During the 10th Plan period, the total urban housing requirement was 22.44 million units for which the investment requirement was more than Rs. 4.27 lacs crores. Of this total fund requirement more than 50% was the expected contribution from the formal sector institutions including banks, housing finance

companies, other financial institutions and budgetary allocations. From the available data it has observed that the banks, housing finance companies, and cooperative sector institutions had disbursed an amount of Rs. 1.73 lacs crores during the period 2002-05. Overall contribution of these three institutions i.e. banks, HFCs and cooperative sector institutions, would be around Rs. 3.60 lacs crores during the 10th plan period 2002-07 as shown in Table 2.

Year	Commercial Banks	HFCs	Co-op. Institutions	RRB'S	Total
2006-07	4,250	1,085	10	0	5345
2007-08	7,328	1,189	0	0	8517
2008-09	3,447	7,055	0	202	10704
2009-10	4,150	3,543.8	40	185	7918
2010-11	8,112	3,308.6	0	134	11555
2011-12	8,851	5,302	93	143	14389
2012-13	9,459	7,694	0	389	17542
2013-14	7,443	9,633		280	17356
2014-15	14,114	7,390	90	253	21847
2015-16	17643	8868	93	270	26874
2016-17	21354	9242	102	312	31010

Table 2: Loan Disbursement by HFC's during 2006-07 to 2016-17(Rs. In Crore)

Source: Report of the 11th five year plan, working group on urban housing, Govt. of India, Ministry of Housing and urban poverty alleviation, New Delhi.

DATA ANALYSIS:

Gender Wise Analysis

Table 3: Gender wise Analysis

The gender wise breakup of beneficiaries given in Table 3 reveals that 66.27 per cent are males and 33.72 per cent are females.

Main Occupation

The occupation of the beneficiaries also influences the habit of taking loan from HDFC. Mainly permanently occupied people may go for loans to own a house.

Table 4: Main Occupation

Table 4 manifests that 47.20 per cent of the beneficiaries of HDFC are government employee. 23.25 per cent are in business/profession and 20.93 per cent are in private employment. Meanwhile only 18.60 per cent of the samples are agriculturists.

Educational Qualification and Awareness

The education of the beneficiaries is a crucial factor in choosing the source of loans. Uneducated persons often choose non-institutional source and land themselves in trouble later on. On the other hand, educated persons compare the different sources and select the most reasonable one.

Educational Qualification	Number	Percentage
Graduates	19	22.09
Post Graduates	44	51.16
Professionals	23	26.74
Total	86	100

Table 4: Education Qualification

As shown in beneficiaries of HDFC who were having professional qualification were the most aware group as they had the highest mean awareness. It is evident from Table 5 that the beneficiaries of HDFC are highly educated. Out of the 86 samples, 51.16 per cent are post graduates. 26.74 per cent are technical or professional category and 22.09 per cent are graduates.

Awareness of Rate of Interest

Interest rate on the loan taken by the beneficiaries from HDFC. Interest rate are awareness of users. The floating rates may change from change from time to time.

Main Occupation	Number	Percentage %
Govt. Employee	32	37.20
Private Employee	18	20.93
Business	20	23.25
Agriculture	16	18.60
Total	86	100

Interest Rates of HDFC	Number	Percentage
Aware	48	41.28
Partially aware	24	27.90
Unaware	14	16.27
TOTAL	86	100

Table 5: Awareness of Rate of Interest

Table 6 shows the different rates of interest for the loan at different periods of time. The maximum number of beneficiaries falls in the category. 41.28 percent respondents Interest rates are aware of HDFC out of the 86 samples, 27.90 per cent are partially aware and 16.27 per cent are unaware.

Method of charging Interest

Interest rate on the loan taken by the beneficiaries from HDFC falls in two categories i.e. one is the fixed rate and the other floating rate. The floating rates may change from change from time to time.

Rate of Interest	Number	Percentage
Fixed rate interest	57	66.27

Floating rate interest	29	33.72
TOTAL	86	100

Table 6: Method of Charging Interest Rate

Table 7 shows the different rates of interest for the loan at different periods of time. The maximum number of beneficiaries falls in the category. 66.27 per cent respondents Interest rates are fixed rate interest HDFC out of the 86 samples, 33.27 per cent are floating rate interest.

Reasons for Availing Loan from HDFC

There are different reasons for taking housing loans from HDFC by the beneficiaries. The main reason for availing loan from HDFC is the easy accessibility.

Reason	Number	Percentage
Law rate of interest	24	27.90
No loan limit	15	17.44
Difficulty in getting loan from other	18	20.93
Simple loan procedure	12	13.95
Low EMI	17	19.76
Total	86	100

Table 7: Reasons for Availing Loan From HDFC

Table 8 shows categorization of beneficiaries on the basis of reason for availing loan from HDFC. Majority of them have taken loan from HDFC because of its 27.90 percent of low rate of interest, followed by 20.93 per cent Difficulty in getting loan from other, 19.76 percent Low EMI, 17.44 percent No loan limit and 13.95 percent Simple loan procedure for the borrowers from HDFC.

Difficulties for Repayment of the Loan

There are various types of difficulties for the timely repayment of the loan availed by the

beneficiaries. Lack of income and other family problems compel the beneficiaries to make default with the repayment.

Difficulties	Number	Percentage
Frequent charges in EMI	21	24.41
High Penal Interest	14	16.27
Insufficient Income	28	32.55
Tight repayment Schedule	23	26.74
Total	86	100

Table 8: Difficulties for repayment of Loan

Table 9 reveals the difficulties for repaying the loan taken by beneficiaries. The main difficulty faced by them is the 32.55 per cent insufficient income to remit the monthly installment. Next to it is the tight repayment schedule 26.74 percent, 24.41 per cent frequently charges in EMI and 16.27 percent HDFC will charge high p

CONCLUSIONS

The housing finance business in India is under rapid reforms since the inception of NHB. The fundamental areas of housing business are rapidly observing rapid reforms. The structural reforms that system initiated were giving results slowly. But the market demand and supply are still with gaps.

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