CHAPTER-1

INTRODUCTION AND METHODOLOGY
A. Introduction:

Housing is one of the basic necessities. Besides it is fundamental to people's physical, psychological, social and economic well-being. Whether in urban or rural settlements, shelter is the most visible expression of a country's ability to satisfy one of the most basic needs of its people. All over the world, the provision of satisfactory housing has been a major problem and continuous efforts have been made to meet the ever increasing needs of each generation. While the problem of providing housing is chronic in the developing countries most of the advanced countries also face this problem in varying degrees and dimensions.

Besides being a basic necessity, housing plays a positive role in the economic development of the country and social development of its people. Housing construction is a labour-intensive activity, capable of absorbing large number of unskilled labour. Further housing is linked to a variety of other industries, most of which are also labour intensive. Because of its linkages with the various other sectors of the economy, housing gives rise to domestic industrial growth. The linkages also provide a demand basis for industries that never would have been identified as possible opportunities. Promotion of well-being of the people as the central concern and purpose of all
development efforts. Investments in housing are investments in the development of human resources, the benefits of which accrue not only to groups and individuals but also to the nation as a whole. Thus, investments in housing should be conceived as the framework for social and economic development.

In spite of the national and international efforts during the past decade, there has not been any material improvements in the settlement conditions of the poor and the disadvantaged. The continuing deterioration of the living conditions of the majority of people both in urban and rural settlements in the developing countries has been a matter of great concern. The United Nations general assembly declared 1987 as the International year of Shelter for Homeless to focus attention on the chronic inadequacy of this basic necessity and with the aim of securing renewed political commitment to the improvement of shelter and neighbourhoods of the poor and disadvantaged. This provided an opportunity to assess the results of the efforts of the past decade and to decide on new directions and approaches for national policies and strategies.

B. Population and Housing Stock:

The housing situation has also been examined in a different way, i.e., by studying whether the relative growth in housing stock in the inter-censal years has been commensurate
with the growth in population or not. This is done by examining the relative growth of housing stock vis-a-vis the relative increase in population during the intercensal years. The results are presented in the table given below.

**TABLE 1.1**

Inter-censal Period Annual Growth of Dwellings per 1000 Increase in Population:

<table>
<thead>
<tr>
<th>Period</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951 - 61</td>
<td>3.4</td>
<td>5.2</td>
<td>3.7</td>
</tr>
<tr>
<td>1961 - 71</td>
<td>1.9</td>
<td>4.5</td>
<td>2.4</td>
</tr>
<tr>
<td>1971 - 81</td>
<td>3.4</td>
<td>7.9</td>
<td>4.0</td>
</tr>
<tr>
<td>1981 - 91</td>
<td>3.6</td>
<td>5.6</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Note: The figures have been derived from the results of Census of India.

The growth in dwellings per 1000 population declined from 3.7 per annum in the decade 1951-61 to 2.4 during 1961-71; during the next decade (1971-81), it showed a marked increase and then again declined to 3.8 during 1981-91. The scenario thus remained one where rate of growth of housing was inadequate in the light of the population growth and consequent housing requirement. The observation holds good both for rural as well as urban areas. In rural areas too housing supply had not kept required pace with the growth rate of population despite the fact
that rural population grew at consistently lower rates than urban population. Thus, while the growth rate in dwellings per thousand persons per annum in rural areas was around 3 over Census years, this rate was higher and showed an increasing trend in urban areas. In the decade, 1971-81, increase in dwellings per 1,000 population was 3.4 for rural areas and 7.9 for urban areas and during 1981-91 the increase was 3.6 for rural areas and 5.6 for urban areas.

The high rate of growth in dwellings during 1981-91 in urban areas as compared to rural areas was evident in all states and Union Territories. Viewed in the light of all-India average of growth in dwellings per annum per thousand population, rate of additions of dwellings in rural areas was lower underlining the need to accelerate the construction in the rural areas so that it brings down the overall housing shortage.

The increase in urban population during 1971-81 was around 50 percent as against 18 percent in the rural population. Increase in residential dwellings was largely of the same magnitude. It has been observed that the growth rate in dwellings per thousand population per annum (rate in population (increase in population per annum). The growth rate of dwellings in urban areas was no doubt, higher than those in rural areas over the decades due to increase in population in urban areas vis-a-vis rural areas.
Housing has been recognised as one of the basic necessities of life next only to food and clothing. The modern concept of housing does not limit the idea of housing merely to the provision of shelter.

Today housing means the provision of comfortable shelter and such surroundings and services as would keep a man healthy and cheerful. A good house shapes a man's personality and its absence can be a major source of physical and mental disqualification. As poet Robert Frost puts it, "Home is the place where, when you have to go there, they have to take you.

Marx, the Prophet of Communism, has said that man is a product of environment. In fact, no other factor appears to exercise such tremendous influence in making of man as his environment. The United Nations has therefore rightly emphasised the importance of housing in the following words:

"An adequate shelter is essential for human dignity. The home provides the physical framework in which the human, social, economic and cultural resources of the individual are released, enriched and integrated. Because adequate housing re-enforces human dignity and status, it creates political and social climate or orderly development of the society". The new Testament states the light of the housekeepers pretty well. "The foxes have their holes, and the birds of the air have their nests, but the son of the man hath not where to lay his head."
C. General Conditions of Housing in India:

The present housing situation in India, in urban as well as rural areas, has reached to an alarming state requiring steps for remedying the situation. More than two thirds of the population do not have a permanent roof over their heads and are compelled to live in cramped insanitary dwellings.

According to the 1981 census more than half of the house-holds lived in houses made of mud and grass. The proportion of such houses in rural areas in 1981 was as high as two-thirds, nearly 25-35 percent of the urban population lived in slums. Almost the same has been prevailing in 1991 with the increase in population.

The National Building Organisation has estimated the housing shortage at the end of 1985 to be 5.6 million units in urban areas and 18 million units in rural areas. The backlog of housing shortage is increasing every year, as the rate of construction has not kept pace with the rate of population growth.

D. Significance of the Study and Complexity of the Problem:

The problem of housing in India is a complex one requiring finance on a large scale and is dependent on its solution upon the concerted efforts of individuals, Cooperatives, State
and Union Governments, to be planned and executed over a number of years. All those who need houses to live in, can hardly build them. Every one, rich or poor, in rural or urban areas, wants to have a roof over one's head. He needs it to protect his life and property as also to promote his well-being. To-day, only a few are fortunate to have good houses, the vast majority has to put up with poor housing conditions and there are quite a good number who have to go without any permanent shelter.

E. Objectives of the Study:

The Major Objectives of the Study are:

1. to trace the history and growth of housing movement in India in general and Maharashtra in particular and the need for housing development.
2. to study and understand the nature of housing finance through the private, public and co-operative sector organisations.
3. to examine the role of Housing Finance Organisations sector-wise in implementing the housing policies and programmes of the Government.
4. to review the working of selected Housing Finance Organisations.
5. to make an indepth analysis of financing by the selected Housing Finance Organisations.
6. to make a comparative analysis of the Housing Finance Organisations belonging to various sectors.

7. to evaluate the efficacy of Housing Finance Organisations on the basis of sample survey of beneficiaries (customers).

8. to find out the problems faced by the borrowers (beneficiaries of the Housing Finance Schemes) and

9. to make suitable suggestions on the basis of the study.

F. Methodology:

The study being a comparative evaluation of the working of selected Housing Finance Organisations, the methodology comprises of:

a) Case Studies of Selected Units viz.:

1) Housing Development and Finance Corporation Ltd.,

2) LIC Housing Finance Ltd.,

3) Maharashtra State Co-operative Housing Finance Corporation Ltd.

b) Sample survey of the beneficiaries of the Housing Finance Schemes.

a) Primary Data:

It is obtained from sample borrowers/beneficiaries of all the organisations selected. A comprehensive Questionnaire and an Interview Schedule have been prepared to be filled in by the borrowers/beneficiaries of the housing finance schemes.
b) **Secondary data:**

The data relating to financial and other aspects of management of the selected Housing Finance Organisations was collected from the various records and annual reports of the selected Housing Finance Organisations.

The following basic documents were collected:

The balance sheets and the income and expenditure statements of all the selected organisations for the years 1989-90, 1990-91, 1992-92, 1992-93, 1993-94. However the figures indicated in the statements are of limited use when they are studied individually. The study has been conducted on the operational and allocational efficiency of the organisations. Different types of ratios have been calculated in order to assess how efficiently the funds have been utilised with an ultimate objective of improving the financial strength of the organisation.

The data was supplemented by the Interviews of various officials and knowledgeable persons related to the problem. The data so generated was subjected to scrutiny and suitable methods of analysis for inferring appropriate conclusions.

**G. The Housing Finance Environment:**

With increasing sophistication, monetary management so crucial to sound economic policy has required its own institutional development. The Discount and Finance Housing of
India was established to create secondary markets for monetary instruments and thereby to help control liquidity in the financial system, the Credit Rating and information services of India to provide credit rating of debt instruments, and to provide information services on corporate performance, and the Securities and Exchange Board of India to provide a measure of order in the operations of the capital market in general and the Stock Exchanges in particular. In the field of housing we have seen the establishment of the National Housing Bank as an apex institution for the sector.

Despite these developments, however, monetary management remains fragmently, executed in "Stop-go" Cycles and sometimes perpetuating cycles rather than smoothening them. Perhaps the most important impact of recent developments in the financial system are on the interest rate structure of the economy.

Unfortunately, on present trends, housing finance will suffer from greater, if not less, interventionist policies. It is seldom realised that institutional strategies depend upon resource bases. As trends change, institutions evolve, with the liabilities side of the balance sheet tending to predicate the "Type" of institutions one evolves into. In India we are witnessing a rapidly expanding flow of funds for housing through a greater number of mortgage banks without a clear perception of what the future resource base would be.
Further, as non bank financial institutions, housing finance institutions are not specifically placed within the financial framework. In addition, regulatory provisions preclude housing finance institutions from being effective mobilisers of funds through interest rate ceilings, controls on the terms on which deposits can be accepted and the extent to which deposit facilities can be advertised. Perhaps the major deterrent for resource mobilisation is differential fiscal concessions available for specific institutions with regard to resource mobilisation. Households evaluate a menu of choices available in the market place and products which give them for example, non deductibility of tax at source and other tax concessions, other things being equal are naturally likely to be most attractive to investors.

The concept of mortgage finance in India, as a specialised financial service began with the establishment of HDFC (Housing Finance Development corporation Ltd.) in India in 1977. The early years were uncertain in respect of the future development of this industry in the context of the regulatory framework that existed at the time as well as the specialised management techniques that would be required.

Over the years however, the very success of the 'Idea' of Housing Finance and its increasingly enthusiastic institutionalisation through the spontaneous growth of new entrants into the industry, has contributed somewhat to the major issues that we
have to face today. Housing finance can no longer be viewed as peripheral to the financial system at large, in just a decade from a negligible percentage, it now contributes just over 15% in total housing investment that takes place in the country. The major housing finance companies are growing at an average annual rate of 25% in terms of loan approvals. The annual resource needs of the sector would be of the order of Rs.2000 crores rising perhaps to Rs.500 crores in the next five years. The future course of the development of housing finance depends, therefore, on the nature of the resource base that emerges. This in turn will depend on the place the housing finance institutions are obliged to assume in the flow of funds of the Indian Financial System.

H. The Chapter Scheme:
1. Introduction and Methodology.
3. Housing Finance System and Economy.
5. Housing Development and Finance Corporation Ltd. Case study-1.
6. LIC Housing Finance Limited - Case study-2.
8. Evaluation Study and Survey Results.