CHAPTER 1

INTRODUCTION

1.1 Introduction

Housing is one of the basic needs of mankind and it is as essential as food and clothing. The problem of housing has been of great importance ever since the evolution of mankind. The primitive men were usually vagrants in nature with no specific place to stay. They lived in caves and tree holes to protect themselves from wild animals and vagaries of nature. Later when civilisation began to flourish, people built durable habitations and started to settle in their cultivating land.

Thus, housing is a pre-requisite to civilized life. House is viewed not only as a basic need, but an instrument of change to generate income, provides safe living and increase productivity. It places a significant role in the socio-psychological development of individual. House is fundamental to man’s existence and survival. That is, on satisfying his biological need, man also attempted to satisfy his physiological need of shelter for rest and for
reproduction. Therefore, housing should necessarily meet four requirements -

i) shelter from intruders and natural forces, ii) protection from physical
damages like fire, collapse etc., iii) provision for basic amenities like
sanitation, disposal of waste etc. which promote good health, and iv) adequate space and privacy.

Housing has a vital bearing on the health of people. It helps to preserve
the working efficiency. Proper accommodation is an important indicator of the
standard of living of the people. Housing may be used for purposes like
residential, commercial; self occupied, or let out. It is important for
development in both economic and welfare terms.

There has been tremendous growth in the demand for housing in our
country during this decade due to population growth, expansion of industrial
and commercial activities and the consequent migration of people in large
scale into urban areas. There is wide gap between demand and supply of
housing, which is at a never meeting proportion. Hence, there is need for
increased supply of housing. This is possible only by constructing additional
housing units and improving the existing reparable housing stock by adopting
alternate and cost-effective technologies in construction.

The total housing shortage in India estimated by National Building
Organisation (NBO) based on the census data 2001 was 24.68 million units,
of which 14.12 million units were in rural areas and 10.56 million units in
urban areas. Total houseless population in Kerala accounts for 19.44 lakh of
which 11.65 lakh are in rural areas and 7.89 lakh in urban areas and total
houseless households were 4.48 lakh consisting of 2.6 lakh in rural areas and 1.88 lakh in urban areas.¹

In recent years the shortage of housing amenities has been aggravated by the non-availability of land, lack of adequate finance facilities and shortage of building materials, which drain the pockets. Further, housing the poor is a great challenge to the governments of developing countries facing as a result of rapid population growth and massive rural/urban migration which has put enormous housing demands.

In almost all economies-developing or developed-investment in housing is the single largest form of fixed capital investment. Housing investment typically comprises from 10 to 15 percent of gross fixed capital formation². Thus investment in housing as a share of GDP rises as economies grow. Till 80’s the housing finance sector in India was not fully developed. Hence, a lot of inadequacies were there in terms of number of institutions or branches as well as their resources to meet the housing finance requirements. But, since the introduction of financial sector reforms, a vast number of housing finance institutions and banks came into this field to meet the ever-increasing needs of housing finance.

Along with the increasing population and growth in economy, the aspirations of individuals and families are also increasing to ensure better living conditions and standards. Consequently, the requirements of housing finance and financing for infrastructure increased considerably.
The origin of housing finance can be identified with the establishment of HDFC in 1977 with the objective to finance low and middle income group people to purchase or construct a single family dwelling unit for self occupation. This has opened up an era of institutional approach in housing finance with an entry of other housing finance companies, nationalized banks and multinational banks after 1980’s. In the field of housing finance, an apex institution namely National Housing Bank has been set up in 1988 to refinance housing finance companies. The major development that occurred in the housing finance sector in October 1997 was liberalization in the monetary policy which allowed more funds from the banking system to flow into the housing finance sector. Housing finance institutions are emerging as a significant component of financial sector and service industry of India. Housing finance system can be instrumental to induce and engineer balanced growth and economic development of an economy with proper and justified resource mobilization as well as real asset generation coupled with saving habits and capital formation.

During the post - liberalisation era there has been considerable effort taken by Government of India for availing of finance to the people in rural areas for meeting their housing needs. The Government runs many schemes with a view to providing financial assistance for construction of dwelling units to Economically Weaker Sections and Low Income Group in rural areas. During 2007–08, Central allocation for Rural Housing was Rs.40,322.70 crore and 19.88 lakh houses were constructed by incurring an amount of Rs.5,458.01 crore.³ This reveals the importance of rural housing.
The demand for housing is rising very fast. But, in recent years, there has been a great shortfall in the supply of usable housing stock to the aggregate demand which is a global phenomenon. At the beginning of 2006, the total housing stock in the country stood at 211.86 million units as against the total households of 222.93 million. According to the estimates made by the Technical Group constituted by the Ministry of Housing and Urban Poverty Alleviation for assessment of the urban housing shortage at the end of the 10th Five Year Plan, the total housing shortage in the country is 24.71 million. Housing shortage is likely to go up to 26.53 million during the Eleventh Five Year Plan i.e., 2007–2012\(^4\).

In Kerala, as per 2001 Census, there was only a numerical shortage of 0.63 lakh housing units. But, taking into consideration the reconstruction of dilapidated houses the total demand by 2011-12 is assessed at around 10 lakh units\(^5\).

Considering the gravity of the situation the government declared “Housing for All” as a priority area while announcing the National Housing Policy 1998. In order “to create a facilitating environment for growth of housing activity”, the government announced a comprehensive package of fiscal incentives focused at the buyers of dwelling units, the building promoters and the housing finance companies. Taking into account the importance of housing for the people and for the economic development of the nation, the government of India has given priority for this sector in all the Five Year Plans.
With a view to solving the problem of housing shortage in the country, a large number of financial institutions such as NHB, HFCs, banks etc. were started under the public sector by the Government of India. LIC also has taken massive efforts for providing financial assistance to individuals, co-operative housing societies and state governments. With the object of extending financial assistance on a long term basis to housing sector, LIC has established a new subsidiary called LIC Housing Finance Limited in 1989. Since then LICHFL and HDFC are the two principal institutions which specialised in housing finance. Over the years, HDFC, the market leader in specialised housing finance industry, has helped to promote institutions in the field of housing finance as well as the financial sector in general.

Even though, various measures were taken by the authorities to overcome housing problems in the country, the intensity of the problem has not yet alleviated. The corporate sector has done little in terms of mobilizing finance for housing and undertaking the construction of houses to mitigate the housing problem in the country.

The consumers should feel pleased with the availability of multiple sources of housing finance and also enquire about the merits of different schemes introduced by the various agencies of housing finance. The consumers are expected to consider various aspects like the interest rates charged on loan slab, terms, pay back facility, flexibility in repayment of monthly instalments and other economic conditions applicable to it, as the case may be. Success of a financial institution to win the appreciation and
confidence of its customers, to a large extent depends on its competitiveness
to service its customers by understanding their expectations and rendering
service in accordance with their requirements. Hence, a study on housing
financial services, indeed, deserves much significance.

1.2 Review of Literature

Housing is a broad area covering housing industry, housing finance
and other related services. Considering the significance of housing as an
important subject matter, several studies have been conducted in this field
both at home and abroad. A number of articles and reports covering various
aspects of housing also have been published. The government and RBI
reports also contain sufficient literature in the field of housing finance. A brief
note of some of the studies, articles and reports are given below.

analysed the housing problems faced by individuals which cannot be solved
by themselves and emphasized the importance of a collective action to
overcome the individual weaknesses. He suggested the role of housing co-
operatives in accelerating the house construction activities by providing
necessary finance. He also suggested that a review of the various schemes
under implementation will help in a proper appraisal of the government
policies and programmes for housing finance for the development of housing
and the formulation of a new National Housing Policy and Programme.\textsuperscript{6}
In their study, P. Ramachandran and S.B Deodhar (1979) analysed the magnitude and complexity of the housing problem in the country and stated that the physical and financial resources of our country is too inadequate to be invested in housing. The steadily increasing trends in private investment in housing have had little impact towards the ever increasing housing shortage in the country. They emphasized the need for providing fiscal and financial benefits to borrowers so as to increase investment in housing.⁷

Bentrand Renard (1983) studied the housing situation and the various sources of finance for house construction. He concluded that affordability, variability and resource mobilization are the three conflicting factors to the growth of housing sector and a perfect harmony of these factors are essential to solve housing problem in any country.⁸

In his article “Housing Finance in India Looking into Future”, Nassar M Munjee (1986) highlights the necessity of fulfilling the financial needs of home builders and home buyers so as to develop the housing sector. For this, he suggested the need for strengthening the financial intermediation by attracting more financial institutions in this sector to meet the housing finance need. For this, adequate incentives (in the form of tax exemption) and supports should be given to financial institutions.⁹

Francis Cherunilam and Oddeyar D Heggade (1987), in their book, “Housing in India”, analysed the global housing problem particularly in developing countries like India and critically reviewed the measures taken by the Government to mitigate it. They also highlighted the importance of
housing in the economy and pointed out the reasons for the slow growth in
the housing sector. The increasing role of co-operatives in housing and the
need for more investment in housing for fostering the socio economic
development in modern societies were dealt with in the book.\(^{10}\)

G. Gopikuttan (1988) analysed the causes, consequences and
dimensions of the changes in the trend of house construction activities in
Kerala. He opined that the emergence of socio-political movements and
growth of education have influenced greatly the housing pattern in the state.
Further, the enhanced yield and price of plantation crops increased the
demand for construction of new houses. Apart from this, the liberal attitude of
housing finance agencies towards lending with a view to increasing their
business gave great boost to housing in the state. However, he agreed that
the housing boom did not stimulate the state economy and it did not satisfy
the shelter needs of the weaker sections of the society. For this, he
emphasized the need for an effective policy to monitor the flow of funds into
the housing sector which will promote the industrial development in the state
also.\(^{11}\)

Kamelesh Misra (1992), in his study conducted in Rio de Janeiro
Brazil, explains how households, given a set of socio economic characteristics
and faced with different types of housing choices, opt for certain type of
dwellings to live in, and identified the factors that enter into this decision
making process. The study also investigates and explains why different
categories of household choose different housings, and what role the socio
economic variables and environmental settings play in the decision making process. He opined that appropriate housing policies can be formulated on the basis of these parameters.\textsuperscript{12}

Amitabh Kundu (1993) made an extensive study to analyse the level of housing and other basic amenities in urban areas at the national and state/union territory levels. He also assessed the quantity and quality of the facilities available to them. Further, he analysed the management and financing of housing amenities and the different programmes for formal housing, shelter and basic amenities. He suggested that public authorities should be given the responsibility of identifying vacant lands and convenient location within the cities and acquiring them through legal means for housing the poor. Then, these land/houses should be given to associations formed by the local communities on leasehold basis and restrict the transfer of property to upper income class and to reach the subsidies in their hands.\textsuperscript{13}

G.C. Mathur (1993), former Director of National Building Organisation, made an evaluation of the housing backlog and inadequacy of housing services especially in urban areas and emphasized the need for public-private co-operation in urban housing. In order to generate and maximize public-private sector co-operation in housing, he proposed certain measures such as constituting task force, Housing Technology Mission to evolve appropriate technology in housing construction, peoples’ participation with support of government and public sector agencies and the development of private sector to invest more in housing sector.\textsuperscript{14}
Pramila Suri (1994), in her study, investigates social, economic and physical variables and their interrelationship in housing areas of the urban poor to portray life in these settlements and identified their shelter need priorities. She also analysed the government response towards housing of the urban poor by reviewing the evaluation and pattern of its housing policies in the national context.\(^{15}\)

In his book, “Shelter for the Poor in the Fourth World”, R. G. Gupta (1995) analysed the housing situation in different Asian countries and emphasized the need for a global shelter strategy. The various environmental issues connected with the housing and the role of development authorities were also dealt with. He also emphasized the various forms of housing in different countries and the categories of houses constructed by public, co-operative and private sector.\(^{16}\)

Deepak Parakh (1998), HDFC Chairman, in his article, “Housing and Financial Intermediation, Operational Links and Private Sector Initiatives in Indian Context”, argues that a formal housing finance system must be able to help a household to make investment in housing and must bring affordability which enables a more efficient restructuring of resources in the economy. He suggests that policies for the sector are thus critical for housing development. There should be a proper linkage between developers and financial institution in the field of short term bridging finance and real estate information. He also emphasizes the bridge between formal and informal organization. Finally, he
concluded that resource mobilization, combined with efficient intermediation, has become the key ingredient of an effective financial system.\textsuperscript{17}

M.L. Khurana (1998), in his article titled “The Co-operative Housing Movement - a Movement for Creating Safer Cities and Improved Social Life”, stated that the factors contributing to increasing city population are: more jobs, better civic services, employment opportunities, newer family formation and shift from rural to city centers, thereby making them centers of production and consumption. In such popular cities, comprising the poor, are found higher unemployment, increased and prolonged welfare dependency, rising crime rate, problems relating to public health etc. He continued that to tackle these problems, the governments have to drain out scarce resources for developmental work relating to upkeep of schools, parks, libraries etc, for promoting societal homogeneity and stability. He also suggested the role of housing co-operatives is, apart from providing decent houses to its members, to create an environment that is conducive to the fulfilment of the physical, social, economic and spiritual needs of its members. He concluded that housing co-operatives have the potential of becoming an effective instrument of providing an improved social life and making cities safer abodes of human existence.\textsuperscript{18}

T. Paul Diamond (1998) evaluated the housing shortage in the country and suggested the role of the HFIs in national housing. His suggestions include: introducing flexibility in designing products and systems, development of mortgage market and development of suitable products to satisfy wide
range needs of borrowers (product range). He also emphasized the
governments’ role as facilitator by creating an ‘enabling’ environment to
remove constraints in housing activity and expand basic services to support
standardization and upgradation of the housing stock.\(^\text{19}\)

V. Madhusdhanan (1998) studied the part played by governmental and
non governmental agencies in mitigating the housing problem especially the
weaker sections of society in Kerala. He also analysed the different housing
schemes and policies implemented by the government and evaluated its
impact on the socially marginalised people in the state.\(^\text{20}\)

V.A. Avadhani (1999) describes the institutional set up of housing
industry, which consists of NHB as the apex institution, HDFC, HUDCO, and
Banks. The housing finance policy aspects, industry background, sources of
funds, market for housing finance, recent developments and regulation of
HFCs are highlighted by him. The novel method of raising funds by HFCs i.e.,
securitisation, is also dealt with.\(^\text{21}\)

R.C. Dangwal (1999), in his article, “Housing Finance in India: Myth
and Reality”, evaluated the performance of various financial institutions and
their different housing finance schemes and assessed the further need of
finance in order to fill up the gap between the demand and supply of housing
finance in India. He arrived at the following conclusions: -

a) The special scheme designed to provide housing finance at low
interest rate (4 percent) to SC and ST population by HUDCO was
a good effort, but the fund allocation to it was negligible.
b) Though the private sector is dominant in housing finance, it has not measured up to the challenges of demand and need.

c) Housing is not a problem for rich, it is a problem of economically poor and middle class families and the strategy has to be formulated in consideration of the poor, and separate allocation of funds should be made for the poor.  

T. Sivalingam (1999), in his work, “A Study of the Performance of Multi-Agency Housing Finance Institutions with Particular Reference to HDFC, LIC and Housing Co-operatives”, analysed the different loan schemes of HDFC, LIC and Housing Co-operatives. He also analysed the performance of the formal housing finance institutions. He concluded that the proportion of investment in public sector housing has declined while the same in the private sector has increased. A beneficiary analysis was also made to elicit the perception of the borrowers about the performance of the institutions. His main finding was that the borrowers of all the three housing finance institutions were not satisfied with regard to the rate of interest charged by them. Further, he observed that the behaviour of the officials of the housing co-operatives was not appreciable.

In his study, G.S. Gireeshkumar (2000) assessed the financial performance of PHCs in Kerala and evaluated their effectiveness in granting housing loans to members. He also analyzed the views of member beneficiaries and managerial personnel with regard to the various aspects of housing loan and examined the problems confronted by PHCs. He suggested
implementation of professionalism in management and reduction in the proportion of share linking.\textsuperscript{24}

Koshy George (2000) conducted a study among the salaried class in Kerala and examined their house construction activities, and the proportion of their investment in housing. He examined the socio economic impact due to the drainage of funds to other states in respect of employing labourers from other states and importing building materials from other states. This drainage has affected the economic development of Kerala to a great extent.\textsuperscript{25}

K. Vidyavathi (2001), in her study, evaluated the magnitude of housing problem in the state of Karnataka and examined the role of HFCs in meeting the housing finance needs. For this, she selected five HFCs (HDFC Ltd., LICHF Ltd., GICHF Ltd., Can Fin Homes Ltd., SBIHF Ltd. and Dewan Housing finance Ltd.) and studied the perception of the borrowers about the home loan provided by them. Her study revealed that the medium sized and small sized HFIs have experienced high growth rate during the initial years, but increased competition reversed their growth in loan sanction and disbursements. The researcher concluded that the borrowers of all the home loan providers have more or less the same perception about the HFCs and their home loan products. She opined that institutions that are geared to meet the expectations of customers only will survive.\textsuperscript{26}

G.S. Suresh (2002), in his research work, compared the services rendered by housing co-operatives in Kerala with other housing agencies in
the state. He also evaluated the performance of PHCs in the state and assessed the perception of its borrowers towards the society.27

In his article entitled, “A Dream House Through Tax Planning”, B.S. Rohialla (2002) highlighted the economy of Tax planning though house finance by service class people. To him, the present low interest rate regime for availing home finance and moreover its repayments attached with tax benefits, one must avail this opportunity, otherwise, the delayed decision on this aspect may result as wrong decision.28

In the paper, “Cost Effective Housing in Rural Areas”, S.K. Shama (2002) suggested that two major initiatives are needed to effectively deal with the rural housing. The first is ongoing research and development of cost-effective building materials and building systems using locally available materials and development of entrepreneurship in rural areas in their production and application. The second is strengthening the rural economy to make our villagers self-reliant.29

K.V. Krishnamurthy (2002), Chairman and Managing Director of Bank of India, in his article titled, “Housing Finance: A Safer Avenue”, explains why banks are keen on housing finance sector today. He highlighted the reasons for this changed phenomenon as the present market condition which forces the banks to park this surplus resources profitably; housing finance is relatively safe and secure, gives better average yield; to tap the potential as a result of change in life style, wide publicity by banks and financial institutions,
demand from wider reach (smaller towns) all have resulted in attracting banks to enter into this sector. He feels that there is small hope for business for the banks in housing segment. Further, the mortgage-backed nature of housing finance helps the bank to look for securitisation, which generates cash flow and thereby improve capital adequacy.\textsuperscript{30}

K.K. Mistry (2002), Managing Director of HDFC, in his article, “Future Perfect”, emphasises the importance of housing sector in the economy by stating that it has backward and forward linkages with as many as 269 industries and is the second largest employment generator in the country. He affirmed that HDFC is superior to banks in terms of its ability to render expert counselling and legal advisory services. He also stated that HDFC has an effective risk management technique so that its spread remains protected. Though banks have access to low cost funds, it is totally unstable and over a period of time it will face an issue of mismatch by borrowing short and lending long.\textsuperscript{31}

Samkutty Geoge (2002), in his study, analysed the housing finance schemes provided by housing finance institutions in the public sector, private sector, banking sector and co-operative sector. He collected the opinion of the borrowers about the housing finance schemes and measured their level of awareness and satisfaction. Based on the findings of the study, he has proposed an alternative model to make housing finance more accessible, rational, flexible and ultimately beneficial to all potential beneficiaries.\textsuperscript{32}
Rajiv Sabharwal (2002), chief operating officer of ICICI Home Loans, in his article, “Competition: Differentiation Holds the Key”, contemplates that the housing finance sector has become more competitive in recent times with banks and HFCs marketing their products much more aggressively. In situations where the basic offer is similar, it is often superior service levels and value added services that are likely to differentiate the leaders. Now a days, customers are seeking more than just a loan, they seek convenience in the entire process of acquiring a home as well as its finance.  

In the article titled, “Growth at a Brisk Pace”, R.V.S. Rao (2003) stated that the housing finance sector has been growing at a brisk pace due to the increased demand for housing consequent to the lowering interest rates, tax concessions and increasing incomes. To meet the increased demand for housing and the lower probability of losses prompted varied players to enter the sector. He opined that, however, not all players are likely to succeed and to withstand competition, they should render technology-enabled value added services.

A.D. Rebellow (2003), in the article, “Investor-Friendly Incentives”, evaluated the budgets of 2000 and 2001 which contained sops for real estate investors and developers and a package for the housing finance sector. He worked out the savings of tax at different levels of housing loans and proved that investment in housing helps prune the tax liability.

In the article, “Housing Finance and the Urban Poor”, V. K. Dhar (2004) suggested that the existing patterns of distributing the benefits from the
increased credit-flows to the housing sector are more in favour of upper income groups and larger urban centres. By virtue of its emphasis on mortgage financing, the formal housing finance institutions tend to bypass the urban poor— a group that it should save. He concluded that there is the need to ensure an equitable distribution of resources. The widening of the finance system also implies increasing its reach down to the income ladder. Political will needs to be mobilised to enact the necessary legislative changes to make all of these possible. Such efforts will lead to an efficient and equitable finance system in the future.  

In the article titled, “Huge Untapped Potential”, Nitin Palany (2004) described the evolution of housing finance industry and stated that there is a huge potential for housing finance which can be tapped across the country. He also stated that there is room for every player in the housing finance market. He opined that in the midst of the information explosion, borrowers sometimes find it difficult to decide the right lender for which he has given a check-list to borrowers to take a right decision.  

In the article,” Housing Loans –Choose the Best Deal”, M. Kumar (2004) discussed the option (fixed, floating or mixed) that may be considered as the best for the borrower. He opined that mixed option might be the best in the present scenario as the market is highly uncertain so far as change in interest rate is concerned. So, borrowers should plan their financial needs in an effective manner to get the best deal and to decide the proportion depending upon the risk bearing capacity.
P. K. Manoj (2004), in his article, “Dynamics of Housing Finance in India”, made an attempt to study the growth and development of housing finance system in India. He also emphasized the importance of housing to the economy and prospects of housing finance industry. He examined the risk factors and issues involved in aggressive lending to housing due to cut-throat competition, and the peculiar features of the existing regulatory and legal system. He concluded that measures should be taken to promote active mortgage backed securitisation market in India, which can further strengthen our housing finance system and make it more competitive.  

K.V. Varghese (2004), in his article entitled, “The Existing Housing Finance System”, is of view that as a result of mal-allocation of funds, the finance is inadequate. This is mainly due to the absence of country wide institutions to combine savings with the provision of housing finance. He opined that housing is a costly commodity which requires huge investment. The present housing finance system lacks facilities of mortgage loan and insurance for housing credit. Poor people (pavement dwellers) are outside the purview of all financial institutions and hence, some sort of financial arrangement may be made to meet their financial requirements of housing.  

Kumari Selja (2004), Honourable Minister of State for Urban Employment and Poverty Alleviation, Government of India, in her article, “Housing for the Poor”, highlighted the role of government to act as a facilitator rather than a house builder, as envisaged in the National Housing
and Habitat Policy 1998. She highlighted that with massive urbanization, the housing problem has assumed alarming proportions, more so for the weaker sections, low income groups, disadvantaged, marginalized and the poor. Even though, the contributions of HFIs in increasing loan disbursement is worth mentioning, but access to finance for EWS and LIGs through HFIs and Banks, is an area of concern. The reason is that the major funding under the housing finance sector has gone to the middle and higher income groups. She also made an overview of social housing on rental mode for the weaker sections and the need to make reforms in the Legislative and Regulatory Acts and Rules (Rent control Laws, Urban Land Ceiling Act, Stamp Duty Act etc.) which inhibit the growth of housing sector. She suggested that public private partnership is essential in the housing sector and the proactive role of private sector in taking up housing programme on a massive scale for the poor with social commitments. In an increased construction cost scenario, she also suggested the adoption of cost-effective building materials and technologies which would lead to affordable houses.41

In the article, “Bank Funds Flow to Rural Housing”, P.K. Gupta (2005) made an estimate of housing requirement in rural areas as 24 million units as compared to 7.1 million units in urban areas (taking into account replacement, new units and damages of houses due to vagaries of nature). He advocated that banks are expected to bring about a qualitative change, in the lives of rural individuals by giving effect to ‘Bharat Nirman’ plan, envisaged in the Union Budget 2005-06. He also emphasized the importance of taking appropriate policy measures for accelerating the rural housing activities
through public institutions’ participation. He opined that a healthy development of housing finance system is an essential ingredient to fuel growth in a market-based economy, like ours.  

Jasmindeep Kaur Brar and J.S. Pasricha (2005) conducted a study to examine the perception of the customers regarding housing loan offered by five main institutions (HDFC, LICHFL, SBOP, PNBHF and Housefed) in the state of Punjab. The study revealed that the customers of 3 out of 5 institutions were satisfied with the services provided by the institution, but the customers of other institutions were indifferent with regard to the services rendered by the institution. The customers of all the institutions were of the view that despite the falling interest rate regime, all the institutions charged high rate of interest.  

Praveen Gupta (2005), Assistant Manager of NHB, in his article, “Housing Finance Companies – an Insight into Regulatory Aspects”, stated that HFCs, both in public and private sectors, play an important role in providing housing finance in India. He critically evaluated some key regulatory aspects pertaining to HFCs in the light of various directives and guidelines issued by the NHB.  

Avtar Singh Sahota (2005), the Director (RH), Union Ministry of Rural Development, in his article, “Schemes on Rural Housing”, narrates the new demand for dwelling units as a result of rapid growth of population and deterioration of old housing stock and the Government’s commitment to provide shelter to all. He also made an evaluation of the various housing
schemes for the rural poor and the initiatives taken by the state Governments. He suggested that while searching for technology option in rural housing, certain predominant aspects should be kept in view, such as, using locally available materials in abundance, using traditional though validated construction practices and technologies, using improved construction systems, and adopting options, which are least energy consuming and environment-sensitive.  

Mahi Pal (2005), Associate Professor, Haryana Institute of Rural Development, in his article, “Panchayati Raj Institutions and Rural Housing”, provided a brief account of the housing shortage in the rural areas and the role of panchayats to meet the requirements of houses in the rural areas as envisaged in the National Housing and Habitat Policy 1998. He opined that the Panchayats themselves should come forward to provide shelter to the villagers in the shortest period and should implement the centrally sponsored schemes in an effective manner by way of activating the Grama Sabha. In addition to this, Panchayats should also take up the work of construction of houses by investing their own resources as well as by borrowing funds for the purpose from financial institutions.  

In the article entitled, “Is Housing Finance Safe as Houses? Or Delinquency in Housing Finance”, Srinivas P. Subbarao (2006) explained the factors influencing the housing finance, advantages of housing finance to banks and the drawbacks in housing loans. He highlighted the fact that non-performing loans in the Indian housing finance sector are much higher than
those experienced in a developed market such as the U.S. This is a reflection of the industry’s aggressive marketing tactics and some inadequacies in appraisal standards and systems. Banks, therefore, should concentrate on providing loans within the prudent credit norms for eligibility and margin. If the banks have not taken the prudential norms for housing loans they have to conduct recovery mela instead of present loan mela.  

A.P. Helen (2006), in her study, has made a comparative analysis of the schemes of HDFC and KSHB and tried to see how far the economically weaker section in the three metro cities in Kerala (Trivandrum, Kochi, Kozhikode) benefited the services rendered by these two institutions. She also made an evaluation of the cost effective and conventional housing, examined the awareness of the low cost housing technology and recommended the need for cost effective, eco-friendly housing. She opined that, in Kochi, low cost housing means low quality housing, meant for the poor and hence there is urgent need to popularise low cost housing so as to change the mindset of people.

S. Hasanbanu and Jeya Shree (2006) studied the various factors which influence the people for availing housing loan from public and private sector banks. They concluded that there is vital scope for housing promotion in India, and banks can play a vital role in promoting house building activities in villages by introducing more dynamic and innovative housing loan schemes.

K. Sirajuddin (2007) conducted a study among the housing loan borrowers in Pollachi taluk, Tamil Nadu, to ascertain their loan seeking
behaviour. He also analysed the determinants of awareness of borrowers and the factors influencing their satisfaction.  

A close examination of various studies made in the context of housing finance industry revealed that they have covered the various aspects of housing infrastructure, the need for housing finance and also the role played by various housing finance institutions. The other available literature in this regard also emphasises the role of government in developing the housing sector and the various sources of housing finance in the liberalised scenario. The prospective borrowers are scared at various institutions providing housing finance. To effectively make use of the available loan facilities, one should be thoroughly aware of the various aspects of housing finance. Due to the policy disagreements there may be difference between public sector and private sector housing finance institutions in terms of borrower perception and satisfaction towards their services. Enhancing the awareness and satisfaction of borrowers in respect of the services rendered by these financing agencies is of utmost importance while they design their policies and strategies. Studies regarding the awareness and satisfaction of borrowers in housing finance are relatively scanty, especially in Kerala. Specialised Housing Finance Institutions have significant share in the housing finance segment of the country and from the available literature, it is evidently known that no exclusive study comparing the services rendered by public sector and private sector institutions in specialised housing finance industry in the context of Kerala, has not been made so far. So, the present study entitled ‘A Study on Housing Finance Services in Kerala with Special Reference to HDFC and LIC
Housing Finance Ltd.’ is a genuine attempt to identify and bridge this gap in housing finance research.

1.3 Statement of the Problem

Housing is acknowledged as a basic human necessity for leading a safe and dignified life. Housing is a chronic problem both for developed and developing countries but in varying degrees and dimensions. The problem of housing has been aggravated by the increase in population, scarcity of land areas, spiralling land prices, low-income levels and low rate of addition to the housing stock, inadequate maintenance and the fast pace of urbanisation.

The need for housing in India has been growing at a phenomenal pace over the years. In India, the problem of housing shortage grows at an alarming proportion with the rapid growth of population, progressive urbanization, changing family structure, raising per capita income etc. The Tenth Five Year Plan has estimated the urban housing shortage at the level of 8.89 million dwelling units and the total number of houses required during the plan period as 22.44 million units. The total investment required for the above is estimated at the level of Rs. 4,15,000 crore. Such a huge amount cannot be raised by the Central and State Governments alone. So, active participation of the private sector, also, is highly essential.

With the emergence of National Housing Bank in 1987, the organised housing finance industry has been dominated by the specialised Housing Finance Institutions regulated by NHB, and the role of Commercial Banks, Co-
operative Banks, and Agricultural and Rural Development Banks become secondary. But, in pursuance of National Housing Policy and priority sector lending norms of Central Government, commercial banks become more dynamic in the housing finance business, which posed threat to the specialised HFIs, and their market share has considerably diluted. Lowering of interest rates, entry of many new players, thin spreads, reduced credit off-take to industrial sector, insignificant product differentiation etc. have made competition in housing finance industry very stiff. Further, the borrowers are confronted with many problems as they are not fully aware of the different aspects of housing loan of different financial institutions, such as the services rendered, interest calculation, processing charges, maturity tenure, effective rate of interest etc. which make comparison between institutions more complicated.

Thus, the complex nature of housing finance in India itself necessitates an evaluation of the services rendered by the players in the industry to its customers and their perceptions and level of satisfaction in this regard. Hence, a comparative study on the performance of two prominent lending institutions in the housing finance sector in Kerala - HDFC and LICHFL- from the perspective of their customers has been made.

1.4 Scope and Significance of the Study

Scope

The study is confined to two major specialised HFIs - HDFC from the private sector and LICHFL from the public sector. The study is focused on the
housing loan borrowers of HDFC and LICHFL in the state of Kerala. The study is mainly intended to assess the perception of borrowers regarding the housing finance services of HDFC and LICHFL. The various factors influencing awareness and satisfaction of borrowers are also studied.

**Significance**

Housing is a basic human need and a complex problem. Owning a house is a dream for most families because the self earned income of an individual or a family is not sufficient to own a house, considering the huge investment required for housing. So, there arises the need for housing finance.

Till the economic liberalisation, there were only specialised housing financing institutions, which were regulated by the NHB. They enjoyed considerable share of housing finance industry. But, the economic liberalisation during 90’s paved the way for the entry of private players into the housing financing industry. The modification in the RBI guidelines in 1998 allowed public sector banks to provide housing loan directly to retail clients. All these developments have fuelled in an unforeseen competition among the various players and triggered an interest rate war in the housing finance market, the result of which led to the slump of market dominance of specialised HFIs.

There has been an evident shift in perception and mindset in the Indian middle class due to the impact of liberalisation and opening up of the Indian
economy, a rise in average income across the households, and a palpable desire to own things ‘now’. This desire is also very evident in the case of owning a house and very often individuals are buying houses early in their work life by taking a housing loan. Further, there is a change in the mindset of people that a ‘loan’ is no longer considered a stigma.

The different HFI’s including commercial banks started to capitalise the opportunities that the economic reforms made in the housing finance sector of the country by designing their products to suit the varying housing needs of the people. But, this creates problem at the receiving end. Now, the people are confronted and confused with the selection of schemes by making the analysis of their relative merits and demerits.

In this juncture, it is important to analyse how far the selected HFIs from the specialised housing finance sector are able to combat the competition created in the housing finance industry by the economic reforms initiated in the country. It is also important to know the level of awareness of the borrowers of these institutions and the extent to which they are satisfied with the products offered to them by the lending institutions. The result of the study shall help the lending agencies to render better services in tune with the expectation of their borrowers. The study will also facilitate the government in formulating or revising housing policies and fiscal concessions while drafting their budgets. The prospective borrowers in the housing finance industry can also be benefited as they become more aware of the innovative home loan
schemes and their related aspects, which shall help them in the formulation of rational financial management policies in their personal lives.

1.5 Objectives of the Study

1. Assessing the magnitude of housing problem in India in general, and Kerala in particular.
2. Examining the role of HDFC and LICHFL in alleviating the problem of housing finance in Kerala.
3. Assessing and comparing the awareness, perception and level of satisfaction of the customers of HDFC and LICHFL with regard to the housing finance services rendered by the respective lending institutions.
4. Identifying the major factors determining the satisfaction level of home loan beneficiaries in Kerala.

1.6 Hypotheses

1. There is no difference between HDFC and LICHFL in terms of the borrower awareness and perception on home loan schemes.
2. Borrower attributes have no impact on their level of awareness and perception in HDFC and LICHFL.
3. There is no difference between HDFC and LICHFL in terms of the borrower satisfaction on home loan schemes.
4. There is no association between borrower attributes and their level of satisfaction in HDFC and LICHFL.
1.7 **Methodology**

The research design adopted for the study is both descriptive and analytical in nature. In pursuance of the objectives and hypotheses, following methodology was adopted.

1.7.1 **Sample Frame**

The universe of the study comprised the borrowers of two top financial institutions from specialised housing finance sector of India. The institutions selected were HDFC and LICHFL, the former representing the private sector and the latter the proxy of public sector specialised HFI. The population of the selected institutions was identified as the average number of borrowers who availed themselves of housing loans during the three years from 2000-01 to 2002-03. The reason for selecting this period is that, by about 2008 (the year of data collection), the borrowers would have a reasonably long experience of about 4 to 5 years as a beneficiary, so as to have a fairly accurate picture of the degree of satisfaction they had, and of the borrower perception they gained. Then, ten percent of the population so identified was taken as the sample size which comes to 359 for HDFC and 267.7 for LICHFL. This is rounded off to 360 and 270 respectively, and thus total sample constitutes 630 home loan beneficiaries.

Two stage sampling technique was administered for selection of the sample required for the study. The first stage of sampling decides the geographical location from which we have to identify required number of
borrowers of selected institutions i.e., final sample of the study. The State of Kerala was taken as the broad spectrum for the study and the state was divided into three zones namely, North, Central and South. Two districts having highest growth rate in terms of per capita income (as per the estimates of 2003-04\textsuperscript{52}) from each zone were selected by considering the fact that borrowings and repayment of loans closely associated with income level of the people. Accordingly, from the North Zone, Kozhikode and Kannur, from Central Zone Ernakulam and Kottayam, and Thiruvananthapuram and Alleppy from South Zone constituted the first stage sample. Then in the second and final stage of sampling, 60 customers of HDFC and 45 customers of LICHFL from each of the 6 identified districts were selected by observing simple random sampling technique.

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Institution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>LICHFL</td>
</tr>
<tr>
<td>2000-01</td>
<td>2944</td>
<td>2682</td>
</tr>
<tr>
<td>2001-02</td>
<td>2985</td>
<td>2350</td>
</tr>
<tr>
<td>2002-03</td>
<td>4840</td>
<td>3000</td>
</tr>
<tr>
<td>Total Beneficiaries</td>
<td>10769</td>
<td>8032</td>
</tr>
<tr>
<td>Average</td>
<td>3590</td>
<td>2677</td>
</tr>
<tr>
<td>Sample size (%)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Sample size (No.)</td>
<td>360</td>
<td>270</td>
</tr>
</tbody>
</table>

### Table 1.2

**Geographical Distribution of Sample**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Districts</th>
<th>HDFC</th>
<th>LICHFL</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>Kozhikode</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Kannur</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>120</td>
<td>90</td>
<td>210</td>
</tr>
<tr>
<td>Central</td>
<td>Ernakulam</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Kottayam</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>120</td>
<td>90</td>
<td>210</td>
</tr>
<tr>
<td>South</td>
<td>Thiruvananthapuram</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Alleppy</td>
<td>60</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>120</td>
<td>90</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>360</td>
<td>270</td>
<td>630</td>
</tr>
</tbody>
</table>

### 1.7.2 Source of Data

The study is based on primary as well as secondary data. Data collection process was made in two different stages. In the first stage, a review of literature was undertaken so as to acquaint with the various aspects of the study to formulate the conceptual framework for the study. In the second stage, primary data were collected with the help of a pre-tested and structured interview schedule that was finalised after a pilot study. The model of the interview schedule is given in Appendix I.
Secondary data were obtained from published and unpublished reports, textbooks, periodicals, journals, seminar papers, websites, government publications and commission reports. The annual reports, brochures, pamphlets and other documents of selected financial institutions were also used.

1.7.3 Method of Analysis

Tables, charts and graphs have been used extensively to present the data in appropriate chapters. For the purpose of analysis both descriptive and inferential statistical techniques were used. Rating scales and ranking tables were used to measure the awareness, satisfaction level, as well as the borrowers’ perception of various aspects of service.

Simple statistical tools like ratios and percentages were applied wherever it is appropriate. Percentage analysis was done to measure the level of awareness, satisfaction and perception of borrowers of the two institutions in terms of various factors. The growth rate and annual average growth rate were used to compare the series.

The Chi-square test was applied to verify whether there is any significant difference in the level of awareness, level of satisfaction and the perception level of borrowers of the two identified institutions with regard to different factors.
Test value mean is taken as the basis for measuring the level of awareness, level of perception and the satisfaction level of borrowers. Test equality of mean (One-Way ANOVA or t-test whichever is appropriate) has been used to find out whether the means of various groups of borrowers significantly differ or not. Also, the multiple comparisons test (Tukey’s Honestly Significant Difference test) was made to determine the difference in the means of various attribute groups.

1.8 Limitations of the Study

The study is confined to only two major specialised housing finance institutions- HDFC and LICHFL. The data collected from selected home loan borrowers of HDFC and LICHFL in Kerala formed the basis of the study. Hence, proper care may be taken while generalising on the results. The main objective of the study is to assess the satisfaction level of beneficiaries with regard to the services rendered by these institutions. Since the study was mainly on this most qualitative or subjective nature of human behaviour - ‘satisfaction’, exact quantification of data became difficult.

The analysis suffers from non-sampling error, since some of the respondents were reluctant to give correct information. Further, there may be bias or unwillingness from the part of the institutions to provide sufficient information. The evaluation and analysis is subject to certain inherent limitations, which are common for all studies based on social survey.
1.9 Layout of the Report

The present study entitled "A Study on Housing Finance Services in Kerala with Special Reference to HDFC and LIC Housing Finance Ltd." has been organised into eight chapters.

The first chapter deals with the introduction, review of literature, statement of the problem, scope and significance, objectives, hypotheses, methodology, limitations and layout of the report.

The second chapter gives a brief account of the housing problem in India and Kerala.

The third chapter provides an overview of housing finance industry in India.

The fourth chapter is concerned with the profile and role of HDFC and LICHL.

The fifth chapter deals with the analysis of the profile of borrowers.

The sixth chapter analyses the awareness and perception of borrowers.

The seventh chapter deals with the level of satisfaction of borrowers.

The eighth chapter gives summary of findings, suggestions and conclusions.
REFERENCES


38. M.Kumar, “Housing Loans – Choose the Best Deal”, *Readers Shelf*, 1, No. 3, (December 2004), pp. 5-6.


