CHAPTER VII

FINDINGS AND SUGGESTIONS

Findings:

2.1 The problem of housing shortage in India has assumed alarming proportions during the decade 1991-2000. The 1991 census has confirmed that there was a shortage of 31 million housing units and the shortage would be 41 million units by the year 2001 A.D. It is estimated that more than $2/3^{rd}$ of the population do not have a permanent roof over their heads.

2.2 Housing shortage shows different dimensions, in rural and urban areas. The housing shortage in rural areas in 1991 was higher at 64.06 per cent of the total while it was 35.94 per cent in urban areas during the same period. Housing shortage for the year 2001 as per the projections indicate almost similar dimensions. The shortage of housing units for the year 2001 in rural areas is projected to be 65.77 per cent of the total while the shortage for the urban areas would be 34.23 per cent.

2.3 In every part of the world progress in housing lags far behind the industrial progress. India is no exception to this.
2.4 The urban housing crises have manifested themselves in many ways of which the most significant is the growth of slums and squatter settlements.

2.5 Urbanisation contributes mainly to the shortage of housing stock. Urban congestion in India has led to shortage of houses in cities and towns.

2.6 Overall position emerging from the statistical analysis of housing problem in relation to the growth of population indicates that the decennial growth rate of housing stock is comparatively higher than the decimal growth rate of population in India.

2.7 Housing inadequacy in India is further confirmed by the fact that the average occupancy rate per room is 2.7 persons per room and this compares very unfavourably with the position in advanced countries. The pace of housing construction is very slow compared to the need for the same.

2.8 There were 3,245 towns in India as per 1981 census and it has increased to 3,697 towns as per the 1991 census report.

2.9 Housing is linked to the socio-economic development of the country. Yet low priority is given to this very capital intensive industry.
2.10 The factors that attributed for government participation in housing are lack of adequate financial resources, high cost and non-availability of suitable land, escalating cost of construction, etc.

2.11 The financial involvement of the state in the expansion of housing facilities is likely to be of a very high magnitude due to its policies of subsidised housing finance, free housing to the poor and needy, development of layout and provision of infrastructure etc. Housing programme is basically a state subject in India.

2.12 The investment in the housing sector has increased substantially in absolute terms from Rs.1,150 crore in the First Five Year Plan to Rs.31,377 crore in the Eighth Five Year Plan, but the relative share of the housing in the total plan investment during the above said period has considerably declined from 34 per cent to around 1.5 per cent.

2.13 Construction is the third largest source of employment next to agriculture and manufacture.

2.14 Although the ULCRA was enacted for social control over the scarce urban land ensuring its equitable distribution among the urban poor, the manner in which the Act was implemented throughout the country is quite discouraging to say the least.

2.15 A constraint to housing has been the inadequate supply of developed urban land.
2.16 The anachronistic rent legislation in a number of states has been the biggest deterrent to increasing investment in the housing in the country.

2.17 The legal framework and lack of adequate physical incentives are identified as major constraints to the development of housing activities.

2.18 Flow of funds for investment in housing is another important constraint to the development of housing activities.

2.19 The employment generation potential of the housing sector is enormous. An investment of Rs. one crore in house building would provide direct employment to 289 persons at December 1989 prices.

3.1 The National Housing Policy (NHP) adopted by the Government of India has given direction and thrust towards housing programmes at state and central level.

3.2 The NHP simply prescribes the guidelines that are to be followed by the HFCs while discharging their functions. The policy does not set any QUANTITATIVE TARGETS to be achieved within a particular time frame. This is due to resource constraints.

3.3 The guidelines of the policy have failed to demarcate financial target and time-bound programmes. These will only keep the policy on paper.
3.4 The policy is hamstrung by fiscal and financial constraints, legal hurdles, industrial concentration, and lack of infrastructure and rapid urbanisation.

3.5 NHB, a wholly owned subsidiary of the RBI was established in July 1989 to mobilise funds for the housing sector and to refinance the housing loans of the recognised HFCs.

3.6 There were 21 recognised HFIs in India.

3.7 NHB provides financial assistance to HFCs by way of participation in equity and by way of loans and advances. Refinance support is available only to those HFCs which comply with the directions and guidelines issued by NHB.

4.1 An institutional superstructure has emerged in India for providing financial boost to housing development programmes in the country.

4.2 Scheduled commercial banks have also entered the fray and have contributed substantially to the housing sector.

4.3 The total investment required during the period 1981-2001 for removing the backlog of housing needs up to 1981 and for creation of new housing stock was Rs.1,90,000 crore at 1985 prices excluding investment in infrastructure and services.
4.4 Housing co-operatives too have been encouraged under new housing policy spectrum. Co-operative housing societies have been successfully functioning in various urban centres.

4.5 The LIC is statutorily required to invest 25 per cent of the net accretion to its controlled funds in socially oriented schemes like housing, electrification, water supply, sewerage, etc.

UTI too has been participating in the equity of housing finance companies. Provident funds have been another important source of finance for housing schemes.

HUDCO provides financial assistance to State Housing Boards, Slum Clearance Boards Development Authorities, Improvement Trusts, Municipal Corporations, Local Bodies, etc. It has also been providing finances for rural housing schemes.

4.6 The informal sector has been quite successful in providing extended financial assistance to housing schemes due to the informal approach regarding the release of funds.

4.7 Another important constraint to increasing housing stock is the lack of adequate housing finance.

4.8 The institutional process of housing finance began in the 1970s with a network of State level Housing Boards. An Apex Financial Institution, the Housing and Urban Development Corporation (HUDCO) was entrusted with financing these efforts through a techno-financial
links with these various house building agencies. Subsequently, cooperative housing movement catering largely to the private sector was started. The purpose was to encourage households to form primary housing societies and invest initial capital for purpose of land and then obtain finance through Apex Federations from LIC. Next came the efforts to provide finances to employees of public sector corporations, civil servants, etc.

4.9. Housing finance as a financial intermediation process started in 1978 with the formation of HDFC. Housing finance system in India is heavily dependent on allocated credit.

4.10 The specialised housing finance institutions mobilise financial resources from the public. They also depend on the general financial institution for resources in the form of loans and subscriptions to their debentures or bonds. State Government’s assistance to the housing sector is partly derived from the LIC/GIC, HUDCO avails of financial assistance in the form of grants from the Government of India. There are also inter-institutional flow of funds among the specialised housing finance institutions.

4.11 The projected inter-institutional flow of funds during the Ninth Plan amounted to Rs. 38,000 crore of which, Rs. 5,455 crore shall go to state agencies, Rs. 13,685 crore to institutions and Rs. 18,860 crore to individuals.
4.12 The securitisation offers new vista for the HFCs. But like in any mortgage based transaction stamp duty is levied on the sale which is considerably high.

4.13 The capital markets in housing are in their infancy in underdeveloped countries and India is no exception to this.

4.14 NHB would bring about a tighter control over the activities of HFIs and ensure financial integrity and public confidence in the housing financial system. This could eventually help build a sound institutional base for housing finance as well as for potential future secondary market activity and ultimately to increase the flow of funds into the housing sector.

4.15 Government policy is skewed in favour of directing funds of nationalised financial institutions towards priority sectors like agriculture, small industry, etc., and away from social sector like housing. This has starved the housing sector of funds at reasonable cost. The policy has affected the household access to finance. It is not surprising that household credit has accounted for only 2 per cent of total credit issued by financial intermediaries and about 1 per cent of the value of housing stock.

4.16 HFCs have emerged in recent years with a view to prevent an increase in the magnitude of backlog of housing shortage and inculcate a 'national' habit of saving among the potential house-owners. They
pursue the goal of developing a sound and healthy housing finance system.

4.17 There were 63 classified HFCs in 1996 of which a maximum number of 16 were in Maharashtra, 9 each in Karnataka, Gujarat and Delhi, 5 in West Bengal, 4 in Andhra Pradesh, 3 in Tamil Nadu, 2 in Uttar Pradesh, 1 each in Rajasthan, Kerala, Punjab, Orissa and Madhya Pradesh.

4.18 The performance of HFCs has been impressive. The number of 21 HFCs approved by the NHB for financial assistance increased to Rs. 3049.32 crore as on 31st March 1996 from Rs. 1898.47 crore as on 31st March 1995.

5.1 HDFCs ownership structure was designed in such a way as to ensure a widely held equity base giving no scope to any sector to dominate.

5.2 HDFC has done a commendable job in financing more than one million dwelling units aggregating to over Rs.103 billion.

5.3 In order to serve the rural people the HDFC has promoted a specialised HFI called GRUH.

5.4 All the four selected HFOs are engaged in certain nation building activities in addition to their main function of housing finance.
5.5 The public stake in equity of DHFL is 57.57 per cent followed by promoters, Union Bank of India.

5.6 The DHFL has also offered a special scheme for rural housing.

5.7 LIC has set up a separate organisation called "LIC Housing Finance Ltd.," in 1989 as its subsidiary. The equity holding of LICHFL is subscribed by ICICI, IFCI, UTI, and GIC.

5.8 All the four selected HFOs have tailored their housing schemes to suit the regular sources of income of the borrowers.

5.9 All the four selected HFOs have not so far designed housing finance scheme meant EWSs and LIGs.

5.10 LICHFL insists on policies issued in favour of the borrower. This will reduce the burden of repayment of housing loans on the legal heirs in case of untimely death of the borrower.

5.11 There are fewer chances of default in EMI payments which, in turn, ensure availability of funds for recycling.

6.1 Housing finance in India has become more competitive due to many institutions entering this field. Liberal interest rates repeal of ULCRA and entry of banks with distinct advantages are the contributory factors.

6.2 The growth of housing finance in terms of loan approvals and disbursements of selected HFOs provide some revealing facts:
a) In spite of erratic loan approval performance, DHFL has registered the highest average growth rate of 29.23 per cent, whereas the average growth rate of LICHFL is the lowest when compared to the rest of the organisations. In spite of acute competition, HDFC has maintained steady and consistent growth rate throughout the period under study.

b) As far as loan disbursements are concerned, performance of HDFC and LICHFL is quite satisfactory as compared to that of DHFL and CFHL.

HDFC has achieved a milestone by maintaining consistent growth rate in loan disbursements over the period having the highest average growth rate. CFHL has registered the lowest growth rate when compared to the other three institutions.

6.3 It is observed that all the institutions selected for the study have given importance to individual lending. Of the four institutions, LICHFL is leading followed by CFHL, HDFC and DHFL.

6.4 It is significant to note that percentage recovery of loans of HDFC is the highest when compared to the remaining three HFOs. Recovery position of LICHFL is not satisfactory when compared to HDFC, DHFL and CFHL.

6.5 It is found that the rate of interest charged by DHFL is low when compared to other HFOs up to a loan amount of Rs.25,000 and for loans exceeding Rs.25,000, HDFC’s interest works out cheaper as it charges a flat interest rate of 13 per cent on loans irrespective of their size and amount.
6.6 An increasing trend in the 'interest spread' ratios of DHFL, a declining trend in LICHFL and a fluctuating trend in HDFC and CFHL are observed during the period under study. Percentage of interest spread of HDFL is satisfactory when compared to other units.

6.7 It is found that the average percentage of 'interest and other charges' to gross income of HDFC is the lowest (i.e., 69.17 per cent) and that of CFHL is the highest (74.96 per cent). Further, the percentage of interest and other charges to gross income shows an increasing trend in case of HDFC and LICHFL, a declining trend in case of DHFL and a fluctuating trend in case of CFHL.

6.8 The average percentage of 'staff expenses to gross income' is the highest at 2.85 per cent for DHFL and the lowest at 1.29 per cent for HDFC during 1995-96 and 1999-2000. The respective percentages of CFHL and LICHFL are 2.59 per cent and 1.61 per cent. Further, a declining trend in HDFC (except 1999-2000) and LICHFL (except 1997-98) and an increasing trend in case of DHFL and CFHL are observed.

6.9 The average percentage of 'establishment expenses to gross income' of LICHFL is the lowest (i.e., 0.38 per cent) and that of CFHL is the highest (i.e., 1.62 per cent) during the period. The efforts of LICHFL and HDFC in keeping down the average percentage of establishment expenses, in spite of having more number of branches and regional offices is commendable.
6.10 'Other expenses to gross income' of DHFL at 6.03 per cent is the highest and that of LICHFL is the lowest. The respective percentages of HDFC and CFHL are 1.70 and 2.01.

HDFC has succeeded in reducing its 'other expenses' significantly from year to year. In case of DHFL it fluctuated erratically. CFHL has also not succeeded in keeping its 'other expenses' reasonably stable.

6.11 An increasing trend in the percentage of 'staff expenses to total operating expenses' of HDFC and DHFL and a fluctuating trend in CFHL and LICHFL is observed during the study period.

In spite of continuous increase in the 'percentage of staff expenses to total operating expenses', DHFL has recorded the lowest average percentage when compared to the other three institutions. LICHFL has the highest ratio, revealing that it has failed to reduce its staff expenses.

6.12 The percentage of 'establishment expenses to total operating expenses' of LICHFL is 12.17 per cent which is comparatively lower than that of HDFC, DHFL and CFHL. The average percentage of CFHL is 26.21 per cent, which is relatively higher when compared to HDFC, DHFL and LICHFL. It reflects that CFHL is not able to minimise its expenses.
6.13 The average percentage of 'other expenses to total operating expenses' for the study period shows wide divergences. DHFL has registered the highest average and CFHL has recorded the lowest average when compared to other units under study. This fact reveals that CHFL has succeeded in keeping its expenses low.

6.14 The average operating profit margin ratio of LICHFL was the highest when compared to HDFC, DHFL and CHFL. This fact reflects that the gross income of LICHFL was satisfactory and that of DHFL was the lowest. This reveals that the gross income position of DHFL is not satisfactory when compared to other three units.

It is interesting to note that 'operating margin ratios' of HDFC and LICHFL have maintained lead over the industry's average operating profit margin ratios. DHFL and CFHL have not succeeded in maintaining their average ratios above the industry's average.

6.15 HDFC's average net profit margin ratio was the highest, i.e., 19.76 per cent when compared to the rest of the organisations. This shows that the management of HDFC has not only been able to run the business profitably but also with reasonable operating expenses. In contrast to this, CFHL's average net profit margin ratio was the lowest, i.e., 12.88 per cent. This fact reveals that management's inefficiency in using the resources and minimising expenses.

HDFC and LICHFL have a higher net profit margin ratio to average net profit margin ratio of the remaining two HFCs.
6.16 The average ROA ratio of all the four HFCs when compared to the industry's average ROA ratio, shows that CFHL and DHFL are faring better than the remaining two HFOs. In case of HDFC, ROA ratio is not satisfactory. But the redeeming feature is that it is nearer to industry's average ratio. The average ROA ratio of LICHFL is unsatisfactory. This is an evidence of poor performance by the LICHFL when compared to the other HFOs.

6.17 The ROCE ratios of LICHFL are unsatisfactory when compared to the ROCE ratios of the remaining three corporations. This calls for taking necessary steps on the part of the management to improve its performance. ROCE ratios of CFHL is satisfactory. The performance of DHFL and CFHL appears impressive as compared HDFC and LICHFL. A fluctuating trend in the ratios is observed in all the four HFOs.

6.18 The redeeming feature is that the average ROE ratio of LICHFL when compared to the ROE average ratio of the remaining three HFOs shows that it has recorded the highest percentage (i.e., 19.62 per cent). Very impressive performance indeed. The average ROE ratio of HDFC was the lowest when compared to the ROE ratio of the remaining three units.

However, the average ROE ratio of CFHL and LICHFL was very satisfactory when compared to the industry's average ROE ratio of
17.58 per cent. As against this, the average ROE ratio of HDFC is not satisfactory and the average ROE ratio of DHFL is very unsatisfactory.

6.19 EPS of HDFC has shown continuously an increasing trend, by registering the highest average EPS of Rs.24.59 when compared to the remaining three units. This reflects that EPS of HDFC is very satisfactory. DHFL has registered the lowest EPS of Rs.3.71 when compared to the other organisations. EPS of DHFL is not impressive.

It is observed that HDFC is the only company among the four selected HFOs which has maintained very good EPS. As against this, the remaining three companies have not succeeded in keeping their EPS at a satisfactory level.

6.20 DPS of HDFC has significantly increased from year to year and is exceptionally impressive in 1999-2000. The average DPS of HDFC is the highest when compared to the other HFOs under study. This fact reflects management’s efficiency in using the available resources. In contrast to this, DHFL has registered the lowest average DPS when compared to the remaining three HFOs. Thus, the DPS of DHFL is far from satisfactory.

6.21 The average payment ratio of DHFL is relatively higher when compared to other HFCs during the same period under study. LICHFL has recorded the lowest average ratio when compared to other HFCs. Hence, the financial position of LICHFL is very impressive in terms of average retained earnings.
6.22 The current ratios of CFHL are higher than that of the other companies and the ratios of LICHFL are lower than that of the other companies during the entire period.

A very significant trend is observable in case of CFHL as its current ratios for the entire period are far above the conventional norm. But the liquidity position of LICHFL is not satisfactory. As HFCs are the financial institutions it is imperative that they maintain high liquidity ratios.

6.23 The D/E ratios of HDFC are lower than that of the remaining three companies during the entire period of study. This is followed by DHFL and LICHFL. E/E ratios of LICHFL are higher than that of the other companies during the period.

It is observed that all the four selected HFOs have relied on debt in relation to equity. Hence, creditors' risk is higher in all the four HFCs. Heavy financial risk unjustified by the level of earnings has adversely affected the HFOs.

6.24 It is observed that all the four selected HFOs have relied on long-term debt in relation to total capitalisation which, in turn, has increased the interest burden and reduced the earnings of shareholders.

HDFC's reliance on debt is relatively lower than the remaining three HFOs. The size of the debt of CHFL to total capitalisation is higher when compared to other units.
6.25 It is observed that all the four selected HFOs except HDFC have not been able to keep the proprietary ratio at higher level. This lower ratio indicates lower long-term financial solvency position of the company and creditors have to bear greater risk.

6.26 Wide fluctuations are observed in the current liabilities to net worth ratios in all the four companies during the study period. This reveals that the management of these companies has not given enough attention to control these fluctuations.

Further, the ratio indicates that DHFL and CFHL have the most favourable position than that of HDFC and LICHFL.

6.27 It is significant to note that all the four companies have maintained the interest coverage ratio of more than one during the entire study period. The ratios are less than 1½ times in all the cases. This shows the excessive use of debt.

Suggestions:

1. The ultimate solution to overcrowding and expensive housing is to ensure that the socio-economic compulsions that force mass migration towards cities are ended. This, in turn, helps to prevent mushrooming of slums and to some extent mitigate the urban housing shortage.

2. The slum dwellers should form their own co-operatives, and the State Government must make available cheap finance to slum dwellers.
Banks and lending institutions must provide financial support by means of apportioning a sizeable part of their funds for slum housing projects of co-operative housing societies.

3. Keeping in view congestion in the bigger towns it is very much necessary to establish smaller towns after developing infrastructure facilities in such towns.

4. Bigger towns are bursting at the seams. In order to reduce congestion in such towns, it is suggested that satellite towns with suitable infrastructure be developed in between two bigger towns.

5. Land is the scarcest resource now and this position is likely to deteriorate further in future. An equitable distribution of land among the different segments of the society necessitates the formation of land bank. This will provide a boost to housing activity in the country.

6. Provision of fiscal incentives for promotion of production and use of cost effective, new and innovative building material components and technologies can provide affordable housing solutions. Therefore, suitable fiscal incentives are required to be extended for production and use of such building materials.

7. Private builders play a key role in increasing the housing stock in the country. It is, therefore, suggested that the Government should allot land at reasonable rate and provide fiscal incentives so that they
can also construct houses for the poor. However, there should be some machinery to monitor their actions from time to time.

8. The co-ordination between private, public and co-operative sectors is very much necessary for timely execution of housing schemes which, in turn, accelerate the pace of construction activities in the country.

9. Science and technology infrastructure in the field of low cost housing has grown substantially but its application at the operational level is yet to be seen. Therefore, it is suggested that unless low cost housing is adopted on a mass scale the solution to housing problem would remain a distant dream.

10. There is a need to assess the demand for various categories of houses through periodical market surveys. The inhibitive legislations relating to land and its supply for housing include Urban Land Ceiling and Regulation Act, Stamp Duty Act, Rent Control Act, Land Acquisition Act, Transfer of Property Act and Regional Planning and Development Control Regulations, etc. These legislations need to be amended in order to remove the supply side constraints.

11. The Government must bring necessary changes in the direct and indirect tax laws. Liberalisation of direct tax laws enables increased flow of funds for the housing sector development. Fiscal incentives available to the housing sector in India are limited to those prevailing in the USA and the UK.
12. At present only a few institutions have made it compulsory to take insurance policies to cover various risks associated with houses. It should be made mandatory for the institutions engaged in housing finance to cover such risks.

13. There is a need to encourage investment in housing and for that fiscal concessions to the institutions and individuals engaged in providing housing finance can be an important stimulant.

14. Setting up of secondary mortgage market is considered as a viable option for the mobilisation of surplus funds from other institutions for investment in housing. However, constraints like the existing high rates of stamp duties and legislation relating to foreclosure of loans inhibit setting up of such a market.

15. Creation of charge by declaration in favour of HFI s over the assets financed by them, and providing simplified procedure for speedy recovery of dues by HFI s on the pattern of the Industrial Reconstruction Bank of India (IRBI) Act and State Financial Corporation Act need urgent and serious consideration. To tap the perennial sources of savings, fiscal incentives to stimulate household savings into housing sector and HFI s need to be provided.

16. It is suggested that there is a need for ensuring the human resources needed for expanding housing programmes in the form of training of architects, engineers, planners and skilled workers.
17. The financial companies operate with thinner margins due to competitive environment, entry of commercial banks into the field, low lending rates, etc. As a consequence, the spread between cost of funds and deployment of funds is low.

18. Vigorous steps should be taken to improve the recovery position of HFOs. This is possible only through the periodical review of demand, collection and balance position. Continuous monitoring the EMI is also needed.

19. Due to acute competition and liberal interest rates the housing finance business has become less lucrative. Improvement in profitability of the HFOs is the need of the hour. This can be improved by way of increasing the volume of business and curtailing the operating expenses, viz., staff expenses, establishment expenses and other operating expenses.

Increasing the volume of business is a difficult task as a consequence of entry of commercial banks. Therefore, the only alternative is reducing the operating expenses by means of computerisation, training, voluntary retirement schemes (VRS), and screening the establishment and other expenses.

20. In all the four selected HFOs the size of the debt is high. As a consequence, the financial risk as well as interest burden liability are higher. Therefore, it is suggested that HFCs have to reduce the debt burden by injecting fresh equity capital, which ultimately improves the
debt equity ratio, reduces the interest burden, provides a higher margin of safety, boost up the creditors' morale, etc. Thus, it is very much necessary to reduce the debt capital of the HFCs.

21. The HFCs in India have to adopt all the important financial management strategies, viz., expense reduction strategies, operational efficiency strategies, and contribution to growth strategies. These strategies are aimed at minimising expenses and maximising profits in order to survive in a highly competitive environment as many new players have entered this field.

22. To augment their business HFCs have to mobilise funds by tapping new sources of funds like the securitisation of loans, international money market, etc. In 1999-2000, LICHFL has securitised loans outstanding to the tune of Rs.40 crore by selling to NHB. Other HFCs should follow similar strategy. Securitisation of loans outstanding helps in many ways. It decreases the outstanding loans, increases the funds, enhances the liquidity position, etc. It can also be used to redeem the debt capital of HFCs.

23. One of the reasons for poor profitability of HFCs is because HFCs have no liberty to fix and adopt their own lending rate as HFCs require to operate with the interest rates prescribed by the NHB. This leads to mismatch between the cost of funds and return on funds employed. Therefore, it is suggested that HFCs should be given liberty to adopt their own lending rates, which must be based on cost of funds.