CONCLUSION

&

SUGGESTION
CHAPTER VI

RESUME

Housing is an important economic activity linked to a variety of other industries. It plays a major role in the growth of domestic industry. Investments in housing are considered as investments in the development of human resources, the benefits of which accrue not only to the individuals and groups but also to the nations as a whole. Investments in housing should be conceived as the main framework for social and economic development. The investments made in the housing sector in India over the plan periods confirm that this sector had occupied a back seat in the economy. The growing shortage of dwelling units in the country, with its socio-economic imbalances has assumed an alarming proportion which could pose a potential threat to the socio-economic fabric of the nation. The indications should not be ignored and the situation warranted systematic intervention.

Housing finance has emerged as the preferred line of business over the last couple of years. The relative safety in financing a house and far-reaching changes in the financial sector have led to the emergence of new players
and changing business strategy of established intermediaries in housing finance.

To get an insight into the recent changes in the sector and the response of the existing Housing Finance Companies (HFCs) to the new challenges, it may be best to start by taking a look at the reasons that make the housing finance business so popular.

The risk associated with assets financed heavily influences financing decisions. Bad loans probably do more damage than missing a good opportunity does. Toady, in India, housing loans represent one of the safest lending avenues. Be it the market leader HDFC or a small player like Dewan Housing Finance, the proportion of bad loans is relatively small in the housing finance sector. The very nature of a housing loan makes it the safest product around. HDFC's portfolio is dominated by individuals—about 72 per cent of its portfolio at the end of fiscal 2000 comprised loans to individuals.

The unique place a house has in an individual's life makes a default unlikely. In addition, the loan component in the purchase of a house is not as large as it is in the case of other products. The high proportion of the
customer's own money in the house also provides considerable comfort for housing finance companies. HDFC Managing Director says that at HDFC, the average loan-to-value (of the house) ratio is just 49 per cent.

FINDINGS

The compound annual growth registered in disbursements by HDFC and LIC Housing Finance (LICHF) between 1996 and 2000 is 27.81 per cent and 18.27 per cent respectively. Between, them, the two entities serviced about 75 per cent of the market. Even on a larger base, growth in housing loan disbursements is likely to continue at that rate.

A key factor for the fast-paced growth is the higher level of affordability among the consumers. The cost of a house is about four times the annual income from about 12 times the annual income in early 1980s.

It is not just rising annual incomes that have raised the level of affordability, the series of tax benefits handed out in the budgets over the last three years have gone a long way in making a housing loan affordable. In this backdrop, most HFC and housing finance divisions of financial intermediaries are upbeat about the growth in the
market for housing loans. Among the more optimistic expectations expressed was a market growth of over 40 per cent, year on year over the next two years.

Given the recent history of the financial sector, the upbeat line on growth begs the question whether the large growth is going to be accompanied by higher risks associated with incremental housing loans.

When the question was posed to Mr. Mistry he disagreed. He felt the impending change in foreclosure laws would make it easier for HFCs to gain control over collateral in the case of default, and thereby mitigate risk in the incremental loans. With or without changes in the foreclosure laws, it is difficult to envisage a situation where the incremental housing loans will carry a significantly higher level of risk. The basic attributes of a housing loan that make it a safe business for financial intermediaries are unlikely to lose their relevance in the near future.

An interesting trend that has emerged in the housing finance market over the last few years is the decreasing importance of interest rates as a competitive
tool. A few years ago, the interest rate charged by a small HFC could be at least two-and-a-half to three percentage points higher than the rate charged by HDFC. And banks would be of course charge the lowest rate.

Banks, the nationalised commercial banks, still offer the lowest on occasion, but the vast difference in interest rates across-the-board has all but disappeared. After the latest round of interest rate changes, the same interest rate is charged by Dewan Housing and HDFC for long term loans (11 to 15 years). This is significant because HDFC is always likely to raise resources at a lower cost.

Similar interest rates among HFCs of different sizes and standing raise the question if interest rate as a competitive tool is dead. Or is it a temporary phase where the declining profitability of smaller players will force them to raise rates eventually?

At the moment, it is impossible to make a long-term call on interest rate differentials. But in the foreseeable future, it is highly unlikely that there can be a significant differential in interest rates between HFCs of variable standing.
With the likelihood of a slight interest rate differential between banks and HFCs, what would steer a customer towards the slightly more expensive HFCs? Quality service and product innovation, claim the HFCs.

Service and product innovation are the only way to differentiate one company's product from another in the absence of a significant difference in interest rates. HFC officials claim that the difference of a half-a-percentage point in interest on housing loans can be easily offset by quick and reliable service; A factor HFCs claims makes them more than a match for banks.

An example of a company making a splash through novel service is that of ICICI Home Finance. The company entered the housing loan market barely two years ago and has managed to carve a niche for itself through aggressive marketing and filling up the gaps in customer service.

The company capitalised on the opportunity provided by the absence of door delivery in housing loan products. The outcome was that the company used the gap to quickly build a reputation in a market that had till then been dominated by HDFC. HDFC still stands head-and-shoulder above the rest, but ICICI Home Finance has disbursed a couple of Rs.100 crore of housing loans in next to no time.
Another factor used by companies to capture the market is product innovation. On the face of it, there seems hardly any room for product innovation in housing loans. But competition has made companies look for the needs not met in a seemingly straight-forward product. Now we have HFCs offering insurance packages that come attached to a housing loan product. Heightened competition is likely to bring out a few more innovations in the future.

In financial services, product innovation is unlikely to remain unique for long because companies quickly mimic a successful introduction. With products that seem identical, the only benefit from product innovation can be the building of an image and the advantage of being the first to capture a section of the market with unmet need.

Building an image is likely to be crucial to all HFCs. Smaller HFCs will be driven by the same need. The advent of ICICI Home Finance, the traditional strengths of HDFC and LICHF and banks are likely to make life very tough for smaller HFCs.

In the manner of good non-banking finance companies (NBFCs) smaller HFCs are likely to be more active in smaller towns. Smaller towns are less likely to witness
head-on-competition form bigger players and are therefore more likely to see small HFCs and HFCs associated with top-rung NBFCs such as Sundaram Home Finance and Tata Home Finance, establish base. Another reason why the second line of HFCs may visit smaller towns is the HFCs associated with NBFCs are likely to rely on the database their parent organisations have no credit habits and the risk of potential customers. In addition, these HFCs go with the brand image of an NBFC that has met credit needs of a segment of the market that has always relied on financial intermediaries outside the banking circle.

HFCs as a stand-alone entity, depending largely on housing loans for survival, are likely to be an entity consigned to the history books. A visit to an average stand-alone HFC's office indicates that an increasing number of them are willing to finance other purchases of housing loan customers. Selling only housing loans is likely to be a thing of the past.

The way the financial sector has evolved over the last few years has forced HFCs to look for changes to survive and grow. Boundaries between different sections of the financial sector have gradually disappeared. Be it a
bank, development institution, HFC or an NBFC, there appears to be no area of financial intermediation that is taboo. Retail loans, asset management companies, banking and insurance are all areas where a single group operates under a variety of companies. It is just varying regulatory requirements that have different companies under the same umbrella carrying on different activities.

The same trend is pushing more stand-alone HFCs to look at other areas of financial intermediation to leverage on the name and database coming from the housing loans business. For example, Mr. Kapil Wadhawan, Managing Director, Dewan Housing Finance, feels that 30-35 per cent of its future income could come from non-housing business.

NBFCs that floated HFCs in the recent past, such as Sundaram Finance and Tata Finance, did so to capitalise on the potential in the sector and because of the advantages provided by their established presence in other areas of finance. Simply put, any financial intermediary of consequence is headed towards becoming a financial super market.

HFCs are likely to see a gradual growth in the importance of non-housing businesses in their earnings over
the next few years. While housing finance is likely to remain the core area of business, revenue from other lines of financing should play a more important role in stand-alone HFCs such as HDFC.

The disappears differential in interest rates between different categories of HFCs is almost squeeze on the interest spreads not be able to raise resources at as low a cost as HDFC and ICICI Home Finance.

Securitisation is expected to gain momentum once all the necessary changes in foreclosure laws are given effect. But creating a deep market for securitisation is closely linked to a number of other debt market reforms. Therefore, securitisation is unlikely to play an important role in the HFC's financial statements in the near future.

Housing Finance is likely to remain a low risk, low margin business that records fast growth in the foreseeable future. The market is likely to get a little more broadbased in the sense that HDFC's market share may be eaten into by others such as ICICI. But the industry will continue to be dominated by a handful of big players. It is difficult to see beyond HDFC, LICHF and ICICI as dominant players at this point.
HFCs associated with NBFCs and the housing finance division of banks may carve their own niches, but there is unlikely to be any radical change in the basic structure of the sector for a long time to come.

Finance plays a crucial role in housing construction. But, investments in housing are normally locked up in the form of fixed property assets. In contrast to industrial and agricultural sectors, investments in housing do not generate any substantial return to the investors. Further, the lending institution has to patiently wait for longer duration to recover the amount lent to the borrowers of housing loans as against agricultural and industrial financing wherein the recovery of loans will be completed much earlier. In case of housing finance, repayment of loan is not related to the income generated from the investments of the loan amount. It is the salary or other income of the borrowers that matters in repayment of housing loans. It is, thus, evident that the nature of housing finance differs vastly from agricultural and industrial finance. Further, housing finance in India is at a nascent stage and the teething problems have to be sorted out to make investment in this sector more attractive.
The future for housing finance in the country appears bright due to its underlying strength of unlimited demand. The increasing market orientation provides wider opportunities and facilitates integration of the housing finance system with the macro economy. However, it will also bring in its wake new set of challenges concerning viability and affordability. A concerted approach and strategy will have to be evolved for increasing the accessibility of housing finance for the vast majority of the population. The changing economic environment will impose new demands on the specialised housing finance institutions. The need to deploy special skills and innovative measures for mobilising resources in the competitive market as the resources from the allocated poor are being gradually phased out.

In this context, an analysis of the role, cost and significance of different sources of housing finance is warranted. It is also significant to probe whether the pattern of mobilising funds for housing differs in relation to the varied social and economic backgrounds of people. Another important aspect which needs special investigation is recovery of housing loans. It is also imperative to know about the performance and problems of specialist housing finance institutions in the country.
Housing finance sector in India has been taking a structural shape since a decade. It is in its infant stage of development and like any other newly emerging system, it also faces certain teething problems. Prospective housebuilders in the country, too, have realised the advantages of availing loans from the HFIs. They, however, face certain problem in availing the loans from HFIs. In this context, the present empirical research study, FINANCIAL HEALTH OF POWER SECTOR IN TAMILNADU - A CURRENT ASSESSMENT, is a modest attempt in the direction of identifying the problems of the borrowers of housing loans as well as HFIs. The study covers a review of the housing finance system in the country at macro level and examines the problems of this system at micro level with special reference to Thanjavur, a medium urban centre. A brief summary of each chapter of the thesis has been presented before giving a brief account of the findings of the study.

Housing contributes significantly in perpetuating human relationships and promotes the welfare of the members of family in particular and society in general. It plays a crucial role in the economic development of a nation, both as an end and as a means. The growth of investment in housing in India does not correspond with the growth in Domestic Capital Finance.
Housing problem in India came to the fore in the pre-independence days and the intensity of the problem had gradually increased thereafter. The shortage of housing stock which stood at 7 million in 1901 reached 29.2 million in 1991. And it is expected that the housing shortage would be crossing 39 million by 2001 A.D. In qualitative terms, housing conditions such as water supply, drainage and sanitation are far from satisfactory. In this context, the nation's greatest job is to build sufficient housing units for its inhabitants. The latest National Housing and Habitat Polity (1998) has rightly pointed out that the situation is doubtlessly grim and calls for nothing less than a housing revolution to tackle the housing problem. The policy set relevant objectives to increase the quantity of housing stock in the country. The housing sector has now been recognised as a potent engine of economic growth and the latest budget identified Housing for All as a priority area in the agenda for governance.

Paucity of housing finance has been identified as one of the basic factors for housing problem in the country and the housing policy has stated that a specialised housing finance system has to be developed to increase the flow of funds for the creation of new housing stock and to improve
the quality of existing housing stock in all parts of the country. Housing finance has now been attracting a lot of attention in the country and the role of housing finance institutions in alleviating the housing problem in India has gained crucial importance.

Housing finance covers financing at all stages in the development of housing, from purchasing of plot of construction of house and installation of on-site infrastructure. Housing finance in India was passive for a long time and the neglect of government had killed the initiative in the housing finance sector. As a result, there has been a shortage of housing units in the country. As a specialised economic activity, housing finance is of recent origin in India. As a pioneering step towards establishing an institutional structure in housing finance sector in the country, the HUDCO was set up in April 1970, under the public sector. Considering the magnitude and nature of assistance turned out by this organisation, it is obvious that it has played a key role in increasing the housing stock as well as infrastructure required for housing activity in the country. Another innovative housing finance institution, the HDFC, was established in 1977 in the
private sector. The basic objective of HDFC is to provide finance to individuals, cooperatives and corporate bodies for housing development by channelising household savings as well as funds from capital market into the housing sector. It aims at promoting Home Ownership. The HDFC's performance in terms of mobilisation of funds, utilisation of the same for increasing housing stock in the country, organisational efficiency and profitability has made it a model performer in the housing finance sector of the country. It has been adjudged as the successful housing finance institution both at the national and international level.

Cooperative housing societies in the country date back to the beginning of 20th century. They are considered to be the ideal organisational setup for housing development in the country. Cooperative housing movement took a concrete shape when the national cooperative Housing Federation of India was set up in the year 1969. It is an apex body established to coordinate and guide the activities of housing cooperatives in the country. Cooperative housing structure in the country consists of primary cooperative housing societies at gross root level and cooperative housing federations at the state level. These societies have played a significant role in increasing the housing
stock, especially of the lower income groups and weaker sections of the society in the country. The recovery rate of these societies is remarkable and during the last 30 years, the apex societies in the cooperative sector had never defaulted in repaying to the government or to any lending or funding institution.

Insurance corporations and commercial banks have been participating in housing finance activity in a low profile till recently. At present banks are statutorily required to provide housing loans to the extent of 3 percent of their incremental deposits during the preceding year. Having recognised the potential of housing finance sector, the insurance corporations and commercial banks are coming forward to participate in the housing finance activity in a big way by establishing specialist housing finance institutions in the country. So far, LIC of India and 8 commercial banks have established their separate HFIs in the country.

As a sequel to the recommendations of various study groups and comissions, the NHB was established in 1988 to function as an apex bank in the country's housing finance sector. The basic objective of NHB is to promote a sound,
healthy, viable, cost effective HF system to cater to all segments of the population. Its motto is Small Man First and it has been striving towards, the goal of Shelter for All. After the establishment of NHB, several initiatives have been taken to strengthen the credit delivery system in the housing finance sector of the country. The NBH frames detailed guidelines for promotion and growth of HFCs. In a growing deregulated market regime, NHB on its part continued to shape the policies, institutions and programmes in the housing finance sector in tune with the developments in the overall finance sector. As a consequence, there has been visible increase in the number of housing credit outlets in the formal sector. About 300 HFCs are established throughout the country, of which 26 are approved for refinance from NHB. In addition, 28 CBs, 14 cooperative institutions and 5 IOBHFL are also eligible for refinance from NHB. The performance of NBH in terms of promoting a viable institutional structure in the HF sector, mobilisation of resources, refinancing activities, recoveries and other duties as an apex body has been satisfactory. Another significant factor noticeable in HF sector is that the rates of interest on housing loans have been on the decline since 1990s. The present rates of
interest on housing loans in India are the lowest in the past 22 years. The cheap and flexible finance options are helping the house builders as never before.

The future for housing finance in the country appears to be bright due to the underlying strength of unlimited demand. The increasing market orientation provides wider opportunities. However, it will also bring in its wake new set of challenges concerning viability and affordability. The changing economic environment will impose new demands on the specialised housing finance institutions which need to deploy special skills and innovative measures for mobilising resources in a competitive capital market as the resources from the allocated pool are being gradually phased out.

The planning commission projections envisage that the urban population is likely to become 442 million by the end of 2006-2007 and the share of small and medium towns in total urban population has been increasing rapidly. Hence, these small and medium towns offer much potential for housing activity. Finance is one of the major and scarce input factors required for the housing activity. The present study on housing finance concerning these potential urban centres has, thus, got much significance in the present situation prevailing in the country.
The housing finance sector in India has been taking a structural shape and a good number of specialist housing finance institutions have came up throughout the country. Thanjavur, the famous temple town of India and a fast growing medium urban centre has also attracted HFIs to establish their branches to cater to the growing financial needs of house builders. The performance evaluation of selected HFIs - IOBHFL and LICHFL - in terms of activity, liquidity, solvency and profitability is undertaken at their overall organisational level. The performance of the selected HFIs is evaluated against the performance of HDFC which is the pioneering institution and a model performer in the Indian housing finance sector.

Activity undertaken by the selected HFIs is measured in terms of turnover ratios. The selected HFIs had abnormally high fixed assets turnover ratios. Considering the nature of housing finance business which does not demand heavy investment in fixed assets, HFIs usually have a high fixed assets turnover ratio. Further, the two, selected HFIs have started their operations from recent times and they have yet to acquire fixed assets in considerable quantum. Hence, high level of fixed assets turnover ratio cannot be taken as an indication of more efficiency in these
enterprises. The financial soundness of LICHFL was not comfortable in terms of sales revenue generated vis-a-vis the quantum of working capital. It had over-traded during the study period whereas the IOBHFL, in some of the years. Further, the overall activity performance of both the enterprises in terms of total assets turnover ratio reveals that these assets were not effectively turned over. In other words, the operating income of these enterprises was not commensurate with the investment in total assets. On the whole, the performance of the selected HFIs in this regard was not stable and healthy when compared to HDFC's performance.

Out of the two HFIs, the liquidity performance in terms of current ratio was better in IOBHFL than in LICHFL. When compared with HDFC's current ratio, both the enterprises lagged behind in respect of the degree of liquidity. Not only the technical liquidity, but also actual liquidity measured in terms of coverage of current liabilities was not satisfactory in both the sample HFIs.

The debt-equity ratios of the two selected HFIs were on a higher side when compared to that of HDFC. In other words, these HFIs have employed larger quantum of long-term loan funds and these institutions were not able to
strengthen their capital base to the level of HDFC. Profits were just adequate to cover the fixed interest charges in both these HFIs. They have started their operations in recent times and they are yet to acquire a reasonable level of fixed assets. Hence, their net worth ratio appeared at a low ebb. The long term funds were sufficient to finance the fixed assets in these HFIs. Further, the surplus long term funds enabled the HFIs to strengthen the working capital base. Solvency of these enterprises was satisfactory.

Of the two HFIs, the profitability performance was relatively better in LICHFL than in IOBHFL. LICHFL while closely followed HDFC's profit performance, IOBHFL lagged behind. The operating performance of LICHFL was relatively better than IOBHFL. Further, the operating ratio of LICHFL was more or less in tune with HDFC's ratio. The operating revenue of LICHFL increased constantly in absolute values over the period. The hike in revenue could be traced to the effective lending policies initiated by the organisation. The institution was able to control the operating expenditure to the desired level. The return on capital employed of these enterprises was satisfactory when evaluated against the ROC of the HDFC. Out of the two, LICHFL fared well in this respect. On the whole, both IOBHFL
and LICHFL enjoyed reasonable returns on their capital employed.

A comprehensive assessment of the HFIs could be made only after evaluating the role played by them at ground level and that too in meeting the genuine financial needs of their borrowers. It is possible through an examination of their needs, aspirations and satisfaction.

People in India aged between 30 to 50 years made their dreams of constructing houses a reality with the support of the HFIs. Social status, undoubtedly, plays a significant role in the house construction activity in India. The scheduled tribes and scheduled castes - socially and economically the weakest sections of Indian society - are not able to avail loans from housing finance institutions. The rate of literacy of the sample borrowers is almost 100 per cent. The HFIs are practically restricting their choice to employee groups. It is obvious that the established and big HFIs are lagging behind in extending loans to the house builders other than the employee groups. The small businessmen and agriculturists find it very difficult to obtain housing loan from established HFIs such as IOBHFIL and LICHFL since they insist upon the production
of certificate of income-tax assessment by the borrower. Medium sized families have shown keen interest in availing house loans from HFIs followed by large sized families. Majority of sample borrowers belong to single earner family group. In this context, it is pertinent to note that in India many families have a single earner. Higher income groups have more access to the established HFIs than the lower income groups.

The formal sources play an insignificant role in financing the prospective housebuilders for securing house plots. In house construction, informal sources provide major share of funds to the sample borrowers. The contribution of HFIs is less than 50 per cent of the estimated cost of house construction. Within the informal sources, the share of own savings is the highest followed by sale of jewellery and assets. Money lenders have also contributed sizably to the borrowers. In the low cost housing units, the formal and informal sources, however, shared equally to the total cost of construction. The range of difference between the formal and informal sources is the highest in medium cost units ranging between Rs.2 to 4 lakhs and least in high cost units ranging between 4 to 5 lakhs. The role of money
lenders is comparatively less in high cost category than in the low cost category housing units.

The low income group sample borrowers have depended less on HFIs as against the higher income group. Though the sample HFIs finance to the extent of 85 per cent of the cost of construction, the borrowers could avail less than this since their income capacity does not allow the sanction of maximum limits. Though the HFIs had sanctioned on an average 59.37 per cent of estimated cost of sample housing units, it works out to 44.61 per cent of the actual cost of construction. A wide gap exists between the actual cost of construction and the loan sanctioned by the sample HFIs. This situation generally compels the house builders to depend heavily on informal sources.

Of the 280 sample borrowers, 155 have experienced one problem or the other. Their percentage to the total sample works out to 55.36. It is interesting to note that as much as 44.64 per cent of the sample borrowers never experienced any problem with their HFIs. The problem of cost escalation, however, is common to all sample borrowers. The major problem confronted by the sample borrowers is the rigidity of rules and regulations followed by offering of surety and security insisted by the HFIs.
Inadequate loan and delay in processing of loan application too have been experienced by sizable number of borrowers. Preparation of documents and incidental expenses are also the problem areas for small group of borrowers. Borrowers of LICHFL experienced the intensity of problems more than that of IOBHFL and TCHBS. Rules and regulations are the major hurdle in LICHFL, surety and security in IOBHFL and delay in processing and inadequate sanction of loan in TCHBS. The intensity of the problems is the highest in lower income groups. In case of middle and higher income groups, surety and security arrangement and rigidity of rules and regulations are major problems. For lower income group, except delay in processing the loan application, all other are major problems.

Sample borrowers facing the problem of documentation opined that considerable time is wasted in preparing and obtaining the documents. Sanction of loan is considerably delayed in TCHBS when compared to the other two HFIs. The delay in TCHBS is due to lengthy procedural formalities. In respect of surety and security, the problem of arranging guarantors is strongly felt by the sample borrowers, followed by title deeds and collateral security. Of the various rules and regulations, cost of the plot which
is not being financed by the HFIs, constitutes major problem followed by repayment schedule and non-consideration of future/other income. Intensity of this problem is the highest in LICHFL sample group. As against other problems, the incidental expenses are felt by lesser number of borrowers. Some of the sample borrowers who reported that they have incurred greater amount of incidental expenses revealed that they got their house plans approved by paying a high cost, because such approval is a precondition for getting loan from HFI.

Non-consideration of future/other income is the most significant reason for inadequate sanction of loan to the sample borrowers. Sometimes, low cost estimate and plinth area criteria also led to inadequate sanctions. The estimations are always lesser than the actual cost of construction of residential houses. Significant point to be noted in this context is that the variation is lesser in case of high cost houses. The reasons for excess cost of construction may be attributed to the following: (i) inflationary tendency of the economy; (ii) non-completion of housing units within the scheduled time; (iii) wastage of material inputs in house construction; and (iv) preferring high cost material inputs not earlier mentioned in the cost proposals.
Borrowers of IOBHFL preferred it to other HFIs in anticipation of quick sanction of loan and simple procedure. Sufficient amount of loan and quick sanction are the major reasons in LICHFL. Low interest attracted the borrowers towards TCHBS. Therefore, quick sanction of the loan, simple procedure, sufficient sanction of loan and low interest have influenced the sample borrowers in choosing the HFIs. It may be pointed out that easy instalments is not a significant factor to prefer on HFI by the borrowers. In respect of customer satisfaction, all the three sample HFIs are satisfying their customers to a large extent. More than 90 per cent of the sample borrowers feel satisfied with the services extended by their respective HFIs. It can be noted here that most of the problems complained by the sample borrowers relate to the policies and procedures of the HFIs rather than the quality of their services. Larger percentage of sample borrowers suggest that the cost of the plot needs to be considered by HFIs for financing. Other views expressed by them in order to weightage are, waiving of surety stipulation, introducing salary deduction facility for repayment of house loan instalments, waiving of prepayment charges and penal interest for late payment, offering multiple instalment options and minimising number
of documents to be filled along with the housing loan application.

The problems of sample HFIs are examined in relation to demand for housing loans, gap between sanctions and disbursements, incidence of administrative expenditure and recovery of instalments from their borrowers. Taking the annual sanctions as an indication of demand for loans in HFIs, it can be inferred that the demand for housing loans is stable in IOBHFL as against LICHFL and TCHBS which are witnessing oscillating trend. With regard to disbursement of housing loans, all the three sample HFIs have no problems. Most of the sanctioned amount is utilised by their borrowers for house construction. Major item of expenditure for the HFIs is salaries. In IOBHFL, legal expenditure is more than in the other two HFIs. Considering per employee sanctions as basis of productivity, IOBHFL has fared better. Recovery performance is also better in IOBHFL as against the other two sample HFIs.

Thus, the borrowers of all the three sample HFIs face similar problems, but with differences in intensity of these problems. IOBHFL however if functioning smoothly at branch level when compared to LICHFL and TCHBS.
Housing has significant role to play in India's economic development, both as an end and as a means. But, there is huge shortage of housing stock in the country. Paucity of finance is considered as one of the basic reasons for this situation. Efforts have been initiated to develop institutional structure for housing finance. As a result, a number of specialist HFIs are established in public, private and cooperative sectors. Gradually, the housing finance sector has turned into a buyers' market and the rates of interest on housing loan have been on the decline since 1990s. The cheap and flexible finance options are now helping the house builders as never before in the country.

HDFC - the pioneering specialist housing finance institution in the country is considered as a model performer in the housing finance sector. At the overall organisational level, activity, liquidity, solvency and profitability performance of the sample HFIs as against the HDFC's has been satisfactory.

Presently, the HFIs are accessible to the employees and income tax assessees and there are large sections of population who do not have access to institutional finance. Agriculturists, petty traders, wage
earners and retired personnel are deprived of the facility of availing housing loans from the HFIs. However, Housing Finance Cooperative Societies extend loans to all categories of housebuilders. The share of scheduled caste and tribes in the borrowers group who availed loans from the HFIs is insignificant.

Majority of the borrowers of HFIs belong to the age group of 30 to 50 years.

There is a considerable gap between the estimated and actual costs of housing construction. The lending policies of the HFIs allow sanction of housing loans in relation to estimated cost of construction. While sanctioning loans, the HFIs consider only that income which is reflected in official records like salary certificate and income tax assessment certificate. As a result, the share of HFIs in the actual cost of construction is less than 50 per cent. This situation is compelling the housebuilders to rely heavily on informal sources.

Majority of the borrowers of HFIs are facing problems of different nature. Intensity of problem is felt by the borrowers with regard to rigidity of rules and regulations, offering surety/security, inadequate sanction
of loan, delay in sanction, preparation of documents to be submitted along with the loan application and incidental expenses.

Housing finance institutions confront the problem of lack of sufficient demand for housing loans. Recovery of loan instalment is also a problem for HFIs to a certain extent.

In the light of the findings, the hypotheses that the credit needs of the individual house builders in the country are being fulfilled and the HFIs do not face the problem of recovery of house loans are rejected.

SUGGESTIONS

There is need to modify the policies and relax the rules of HFIs so as to accommodate the financial needs of house builders from all the categories of population. In this regard, the government and NHB can evolve a sort of credit guarantee schemes to safeguard the interests of the HFIs. Local institutions are more suited to take up the job of financing the needs of house builders from the neglected categories. Hence Cooperative Housing Finance Societies can be encouraged to take up this task.
People have to be encouraged to take up house construction in their early age. This can be done by offering more incentives to save for purposes of house construction. More attractive schemes on the pattern of Home Loan Account can be thought of in this regard.

HFIs can guide the house builders to prepare the estimates realistically. They can sanction loans upto 90 per cent of the actual cost taking into consideration the future and other income of the house builders.

Delay in sanctions can be minimised to a large extent by scrutinising the applications in the presence of the applicant. In the case of cooperative housing finance societies, the primary societies can be given the authority to sanction house loans.

As in LIC, multiple instalment options can be offered to the borrower of house loans i.e. option to pay monthly, bimonthly, quarterly, half-yearly and yearly instalments.

Housing finance institutions can introduce mortgage insurance to improve the rate of recovery of loans.
They can collect insurance premia along with the EMI. Personal contact with the borrowers would also enable them to improve recovery rate.

The recovery officers who are appointed under section 30 of the NHB (Amendment, 2000) Act shall be allotted a smaller jurisdiction of area so as to deal with the default cases quickly and effectively.

Presettlement of house loans can be allowed at nominal charges. Further, the borrowers can be encouraged to repay the house loans ahead of their repayment schedule.

HFIs are now operating with very thin margins of less than one per cent against banks which have about 3 per cent margin. In this situation, HFIs have to compete with banks by offering flexible options and quality of service to house loan seekers. Door delivery of loan sanctions, offering other financial services, minimising the number of documents, reducing the delay in sanctions and collecting only nominal processing charges are some of the factors that induce house loan seekers towards HFIs. They can also reduce the interest burden to the borrowers by calculating interest on monthly rest basis.
The government and NHB can take up necessary steps to make available reliable and timely information on housing activity.

**SCOPE FOR FURTHER RESEARCH**

The housing finance system is in the initial stages of development in the country. Both the lending institutions and their borrowers are facing certain problems in this period of transition. In this context, further research relating to different aspects of housing finance is useful to strengthen and develop the system on healthy lines. The following areas have good potential for undertaking further research.

- Comparative studies of the policies and procedures of Indian housing finance system with the systems in developed and developing countries.
- Securitisation of housing loans in India.
- Examining the reasons for default on the part of borrowers of housing loans and problems of recovery.
- Performance evaluation of NHB against its objectives.
- Performance of Cooperative Housing Finance Societies vis-a-vis other HFIs in India.