CHAPTER – VI

SUMMARY OF FINDING AND SUGGESTIONS

6.1 Housing Shortage, Investment in Housing and Housing Policy
6.2 Performance of Sample Housing Finance Company
6.3 Cost of Borrowing from Sample Housing Finance Company
6.4 Specific Finding from Field Survey (Perceptions of Borrowers)
In this chapter the main finding emanating from previous chapters have been discussed and inferences are drawn based on secondary and primary data. The result of interview with the respondents, have been incorporated palaces. Thus, in what follows, an attempt is made to recapitulate the major finding in a sequential arrangement.

6.1 Housing Shortage, Investment in Housing and Housing Policy

India is the seventh largest country in the world, covering area of 3287263 square kilometers. The last six decades of post independence India has been enormous growth of urban area in general and metropolitan centres in particular. It is the second most populous country after China and has population as per latest census 2001 is 1027 million, which account for 16 percent of the world population, with an unfavourable land man ratio. The rural population accounting for 89.1 percent (212.5 million) in 1901 and has dropped up to 72.2 percent (741.7 million) in 2001. The urban population has grown 10.8 percent (25.8 million) to 27.8 percent (285.3 million) during 1901-2001. India’s population has doubled after two decades. The rate of decennial growth in urban population during 1991-2001 in 31.2 percent, while the rate of growth in rural population for the same period is 18.0 percent. India is thus one of the largest urban system with 285.4 million people in 2001 and a projected urban population of 618 million by 2025. The World Bank estimates that sub-saharan Africa has urban population 34 percent, Asia is 40 percent urban, Latin America, Europe, North America are more than 70 percent urban. India is 27.8 percent urban, China is 40.9 percent urban.

Two percent of total population of India are living in Haryana. Haryana has rapid growth of population during last six decades, the growth rate being more than 35 percent per decade. Urban population during 1961-2001 has grown from 13.07 lakh (17.22 percent) takes to 61.14 lakh (29 percent) as against the total population change from 75.0 lakh to 2.11 crore. Decennial growth rate of population during the last decade was placed 50.8 percent for urban areas as against 21.1 percent for rural areas. Thus it can be seen the urban centre have emerged as critical areas so far as population concentration and growth of human settlements are concerned.

The growth in households formation during the period 1971-81 was 27.1 percent rise from 97.1 million households to 123.4 million households, while the growth in household formation during 1991-2001 is 27.06 percent rise from 151.1 million
households to 191.9 million households. The annual growth of households formation in rural areas during 1991-2001 is 2.39 percent (1.86 percent in 1981-91), while in urban areas it is 3.59 percent (3.49 percent in 1981-91) taking the level to 53.69 million households. The rate of growth of urban households formation continues to be higher than that of rural households formation, including sustained high rate of urbanization, migration of families from rural to urban areas and disintegration of large families into smaller nuclear families.

The growth in households formation in Haryana during the period 1981-91 was 31.07 percent rise from 19.95 lakh households to 26.15 households while the growth in households formation during the period 1991-2001 is 34.99 percent rise from 26.15 lakh households to 37.12 lakh households. The annual growth of households formation in rural areas during the period 1991-2001 is 3.04 percent (2.67 percent in 1981-91), while in urban areas it is 4.69 percent (4.38 percent in 1981-91). The rate of growth of urban households formation continues to be higher than that of rural households formation.

As per the estimates by the National Building Organization (NBO), the total housing stock of residential building has been placed at 187.2 million units in 2001, consisting of 135.1 million units (72.17 percent) in rural areas and 52.1 million units (27.83 percent) in urban areas. The housing stock in the country increased by 27.17 percent during the period 1991-2001 from 147.2 million units to 187.2 million units.

As per the estimates made by Habitat II India National Report, the housing requirement in terms of new stock for the period 1997-2021 would be 140.1 million units, of which 77 million units (55 percent) would be in the urban areas and 63. million units (45 percent) in urban areas. The investment requirement of new housing stock for the period 1997-2021 would be Rs. 6579.7 billion (at 1995 prices) of which Rs. 5089.2 billion (77.3 percent) would be for urban housing and Rs. 1490.5 billion (22.7 percent) for rural housing. Thus the problem of housing is more severe in urban areas than in rural areas.

As per Indian Census 2001, 79.2 percent households in urban areas are living in pucca houses, 15.5 percent in semi-pucca houses and 5.3 percent in serviceable in kutcha houses while in rural areas 41.0 percent households are living in pucca houses,
31.8 percent in semi-pucca houses, 23.2 percent in serviceable kutcha houses. According to the 2001 census, there are 40.6 million person living in slum in 607 town/cities and they account 22.8 percent of the population of these cities.

In Haryana, as per census 2001, 68.6 percent households in rural areas are living pucca houses, 22.2 percent in semi-pucca houses, 9.2 percent in kutcha houses, while in urban areas, 89.7 percent households are living in pucca houses, 7.4 percent in semi-pucca, 2.9 percent in kutcha houses. 1.67 lakh (4.5 percent) households live in dilapidated houses and 17.97 lakhs (48.4 percent) live in temporary houses.

India continues to face the problem of a shortage of houses units in the country. The housing shortage was 23.3 million units in 1981 and it came down to 22.9 million 1991. The working group on housing group on housing has estimated the housing shortage at the beginning of Tenth Plan at 22.44 million units of which 13.5 million (60.26 percent) in rural areas and 8.9 million (39.74 percent) units in rural areas. Majority of the rural areas have remained under-served due majority of inherent constraints as (i) non availability of clear land title (ii) incidence of high stamp duty and registration charge (iii) non allowing agriculture land to mortgaged against housing loan (iv) unservice of unserviceable katcha houses (v) irregular and fluctuation income. The working group on housing for Tenth Plan has observed that 90 percent of housing shortage pertains to the weaker sections. The growth rate in the housing stock is higher than the growth rate of households in rural areas during 1991-2001. Thus has resulted in the reduction of housing shortage as well as the ratio of households of housing to housing stock.

The estimated absolute housing shortage in Haryana in 2001 was 5.50 lakh units of which 3.93 lakh units in rural areas and 1.57 lakh units in urban areas. In terms of percentage the estimated housing shortage in rural areas was 71.45 percent as against 28.55 percent in urban areas in 2001.

The share of investment in housing in the Gross Domestic Product (GDP) has fallen from 5 percent in 1960’s to 3 percent in 1980’s. The total plan outlay for housing has fallen from 34 percent in the first five year plan to 7 percent in seventh five year plan. This share of public sector investment in total investment which was 16 percent in the First Five Year Plan has over the year, been reduced to less than 2 percent
in 8th Plan. This fall in investment in housing has resulted in demand supply imbalance resulting in over-crowding, decline as per capita space, increasing in slum, settlement in urban areas, poor housing condition, very space access to loan for housing and economic development.

Hence the developed countries investment about 5 percent of GDP in housing compared to a negligible in India. Promotion of ownership of houses as economic and political objective has been backed by the necessary policies to stimulate household savings and investment for housing.

Although the role and importance of public sector in housing is measured not so much by its financial participation but by such sector as (a) focus on financing the Economically Weaker Sections (EWS)/Low Income Group (LIG) housing (b) role in financing housing through land acquisition and development of infrastructure and (c) support to the promotion and growth of housing financial institutions and overall financial intermediation, the fact that in real terms and such as a percentage of GDP public investment had declined in a source of serious concern. Added to this the growing evidence of the limited impact of the public sector's off-budget role in the housing share.

The working group on housing for the tenth plan has pertinently pointed out that around 90 percent of housing shortage in the country pertain to the weaker sections. Hence there is a need to increase the supply of affordable housing to the economically weaker sections and the low-income category through a proper programme of allocation of land, extension of funding assistance and provision of support services. **Even the national agenda for governance has said that out of the proposed construction of 20 lakh dwelling units every year seven lakh houses would need to be constructed in urban areas and the balance 13 lakhs in rural areas. The stress on the seven lakhs is naturally on economically weaker section and low income group housing. This would require a mammoth investment of the order of Rs. 4000 crore. HUDCO is likely to meet 55 percent of the urban target amounting to 4 lakh units annually and the balance 45 percent of the urban target amounting to 3 lakh units is to be met by other finance institutions, recognized by the national housing bank and other cooperative banks.**
The Government of India has taken it upon itself either on its own or in association with the state government the task of providing shelter under various schemes for the people in the poorest of the poor group and in some other segments of the people.

(a) The annual target for the 2003-04 under for providing housing to Economically Weaker Section (EWS) is 58760 dwelling units.
(b) The annual target for 2003-04 under housing scheme to low income group (LIG) is 6848 dwelling units.
(c) The target number of individuals to be covered by Environment Improvement of Urban Slums (EIUS) scheme in the year 2003-04 is 4506368 dwelling units.
(d) Since inception of the scheme till Dec. 2003 about 92 lakh houses has been constructed under Indira Awas Yojana (IAY) by increasing an expenditure of Rs. 15839.83 crore approximately.

Under Indira Awas Yojana (New Construction) in Haryana 8845 houses were constructed and 651 houses were in progress for members of scheduled caste and non-scheduled castes rural poor living below the poverty line during the year 2004-05. An expenditure of Rs. 2215.50 lakhs has been incurred on this yojana during 2004-05.

Currently less than 4 dwelling units per 1000 of population per annum get constructed in India. However, the UN recommendation for developing country is of 8 to 10 dwelling units per 1000 of population per annum in the next 20-30 year to arrest the detoriation of housing situation.

National Housing Bank (NHB) was established in 1987 with an objective to provide specialized to the housing sector and promote and develop a viable financial system. The cumulative refinance assistance provide by NHB to primary leading institutions stand to Rs. 9961.08 crore upto June 2004.

The housing finance system in India consists two components formal and informal. The formal housing finance institutions are operating in public sector as well as in joint and private sectors. These institutions mainly cater to the requirements of income tax assesses, self employed and salaried classes. In the informal sector housing is financed mainly through household savings, borrowings from money lenders and sale of assets like gold and jewelry and also borrowing from friends and relatives. Besides the disbursements directly made by central and state governments, semi government institutions and employers in the organized sector for providing finance for housing by their own employees and use of provident fund accumulations. The formal housing
finance institution include (a) national housing bank (b) financial institutions like LIC, GIC and UTI (d) HUDCO (e) Cooperative housing finance societies and commercial banks (f) housing finance companies (g) private sector financing institutions.

During the year 2003-04, as per the preliminary reports, the banking sector crossed Rs. 30000 (32816.39) crore mark in housing finance disbursement where as the housing finance companies also came closed to disburse Rs. 20862.23 crore. On the other hand, big players are increasing their market share as is evident from the fact that the four major player in the housing finance industry (viz HDFC, LICHFL, SBI, ICICI) together accounted for a share of 83% for the 2002-03 as against 72% for the previous year 2001-02.

The importance of housing sector a the engine of growth has been historically acknowledge in the most of the developed nations in the world. In India, the housing finance business has assumed significance during last 4-5 years, spearheaded by the keen interest evinced by the commercial banks in this sector. The burgeoning middle class, increasing purchasing power, changing demographic and increasing number of nuclear families sealing down of the real estate prices and a soften interest rate regime traditionally low default rate resulting in low performing assets as compared with the other sector also enabled the housing finance sector to grow at a phenomenal rate of amount 40% on the average during the last 3 years. However this performance nor with standing the mortagage to gross domestic product (GDP) ratio stood at an abymal 3% in India in 2001, when compared to 57% in UK, 54% in USA, 40% in EU, 7% in China.

The Govt. of India National Housing and habitat policy (1998) advocates a housing revolution against all impediments which have hindered the growth housing stock and to achieve the scared & universal target of housing for all and to ensure sustainable development of housing and habitat. The policy through the National Agenda, declares “Housing for all” as a priority area and decides to focus on the housing needs of citizen in general and that of the poor & deprived in particular.

The basic thrust of national housing policy is on creating a strong public private sector partnership to resolve housing and habitat issues. To lure the private sector to make investment in housing on par with investment in insfrasture sector, the government has offered the package of fiscal and other concession so that the private
sector can be motivated take up the task for housing for the poor. These concession are proposed to be linked with housing for vulnerable sections.

The problem housing shortage rows at alarming proportions in India with rapid space of increase in population, urbanization, changing family structure, rising per capital income, better living standard, growth in households formation etc. The Tenth Five Year plan has estimate the urban housing shortage at the level of 8.89 million dwelling units and the cumulative number of houses required during the 10th plan as 22.44 million units. During the 10th plan an investment requirements of Rs 726300 crore or of which of Rs 41500 crore of public sector to meet the housing shortage. And such a huge amount can not to be raised by the central and state Government alone. Rather active private sector participation is very much essential for achieving this goal at least partly.

During the 10th Plan an investment requirement of Rs. 432 crores to meet the housing shortage in Haryana as per 58th Round National Sample Organization Survey.

6.2 Performance of Sample Housing Finance Companies

At present there are 354 such companies, however, most of them are very small doing little or no business. There are 29 major companies which account for more than 95% of the total housing loan sanctioned by all these companies put together. HDFC, LICHFC and Canfin Homes, these three housing finance companies which account for more than 65% of total housing loan sanctioned by all the housing finance institutions. These 29 companies has been recognized by National housing bank (NHB) for refinance assistance. Out of which 7 housing finance companies are working in Haryana such as HDFC in Ambala, Panchkula, Gurgaon, Faridabad, Birla Homes in Faridabad and Panchkula, PNB housing finance in Gurgaon, LIC housing finance in Kamal, Gurgaon and Faridabad, Canfin Homes in Gurgaon and Faridabad.

(1) As far as the performance of the best HFCs among the sample HFCs are concerned, HDFC the biggest housing finance company in the country has maintained a steady, consistent growth in its loan sanction throughout the study period. The medium size HFCs like LIC housing finance can fin homes have experienced high growth during the initial years but increasing competition in the recent years reserved their growth in loan sanction.
In order to get a firm conclusion about the HFC's performance 10 years total loan sanction was considered and it is found that HDFC has sanctioned the highest amount of Rs. 103417.03 crore followed by LIC Housing Finance Ltd with Rs. 26478.51 crore and can fin Homes with Rs. 3659.28 crores.

(2) The liberalization and active entry of commercial banks into housing finance Market, deregulation of interest rate, increase the competition and affected the volume of business of housing finance companies in the recent years. The performance of HDFC in terms of loan disbursements over a period of 10 years was consistent. The loan disbursement of other sample housing finance companies have witnessed either negative or marginal growth in recent years, though their performance in the initial years was very good.

As far as disbursement of sanctioned loan is concerned against it is HDFC Ltd. which stood first. The total disbursement of housing loan of HDFC was the highest with Rs. 67724.61 crores for 1996-06 followed by LIC Housing Finance Ltd. with Rs. 24087.19 crores and Can Fin Homes with Rs. 3110.22 crores.

HDFC Ltd. has dominated the housing finance market in Haryana with an average sanction of Rs. 229.5 crores per year during the 6 year period 2000-06 followed by LIC Housing Finance with an average sanction of Rs. 171.5 crores and Can Fin Homes with an average sanction of Rs. 11.10 crores.

(3) It is strange to note that the loans towards individuals is highest at Can Fin Homes at 97.5 percent followed by LIC Housing Finance with 95.9 percent and at HDFC with 66.9 percent as on 31.3.2006. HDFC has finance many big housing project (31.5) of corporate body and other.

In recent year most housing finance companies are very cautious on bulk loan segment and restricting their exposure only to the individual loan segment where default it less and also there is a high demand from this segment with the fall in property price and income tax benefits.

(4) As far as branch expansion is concerned, among the selected housing finance companies, HDFC has highest number of 219 branched followed by LIC Housing Finance with 115, Can Fin Homes with 43 branches during period 1996-06.
Another important finding of the study is that all the selected housing finance companies have experienced a low growth in their operating income in recent years, particularly in the past two years. Can Fin Homes has registered a negative growth in 2003-04. Sluggishness in the growth of operating income was due to the pressure on margin, reduction in lending rates and high provision of non-performing assets.

The growth in expenditure of HDFC was highly consistent for the 10 years period during 1996-06. And in case of LIC Housing Finance, Can Fin Homes the increase (growth) in expenditure was very high in the beginning but in the later years the growth in expenditure has shown a continuous downward trend. It is evident that the growth in both income and expenditure was consistent and this has helped the sample housing finance companies to maintain their profit position at a satisfactory level during 1996-06. Thus, the net profit of HDFC, LIC Housing Finance, Can Fin Homes has increased steadily over a period of 10 years from 1996-97 to 2005-06. LIC Housing Finance, and Can Fin Homes, its profit after tax has declined to 167.47 crores from 178.97 crores, and Rs. 20.70 crores from 21.58 crores during 2002-03 and 2003-04 respectively. Net profit after tax of LIC Housing Finance declined to Rs. 143.72 crores in 2004-05 from 167.47 crores in 2003-04 and registered a negative growth 14.2 percent.

It is evident that over a study period 1996-06 an average shareholders fund constituted 10-15 percent of the total resources of sample housing finance company except LIC Housing Finance company with 40.9 percent. Average share of borrowing formed the highest of about 58.4 percent in case of LIC Housing Finance while it was 45 to 51 percent in case of Can Fin Homes and HDFC.

As far as deposit mobilization is concerned, in the past few years HDFC, Can Fin Homes have experienced a slow growth. This may be due to the reduction in deposit rates. LIC Housing Finance is not accepting any deposit from general public except saving under house loan account scheme. The average share of deposits in the total resources of Can Fin Homes was the highest at 48.9 percent followed by HDFC was with 39.0 percent.
One of the objectives was to assess the performance of housing finance companies based on liquidity ratio i.e., current ratio, debt-equity ratio, debt to total fund ratio, interest coverage ratio. The average current ratio of HDFC comes to 1.97 and of LIC housing finance comes to 1.69 and Can Fin Homes to 2.89. So we can say that the sample housing finance companies are showing overall improvement in the short-term solvency position during 1996-06. On the basis of above table we can say that the sample housing finance companies are managing their current assets and liabilities in such a way that it will have no difficulty in meeting its current liabilities.

For the 10 years period 1996-06 the average debt-equity ratio was highest in case of LIC Housing Finance with 8.34 percent followed by Can Fin Homes with 8.16 percent and HDFC with 6.91 percent. Debt equity ratio was high for Can Fin Homes is a danger signal for long terms lenders as well as LIC Housing Finance and HDFC during 1996-06.

The average debt to total fund ratio was highest for LIC Housing Finance with 89 followed by Can Fin Homes with 88 percent and HDFC with 86 percent. So it is clear from the above table that the borrowers of sample housing finance companies were not provided with adequate margin of safety because average of debt to total funds ratios of sample housing finance companies was more than 67 percent during 1996-06.

The average interest coverage ratio was highest of HDFC with 1.43 times followed by LIC Housing Finance with 1.31 times and Can Fin Homes with 1.25 times. A comparison of actual ratio with ideal one, it can be concluded that present earning of sample housing finance companies is not up to standard. The sample HFC’s companies will have to improve its earning if they want to strengthen their interest coverage ratio.

Performance of HFCs based on profitability ratio viz., return on capital employed, return on total assets and return on shareholders funds. The return on capital employed of HDFC is high compared to other sample housing finance companies and the average ratio for 10 years 1996-06 was 13.39 percent. The return on capital employed for LIC Housing Finance and Can Fin Homes is more or less
moving in the same range over the years and the average ratio was between 11 to
12 percent respectively during 1996-06. This indicates that sample HFCs have
utilized the funds.

The average return on total assets was the highest for HDFC was 2.57
percent followed by LIC Housing Finance with 1.94 percent and Can Fin Homes
with 1.79 percent. Return on total assets was high for HDFC and LIC Housing
Finance, satisfactory for Can Fin Homes during period 1996-06.

The profitability in terms of shareholders equity was high in case of
HDFC, LIC Housing Finance and Can Fin Homes (at an average 18 to 19 percent)
over the years 1994-04. This indicates that the return on funds provided by
owners was good in sample housing finance companies.

(9) The average efficiency ratio of disbursement to sanction of sample housing
finance companies for the period 1996-06 was highest at 91 percent for LIC
Housing Finance companies followed by Can Fin Homes was 86 percent and
HDFC with 84 percent indicating a better utilization of funds.

Some fundamentals and strong financial situation helped large and small
size housing finance companies to performance well. HDFC, LIC Housing
Finance and Can Fin Homes have maintained their all round supermacy in terms
of major business parameters. While the performance of HDFC, LIC Housing
Finance was excellent and superior to any other housing finance companies, that
of Can Fin Homes was satisfactory in term of liquidity and profitability and
efficiency ratios. HDFC continues to be the role model for other housing finance
companies in setting high standards. The sample housing finance companies will
have to improve its earning, if these companies want to strengthen their interest
coverage ratio.

6.3 Cost of Borrowing from Sample Housing Finance Companies
1. It is found that rate of interest charged by HDFC Ltd. is lower all other sample
housing finance companies as on March 2006.
2. The rate of interest as well as the duration of loan affects the size of EMI. The
interest rate has a direct bearing on the size of EMI i.e., higher the interest rate
bigger will be the size of EMI. On the other hand term of loan and size of EMI
moves in opposite direction that means longer the term of loan, smaller will be the size of EMI.

3. An important finding of the study is that as on March 2006, the procession and administration fees collected by LIC Housing Finance and Can Fin Homes are high compared than HDFC. So in terms of initial fees charged, LIC Housing Finance and HDFC as well as Can Fin Homes are more attractive to prospective home loan borrowers.

4. In view of different rate of interest charged by different housing finance companies, individual borrower has to make a Hobson's choice. From our study it is found that if a person borrows from HDFC Ltd., he pay Rs. 3720 more for a loan of Rs. one lakh for 10 years than the borrowing from LIC Housing Finance (rate of interest, duration of loan, fees charged etc. remain the same one is annual rest and other is monthly rest).

5. Among the sample housing finance companies, HDFC, LIC Housing Finance, Can Fin Homes imposes a penalty on prepayment of loan. Theoretically prepayment is a problem for a housing finance companies and prepayment charges take care of the interest mismatch. With sharp fall in interest rates many borrowers who had availed of housing loan at a higher interest cost a few year ago have been making prepayment and going for loans, which are available at lower interest rate at present. This phenomenon has affected majority of housing finance companies, HDFC, LIC Housing Finance, Can Fin Homes are not affected much since they charge 2 percent HDFC, Can Fin Homes charge 3 percent and LIC Housing Finance charge one percent penalty for prepayment as on March 2006. No prepayment charge from own sources.

6.4 Specific Findings from Field Study (Perception of Borrowers)

1. The universe of the study consists of main institutions providing home loans in the state of Haryana. For this, three main institutions, i.e., HDFC, LICHF and Can Fin Homes have been selected for the purpose of the study. Further respondents of sample housing finance companies has been selected from five districts of Haryana i.e, Panchkula, Ambala, Karnal, Gurgaon and Faridabad, which has branches/extension counter of the sample HFCs selected for the study. The
sample includes 200 respondents, which has been selected on the basis of stratified random sampling. Out of 200 sample borrowers, 110 respondents (55%) were employed in various state and central government department, state electricity boards, state road transport corporation, University, 48 respondents (24%) were employed in various state and central public sector undertaking and remaining 42 respondents (21%) were employed and engaged in various kinds of trade, business and professions.

2. When all the categories (Govt. service, service in PSUs, Business/self employed) are put together it is interesting to observe that 61.5 percent of the sample borrowers preferred construction the house. The reasons for this is that under self supervision one can acquire good quality of house at cheaper cost.

It is very interesting to note that among the low income group and high income group sample respondents, 75 percent of borrowers constructed their houses against 38.2 percent among the upper middle income (group II) respondents. From the above analysis it is clear that among lower middle income group high percentage of people go for construction because not only they can contribute to construction work by putting family labour, but also under one’s close supervision can acquire good quality house at cheaper cost. Among the higher income group also a high percentage of respondents favour construction rather than purchase of houses. This is because high income group may not get ready houses according to their own taste and preferences. Even if they buy ready houses, they have to spend a lot on alteration, modification and renovation and so on. This shows that the average Indian has a strong sentiment of constructing a house of his own.

Regarding the age group of respondents, borrowers in the age group of 25-35 were the first highest to acquire house by construction 72.4 percent followed by age group of 35-45 and above 46 year of borrowers with 57.1 percent, 50 percent respectively.

3. Across the different occupational groups, the average loan from housing finance companies in the total cost of house, has constituted the highest of 65.9 percent for the respondents employed in government and public sector
undertaking (62.8%) compared to 47.6 percent for the self employed/business category of respondents.

Own funds/savings on an average has constituted 21-26 percent of the total cost of house among the borrowers employed in government and PSUs, while it was high at 40 percent among the self employed/business/professional of the borrowers.

Loan or partial/full withdrawal from General Provident Fund (GPF), maturity of LIC policies/loan on the basis of LIC policies, loan from co-operative societies etc. has also constituted one of the significant source of finance among the sample respondents. For the respondents in the government service, the finance from this source has constituted 7.3 percent of total cost of house compared to 5.8 percent respondents in PSUs and 3.5 percent self employed/business category/professional of respondents.

Loan from informal sector that is from friends and relatives, which is usually interest free and also for a short time is another important source of finance for the construction/purchase of house/flat among the sample respondents. For all the occupational group the finance from this source has formed about 5-8 percent of total cost of house.

Across the different age group, the average loan from housing finance companies in the total of house has formed the highest of 68.6 percent for borrowers in the age of 25-35, followed by 62.6 percent for 36-45 age group and 52.8 percent for the respondents in age of above 46 years.

Across the different income group, the average loan from housing finance companies in the total cost of house has formed the highest 75.9 percent for high income group borrowers followed by 70.6 percent for upper income group borrowers and 58.6 percent for the borrowers in the categories of low and lower middle income group.

In Haryana, the cost of a reasonably adequate accommodation for a family was about 40 to 45 times the family's normal monthly income. This ratio was high for low income group (above 50 times) and the average loan from housing finance companies was Rs. 3.28 lakh and price of house 5.50 lakh, obviously
households have to find as a high as 42 percent or more of finance from their own savings. As it is evident from the analysis, among lower middle class families, more finance was mobilized informally from each savings/sale of assets and form friends and relatives.

4. The respondents in the category of self employed/business/ professionals have higher affordability compared to those employed in public sector undertaking and government service. Affordability has improved with the increase in the age of sample respondents. It is because as one puts more and more number of year of services into the profession/employment his income increase and naturally the affordability also improve. The affordability of respondents of lower income group was low compared to higher income group respondents.

5. Many respondents spelt out more than one advantages. They (81 percent respondents) opinioned that repayment of loan through equated monthly instalments which remains constant through the amortization period of the loan was convenient. Another most common and most important advantage enjoyed by respondents was saving of rent 73.5 percent of the total respondents pointed out this advantages. Long repayment period ranging from 5-20 years was also the most important benefit of taking loan from housing finance institutions. (54.5 percent respondents)

The budget concession as well as abolition of interest tax by government led to decline of rate of interest in the country from 17.5 percent to 7.25 percent provided by mot of the housing finance institutions. 36.5 percent of sample respondents pointed out that rate of interest charged on housing was low in history of interest rate.

Through interest rates are low the adequate of loan is a problem only 29 percent of total respondents felt that loan provided by housing finance companies was adequate. That means, the remaining 71 percent of the total respondents have expressed dissatisfaction about the adequate. Of course no financial institution can provide loan upto 100 percent and home loan aspirants have to mobilize some portion from sources other than housing finance institution.
6. One of the important problems cited by respondents was that rate of interest remains fixed throughout the loan period. 62.5 percent of sample borrowers expressed that rate of interest remaining fixed throughout loan period was a problem. While in a rising interest rate scenario this may affect the viability of the housing finance institutions, in a declining interest rate regime the borrowers are deprived of the benefit of reduced rates. This situation therefore gives rise to interest rate mismatch (i.e., fixed rate assets funded by floating rate liabilities). Correction of interest rate mismatch is more urgent as it directly affects the interest of both the borrowers and housing finance companies.

Keeping in mind the steady downward movement in interest rates over the past two years coupled with an increasingly interest rate sensitive client base, HDFC has already launched the adjusted rate home loan. Now the retail customers are given an option to choose between an adjustable rate loan and a fixed rate loan.

The repayment of loan through equated monthly instalments which remains constant throughout the amortisation period of loan is also not good. Prevalent system of EMI, takes into account only the present earnings of the borrowers and not the likely future increase in his income. So, what is required is shifting from equated monthly instalment scheme to more innovative, flexible type of repayment to keep in line with the future income profile of the borrower. In the survey conducted 50.9 percent of sample respondents expressed the EMI was rigid and not flexible.

All the housing finance companies sanction the loan after the borrowers abide certain formalities. 40 percent of total sample respondents viewed that they have undergone moderate formalities.

27.5 percent of sample respondents, while taking loan from sample housing finance companies faced various difficulties like a large number of formalities, delay in processing and sanctioning of the loan and 30 percent of sample respondents faced difficulties uncooperative attitude to the staff members of the sample housing finance companies.

The availability of formal financing arrangement by housing finance companies are restricted largely to salaried. Class, employed in organized sector
government or industry and income tax assesses. Those who are in the unorganized sector with low income, but who may be able to afford finance at the present terms are denied access. In the survey carried out 25.0 percent of sample respondents expressed that access to housing finance companies was limited.

7. In the sample of 200 borrowers, 123 respondents (61.5 percent) have taken loan directly from the sample housing finance companies, while 77 respondents (38.5 percent) have taken loan through their employers (Line of credit). The highest of 46.3 percent of borrowers belonging to the age group of above 46 year have been taken loan thorough line of credit followed 38.7 and 34.2 percent of borrowers in the age of 36-45 and 25-35 respectively. This indicates that the age of the borrowers has increased percent age of people seeking loan through employer also increased. In other words there is a direct relation between the age of the borrower and loan through line of credit (employer). When this relation is tested with chi-square ($\chi^2$) it is found that $\chi^2 = 1.68$ which is less than the table value of $\chi^2$ (5.59) at 5% significant level 2 degree of freedom and hence there is no significant relation/association between the age of borrowers and loan through line of credit and two attributes are independent.

An important finding is that, out of 200 sample respondents 49 respondents (54.4) belonging to low and lower middle income group (income up to Rs. 10000 P.M.) have availed loan through line of credit and 28 respondents (25.5) belonging to upper middle high group income (in come above 10000 P.M.) have availed loan through line of credit. The above analysis leads to the inference that low and lower middle income group seek loan through employer, while the upper middle high group take loan directly. When this relation is tested with chi-square ($\chi^2$)’s test, it is found that $\chi^2 = 17.56$ which is greater than the table value of $\chi^2$ (3.85) at 5 percent significant level 1 degree of freedom and hence there is a significant relation/association between income of borrowers and loan through line of credit.

8. Some of the dominant factor which influenced the decision of borrowers to go in for housing loan from sample housing finance companies with discussed with the sample borrowers. It is found that rate of interest, easy of securing loan, speed of
service, liquidity, location, advertisement, courtesy, security of documents, secrecy, access to manager, access to information etc. are the most dominant and critical factors which influenced the decision of sample borrowers to get loan from sample housing finance companies.

To find out if these factors influenced all the sample respondents in the same way, the borrowers were classified into two groups viz, low and middle group (income up to Rs. 10000 P.M.) and upper middle and high (income above Rs. 10000 P.M.). For group I borrowers, rate of interest was the most dominant and the highest dominant of their choice of sample housing finance companies. Group II borrowers, easy of securing loan which ranked first was the most important determinant of their choice of sample housing finance companies.

Rank correlation is attempted to analyze the closeness of factors influencing the decision of two income groups that is lower and lower middle income group (income upto Rs. 10000 P.M.) and upper income group (income above 10000 P.M.) of borrowers. The resulting rank correlation coefficient is 0.85, which implies that there is 85 percent chance that any factor affecting low and lower middle income groups choice will also affect upper middle and high income groups choice of sample housing finance companies. From this analysis, the researcher comes to the conclusion that all home loan borrowers have more or less the same perception about the sample housing finance companies and loan provided by them. In this era of intense competition, housing finance institutions which are now operating on squeezed margins, have to pay due attention to these factors in their order of important to expand their volume of business. The housing finance institutions that are geared to meet the expectations of borrowers only will survive.

6.5 Suggestions

In this section tentative suggestions are being offered for policy purposes. These are not to be generalized as they are specific to area and time.

1. To avoid the tendency of shifting from rural area (villages) to urban area, government should provide housing loan for rural areas at a cheaper rate and state
government should make more social housing programmes like Indira Awas Yojana (IAY), Pradhan Mantri Gramin Awas Yojana for landless labour and artisans. There should be low cost housing techniques including existing local methods so as to bring down unit cost.

2. Supply of houses is made from the personal efforts of house seekers, co-operative housing societies, public development agencies live development authorities, HUDA in Haryana, housing boards, private builders etc. While personal effort has its own limitations, the efforts of co-operative housing societies, private builders and public development agencies are not sufficient to generate enough houses. To increase the housing stock and eliminate the housing shortage there is a need to develop huge townships with all infrastructure facilities. As this require huge investment, only corporate bodies and foreign direct investment (FDI), international firms including Non Resident Indians (NRIs) can embark upon such projects. Favourable environment is required to be created to ensure the entry of aforesaid agencies in to constructions activity. In this direction, the repeal of urban land ceiling and regulation act by the central government is a welcome step.

3. Stamp act prevalent in different status provide for stamp duty at different rate, which in turn results in suppression of the value of property or evasion of registration etc. This is another handicap for housing finance sector. The central government has to take effective steps to ensure uniformity in stamp duty among the different states. Land titles and for that state may support by waiving / reducing the existing stamp duty and registration charge as a majority of the rural households belongs to poor and EWS categories. However, the main feature of housing shortage in rural areas has been mainly on account of non-serviceable kutch houses. State government should reflecting the need of repair / upgradation of katcha and dilapidated houses rather than construction of new houses.

4. Encouragement should be given to the pension, providend fund, and insurance sector to invest in real estate. Encouragement should also be provided for creation of real estate mutual fund / real estate investment trusts.

5. Housing finance business in India is largely clustered in urban areas and rural areas are getting very less share. This is evident from the act that recent studies
have revealed that 35 large cities account for more than 90 percent of the total housing loan sanctions. So housing finance activities are needed for shift in focus toward villages for the balance development.

6. Housing loans have become affordable in recent years with the reduction of interest rates. The process of owing a house can be made more affordable to the maximum extent only with the support of the government policies to minimize the problem of common man getting clearances from different agencies in the process in acquiring a property. The reduction of duties and simplification of process in acquiring a property will not only make owning the house affordable but also simple.

7. Home loan disbursement is estimated of Rs. 86000 crores by 2005-06 an annual growth of 25-30 percent over the last five years. According to CRIS INFAC, between 2001-02 and 2006-07 total direct housing disbursement are expected to growth at a CAGR of 24.1 percent to approximately Rs. 735 billion. Going ahead, the housing finance industry represents attractive opportunities for growth in India for the region : low penetration : mortgage debt as a proportion of GDP in India is a low 2.58 percent compared to 50 percent in developed economies and 20 percent in the rapidly. It is suggested that house loan disbursement should be given 10 percent of GDP in India.

8. The foreclosure law needs to be made more stringent so that any default by the borrower can give recourse to housing finance companies to sell the mortgaged property and recovery its money from the sale proceeds.

9. The housing finance institutions have depended substantially for resources either on term loans (borrowing) or deposits. For augment and strengthening the resource base the tapping of the capital market, securitization of mortgages is truly urgent. Securitization is potentially the most viable alternative for mobilizing resources for housing to raise funds at lower cost and thereby increase their speeds. The housing finance companies should take advantages of the vibrancy of the Indian capital market and create such conditions as would help to develop the secondary mortgage market.
10. Increased disbursements, judicious investment of surplus funds and effective cost
control measures would contribute to the growth of profitability and will enhance
the performance of housing finance companies.

11. At present sample housing finance companies sanction loan to the extend of 30
percent to 40 percent of the pay respectively. In the view of the increasing pay in
future and the smallest amount loan available to the respondents, it is suggested
that sample housing finance companies may fix 50% of the pay as a criterion for
the sanction of loan amount.

12. In order to suit the income pattern, graduated repayment facility and the
decreasing repaying facility can be introduced. Under the former, EMIs can be
increased ever three or five years for the families whose income grows: for
instance, when one of the family member starts earning. Under the later EMIs can
be introduced for the families whose income decrease, for instance, when one of
the family member retired.

13. In view of the volatile market conditions, there is a need to introduce variable rate
of interest to safeguard interest both of housing finance companies and its
borrowers.

14. The performance of sample housing finance companies is not uniform. The
sample housing finance companies will have to improve its earning, if these
companies wants to strengthen their interest coverage ratio.

15. It is found that most of the sample housing finance companies have experienced a
low growth in their operating income in the recent particularly in the past two
years. This might be due to intense competition and downward revision in the rate
of interest. This situation has to be overcome by way of reducing the cost of
administration as well as innovative schemes of financing.

16. In Haryana, the cost of a reasonably adequate accommodation for a family about
40 times the family's normal monthly income. This ratio was high for lower
middle income groups (about 50 times) and the average loan given by housing
finance companies was about Rs. 3.28 lakhs and average price of house was Rs.
5.60 lakhs. Obviously this work out only. 58.6 percent of total house price and
hence households have to find as high as 41 percent or more of finance from their
own savings, sale of assets, loan from friends and relatives. In view of this and escalation of cost, housing finance companies can assess 50-60 percent of family's income as repaying capacity.

17. In view of different rate of interest charged by different housing finance companies, individuals borrower has to make a Hobson's choice. One has to study pros and cons of each housing finance company and to select one which is most cost effective and convinient. From our study it is found that if a person borrows from HDFC Ltd. (at annual rest) he pas Rs. 3720 more, for a loan of Rs. one lakh, than the borrower from LIC Housing Finance (at monthly rest) (rate of interest, duration of loan, etc. remain the same).

18. To sum up, while borrowing from an institution one has to consider the factors like interest charged by the housing finance companies, initial expenditure such as processing fee, administrative fee, etc. that has to be incurred by the borrowers in connection with housing loan, and also charges like commitment charge, prepayment charge by housing finance companies as well as advantages of source deduction of loan, quick disbursal etc.

19. Most of the borrowers opined that housing finance companies should not charged any processing, administration, conversion fees and other charges like prepayment penalty.

20. Further, the borrowers of all sample housing finance companies suggested that payment holiday up to one year or up to construction of house should be given.

21. The borrowers of sample housing finance companies also suggested that various saving linked schemes should be launched by these sample housing finance companies in which borrowers can save 3-4 years prior to availing the loan and a special concessions should be given to them at the time of availing the housing loan.

22. To win confidence of the borrowers and bring transparency in all the transactions, it is necessary that their loan account should be made available on the Internet.

23. It was found that newspaper advertisements were preferred by the most of the respondents. Regarding the satisfaction level of borrowers interest rate, processing fees charged and mode of repayment were found to be satisfactory.
But concentration is required on the timely disbursement of loans, documentation procedure and prompt service provided by the HFCs. On the negative side, housing finance companies can reduce the cumbersome procedures involved in sanctioning loans to speed up the loan disbursal process. The another factor may help the housing finance companies to reorganize their functions to face the challenges with enthusiasm and confidence and to succeed in fulfilling the high expectations of all borrowers in future.